

EFFECT OF PROFITABILITY, LEVERAGE, INTEREST RATE, AND INFLATION ON FINANCIAL DISTRESS

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Abstract

Financial Distress is a phenomenon that shows a downward trend in a company's financial performance and is an early stage before bankruptcy. This study aims to examine the effects of profitability, leverage, interest rates, and inflation on the possibility of financial distress in the property and real estate sub-sector companies listed on the IDX. The population in this study was the property and real estate sub-sector companies listed on the IDX for the 2010-2018 period, and the sample selection method used was a purposive sampling method and obtained a sample of 153 companies. The method of data analysis was performed using logistic regression analysis with the E-Views 9 program. The results of this study show that profitability and leverage affect financial distress, while interest rates and inflation do not affect financial distress.

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INTRODUCTION

Economic conditions in a country tend to fluctuate as happened in Indonesia where there was a decline in economic conditions which resulted in several sectors in Indonesia experiencing a decline in financial conditions. This is caused by several factors, namely internal factors and external factors. These external factors are macroeconomic factors. The main macroeconomic factors that affect the prediction of a company's financial difficulties are the economic situation of a country, fiscal policy, monetary policy, inflation, and market characteristics and expectations (Korol and Korodi, 2010).

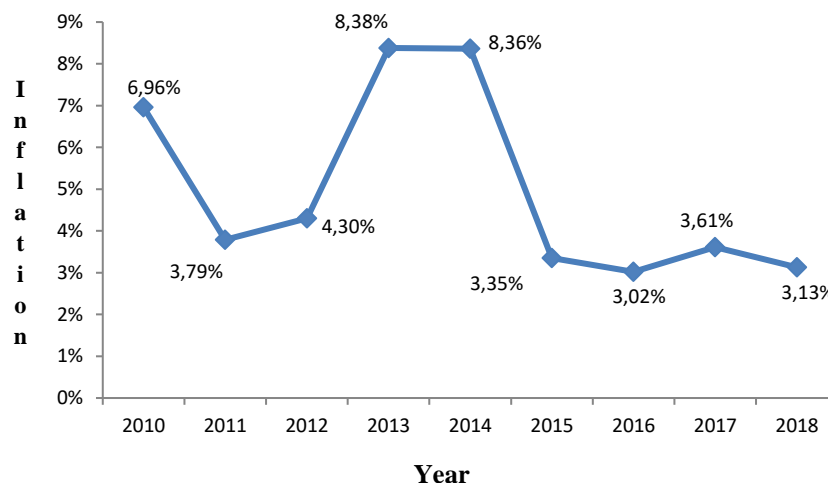
From a global perspective, there was a subprime mortgage crisis, namely the economic crisis that hit the United States in 2008, involving the largest housing credit in the US, namely Lehmann Brothers. The problem begins because the mortgage industry provides loan funds to borrowers who are in the low-income class so that they do not have sufficient ability to pay debts. As a result, there was default, which led to bad credit, where housing loans banks no longer received income in liquid form but in the form of assets confiscated from their borrowers.

The weakening of the rupiah against the US dollar. The fall in the rupiah has had a negative impact on various business sectors, one of the business sectors that is vulnerable to this impact is the

property and real estate sector, this is because based on the calculation of the international rating agency Fitch Rating, the portion of debt is denominated in US dollars for each listed development company on the Indonesia Stock Exchange, reaching around 50% of the total debt respectively (www.katadata.co.id, 2018). Some developers do not have sufficient funds to pay off their obligations and do not have hedging agreements. As a result of the weakening of the Rupiah against the US Dollar, the purchasing power of property sales is lower. This is experienced by several development companies including PT. Summarecon Agung Tbk, which recorded a decline in sales of up to 50% compared to the first quarter of 2014, PT. Agung Podomoro Land Tbk which also fell to 31.9%, and PT. Alam Sutera Tbk has decreased by 29% (www.katadata.co.id, 2015).

The increasing inflation rate is also a problem for business people in this sector. Where the increase in inflation results in a decrease in people's purchasing power.

