

# Factor Determinant Profitability and Financial Distress of Non-Financial Sector Companies in Indonesia

Happyta Agustin<sup>1</sup>, Eka Bertuah<sup>2\*</sup>

<sup>1,2</sup>Master of Management, Esa Unggul University, Jakarta Indonesia

<sup>1</sup>[happyta.agustin92@student.esaunggul.ac.id](mailto:happyta.agustin92@student.esaunggul.ac.id), <sup>2</sup>[ekabertuah@esaunggul.ac.id](mailto:ekabertuah@esaunggul.ac.id)

\*Corresponding Author

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## ABSTRACT

This study aims to examine the determinants of financial distress of non-financial sector companies in Indonesia during the Covid 19 pandemic and test whether company profitability can mediate financial performance on the possibility of financial distress. The sampling technique was purposive sampling, namely non-financial sector companies that experienced negative operating profit during 2020 and 2021. The analysis technique used is panel data regression analysis. The results showed that sales growth has a positive impact on profitability and DER has a negative impact on profitability. While TATO has a positive effect on Financial Distress. This study also shows that profitability cannot mediate financial performance on financial distress. This study contributes to the testing of signalling theory, where information on sales growth and corporate capital structure affects the company's profitability. In addition the company's very limited ability to manage its assets during Covid 19 conditions affects the possibility of financial distress.

**Keywords:** Financial distress, financial performance, profitability

## INTRODUCTION

The economic downturn and health crisis during the pandemic has caused many business sectors to suffer, not many industries can survive during the pandemic. One of the problems is that the instability of demand and supply from various countries causes the cost of buying raw materials to increase but the local selling price decreases and exports cannot increase. Based on the results of the Bps.go.id survey (2020), the three largest industries that experienced a decrease in revenue due to the impact of the pandemic were accommodation, eating and drinking 92.47%, transportation and warehousing 90.34%, and other services 90.90%. The decline in profits occurred in almost all companies that identified financial distress. The company's financial situation, which is often unable to pay debts or even pay employee salaries, indicates that the company is in financial distress.

Zmijewski X-Score model is one of the models to identify financial distress and has a high accuracy rate of 55.39% when compared to other models (Qamruzzaman & Jianguo, 2016). The study conducted by (Zmijewski, 1984) research claims that the X-Score model has a 99% accuracy rate in measuring financial distress.

Previous research examined factors that influence financial distress. (Kazemian et al., 2017) found that the current ratio, profitability, and value of companies are positively significant to financial distress, while debt-to-equity ratio (DER) has a significant negative relationship. (Restianti & Agustina, 2018) claim that ROE can affect financial distress not the total asset turnover ratio. According to (Fadlillah, 2019), operating capacity (TATO) and profitability can affect financial distress. Financial distress can be influenced by DER in study of (Sarina et al., 2020). (Widarjo & Doddy, 2009) stated that financial distress is influenced by the cash ratio. Research by (Widhiari & Merkusiwati, 2015) shows that indicators that can affect financial distress are



operating capacity (TATO) and sales growth. (Nilasari & Ismunawan, 2021) stated that the size of the company can determine financial distress. While (R. D. Handayani et al., 2019) proved that there is no influence between the ratio of liquidity, solvency, and activity to financial distress moderated profitability. According (Wahyuni et al., 2020), financial distress cannot be influenced by ROE. (Curry et al., 2018) in their research claims that financial distress cannot be influenced by the cash ratio. The results of research conducted by (Antikasari & Djuminah, 2017) that sales growth cannot be an indicator of the influence of financial distress.

Based on the phenomena and gaps in the results of the study above, this study examines factors that can determine profitability and financial distress during the Covid-19 pandemic. The results of the study are expected to provide signals for investors in identifying the fundamental conditions of companies experiencing financial distress.

(Bringham & Houston, 2018) state that signaling theory is a management practice used to inform investors about the management's future expectations of the company. Information issued by the company can be in the form of annual reports both financial and non-accounting statements. (Ghozali, 2020) stated that signaling theory is a signal given to investors as information that can be used in making decisions.

