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Influence of Company Size, Leverage, Sales Growth and Operating Capacity on Financial Distress

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ABSTRACT

Financial distress is a condition where the company faces financial difficulties. Financial distress has a close relationship with bankruptcy in a company because financial distress is the stage where the company's financial condition has decreased before the bankruptcy. The purpose of this study was to find out empirical evidence about the effect of firm size, leverage, sales growth and operating capacity on financial distress. The population of this study is Real Estate and Property Companies Listed on the Indonesia Stock Exchange in 2017-2019. The sample in this study is 100 companies that have been selected by the purposive sampling method. The analysis method uses multiple linear regression analysis techniques. The results show that leverage has an effect on Financial Distress while Company Size, Sales Growth and Operating Capacity have no effect on financial distress.

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INTRODUCTION

Each company has the goal to obtain large profits continuously, where the profits are used to finance the company's operational activities and other activities in order to maintain the survival of its business. However, in reality not all companies can realize this because there are still many companies experiencing bankruptcy as a result of financial distress problems that cannot be overcome properly. Financial distress is a condition where the company faces financial difficulties. Financial distress has a close relationship with bankruptcy in a company because financial distress is the stage where the company's financial condition decreases before bankruptcy. Financial distress is a condition that is not desired by various parties. In the event of financial distress, investors and creditors will tend to be careful in making investments or lending to the company. Stakeholders will tend to react negatively to these conditions. Therefore, the company's management must immediately take action to address financial distress issues and prevent bankruptcy.

The causes of a company's inability to maintain its business continuity are economic failure and financial failure. Economic failure can be caused by an imbalance between income and the company's expenditure or capital costs that are greater than the historical level of profit or cost of investment. Meanwhile, financial failure is due to the company being unable to pay its obligations at maturity even though the total assets exceed their total liabilities. This condition is what causes the company to experience financial difficulties (financial distress) that leads to bankruptcy. There are several factors that affect financial distress including the size factor of the company which is defined based on the amount of total assets owned by the company, the leverage factor is Measuring how much assets the company has financed or derived from debt, the sales growth factor is the growth ratio *sales, and factors operating capacity* Is the ratio to measure the level of sales obtained by the company from the total assets of the company used. Research was conducted on real estate and property companies. The research is intended to analyze the effect of company size, leverage, sales growth, and operating capacity on financial distress on real estate companies and properties listed on the Indonesia Stock Exchange (IDX).

LITERATURE REVIEW

Signaling Theory

According to Wolk et al. (2002), signaling theory is a theory that reveals that companies give signals to users of financial statements, both in the form of positive signals (good news) and negative signals (bad news). According to Brigham and Houston (2001), the relationship of signaling theory with variables in this study is that a high current ratio value indicates a positive signal for creditors. While the debt to assets ratio with a high value will show a negative for creditors, because the higher this ratio shows that the more funding done by debt. Companies with positive sales growth, it will give a positive signal to all parties. Because the company has a tendency to be able to maintain the survival of the company.

Financial Distress

According to Platt and Platt (2002) in Fahmi, (2014: 93), defines financial distress as the stage of decline in financial condition that occurs before bankruptcy. Financial distress starts from the company's

inability to meet its obligations, especially obligations that are short-term including liquidity obligations and also include solvency obligations. Financial distress according to Afriyani (2012) is a condition where the company's finances are in an unhealthy state or crisis. Financial distress that is enough to interfere with the company's operational activities It is a condition that must be immediately watched out and anticipated.

Company Size

The size of the company is the size of the company based on the total assets it has in accordance with the decree of the Minister of Industry and Trade No. 254 of 1997 (Wardani, 2012). The size of the company is one of the factors that the company considers in determining how much the funding decision policy (assets) in meeting the size or size of the company's assets. The size of a company is indicated by a value that is often called the size of the company. Investors on the exchange often assume that planting shares in large companies is more convincing and can bring more profits than planting shares in smaller companies (Setyowati, 2019). The size of the company in this study is projected with a natural logarithm of the total assets owned by the company.

Sales Growth

A company will also get higher. sales growth itself reflects the company's ability to increase sales of the products it produces, either an increase in the frequency of its sales or an increase in its sales volume. A company that successfully executes its strategy in terms of marketing and product sales, will increase the company's sales growth.

Operating Capacity

Operating Capacity is a ratio to measure the level of sales obtained by the company from the total assets of the company used. This shows the company's ability to utilize its total assets effectively to increase sales. The more effective the company is in managing its assets the lower the likelihood of experiencing financial distress (Radiansyah, 2013: 9).

The Company's Size to Financial Distress

A company that has a large corporate size means it has large assets, the company has a strong capital structure because the company's operational financing of its assets is not from debt. Large companies as measured by large assets have many consequences, where companies are able to create greater profits. So that the growth of the company is large, so that the company is able to resolve short-term debt and long-term debt so that the company can avoid financial distress.