Figure 1: Inflation Rate 2010 - 2018



Based on Figure 1, it is noted that the highest inflation during 2010–2019 was in 2013 where the Central Statistics Agency recorded that the inflation rate in December 2013 reached 0.55% with Year on Year (YoY) inflation reaching 8.38% and remained at 8,36% the following year. This is one of the biggest threats to business players from various business sectors, including the property and real estate sub-sector. According to Judisseno (2002), inflation is one of the events that shows a tendency to increase in prices of goods in general, which means a decrease in the value of money. In this event, it means that the rate of currency is decreasing. As a result of the decline in the value of the currency, the cost of living increased so that people are more likely to invest in foreign currency products or other banking products than in the property sector. The decline in public interest in buying property has resulted in business actors in the property sector experiencing financial difficulties in selling their products, even resulting in default. In addition, the property sector is still not promising due to the high interest rates for housing loans.

According to Gamayuni (2012), "Financial Distress is a condition of financial difficulties or liquidity which may be the beginning of a bankruptcy. The occurrence of losses, delay in payment of obligations, cancellation of contracts because the company is unable to pay its obligations due to too

high interest expenses are some signs of a company's decline stage. A company certainly wants to avoid conditions that can lead to bankruptcy because it can result in various losses for shareholders, employees, and the national economy (Al-khatib and Al-Horani., 2012). Financial Distress is a condition that can put a company in danger of bankruptcy.

The weakening of the business in the property and real estate sector in recent years has prompted the company to strengthen the company's management fundamentals aimed at anticipating global developments. If the company is not able to improve its performance, it will have difficulty maintaining the company's liquidity which will result in financial difficulties for the company and may lead to bankruptcy. Therefore an analysis is needed to be able to determine the possibility of financial distress in a company so that company management can make prevention and improvement and can make appropriate decisions. There were 37 companies that were included in the list of delisted companies on the IDX from 2010 to 2019, most of which occurred because companies went bankrupt and merged.

One of the techniques used to evaluate companies is financial ratios (Oktasari, Parashakti, 2019). Financial ratios can be used as indicators of a company's financial performance, namely the results or financial condition of a company and the performance that has been achieved for a certain period which is presented in the company's financial statements (Jiming and Weiwei, 2011). Therefore financial ratios have an important role to detect the possibility of financial distress in a company. One of the financial ratios that can predict financial distress is the profitability ratio, where this ratio can show the company's ability to make profits, if the level of company profitability is low, the possibility of the company experiencing financial distress is higher. From previous research conducted by Kusuma and Sumani (2017), it was found that the profitability ratio had a negative and insignificant effect where Return of Assets (ROA) as a measuring tool used by the writer contributed to describing the reduction in the Z-Score Financial Distress value, even though the results are not significant.

In addition to profitability ratios, financial distress can also be predicted by means of a leverage ratio, also known as the solvency ratio, which functions to measure how far the company's assets are financed by debt. This ratio shows how much the company's ability to pay short-term and long-term liabilities if the company is liquidated. If there is an imbalance between the company's income and the company's obligation to pay its debts, it is likely that the company will experience financial distress. Research conducted by Jiming and Weiwei (2011) in China proves that leverage (debt asset ratio) has a positive and significant effect on financial distress. This is also supported by research conducted by the same results also shown in Ong's research, et al. (2011) in Malaysia who also stated that leverage by using the proxy for total liabilities to total assets has a positive and significant effect on financial distress conditions. So it can be said that the greater the company's operations are financed through debt, the greater the possibility of financial distress in a company. However, it is different from the results of research conducted in Indonesia by Marchelina (2017) and Pertiwi (2018) where the results show that leverage has no effect on financial distress conditions. So it can be said that the greater the company's operations are financed through debt, the greater the possibility of financial distress in a

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Based on the research background and several previous studies described above, the authors are interested in conducting further research.

LITERATURE REVIEW

Financial Distress

Financial Distress is a phenomenon that shows a downward trend in a company's financial performance. Where is the initial stage before bankruptcy. Financial Distress is a condition in which a company is at a decline in financial performance due to the inability of the company to meet obligations such as credit payments, interest expenses, and bonds, so the company needs to take corrective steps so that these conditions do not continue which can lead to the risk of bankruptcy. at the company.

There are several indicators to see signs of financial distress that can be observed by companies (Marchelina, 2017), namely:

- Dividend reductions : Decrease in the amount of dividends distributed to shareholders for several consecutive periods.
- Losses : Decrease in profit continuously even the company experiences a loss.
- Plant closings : The closure or sale of one or more business units.
- CEO resignations and financial restructuring or massive layoffs : CEO resignation and major layoffs or financial reconstruction.
- Plummeting share price : Prices on the market are starting to decline steadily.

