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THE IMPACT OF LIQUIDITY, PROFITABILITY, LEVERAGE, AND CASH FLOW ON FINANCIAL DISTRESS IN WHOLESALE SECTOR COMPANIES LISTED ON THE IDX FROM 2016-2019

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Abstract
This research aims to examine the effect of liquidity, profitability, leverage, and cash flow on financial distress in large trading sub-sector companies listed on the Indonesia Stock Exchange in 2016-2019. This research was conducted using purposive sampling and secondary data collection techniques. The financial distress variable is proxied by the Altman Z-score. Data obtained from large trading subsector companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2019 using the Multiple Linear Regression method using SPSS 23. The results of this study indicate that: (1) liquidity has an effect on financial distress (2) profitability has an effect on financial distress, high profitability indicates the company can maximize its assets (3) leverage does not affect financial distress, even though the company has a lot of debt to finance its operations (4) cash flow has no effect on financial distress. This study contributes to the expanding corpus of research on corporate financial distress. The results are consistent with current financial theories that highlight profitability and liquidity as critical markers of a business's financial health. On the other hand, there is no discernible impact of cash flow and leverage. These findings support further investigation into qualitative and contextual elements
Keywords: Liquidity, Profitability, Leverage, Cash Flow, and Financial Distress

INTRODUCTION

The growth of business has intensified competition in the industry, forcing companies to manage effectively in order to stay competitive. Failure to adapt to global changes can lead to financial crises. Financial resilience is now a crucial factor in determining corporate sustainability in the fast-paced business world of today. Businesses are more susceptible to internal inefficiencies and external shocks as competition heats up, particularly in developing markets like Indonesia. This vulnerability emphasizes how important it is to have strong frameworks for financial analysis in order to predict and lessen financial distress. Financial reports are crucial for stakeholders to make informed decisions as they provide relevant information about the company's financial condition.

The wholesale trade sector is vital to Indonesia's economy, as increasing consumer purchasing power drives demand for goods. One such company, PT Agro Yasa Lestari Tbk (AYLS), faced significant financial setbacks, reporting a loss of Rp2.5 billion in 2020. The company's revenue dropped by 65.25%, highlighting a financial distress situation, which refers to a company's inability to meet its financial obligations before bankruptcy or liquidation (Chandra & Rusliati, 2019; Ramadani & Ratmono, 2023).Financial distress is characterized by negative operational and net profits, negative equity book value, and company mergers (Azmy et al., 2019; Fadila Angraini, 2023). According to (Putri & Aminah, 2019; Aninda Fitri & Juliana Dillak, 2020) liquidity, profitability, leverage, and cash flow analysis can help assess a company's ability to meet short-term obligations, generate profit, and finance its assets. The purpose of this study is to examine the impact of these factors on financial distress. Specifically, it aims to provide empirical evidence on how liquidity, profitability, leverage, and cash flow influence financial distress.

Agency theory describes a contractual relationship between principals (owners) and agents (managers) (Fadila Angraini, 2023; Nurramayuningsih & Sufyani, 2020). It emphasizes how principals delegate decision-making to agents, expecting them to act in the best interest of the shareholders (Sutisna & Suteja, 2020; Setiawan et al., 2020). A deeper comprehension of the managerial practices that could lead to financial distress is provided by the integration of agency theory into this study. Conflicts of interest between managers (agents) and shareholders (principals) can lead to less-than-ideal decisions, particularly when managers put their own interests ahead of the interests of shareholders (Jensen and Meckling, 1976). For example, excessive leverage could be a sign of opportunistic behavior or bad governance in addition to financial risk. Therefore, financial statements serve as a means of guaranteeing agent accountability in addition to being a tool for financial assessment.

Financial statements reflect agents' accountability and reveal a company's financial health. High debt ratios may indicate the company's growing liabilities, which could stem from management mistakes or self-serving behavior of agents. Liquidity ratios measure a company's ability to meet short-term obligations using its current assets (Hanafi & Halim, 2016). Common liquidity ratios include the current ratio and quick ratio. Profitability ratios assess management efficiency in generating profits relative to sales or investments (Naibaho & Naurah, 2023; Dwi & Yuvisa, 2023; Charles et al., 2024). Key profitability ratios include profit margin, return on assets (ROA), and return on equity (ROE). Leverage ratios, such as debt-to-asset and debt-to-equity ratios, gauge a company's long-term financial stability and reliance on debt (Hanafi & Halim, 2016). Cash flow provides critical information on a company's cash inflows and outflows, divided into operational, investment, and financing activities (Aninda Fitri & Juliana Dillak, 2020; Soesetio et