(Platt & Platt, 2002) stated, before bankruptcy or liquidity, companies first experiences financial difficulties or financial distress. Financial difficulties can be detected by decreasing profits and even negative profits (Kristanti, 2019). Two factors cause financial distress, namely (a) internal company, problems that occur within the company can cause financial difficulties for the company from human resources, products, pricing, technology, marketing, and distribution. (b) external companies, factors arising from external companies that cause financial distress are socio cultural, macroeconomic, technology, legal, and natural disasters.

According to (Kasmir, 2021), to measure the efficiency of capital used, you can use return on equity (ROE). The higher this number, the better which means the business owner's position is getting stronger and vice versa.,ROE has a big impact on the company. Return on equity (ROE) shows the level of profitability of a company, describes the development of the company and investors can use ROE as an estimate to generate profits. Return on equity (ROE) will also be used by investors as a comparison with competitors before making investment decisions. The success rate of ROE also depends on the company's activities, the amount of debt the company has, and the acceleration or repayment of the company's bad loans.

## LITERATURES STUDIES

### Du Pont Formula

According to (Botika, 2012), the du pont formula is a complex analysis because calculate the elements of the balance sheet and income statement. The most important results are analysis. This is ROE because the analysis shows the company's wealth. The du pont formula in the economy. The du pont formula can be used to analyze profitability against financial distress.

### Signaling Theory

According to (Ghozali, 2020), signaling theory is a theory that explains or provides signals about conditions in a company to investors or creditors. Signals are given to investors as information that can be used in making decisions. The signal chosen must have an informational influence to change the way the company's external parties think about the business. The information that investors can receive can be in the form of financial reports. If the financial report shows unfavorable conditions, investors can cancel their investment.

### Financial Distress

Financial distress does not mean bankruptcy. financial distress experienced by a company does not necessarily mean bankruptcy, but a company that goes bankrupt will definitely experience financial distress. (Platt and Platt, 2002) state that before bankruptcy or liquidity occurs, the

company first experiences financial difficulties. Financial difficulties can be detected by a decrease in profits and even negative profits according to (Kristanti, 2019). Two factors cause financial distress, namely (a) Internal to the company, problems that occur within the company can cause financial difficulties for the company in terms of human resources, products, pricing, technology, marketing and distribution. (b) External to the company, factors arising from external companies that cause financial distress are socio-cultural, macroeconomic conditions, technology, legal and natural disasters.

To create this has an accuracy rate of 99%. Financial ratios are used to measure company performance. This research uses the Zmijewski X-Score model to measure financial distress in non-financial companies listed on the IDX.

$$\text{Zmijewski} = -4.3 - 4.5 \text{ ROA} + 5.7 \text{ Debt Ratio} + 0.004 \text{ Current Ratio}$$

The cut off value in Zmijewski is if the index value  $X < 0.5$  then the company is not indicated to be experiencing financial distress and if.

### **Cash Ratio**

Liquidity ratios are often used by investors in analyzing a company before investing their funds. The purpose of the liquidity ratio is to assess the company's ability to pay obligations when they fall due. A company's liquidity is assessed using the liquidity ratio, sometimes referred to as the working capital ratio.

### **Total Asset Turnover Ratio**

According to (Kasmir, 2021), the level of activity is a measure of the effectiveness of utilizing company assets. The purpose of this analysis is management's ability to utilize and optimize assets. In research, the activity ratio explains the company's effectiveness in using its assets. The purpose of this ratio is management's ability to use and optimize its assets.

### **Debt To Equity Ratio**

The leverage ratio or solvency ratio is a key figure that shows how much of a company's assets are financed by external capital. This indicator measures the company's ability to fulfill all its obligations. As stated by (Kasmir, 2021), a high leverage ratio carries the risk of large losses, but also the opportunity to gain large profits and vice versa.

