

The Influence of Liquidity, Profitability, Leverage, Institutional Ownership, and Sales Growth on Financial Distress **(Empirical Study on Property and Real Estate Companies Listed on the Indonesia Stock Exchange in 2018-2022)**

Ilham Akbar Kusuma¹, Rina Trisnawati²

¹*Faculty Economics and Business*

Muhammadiyah University of Surakarta, Indonesia

²*Faculty Economics and Business*

Muhammadiyah University of Surakarta, Indonesia

Abstract: Intense market competition and higher costs cause financial distress for companies. This study analyzes the impact of liquidity, profitability, leverage, institutional ownership, and sales growth on financial distress in property and real estate firms listed on the Indonesia Stock Exchange. The findings aim to enhance financial performance and ensure sector sustainability, benefiting policymakers and companies. This quantitative research aims to analyze the influence of liquidity, profitability, leverage, institutional ownership, and sales growth on financial distress. The study focuses on property and real estate companies listed on the Indonesia Stock Exchange from 2018 to 2022. Secondary data is collected through documentation methods in the annual reports of the companies. A multiple linear regression analysis is employed to examine the hypotheses. The study shows that liquidity has no significant effect on financial distress, while profitability has a positive impact, consistent with other studies. Leverage and institutional ownership do not significantly affect financial distress, in line with prior research. Sales growth positively influences financial distress, consistent with Muzharoatiningsih's research (2020).

Keywords: Financial Distress, Liquidity, Profitability, Leverage, Sales Growth, Property and Real Estate Firms, Multiple Linear Regression Analysis.

1. Introduction

The dynamic economic conditions have influenced the performance of companies, both small and large. Intense competition in the market leads to higher costs, potentially causing financial distress and ultimately bankruptcy. Factors such as inadequate capital, a high interest burden, and losses contribute to financial distress (Arfiyeni, 2012). Therefore, developing a financial distress model is crucial for companies to identify potential risks and take the necessary actions to protect their assets (Liana & Sutrisno, 2014).

This study aims to analyze the influence of liquidity, profitability, leverage, institutional ownership, and sales growth on financial distress in property and real estate companies listed on the Indonesia Stock Exchange from 2018 to 2022. Understanding these factors can help companies adopt effective strategies to improve financial performance and sustain their businesses in this sector. Financial distress not only affects shareholders and employees but also has broader implications for the national economy (Al-Khatib & Al-Horani, 2012).

Property and real estate companies are vital contributors to the economy, and their long-term growth is tied to economic development. The 2008 global financial crisis, which originated with the collapse of the property market in the US, had significant impacts on the property and real estate industries in Indonesia as well. Consequently, some companies in the sector faced bankruptcy. In light of this, the research focuses on the factors affecting financial distress in the property and real estate industries.

The study employs quantitative research and adopts a regression analysis approach to test the hypotheses formulated earlier. Secondary data from annual reports of property and real estate companies listed on the Indonesia Stock Exchange during 2018–2022 serves as the primary data source. The liquidity, profitability, leverage, institutional ownership, and sales growth of these companies are analyzed to determine their influence on financial distress.

The findings of this study are expected to contribute to the financial management literature and provide valuable insights for companies in identifying and mitigating financial distress risks. Policymakers and company management can utilize these findings to formulate effective strategies to enhance financial performance and ensure the sustainability of property and real estate businesses. Understanding the dynamics of financial distress in this sector is essential for creating a robust and resilient economy.

2. Literatur Review and Hypothesis Development

2.1 Agency Theory

The agency theory explains the behavior of companies from the perspective of various contracts between different parties. Shareholders, who provide funds for the company's operations, are not considered owners; they are risk-takers. In the real world, company managers obtain funds from investors who believe they have the ability to use the funds efficiently and effectively to generate profits for the company. Managers enter into contracts that specify their activities and determine how profits are allocated between managers and investors. Since predicting the future is challenging, the contracts signed by managers are difficult to enforce (Shleifer and Vishny, 1997).

2.2 Financial Distress

Financial distress refers to a critical condition indicating insolvency, whereas financial difficulty is distinct from bankruptcy. Bankruptcy is a state where a company cannot effectively utilize its capital, employs inefficient management practices, and fails to maintain sufficient cash, resulting in liabilities exceeding its assets (Armadani et al., 2021).

