The influence of Operating Cash Flow, Profitability and Leverage on Financial Distress in Manufacturing Companies Registered on the BEI in 2019-2021

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Abstract

The problem in this study was that many companies had experienced a decrease in profits to losses which, if not immediately anticipated, it could lead to financial distress to bankruptcy which was detrimental to many parties. The purpose of this study was to examine the effect of operating cash flow, profitability, leverage on financial distress in manufacturing companies listed on the IDX in 2019 - 2021. The independent variables used in this study were operating cash flow, profitability and leverage. The type of research used was associative research using quantitative methods. This type of research data was secondary data. The population in this study were 176 companies. With a purposive sampling method obtained a sample of 26 companies. The data analysis technique used logistic regression analysis with the SPSS 25 test tool. The results of this test showed that partially operating cash flow had no effect on financial distress, profitability had no effect on financial distress and leverage affected financial distress. Simultaneously operating cash flow, profitability and leverage affect financial distress.

Keywords: Operating Cash Flow, Profitability, Leverage, Financial Distress

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Introduction

Every company certainly aims to make a profit. However, in reality, there is often a decline in profits which, if it occurs continuously, can result in losses and even bankruptcy. One of the reasons for company bankruptcy is the dynamic development of the world economy which results in increasingly high levels of company competition. Likewise what happens in Indonesia, Indonesia is a developing country where along with existing developments, especially in the economic sector, there is tight business competition in every existing business line. So, to be able to survive amidst high competition, companies must be able to maintain and improve their performance and in carrying out their business activities make the best decisions to avoid financial distress.

*Financial distress*is a financial situation that will continue to worsen and lead to bankruptcy if the Company does not take action[1]. Two factors that cause financial distress are external and internal factors. Internal components have financial difficulties including debt and cash flow difficulties in running a business. External factors have the macroeconomic conditions of a country such as inflation. For example, the value of the rupiah is uncertain and weak [2].

Manufacturing companies are companies that make the largest contribution to the Indonesian economy (Ministry of Industry, 2019), where these companies have the largest contribution to Gross Domestic Product (GDP). In 2019-2021, many manufacturing companies experienced a decline in profits and negative profits, so it is possible that financial distress will occur which could result in bankruptcy.

Table 1. Decline in Profits of Several Manufacturing Companies

No	Issuer Code	2019	2020	2021
1	PSDN	25,762,573,884	52,304,824,027	82.495.584.993
2	INAF	7,961,966,026	30,020,709,408	37,571,241,226
3	CINT	7,221,065,916	249,076,655	98,210,943,293
4	BRNA	163,083,992,000	187,053,341,000	93,272,827,000
5	SWAT	3,102,078,183	2,145,671,792	70,292,205,107
6	VOKS	208,249,125,401	2,783,763,185	210,822,267,532

Source: Manufacturing Company Financial Reports on the IDX for 2019-2021

Based on table 1. there are many manufacturing companies whose profits have decreased, resulting in losses. in 2019 PT Prasidha Aneka Niaga Tbk (PSDN) suffered a loss of 25.7 billion and in 2020 the loss was 52.3 billion and in 2021 the loss suffered by PT Prasidha Aneka Niaga Tbk (PSDN) was 81.1 billion. PT Sriwahana Adityakarta Tbk (SWAT) experienced a decrease in profit to a loss. Where in 2019 the loss suffered by PT Sriwahana Adityakarta Tbk (SWAT) was 3.1 billion, while in 2020 it received a loss of 2.1 billion, in 2021 it experienced a loss as much as 70 billion. Apart from the two companies previously described,

PT Berlina Tbk (BRNA) suffered losses in 2019 of 163 billion, in 2020 the losses experienced increased to 187 billion and in 2021 PT Berlina Tbk (BRNA) suffered losses of 93. 2 billion.

Based on the explanation above regarding the dynamic development of the world economy which has resulted in high competition and there are some manufacturing companies whose profits have decreased to the point of losses, there are many manufacturing companies that do not yet have stable finances so predicting companies experiencing financial distress is an action that companies need to take to avoid risks. Bankruptcy can be overcome in the future[3]. Bankruptcy is the highest level of financial distress problem and results in losses for many parties[4]. Financial distress can be seen through financial reports by analyzing financial reports. Financial reports can be used to see the level of financial health of a company, which is shown by ratios, and will show the company's ability to run its business.

Research Methods

This research uses a quantitative approach to obtain empirical evidence of predictions of financial distress conditions using company financial ratio analysis. This research is associative research. Associative research is research that aims to determine the relationship between two or more variables. The relationship between the variables in this research is a causal associative relationship. A causal associative relationship is a relationship that is cause and effect. So, here there are independent variables (influencing variables) and dependent (influenced) variables.

The population is all objects to be studied that have characteristics and criteria that have been determined by the researcher. The population in this research is all manufacturing companies listed on the Indonesia Stock Exchange (BEI) in 2019-2021. Meanwhile, what is meant by sample is a portion of the population that will be used to represent population criteria. In determining the sample, the method used was the purposive sampling method. Where purposive sampling is determining the sample based on a criterion.