al., 2024). Financial distress, as defined by (Santoso & Nugrahanti, 2022); (Lestiananda et al., 2023), is the decline in financial health before bankruptcy, usually due to an inability to meet short-term obligations. (Putri & Aminah, 2019; Fadila Angraini, 2023)describe financial distress as a state of financial difficulty that hampers a company's operations. The Altman Z-score method, developed by Edward I. Altman, uses financial ratios to predict bankruptcy risk (Ramadani & Ratmono, 2023). Three Altman models exist, tailored for different types of companies: manufacturing, non-public companies, and non-manufacturing firms (Wardani & Pricillia, 2019; Ramadani & Ratmono, 2023).The framework for this research includes the following hypotheses: H1: Liquidity, profitability, leverage, and cash flow simultaneously affect financial distress.H2: Liquidity negatively affects financial distress.H3: Profitability negatively affects financial distress.H4: Leverage affects financial distress.H5: Cash flow negatively affects financial distress.

This study adds to the body of knowledge on predicting financial distress in emerging markets, particularly in Indonesia's wholesale trading industry, which has not received as much attention as industries like manufacturing or banking. The study offers sector-specific insights that could guide improved financial monitoring systems and early-warning tools by utilizing empirical data from companies listed on the Indonesia Stock Exchange (IDX) between 2016 and 2019. Practically, this research offers valuable input for company management, to better monitor financial health and avoid distress, investors to assess risk before allocating capital, regulators to enhance transparency and reporting requirements in high-risk sectors, and auditors and consultants, as a reference for improving financial diagnosis methods. Ultimately, understanding the predictors of financial distress enables more informed financial decisions and fosters long-term business sustainability in a competitive market environment.

RESEARCH METHODS

Research Approach

This research is quantitative research. The object studied in this study is the annual report of the wholesale trade subsector companies listed on the Indonesia Stock Exchange in 2016-2019. The independent variables in this study are liquidity, profitability, leverage and cash flow, while financial distress is the dependent variable.

Population and Research Sample

The population in this study amounted to 47 companies, in this study the sample used was purposive sampling technique, namely the technique of determining research samples with certain considerations. so that there were 25 companies that were sampled in this study, while the data was taken from 2016-2019 so that there were 100 research data.

Definition of Variable Operationalization

Financial distress is a financial condition faced by a company and one of the stages before the company goes bankrupt (Aninda Fitri & Juliana Dillak, 2020; Muslih & Meynisa, 2023). This study uses the altman Z-score model as a proxy for financial distress, there are differences in concepts between financial distress and the altman Z-score model. The form of the Z-score equation modified by Altman et al (1995) are:

$$Z = 6{,}56\ X1 + 3{,}26\ X2 + 6{,}72\ X3 + 1{,}05\ X \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Information:

Z	:	bankruptcy index
X1	:	net working capital / total assets
X2	:	retained earnings / total assets
X3	:	earnings before interest and taxes / total assets
X4	:	market value to equity / book value to total liabilities

Liquidity ratio is a ratio used to measure how liquid a company is (Karina & Kusumawardhani, 2023; Ramadani & Ratmono, 2023).Current ratio is the ratio between total current assets and current debt (Naibaho & Naurah, 2023; Charles et al., 2024). The formula for the Current ratio (CR) is as follows:

$$CR = (\text{Current Assets}/\text{Current Liabilities}) \times 100\% \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

Profitability ratio is a ratio that measures the effectiveness of overall management as indicated by the size of the level of profit obtained in relation to sales and investment, the better the profitability ratio, the better it illustrates the high ability of the company to earn profits. The formula for the profitability ratio in this study is:

$$ROA = (\text{Net Profit}/\text{Total Assets}) \times 100\% \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

Debt or leverage ratio is a ratio used to measure the extent to which the company's assets are financed by debt (Wardani & Pricillia, 2019; Halian et al., 2020) .Too high debt will endanger the company if it falls into the extreme leverage category. extreme leverage is a condition where the company is trapped in a high level of debt and has difficulty paying the debt. The leverage formula in this study is:

$$DAR = (\text{Total Debt}/\text{Total Assets}) \times 100\% \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (4)$$

Cash flow is a report that provides relevant information about a company's cash receipts and disbursements in a certain period by classifying transactions in operating, financing and investment activities (Aninda Fitri & Juliana Dillak, 2020; Ramadani & Ratmono, 2023). The cash flow formula in this study are:

$$\text{Operating Cash Flow} = (\text{Operating Cash Flow} / \text{Current Liabilities}) \times 100\% \quad \ldots\ldots\ldots \quad (5)$$