2.3 The Effect of Liquidity on Financial Distress

(Munawir, 2010) defines liquidity as the ability of a company to meet its immediate financial obligations or the ability of a company to fulfill its financial obligations when they are due. Immediate financial obligations refer to short-term debts; hence, this ratio can be used to measure the level of security for short-term creditors and assess whether the company's operations will not be disrupted when these short-term obligations are due.

Other studies are also supported by Chrissentia & Syarief (2018), who state that liquidity has a negative effect on financial distress. Asmarani and Lestari (2020) found a significant influence of liquidity on financial distress as it indicates the extent to which a company's current assets can cover its short-term obligations. Yusbardini and Rasyid (2019) demonstrate that liquidity has a positive and significant impact on financial distress.

Based on the description can be formulated hypothesis:

H₁: Liquidity has an Effect on Financial Distress.

2.4 The Effect of Profitability on Financial Distress

According to Aryadi (2018), high profitability signals a positive indication to external parties as the company's performance improves. Kristanti et al. (2016) state that profitability reflects a company's ability to recover from financial distress. Therefore, the higher the level of profitability, the lower the risk of the company facing bankruptcy. Profitability represents a company's ability to generate earnings and is a key indicator of its performance. It encompasses all revenues and expenses incurred by the company in utilizing its assets and liabilities during a specific period. The primary goal of a company is to achieve high profitability, which enhances the well-being of its shareholders and increases investors' interest in investing in the company. High profitability also signifies the success of the company in conducting its operational activities (Rohmadini et al., 2018).

The study conducted by Khotimah & Yuliana (2020) suggests that profitability has a negative effect on financial distress. On the other hand, according to Yusbardini and Rasyid (2019), profitability has a positive impact on financial distress. This is supported by the findings of Asfali's research (2019), which states that profitability significantly influences financial distress.

Based on the description can be formulated hypothesis:

H₂: Profitability has an Effect on Financial Distress.

2.5 The Effect of Leverage on Financial Distress

The leverage ratio is used to measure the extent to which a company's assets are financed by debt. Leverage arises from the use of funds from third parties in the form of debt. Utilizing this source of funding creates obligations for the company to repay the loans along with interest. A significantly high level of leverage can result in the entity having a substantial amount of debt, making it difficult to make payments when due and leading to financial distress (Rohmadini, Saifi et al., 2018). If this situation is not balanced with good company earnings, the likelihood of experiencing financial distress increases (Gobenvy, 2014).

Research conducted by Munawar (2019) found that leverage has an effect on financial distress. According to the study by Hanifah et al. (2019), leverage has a positive effect on financial distress. These findings are consistent with the research by Ananto et al. (2019), which also suggests that leverage has a positive effect on financial distress.

Based on the description can be formulated hypothesis:

H₃: Leverage has an Effect on Financial Distress.

2.6 The Effect of Institutional Ownership on Financial Distress

Institutional ownership refers to the proportion of a company's shares owned by institutions, corporations, or organizations (Nora, 2016). The agency theory suggests that institutional ownership reduces agency conflicts as institutional shareholders help monitor the company, preventing managers from acting against the interests of shareholders (Laurenzia and Sufiyati, 2015). Significant institutional ownership (more than 5%) makes the monitoring process more effective in controlling managerial performance. Increasing institutional ownership can lead to better asset utilization efficiency in the company, thereby minimizing the potential for financial distress. Arntonang (2019) stated that institutional ownership has a negative impact on financial distress. According to Ananto et al. (2019), institutional ownership significantly affects financial distress. Munawar (2019) suggests that institutional ownership has an influence on financial distress. Setyawan and Musdholifah (2020) found a relationship between institutional ownership and financial distress.

Based on the description can be formulated hypothesis:

H₄: Institutional Ownership has an Effect on Financial Distress.

2.7 The Effect of Sales Growth on Financial Distress

Sales growth, or the increase in sales of goods or services produced by an entity or company from one period to the next, reflects the company's ability to enhance its sales performance, either through increased sales frequency or volume. High sales growth can indicate the profitability and revenue generation of the company. Thus, a company with high sales growth is often considered financially stable and less likely to face financial distress, as evidenced by its sustained sales growth. The growth ratio measures how well a company can maintain its position in the industry and its overall economic development (Fahmi, 2014).