### **Sales Growth**

(Nisa, 2022) states, when sales figures increase higher than before, this will increase the company value, meaning that sales growth is positive. And when income is continuously negative and always decreasing, this shows negative sales growth. This shows that the company is having problems, the company must find a way to immediately fix it so that the MRR value and year over year growth do not continue to decline. If this is not addressed immediately the company will not be able to survive and will end up in bankruptcy.

### **Firm Size**

Large companies have a relatively high growth rate, the return on shares of large companies is higher than that of small and medium companies, so it is easier to get credit. This signal is one of the reasons why investors speculate that large companies will make big profits.

### **Return On Equity (ROE)**

Return on equity (ROE) has a big impact on the company. Return on equity (ROE) shows the level of profitability of a company, describes the company's development and investors can use return on equity (ROE) as an estimate for generating profits. Return on equity (ROE) will also be used by investors as a comparison with competitors before making investment decisions. The success rate of return on equity (ROE) also depends on the company's activities, the amount of debt the company has and the acceleration or repayment of the company's bad debts.

## Hypotheses development

### The Effect of Cash Ratio on Profitability

(Birjandi, 2015) shows that companies with high liquidity are believed to be able to run their business better. The more cash a company has, the more liquid it is. Therefore, the risk of the company failing to meet its financial obligations is very low. A cash ratio that is too high is undesirable because it can reduce profitability. This is because money does not rotate and is settled in cash. A high cash ratio reduces profitability, and vice versa. This is because the company's cash reserves are large enough not to rotate. Thus the hypothesis formed is:

H1: Cash ratio negatively affects profitability.

### The Effect of Total Asset Turnover Ratio on Profitability

Better asset turnover will increase the company's sales volume to get maximum profit. The faster the asset turnover, the faster profitability increases. According to (Adhikara et al., 2016) and (Supardi et al., 2018) the total asset turnover ratio has a positive impact on profitability because an increase in asset turnover enhances profitability. Thus the hypothesis formed is:

H2: Total asset turnover ratio has a positive effect on profitability.

### The Effect of Debt to Equity on Profitability

(Amirya & Atmini, 2008), debt to equity ratio has a significant negative effect on profitability. Companies use debt to finance their operations when profitability is low. Thus the hypothesis formed is:

H3: Debt to equity ratio negatively effects profitability.

### The Effect of Sales Growth on Profitability

According to (Pratama, 2017) and (Sukadana & Triaryati, 2018), revenue growth reflects the company's past success and can achieve alternative revenue growth in the future. A high revenue growth rate indicates that the company receives a large amount of retained earnings and naturally needs more cash to continue growing. Thus the hypothesis formed is:

H4: Sales growth has a positive effect on profitability.

### The Effect of Firm Size on Profitability

According to (Birjandi, 2015) large companies can manage resources to produce products at low cost so that they can generate large profits. (Davydenko, 2011) stated that firms achieve low borrowing costs, due to larger firms, so firm size positively affects profitability. Thus the hypothesis formed is:

H5: Firm size has a positive effect on profitability.

### The Effect of Cash Ratio on Financial Distress

According to (Kasmir, 2021), the cash ratio refers to the ratio between cash and cash equivalents with current debt. This ratio reflects the company's ability to pay short-term debt without having to sell current assets. The higher the cash ratio, the less likely the financial problems will occur, while if the cash ratio decreases, the greater the likelihood of financial problems. According to the research by (Curry et al., 2018) a low cash ratio can have a negative impact on financial problems.

H6: Cash ratio has a negatively affects financial distress.

### The Effect of Total Asset Turnover Ratio on Financial Distress

Research by (Antikasari & Djuminah, 2017) and (S. Handayani et al., 2021) shows that negatively the total asset turnover ratio affects financial distress.

H7: Total asset turnover ratio negatively affects financial distress.