RESULTS AND DISCUSSION

The descriptive statistics analysis in this study provides an overview of key variables such as liquidity, profitability, leverage, cash flow, and financial distress. The sample consisted of 73

companies, with 27 outliers excluded from the initial 100 samples. The liquidity variable had a minimum value of 0.75 and a maximum of 4.79, with a mean of 1.695 and a standard deviation of 0.718. Profitability ranged from -0.18 to 0.14, with an average of 0.023 and a standard deviation of 0.058. Leverage had a minimum of 0.01 and a maximum of 1.06, with a mean of 0.549 and a standard deviation of 0.237. Cash flow varied between -0.27 and 1.01, with a mean of 0.083 and a standard deviation of 0.196. Financial distress had a minimum of -1.22 and a maximum of 10.88, with an average of 3.620 and a standard deviation of 2.975.

For the assumption tests, the normality test using Kolmogorov-Smirnov showed a significance value of 0.064, which is greater than 0.05, indicating that the data distribution is normal. Multicollinearity testing revealed no issues, as all Variance Inflation Factors (VIF) were below 10, and the tolerance values were above 0.10. The autocorrelation test indicated no problems, with a Durbin-Watson value of 1.271, which lies within the acceptable range of -2 to +2. Heteroskedasticity testing, using Spearman's rho, showed no significant issues since all variables had p-values above 0.05.

The multiple regression analysis revealed that liquidity and profitability have a positive effect on financial distress. According to agency theory, this lowers the risk for shareholders and may reflect efficient managerial decision-making, reducing agency costs. It signals that managers are aligning with shareholder interests by maintaining financial health. Specifically, an increase in liquidity and profitability was associated with an increase in financial distress, indicating that companies with higher liquidity and profitability are less likely to face financial distress. Conversely, leverage and cash flow did not significantly affect financial distress in this study. Leverage, measured using the Debt to Asset Ratio (DAR), did not significantly predict financial distress, suggesting that optimal debt management may help companies avoid bankruptcy. Similarly, cash flow, measured using operational cash flow, had no significant impact on financial distress. In hypothesis testing, the F-test revealed that the independent variables (liquidity, profitability, leverage, and cash flow) collectively influence financial distress. According to agency theory, that leverage did not significantly increase financial distress suggests that companies might have sound debt management strategies or governance mechanisms that mitigate these risks — helping to resolve potential principal-agent conflicts.

Liquidity and profitability were found to have a significant positive effect on financial distress, with p-values of 0.000 and t-values greater than the critical value. It means that when a firm maintains high liquidity and profitability, it reflects prudent managerial decision-making—aligned with shareholders' interest in firm sustainability. However, leverage and cash flow did not show a significant effect, with p-values of 0.390 and 0.716, respectively, leading to the rejection of their hypotheses. The coefficient of determination (R^2) was 0.771, indicating that 77.1% of the

variation in financial distress could be explained by liquidity, profitability, leverage, and cash flow. The remaining 22.9% was influenced by other factors not included in this model. This result shows that while the model explains a significant portion of financial distress, other variables outside the model also play a role in influencing financial distress. Discussion Liquidity and profitability were both found to positively influence financial distress. This suggests that companies with better liquidity and profitability are less likely to experience financial distress. A higher liquidity ratio indicates that a company has sufficient current assets to meet its short-term obligations, reducing the potential for financial distress. Profitability also plays a critical role, as more profitable companies tend to manage their operations efficiently, ensuring they have enough funds to operate without the risk of financial distress.

CONCLUSION

Based on the research conducted on the impact of liquidity, profitability, leverage, and cash flow on financial distress in large-scale trade subsector companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2019, it can be concluded that liquidity, measured by the Current Ratio, has a positive effect on financial distress. Higher current assets improve the company's ability to meet short-term obligations, thereby reducing the likelihood of financial distress. Profitability, measured by Return on Assets, also positively affects financial distress. Higher profitability increases net income, adds assets, and enables the company to meet its obligations, thereby reducing the risk of financial distress. However, leverage, measured by the Debt to Asset Ratio, does not have a significant impact on financial distress. Despite high debt, large companies can manage operational activities with assets and profits, preventing financial distress. Lastly, cash flow, measured by operating cash flow, does not significantly affect financial distress. High operating cash flow alone does not provide a clear indication of a company's ability to meet its obligations. For future research should include non-financial factors such as corporate governance, management behaviours, and market conditions to explain the remaining 22.9% of financial distress unexplained by the current model, and explore the impact of macroeconomic indicators like interest rates, inflation, and exchange rates on financial distress.

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