Kusufiyah dan Dina (2019) states that the resources owned by large-scale companies are more competent to be used in achieving certain goals. With the assets owned, the company can have more opportunities to be utilized to develop businesses that aim to improve the company's financial performance so that it will reduce the risk of financial distress in the company. This statement is in accordance with research conducted by Setyowati and Sari (2019) and Susilawati, Sofianty and Sukarmanto (2017), which proved that the size of the company negatively affects financial distress. Based on the previous description, the following hypothesis can be proposed: H1 = The Size of the Company affects financial distress.

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The Company's Leverage against Financial Distress

Leverage is required by a company to measure the extent to which a company is able to pay off its financial obligations (short- and long-term). How much debt is used in funding a company's assets is emphasized in the leverage ratio. The survival of the company in agency theory is in the hands of the agent. Whether it is decided by the agent to get funding from a third party or not. However, it is questionable whether the agent made the wrong decision or whether the agent deliberately took the decision in his own interest if the proportion of debt the company has is too large. Therefore, it is very important for the decision of the agent in funding the company's assets, because if too much funds are used from third parties, it will arise the greater the liabilities in the future, that is what causes a company will be vulnerable to financial distress. The leverage ratio is measured by the use of debt to total asset ratios.

In research conducted by Atika et al. (2012) stated that the ratio of leverage has a positive and significant effect on the possibility of financial distress. The statement was supported by research conducted by Lee Seoki et al. (2010) and Ahmad (2012), which also proved that there is a positive and significant influence on the ratio of leverage in financial distress. This means that the funding of corporate assets financed by debt is getting bigger, so the possibility of the company experiencing financial distress will be even greater. Based on the previous description, the following hypothesis can be proposed: H2 = Leverage affects financial distress.

Sales growth* Company to *Financial Distress

Sales growth shows a percentage of these sales compared to the previous year's sales. Sales growth in the company is said to be successful if the value of sales growth is high. With these conditions, it can be said that the company's management has carried out strategies in marketing and selling products. Which is good. A company with positive sales growth means giving a positive signal to all parties because the company has a tendency to be able to maintain the viability of its business and can reduce the potential for financial distress (Alfi Rista Nora, 2016).

The higher the sales growth of a company, then the company can be said to be successful. This means that the greater the profit that will be obtained by the company from these sales, but if sales growth decreases it will have an impact on revenue, if revenue continues to decrease it will trigger financial distress (Rahayu and Sopian, 2016). Based on the previous description, the following hypothesis can be proposed: H3 = Sales growth affects financial distress.

Operating Capacity to Financial Distress

According to agency theory, the company's management activities are the responsibility of the agent. The operational activities of the agent company are required to be able to maximize the use of its assets, so that sales and profits can be raised. When it cannot maximize the use of company assets, then the company's revenue received is also not maximal bias, as a result of which the company will likely experience greater financial distress as a result of this.

The higher the operating capacity level of a company, the lower the level of financial distress, because the company can

make a profit. Widhiari and Merkusiwati (2015) revealed that operating capacity as measured by total turnover assets (tat) affects financial distress. With a high total turnover (tat) asset value means that the company has a lot of profit from its sales activities, with good corporate profits, the company can fulfill its obligations easily. Based on the previous description, it can be proposed the following hypothesis: H4 = Operating Capacity affects financial distress.

RESEARCH METHODOLOGY

This research uses a type of quantitative research, which tests theories through the measurement and analysis of each variable that has been compiled. With the research population, that is.perusahaan *real estate* dan properties listed on the IDX for the period 2017-2019. The sampling method in this study used the purposive sampling method based on criteria: Real Estate and Property companies are listed on the IDX and publish consecutive annual reports during the period 2017-2019. The company uses rupiah in its financial statements. Have all the complete data used to calculate the variables that were the focus in the study. The data collection method in this study uses documentation tekinik. The data used in this study is secondary data. The data sources used in this study were sourced on the annual report of Real Estate and Property companies listed on the Indonesia Stock Exchange in 2017-2019 and obtained through direct access from the Indonesia Stock Exchange website. (www.idx.co.id).

Company Size

The size of the company in the study is projected with a natural logarithm of the total assets owned by the company.

Leverage

Leverage is measured using debt to total assets. This ratio measures the extent to which a company's assets are defended by debt derived from creditors and its own capital coming from shareholders. The leverage in this study is projected using the Debt to Equity Ratio (DER).

Sales growth

Sales growth calculation uses the difference in sales of the current period with sales in the previous period divided by sales of the previous period (Curry and Banjarnahor, 2018).

Operating Capacity

Operating capacity or activity ratio is the ratio used to assess the effectiveness or not of a company in using assets to generate sales, so as to demonstrate the ability of assets that can create sales. The proxy used operating capacity is TATO (total asset turnover).