### The Effect of Debt to Equity on Financial Distress

(Sarina et al., 2020), (Heniwati & Essen, 2020), (Gunawan et al., 2017), (Fadlillah, 2019), (Giarto & Fachrurrozie, 2020), and (Bernadin & Indirani, 2020) debt to equity ratio has a positively affects on financial difficulties. High debt to equity ratio causes a higher risk of the company not being able to fulfill its obligations. To maintain security, the proportion of debt to equity must be smaller. Thus, the company will avoid financial distress. Management must be skilled in regulating the debt to equity ratio, and a good arrangement will provide many benefits for the company to avoid unwanted things, including financial distress.

H8: Debt to equity ratio has a positive effect on financial distress.

### **The Effect of Sales Growth on Financial Distress**

The higher the pace of sales development, the greater the company's chances of obtaining large profits. (Widhiari & Merkusiwati, 2015) in their research argue that negative sales growth affects financial problems.

H9: Sales growth negatively affects financial distress.

### **The Effect of Firm Size on Financial Distress**

(Putra & Badjra, 2022), (Okeke et al., 2021) stated, the large dimensions of the company will be balanced with its expenses, then the profitability generated by business entities will decrease, a continuous decline in profitability will result in difficulties.

H10: Firm size negatively affects financial distress.

### **The Effect of Profitability (ROE) on Financial Distress**

According to (Harahap, 2016) that profitability can provide signals to investors before they make investments. According to (Burja & Mărginean, 2014), the DuPont formula analysis shows that an increase in turnover will significantly increase net income. (Curry et al., 2018) show that ROE negatively affects financial distress.

H11: Profitability negatively affects financial distress.

### **The Effect of Cash Ratio on Profitability Mediated Financial Distress**

(Curry et al., 2018) state that the cash ratio negatively effects financial distress. That is, the higher the cash ratio and profitability, the less likely it is to develop financial distress. This statement is also supported by (Putri & Triaryati, 2012), stating that the cash ratio affects profitability negatively. If the cash ratio decreases, then profitability will increase, but if profitability is low, the cash ratio will be high because the company has large cash reserves and low disbursed credit. Therefore, the hypothesis built are:

H12: Profitability can mediate the effect of cash ratio on financial distress.

### **The Effect of Total Asset Turnover Ratio on Profitability Mediated Financial Distress**

(Antikasari & Djuminah, 2017) stated that total asset turnover negatively affects financial distress. Total asset turnover affects profitability, and profitability negatively effects the risk of financial distress.

H13: Profitability can mediate the effect of total asset turnover on financial distress.

### **The Effect of Debt to Equity on Profitability Mediated Financial Distress**

If a company has a large debt and cannot utilize it, then problems will arise in the future related to principal payments and interest that continue to increase. The smaller the debt to equity ratio, the greater the profit generated, so the company avoids financial problems. Research by (Kuntari & Machmuddah, 2021), and (Wilujeng & Yulianto, 2020) states that profitability has a positive effect on the debt to equity ratio in predicting financial distress.

H14: Profitability can mediate the effect of debt to equity ratio on financial distress.

### **The Effect of Sales Growth on Profitability**

(Sukadana & Triaryati, 2018) stated that sales growth can affect profitability and profitability affects the company's financial risk in a negative direction.

H15: Profitability can mediate the effect of sales growth on financial distress.

### **The Effect of Firm Size on Profitability Mediated Financial Distress**

(Nilasari & Ismunawan, 2021) added that firm size has a positive influence on financial distress. Large companies can expect huge profits.

H16: Profitability can mediate the effect of firm size on financial distress.

## **RESEARCH METHOD**

### **Population and Sample**

The research population used in the non-financial sectors listed on the Indonesia Stock Exchange in 2020 and 2021. The sampling technique used in this study is purposive sampling, with the following criteria: (1) Non-financial companies listed on the IDX, and (2) Companies with negative EBIT for three consecutive years from 2019 to 2021.