The data collection method in this research is by using documentation studies. The data used is secondary data obtained from the financial reports of manufacturing companies listed on the Indonesia Stock Exchange (BEI) for 2019-2021. The data in this research was accessed from the website www.idx.co.id

Results

Descriptive Statistical Analysis

Table 2. Descriptive Statistics Results Table

	N	Minimum	Maximum	Mean	Std. Deviation
Operating Cash Flow	78	-.84	2.86	,3143	,58499
Profitability	78	-,43	3.50	,0950	,47430
Leverage	78	.07	22.32	1.5009	2.67511
Valid N (listwise)	78				

Table 3. Financial Distress Variable Frequency Statistics Table

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bankrupt	24	30.8	30.8	30.8
	Healthy	54	69.2	69.2	100.0
	Total	78	100.0	100.0	

Hypothesis Testing Results

Table 4. Test the Overall Model (Overall FitModel)
Iteration Historya,b,c

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	96,319	,769
	2	96,290	,811
	3	96,290	,811

a. Constant is included in the model.
b. Initial -2 Log Likelihood: 96.290
c. Estimation terminated at iteration number 3 because parameter estimates changed by less th

Iteration Historya,b,c,d

Iteration		-2 Log likelihood	Coefficients Constant	Operating Cash Flow	Profitability	Leverage
Step 1	1	76,833	1,029	,563	-,154	-,281
	2	59,399	2,094	,508	-,047	-1,012
	3	54,393	2,947	,329	,148	-1,649
	4	53,620	3,409	,205	,285	-2,018
	5	53,593	3,513	,176	,320	-2,103
	6	53,593	3,517	,175	,322	-2,106
	7	53,593	3,517	,175	,322	-2,106

a. Method: Enter

b. Constant is included in the model.

c. Initial -2 Log Likelihood: 96.290

d. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

Regression Model Feasibility Test

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	11,936	8	,154

Coefficient of Determination Test

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	53.593a	,422	,595

a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

Logistic Coefficient Test

Variables in the Equation

		B	S.E	Wald	df	Sig.	Exp(B)
Step 1a	Operating Cash Flow	,175	,984	,032	1	,859	1,191
	Profitability	,322	,685	,220	1	,639	1,380
	Leverage	-2,106	,557	14,310	1	,000	,122
	Constant	3,517	,850	17,142	1	,000	33,696

a. Variable(s) entered on step 1: Operating Cash Flow, Profitability, Leverage.

Partial Test (Wald Test)

Variables in the Equation

		B	S.E	Wald	df	Sig.	Exp(B)
Step 1a	Operating Cash Flow	,175	,984	,032	1	,859	1,191
	Profitability	,322	,685	,220	1	,639	1,380
	Leverage	-2,106	,557	14,310	1	,000	,122
	Constant	3,517	,850	17,142	1	,000	33,696

a. Variable(s) entered on step 1: Operating Cash Flow, Profitability, Leverage.

Simultaneous Test (Omnibus Test)

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	**Step**	**42,697**	**3**	**,000**
	Block	42,697	3	,000
	Model	42,697	3	,000

Conclusion

Operating cash flow has no effect on financial distress so H1 is rejected. This is indicated by a significance value of 0.859 > 0.05 and a regression coefficient of 0.175.Several factors that influence operating cash flow so that it does not affect financial distress are the management of receivables, even though the company has a stable cash flow from receivables, the length of time it takes to collect receivables can indirectly cause financial distress as well as fluctuations in currency exchange rates. Companies that operate internationally experience changes in cash flow. cash due to exchange rate fluctuations, but if the Company does not have a good exchange rate hedging strategy, then financial distress could occur.Profitability has no effect on financial distress so H2 is rejected. This is indicated by a significance value of 0.639 > 0.05 and a regression coefficient of 0.322. Several factors that influence profitability so that it does not affect financial distress are the global economic crisis, the COVID-19 pandemic has resulted in a significant global economic crisis. Even companies with good profitability can experience financial distress due to decreased demand, supply chain disruptions and high economic uncertainty. As well as, external factors such as changes in market demand which have drastically changed in market demand, because the pandemic has affected many industrial sectors. Products that were previously profitable may become less popular which impacts the Company's revenues.*Leverage*has an effect on financial distress so that H3 is accepted. This is indicated by a significance value of 0.000 <0.05 and a coefficient of -2.106. Leverage has an effect on financial distress because large companies carry out operational activities financed by loan capital from third parties and have a high leverage value. A high level of leverage shows that the company is very dependent on external parties to meet its needs. On the other hand, a low level of leverage indicates that the company can meet its needs with assets and capital. The higher the level of leverage, the funds available in the company will not be able to pay off the debt it has, which will cause financial distress. Operating cash flow, profitability and leverage simultaneously influence financial distress so that H4 is accepted. This is indicated by a significance value of 0.000.

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