RESULTS AND DISCUSSIONS

Based on the results of descriptive analysis in the conclusions that can be taken are as follows:

The Financial Distress variable is known for an average value of 5.420150 with a minimum value of 1.2195 and a maximum value of 15.3003 with a standard deviation of 2.9548731. The results of descriptive analysis of the Company Size variable have an average value of 29.380263 with a minimum value of 25.8726 and a maximum value of 31.6701 with a standard deviation value of 1.3605646. While the results of descriptive analysis of leverage variables have an average 0.388090 with a minimum value of 0.0640 and a minimum value of 0.0640 maksimum of 0.7870. While the standard deviation is 0.1708283. Descriptive

analysis of sales growth variables has an average value of 0.203562 with a minimum value of -0.912 and a maximum value of 13.6013. While the standard deviation is 1.4255943. Then the results of descriptive analysis of operating capacity variables have an average value of 0.170816 with a minimum value of 0.0166 and a maximum value of 0.3722. While the standard deviation is 0.0819

The constant value of 11,510 indicates that the company's Size, Leverage, Sales Growth and Operating Capacity factors are assumed to be constant or equal to zero, raising financial distress. The magnitude of the regression coefficient of the Company Size variable is worth -0.042 which means an increase in the Size of the Company will decrease Financial Distress. The magnitude of the leverage variable regression coefficient is worth - 14.118 which means the increase in Leverage will then decrease financial distress. The magnitude of the regression coefficient of the Sales Growth variable is worth - 0.099 which means the increase in Sales Growth will decrease Financial Distress. The magnitude of the regression coefficient of the Operating Capacity variable is worth 3,717 which means the increase in Operating Capacity will increase Financial Distress.

Discussion

The Effect of a Company's Size on Financial Distress

Based on the results of the variable test the Company Size has a calculated t of -0.297 and a significance value of 0.767. The significance value of 0.767 > α 0.05 means that the Company Size variable has no effect on Financial Distress, therefore the 1st hypothesis is rejected. This is because companies that have large and small total assets have investments or partners that are many so that total assets cannot be used as a benchmark as a determination of a company's financial distress. This research also supports research conducted by Suryani (2020) and Christine et al (2019) which stated that the Company's Size is not Impact on financial distress. But this study contradicts research conducted by Setyowati and Sari (2019) which states that the Size of the Company has an effect on Financial Distress.

The Effect of *Leverage* to *Financial Distress*

Based on the results of the test the Leverage variable has a calculated t of -12,227 and a significance value of 0.000. Leverage significance level of 0.000 < α 0.05. The results showed that Leverage has an effect on Financial Distress, then the 2nd hypothesis is accepted. From this result it can be interpreted that the higher the level of corporate funding using debt, the less likely the company is to experience financial distress. The use of high debt is quite risky for the company because the company will be charged by the interest expense that must be paid but if the funds derived from the debt can be used properly and effectively such as business expansion or increased product promotion it will be able to improve the company's performance which will have an impact the less likely the company to experience financial distress. The results of this study also support research conducted by Kusufiyah and Dina (2019) which states leverage has an effect on Financial Distress. However, contrary to research conducted srikalimah (2017) which states that leverage has no effect on financial distress.

The Effect of Sales Growth on Financial Distress

Based on the results of the test the Sales Growth variable has a calculation of -0.763 and a significant value of 0.447. A significant value of 0.447 > α 0.05 means that the Sales Growth variable has no effect on Financial Distress, therefore the 3rd hypothesis is rejected. Sales growth has no effect on financial distress can be caused because the high or low level of sales growth does not reflect can be followed by an increase in profits obtained by the company.

Increased Sales growth can be followed by burdens. It is also high so that the profit generated does not contribute greatly to the financial condition of the company. This is in accordance with research conducted by Suryani (2020). This research also supports research conducted by Nurhayati, Nurcholisah and Aprian (2019) and Ramadhani and Khairunnisa (2019) which states that Sales Growth has no effect on Financial Distress. However, contrary to research conducted by Widhiari and Merkusiwati (2015) which states that Sales Growth has an effect on Financial Distress.

The Effect of Operating Capacity on Financial Distress

Based on the results of the test the Operating Capacity variable has a calculation of 1,598 and a significant value of 0.113. A significant value of 0.113 > α 0.05 means that the Operating Capacity variable has no effect on Financial Distress, therefore the 4th hypothesis is rejected. Although a company that has a large operating capacity, there is no guarantee that the company is safe from the threat of experiencing financial difficulties. The more effective a company uses its assets to result in sales is expected to provide greater profits for the company. But if a company has used the company's assets effectively, to generate sales, not necessarily the company will benefit. Increasing the number of sales can result in a larger number of receivables. Receivables that are too large can harm the company, because the working capital embedded in receivables is too large (Munawir, 2002). This will result in reduced liquidity of the company or can even make the company financially difficult. These results are in accordance with research conducted by Kariani and Budiasih (2017).

CONCLUSION

This research aims to test the effect of company size, leverage, sales growth, and operating capacity on financial distress. Based on the results of the above research, it can be concluded that the size of the company, sales growth, and operating capacity have no effect on financial distress, Leverage affects financial distress. The study used a 3-year group sample, for further research is expected to be carried out additional research time periods and use other independent variables that have not been included in this study or other factors that affect financial distress.

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