**Data Processing Techniques**

This research uses the panel data regression analysis method. This study two regression equations to show the hypothesized relationships as follows:

$$ROE_{i,t} = \alpha + \beta_1 \text{Cash Ratio}_{it} + \beta_2 \text{TATO}_{2it} + \beta_3 \text{DER}_{3it} + \beta_4 \text{Sales Growth}_{4it} + \beta_5 \text{Firm Size}_{5it} + e_{it} \dots \dots \dots (1)$$

$$\text{Financial distress}_{i,t} = \alpha + \beta_1 \text{Cash Ratio}_{it} + \beta_2 \text{TATO}_{2it} + \beta_3 \text{DER}_{3it} + \beta_4 \text{Sales Growth}_{4it} + \beta_5 \text{Firm Size}_{5it} + \beta_6 \text{ROE}_{6it} + e_{it} \dots \dots \dots (2)$$

The financial distress used is Zmijewski X-Score model to measure financial distress in non-financial companies listed on the Indonesia Stock Exchange.

$$\text{Zmijewski} = - 4.3 - 4.5 \text{ROA} + 5.7 \text{Debt Ratio} + 0.004 \text{Current Ratio} \dots \dots \dots (3)$$

The cut-off value in Zmijewski is that if the X index value  $X < 0.5$  then the company is not indicated to experience financial distress, and if  $X > 0.5$  then the company is indicated to be experience financial distress.

**Research model**

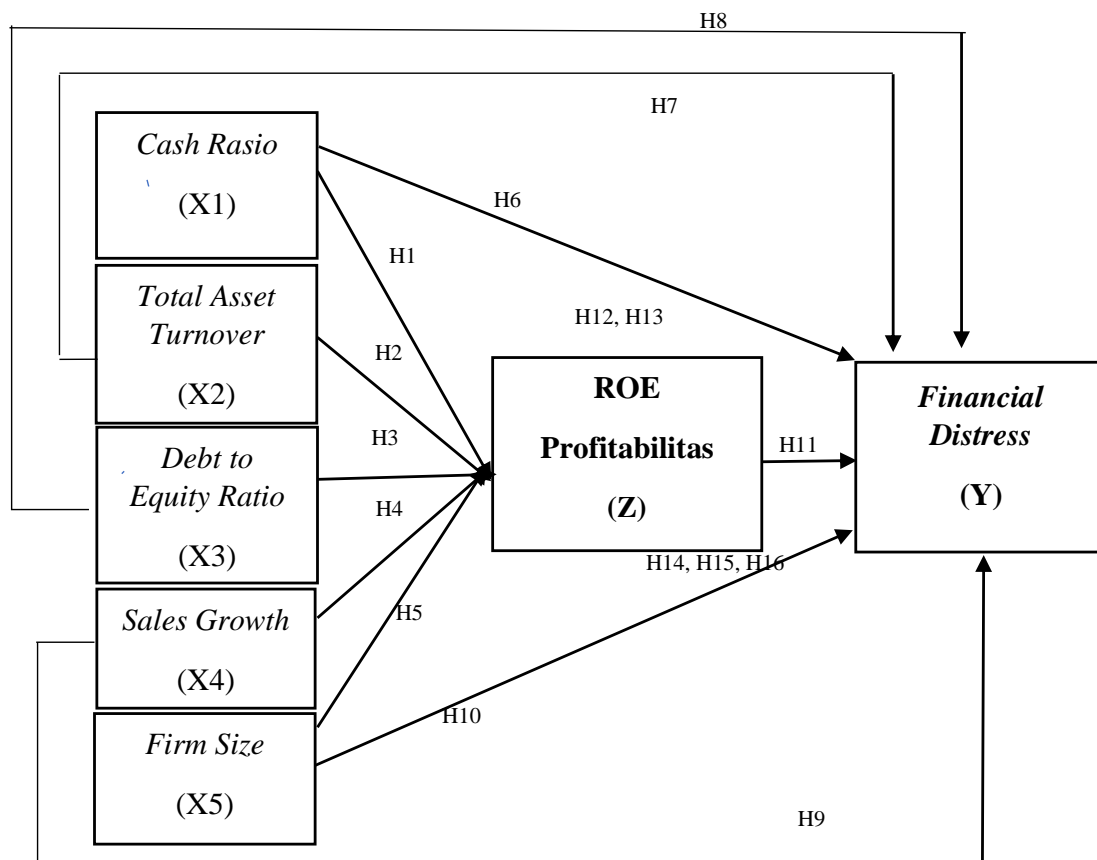


Figure 1. Research Framework

Factor determinant profitability and financial distress of non-financial sector companies in Indonesia