Based on the research conducted by Muzharoatiningsih (2020), it was found that sales growth has a positive influence on financial distress. Another study conducted by Ratuela et al. (2020) also supports the positive relationship between sales growth and financial distress. These findings align with the research by Rahayu and Sopian (2019) and Emingtyas and Nita (2020), which also demonstrate a positive correlation between sales growth and financial distress.

Based on the description can be formulated hypothesis:

H₅: Sales Growth has an Effect on Financial Distress.

3. Research Method

3.1 Population and Sample

Table 1: Research Sample Selection Process

No	Criteria	Amount
1	Property and real estate companies reporting consecutive financial statements from 2018-2022	64
2	Companies that report complete financial statement data relating to research variables	35
	Number of samples that meet the criteria	35
	Total research sample = 35 x 5 years	175
Amount sample data processed		175

Source: Data Process, 2023

3.2 Data Analysis Technique

The model used in this study, namely:

$$FDI = \alpha + \beta_1 LIK + \beta_2 PROFIT + \beta_3 LEV + \beta_4 KI + \beta_5 SG + \epsilon$$

Description:

Y = dependent variable (financial distress)

a = the number of constants

$\beta_1 - \beta_5$ = regression coefficient

LIK = independent variable (liquidity)

PROFIT = independent variable (profitability)

LEV = independent variable (leverage)

KI = independent variable (institutional ownership)

SG = independent variable (sales growth)

α = Constants

ε = Error term

4. Result and Discussion

4.1 Deskriptive Statistical Analysis

Table 2: Descriptive Statistical Analysis Test Result

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity	175	0,143	1958,465	53,76128	282,748731
Profitability	175	-0,119	0,428	0,02523	0,061690
Leverage	175	0,016	3,788	0,74003	0,691119
Intitutional Ownership	175	0,051	0,970	0,59765	0,214786
Sales Growth	175	-0,944	14,775	0,18128	1,369172
Financial Distress	175	-0,076	9,928	1,21843	0,921781
Valid N (listwise)	175				

Source: Data Process, 2023

The number of participants in this study is 175. The Variable that has the lowest Minimum value is financial distress which is -0.076. For the one with the highest maximum value is liquidity which is 1958.465. For those with the highest Mean value is liquidity which is 53.76128. Then the one with the highest standard deviation value is liquidity with a value of 282.748731..

4.2 Classic Assumption Test

4.2.1 Normality Test

Normality test is used to determine whether the data is normally distributed or not. In this study, normality test using CLT test (Central Limit Theorem) that is, if the number of observations is large enough ($n > 30$), the assumption of normality can be ignored (Gujarati, 2003). This study the number of n is $175 > 30$. This shows that the data can be said to be normally distributed and can be referred to as a large sample

4.2.2 Multicollinearity Test

Table 3: Multicollinearity Test Results

Variabel Independen	Tolerance	VIF	Description
Liquidity	0,932	1,073	No Multicollinearity
Profitability	0,822	1,217	No Multicollinearity
Leverage	0,903	1,108	No Multicollinearity
Intitutional Ownership	0,910	1,099	No Multicollinearity
Sales Growth	0,903	1,107	No Multicollinearity

Source: Data Process, 2023

Based on the table above, it can be seen that there is no multicollinearity in the independent variable. This is because the VIF value of all independent variables is less than 10 and the Tolerance value is more than 0.10.

4.2.3 Heteroscedasticity Test

Table 4: Heteroscedasticity Test Results

Variabel	Nilai Signifikansi	Description
DLiquidity	0,632	No Heteroscedasticity
Profitability	0,308	No Heteroscedasticity
Leverage	0,515	No Heteroscedasticity
Intitutional Ownership	0,846	No Heteroscedasticity
Sales Growth	0,708	No Heteroscedasticity

Source: Data Process, 2023

Based on the table above, it can be seen that the heterokedasticity test with glesjer test all independent variables in this study have a GIS value > 0.05 , which means that all independent variables in this study do not have symptoms of heterokedasticity.