**RESULTS AND DISCUSSIONS**

By referring to the results of the analysis of financial distress prediction with the Zmijewski model, data were obtained from 44 sample companies listed on the Indonesia Stock Exchange (BEI) in 2020-2021. Based on 88 data obtained, 53 data show no indication of financial distress, and 35 data that show an indication of financial distress.

Table 1. Descriptive Statistical Test

Variabel	Mean	Std. Dev.	Median	Min	Max
Financial distress	16,94	72,61	-0,18	-3,46	449,99
Roe	-0,96	5,14	-0,1	-41,65	8,51
Cash ratio	0,69	2,47	0,05	0,000	20,3
Tato	0,92	2,00	0,18	0,000	12,93
Der	3,53	24,03	0,62	-90,3	149,87
Sales growth	0,02	1,06	-0,14	-0,9	7,66
Firm size	26,9	1,58	26,96	23,09	29,52

Source: Processed by Researchers

Table 1 above shows the descriptive statistics for all variables tested. For the dependent financial distress variable, it has an average value of 16,94, meaning that the average company experiences distress because it is an average value of 16,94. The average ROE in the sample was -0,96, meaning that every Rp.1 equity, suffered a loss of -0,96 rupiahs. The cash ratio has an average of 0,69, meaning that the average company in this sample for Rp.1 short-term debt has a cash of 0,69. The average TATO is 0,92, meaning that the average company in this sample has sales of 0,92 times its total assets. DER has an average of 3,53, meaning that the average total debt of companies in this sample is 3,53 times its total equity. Sales growth has an average of 0,02, meaning that the average company in this sample experienced a sales increase of 0,02 or 2% from one period to the next. While firm size has an average of 26,9, it means that the average company size in the sample is 26,9.

Table 2. Regression Test Results

Variabel	ROE		Financial Distress	
	Coef	P >  z	Coef	P >  z
Roe2			-1,138	0,078
Cash ratio2	-0,039	0,557	-1,015	0,074
Tato2	-0,004	0,752	1,023	0,000
Der2	-0,173	0,000	-0,14	0,264
Sales growth2	0,126	0,005	-0,345	0,273
Firmvsize2	0,038	0,094	0,114	0,657
_cons	-1,049	0,096	-3,660	0,605

Source: Processed by Researchers

Based on the regression results in Table 2 above, for ROE where the R-squared value is 0,8531 or 85,31%. It means that all independent variables can explain the dependent variable by 85,31% and the rest are influenced by other variables outside the regression model. From this regression analysis as many as 2 independent variables, namely DER, and sales growth affect ROE. Where DER has a significant negative effect on ROE and sales growth has a significant positive effect on ROE. However, the results of another hypothesis test showed no influence between cash ratio, TATO, and firm size on ROE.

In the results of financial distress regression where the R-squared value is 0,3623 or 36,23%, it means that all independent variables can explain the dependent variable by 36,23% and the rest are influenced by other variables outside the regression model. The results of this regression are only TATO variables that can affect financial distress. Where tattoos have a significant positive effect on financial distress. while the results of other hypotheses show no influence between cash ratio, DER, sales growth, firm size, ROE on financial distress. For profitability (ROE) as an intervening has an insignificant value of 0,078 > 0,05. so that in this study ROE as an intervening cannot mediate between dependent and independent variables.

The H1 test results prove that the cash ratio does not affect profitability (ROE). Thus H1 is rejected. Because during the COVID-19 pandemic, it caused uncertainty in the economy, including a significant decline in revenue and business activity in many sectors, even though the

company has a lot of high cash ratios. The pandemic also caused unexpected additional costs that could reduce net income and reduce ROE, many companies tend to retain more cash to cope with future uncertainty. This will affect the amount of cash managed by the company, which does not rotate and remains accumulated in the treasury. As a result, this has the potential to decrease profitability (ROE).

The H2 test results prove that the total asset turnover ratio does not affect profitability (ROE). Thus H2 is rejected. In the article, (Cororina, 2020) explained that during the pandemic, many companies experienced a decrease in revenue or sales due to social and economic restrictions imposed by the government. The significant decline in sales is not directly proportional to the decrease in fixed costs such as salary costs, building rent, and interest debt accrued. During the pandemic, external factors have such a big influence, therefore the total asset turnover ratio will not affect profitability even though the company can use its assets efficiently.

The results of the H3 test show that debt to equity negatively affects the profitability (ROE) of non-financial institutions listed on the IDX in 2020-2021. Debt to equity has a significant negative impact on profitability. Thus H3 is accepted, meaning that the higher the debt-to-equity ratio has a significant negative impact on profitability (ROE). Companies that have a high DER, indicate that much of the funds used for investment will come from debt, which means the company will have to pay interest and larger loan installments on the debt. Due to the economic instability experienced by the company during the pandemic, the company carried out a strategy to increase debt to maintain liquidity and avoid bankruptcy due to declining revenues and even stopped. (Wahyuningsih, 2021) stated that the government created a special debt relief program for small debtors (UMKM). Therefore, the company's DER tends to increase during the pandemic, this certainly has an impact on the company's return on equity. This can reduce the company's profits which ultimately lowers ROE.

H4 testing shows that a significant increase in sales has a positive impact on profitability (ROE). Thus H4 is accepted. This means that increased sales growth leads to higher revenues which can have the effect of increasing the company's net profit. In difficult situations such as a pandemic, positive sales growth can indicate that a company's ability to attract new customers or retain existing customers well has an impact on high-profit margins and higher ROE. This result is the same as previous research by (Sukadana & Triaryati, 2018), which showed that sales growth positively affects profitability.

The H5 test results prove that firm size does not affect profitability (ROE). Thus H5 is rejected. Many factors can affect the size of a company to profitability during a pandemic. Among others, types of businesses in companies that have businesses in sectors directly affected by the pandemic such as tourism, hospitality, and restaurant sectors experienced a decrease in profit revenue during the pandemic despite the large size of the company, business strategies, and financial capabilities where companies that have sufficient financial reserves and can take advantage of government assistance may be able to survive during the pandemic and may even be able to increase profitability Although the size of the company is small, and vice versa. This research is the same as the research conducted by (Sinaga et al., 2021).

The H6 test results prove that there is no effect between the cash ratio and financial distress. Thus H6 is rejected. Although the cash ratio is an important factor in determining a company's ability to pay short-term debt, many other factors can cause financial distress in the company, such as decreased revenue, market uncertainty, and changes in consumer behavior. According to (Cororina, 2020), the PSBB regulation implemented by the government has caused large losses to all company sectors, where various companies have experienced chaos in production, decreased company productivity, and even bankrupted companies. Therefore, even though companies have a high cash ratio, it does not guarantee they are protected from financial distress. This study is different from the research of (Curry et al., 2018).

H7 testing results prove that tattoos positively affect financial distress. Thus H7 is rejected, meaning that an increase in the total asset turnover ratio can increase financial distress. Many

sectors affected by the pandemic such as the hospitality and tourism sectors have experienced significant impacts due to travel restrictions and falling demand. If the company is highly dependent on assets related to this sector, such as property or vehicles, then the company's total asset turnover ratio can have a negative effect. Therefore, if revenue declines sharply, but the company's total asset turnover ratio is high, then there is a possibility of a negative influence on the ratio. In this condition, companies are vulnerable to financial difficulties. This study is different from the study of (S. Handayani et al., 2021).