4.2.4 Autocorrelation Test

Table 5: Autocorrelation Test Results

Nilai DW-hitung	Kriteria	Results
2,065	Du < DW <4-du	No Autocorrelation

Source: Data Process, 2023

Based on Table by using the degree of error (α) =5%, with a predictor of 2, because the DW value of the regression results is equal to 2.065 ($1,8117 < 2,065 < 2,1883$) which means it is between 1.811 to 2.188, meaning it can be concluded that the regression results are free from autocorrelation problems. In other words, the hypothesis that there is no autocorrelation problem can be accepted, while the null hypothesis that there is autocorrelation can be rejected

4.3 Multiple Linear Regression Analysis

Table 6: Equation One

Variabel	B	Std. Error
Constanta	1,187	0,189
Liquidity	-0,008	0,000
Profitability	7,937	1,021
<i>Leverage</i>	-0,133	0,087
Intitutional Ownership	-0,136	0,279
<i>Sales Growth</i>	0,066	0,044

Source: Data Process, 2023

$$Y = 1,187 - 0,008X_1 + 7,937X_2 - 0,133X_3 - 0,136X_4 + 0,066X_5 + e$$

- (1)The constant value of 1.187 means that if other variables are constant then the value of the variable Y will increase by 1.187.
- (2)If X1 increases by one unit and the other variable is constant, the value of Y will decrease by 0.008.
- (3)If X2 increases by one unit and the other variable is constant, the value of Y will increase by 7.937.
- (4)If X3 increases by one unit and the other variable is constant then the value of Y will decrease by 0.133
- (5)If X4 increases by one unit and the other variable is a constant, then the value of Y will decrease by 0.136.
- (6)If X5 increases by one unit and the other variable is constant then the value of Y will increase by 0.066.

4.4 Hypothesis Testing

4.4.1 Simultan Significance Test (F-Test)

Table7: F-Test

F Hitung	F Tabel	Sig.	Description
18,286	2,27	0,000	Having a significant impact

Source: Data Process, 2023

Based on the results of the table, it was found that F count 18.286 with Ftable value for 175 data samples with significance $0.000 < 0.05$. With this it can be concluded that simultaneously the independent variable has a significant influence on the dependent variable.

4.4.2 Partial Test (t-Test)

Table8: t-Test

Variabel	t HItung	T Tabel.	Sig.	Description
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Liquidity	-0,036	1,973	0,971	No Effect
Profitability	7,771	1,973	0,000	Effect
Leverage	-1,532	1,973	0,127	No Effect
Institutional Ownership	-0,488	1,973	0,626	No Effect
Sales Growth	1,507	1,973	0,134	No Effect

Source: Data Process, 2023

Based on table 8 can be explained the test results of each variable as follows:

- (1) The effect of liquidity on Financial Distress is -0.036 which means $-0.036 < 1.973$ and the significance value is $0.971 > 0.05$. So partially liquidity does not significantly affect the Financial Distress in Indonesia Stock Exchange..
- (2) The effect of profitability on Financial Distress is 7.771 which means $7.771 > 1.973$ and the significance value is $0.000 < 0.05$. So partially profitability has a significant effect on Financial Distress on the Indonesia Stock Exchange..
- (3) The effect of Leverage on Financial Distress is -1.532 which means $-1.532 < 1.973$ and the significance value is $0.127 > 0.05$. So partially Leverage has no significant effect on Financial Distress in Indonesia Stock Exchange.
- (4) The effect of institutional ownership on Financial Distress is -0.488 which means $-0.488 < 1.973$ and the significance value is $0.626 > 0.05$. So partially institutional ownership does not significantly affect the Financial Distress in the Indonesia Stock Exchange.
- (5) The effect of Sales Growth on Financial Distress is 1.507 which means $1.507 < 1.973$ and the significance value is $0.134 > 0.05$. So partially Sales Growth does not significantly affect the Financial Distress in the Indonesia Stock Exchange..

4.4.3 Determination Coefficient Test (R^2)

Table 9: Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.593 ^a	0.351	0.332	0.753453

Source: Data Process, 2023

The results obtained state that the value of the coefficient of determination (R^2) of 0.351 or 35.1% so that the independent variables in this study are liquidity, profitability, leverage, institutional ownership and Sales Growth can explain the variation of the dependent variable is financial distress by 35.1% and the remaining 64.9% is explained by other variables outside the variables in this study.

4.5 Discussion

- (1) Based on the results of the t test above, the calculated t value is 0.036 which means $-0.036 < 1.973$ and the significance value is $0.971 > 0.05$. Thus, partial liquidity has no significant effect on Financial Distress. Liquidity ratio is a ratio used to measure how liquid a company is (Kasmir, 2012). A company can be said to be liquid if the company is able to complete its short-term obligations at maturity. When the value of the liquidity ratio is high, the company has the ability to meet its short-term debt obligations. If the company is in a liquid state, the company will automatically be able to overcome financial distress. The results of this study are in line with research conducted by Chrissentia & Syarief (2018) liquidity negatively affects financial distress. However, this study is contrary to research conducted by Asmarani and Lestari (2020) where the results of the research are that liquidity has a significant effect on financial distress. The effect of General Allocation Fund on Economic Growth. Through the t-test in table 10 shows that the General Allocation Fund in the local government districts/cities in Central Java province affect the Economic Growth, so that H_2 is accepted. The results showed that there is a strong indication that the fact that the local government district/city in Central Java province has managed to collect a large General Allocation Fund and great contribution to Economic Growth. The greater the General Allocation Fund obtained, the greater the Economic Growth in the area. The results of this study support previous research conducted by Fahma and Nuraini (2017) which states that General Allocation Fund has an effect on Economic Growth.
- (2) Based on the results of the t test above, the calculated t value is 7.771 which means $7.771 > 1.973$ and the significance value is $0.000 < 0.05$. So partially profitability has a positive and significant effect on financial distress. Kristanti et al (2016) say profitability reflects a company's ability to recover from financial distress. Therefore, the higher the level of profitability of the company, the smaller the risk of the company in the face of bankruptcy. Profitability is the ability of a company to make a profit. Where

profit is one indicator of how well the company's performance. The results of this study are in accordance with the results of Yusbardini and Rasyid (2019) Research where profitability has a positive effect on financial distress. This is also supported by the results of Asfali's (2019) Research which states that profitability has a significant effect on financial distress.

- (3) Based on the results of the T test above, the calculated t value is -1.532 which means $-1.532 < 1.973$ and the significance value is $0.127 > 0.05$. So Leverage has no significant effect on financial distress. The use of this source of funding will create an obligation for the company to repay the loan and interest on the loan. The effect of very high leverage causes the entity to have a high number of obligations that make it difficult for the entity to make payments when due and cause financial difficulties. The results of this study are contrary to research conducted by Munawar (2019) where in his research he found the results that leverage has an effect on financial distress.
- (4) Based on the results of the T test above, the calculated t value is -0.488 which means $-0.488 < 1.973$ and the significance value is $0.626 > 0.05$. So institutional ownership has no significant effect on financial distress. Agency theory says institutional ownership will reduce agency conflicts because institutional shareholders will help oversee the company so that managers do not act to the detriment of shareholders (Laurenzia and Sufiyati, 2015). Large institutional holdings (more than 5%) make the supervisory process more effectively control the performance of managers. The results of this study are in line with Artonang's (2019) Research, which states that institutional ownership negatively affects financial distress.
- (5) Based on the results of the t test above, the calculated t value is 1.507 which means $1.507 < 1.973$ and the significance value is $0.134 > 0.05$. Sales Growth can reflect the ability of each company to increase sales of products or services produced by the company, both in increasing the frequency of sales and increasing sales volume. The high level of sales growth that is stranded is able to identify the amount of profit or revenue obtained by the company. The results of this study are in line with Muzharoatiningsih's research. (2020) stated that sales growth has a positive effect on financial distress.

5. Conclusion

Based on the results of data analysis and the results of this study, there are several suggestions that can be considered, among others:

- (1) Liquidity has no effect on financial distress so the first hypothesis was rejected.
- (2) Profitability has a significant effect on financial distress so that the second hypothesis is accepted.
- (3) Leverage has no significant effect on financial distress so the third hypothesis is rejected.
- (4) Institutional ownership had no significant effect on financial distress so the fourth hypothesis was rejected.
- (5) Sales Growth had no significant effect on financial distress so the fifth hypothesis was rejected.

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