The H8 test results prove that there is no effect between DER and financial distress. That way H8 is rejected. In such a volatile economy, there are various causes of financial distress. Among other things, the government provides financial assistance to companies to help overcome financial difficulties, this assistance can help companies that have high DER to survive, besides that many companies also carry out debt restructuring, extending the debt payment period to help problem companies. Therefore, DER is not necessarily the only measure of a company's financial crisis risk during a pandemic. This result contradicts the results of (Sarina et al., 2020), (Heniwati & Essen, 2020), (Giarto & Fachrurrozie, 2020) and (Bernadin & Indirani, 2020).

The H9 test results prove that there is no influence between sales growth and financial distress. That way H9 is rejected. Certain industries such as the health and food industries during the pandemic experienced an increase in sales. However, increasing sales does not always have a positive impact on the company's financial condition, such as raw material costs that increase during the pandemic can reduce profits that can affect the company's ability to pay its obligations, then liquidity problems, even though the company has increased sales during the pandemic, but still experience liquidity problems if customers cannot pay their bills on time. Because of these factors, the increase in sales during the pandemic does not guarantee that the company will avoid financial distress. This research contradicts research conducted by (Widhiari & Merkusiwati, 2015).

The results of the H10 test show that firm size does not affect financial distress. Therefore H10 is rejected. This result is the same as the results of (Bertuah & K. Ghani, 2018) which state that companies with large assets also have the potential to experience financial difficulties. Whatever the size of the company, its profitability will not be affected by financial distress as long as its management and performance are good. Thus, the company can avoid financial distress.

The H11 test proved that there was no effect between profitability (ROE) and financial distress. Therefore H11 is rejected. The pandemic has caused major changes in the global economy, making ROE less important in predicting financial distress. This study is inconsistent with (Curry et al., 2018).

Then in the H12 to H16 test, the results prove that profitability (ROE) is unable to mediate the effect of cash ratio, TATO, DER, sales growth, and company size on financial distress in non-financial institution companies listed on the IDX in 2020-2021. Thus H12 to H16 are rejected. Because during a pandemic, ROE may not be able to function as an effective mediator. This is influenced by external factors, such as significant changes in consumer behavior, decreased market demand, and high economic uncertainty, many companies are experiencing financial difficulties due to using too much debt to finance their operations, and many companies are experiencing decreased performance as a result of experiencing financial distress. According to (Cororina, 2020), the implementation of PSBB by the government has resulted in many companies, especially in the transportation and hospitality aviation sector, having to cut their issuance due to travel bans imposed by the government. some companies are unable to operate normally due to the PSBB which continues to be extended. Although companies have implemented cost-cutting strategies, there are still many companies that struggle to survive and even break even, and many companies also lay off their jobs due to economic uncertainty. This finding is consistent with research conducted by (S. Handayani et al., 2021) that profitability cannot play a mediating role between financial distress and other financial ratios.

## CONCLUSION

Based on the results obtained, DER has a negative influence on profitability (ROE), while sales growth has a positive impact on profitability (ROE). However, there is no influence between cash ratio, TATO, and firm size on profitability (ROE). In addition, tattoos have a positive influence on financial distress. However, cash ratio, DER, sales growth, firm size, and ROE do not affect financial distress. Profitability (ROE) cannot mediate between cash ratio, TATO, DER, sales growth, firm size variables, and financial distress.

This research provides empirical evidence for signaling that information about a company's condition can help debtors before they decide to invest. It also signals to internal and external parties that in unstable economic conditions, financial ratios become irrelevant because they cannot be used accurately in analyzing a company's financial difficulties. Other macro factors arising from economic instability become dominant in determining the condition of an enterprise.

The limitation of this study is the sample of companies listed on the IDX are non-financial institutions with a limited period of two years, namely 2020 and 2021. Thus, subsequent studies extended the observation period and expanded the population sample. This will increase the opportunity to obtain more accurate and detailed information about the research variables. In addition, consider other measurements in measuring financial distress.

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