For internal company parties, there are several indicators that can be known and considered so that financial distress can be prevented, including:

- The decrease in sales volume was due to the inability of management to implement policies and strategies
- Decrease in the company's ability to make a profit
- Depends on debt, which causes the company to have very large debts, resulting in increased capital burdens
- The company's inability to pay interest expenses, in this case the company can see indicators using the Interest Coverage Ratio (ICR) financial ratio. ICR is an interest protection ratio that describes how much the company can pay its interest expense. ICR can be formulated as follows:

$$ICR = \frac{EBIT}{Interest\ Expense}$$

Profitability

According to Agus Sartono (2014), the profitability ratio is the company's ability to earn profits in relation to sales, total assets, and own capital. It can be said that a company that has a high level of profitability ratio indicates that the company is able to generate profits to be used in financing company activities and paying its obligations so that the company avoids the risk of financial distress.

Research on the effect of profitability on financial distress has been studied by Priyatnasari and Hartono (2019) with the results of the study that ROA as a proxy for profitability has an influence on financial distress. These findings support the results of previous studies from Carolina, Marpaung, and Pratama (2017) which state that profitability affects financial distress.

H₁: Profitability has an effect on Financial Distress

Leverage

According to Hery, (2016), the ratio of debt to equity is a ratio used to measure the proportion of debt to capital. Where every use of debt by the company will affect the risk and return. If the company is unable to pay its obligations, both short-term and long-term, the possibility of the company experiencing distress will increase, and vice versa.

Kusuma and Sumani (2017) have studied the effect of leverage on financial distress, where the leverage ratio represented by the debt ratio has a significant effect on financial distress. These findings support the research results of Septivani, and Agoes (2014), and Malelak (2015) which state that leverage has an effect on financial distress.

H₂: Leverage has an effect on Financial Distress

Interest rate

Interest rate is one of the most concerned variables in the economy, where the movement of interest rates is reported on a daily basis by the news media because it directly affects our daily lives and has important consequences for the health of the economy. In general, interest rates are divided into two types, namely:

- Nominal interest rate is the right or obligation to earn interest or pay interest without considering the impact of inflation.
- Real interest rate is the right or obligation to receive or pay interest after deducting the expected change in the price level (inflation) so that it will more accurately reflect the cost of borrowing.

Trade Off Theory explained that the company will be able to reduce tax payments due to the company's debt and allow the company to increase its profits so that the company is not in a financial

distress. The use of debt as a way to reduce taxes can increase the interest expense for companies where an increased interest rate will increase interest costs, so that the company will pay more debt due to increased interest rates and can cause the company to experience financial distress. In line with research conducted by Darmawan, Surya (2017) where companies that borrow funds from the Bank will be charged a percentage of interest so that the greater the interest expense, the greater the possibility of a decrease in company profits.

H₃: Interest rates affect Financial Distress

Inflation

According to the Central Statistics Agency (BPS), inflation is the tendency to increase in prices for goods and services in general, which takes place continuously. If inflation increases, the prices of domestic goods and services will increase.

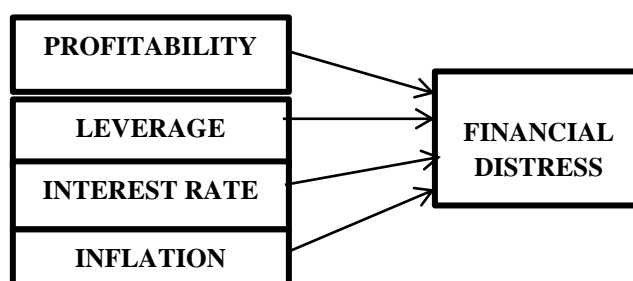
According to Rohiman and Damayanti (2019), inflation can occur due to pressure from the supply side (cost push inflation), from the demand side (demand pull inflation), and from inflation expectations. Inflation will have an effect on economic activity, the prosperity of individuals and society. High inflation results in weakening economic development and can reduce the real income of people with fixed income so that it will affect people's decisions to invest and be more careful in buying something and tends to reduce consumptive nature.

This is supported by previous research conducted by Dila Ayu Pertiwi (2018), which shows that inflation has a negative effect on financial distress.

H₄: Inflation has an effect on Financial Distress

Based on the relationship between variables supported by the theories and previous studies that have been described, the framework in this study is as follows:

Figure 2: Framework



RESEARCH METHODOLOGY

Research Methods

This study uses property and real estate sub-sector companies listed on the IDX for the 2010-2018 period with the object of research in the form of secondary data in the form of financial reports obtained from www.idx.co.id and the official website of each of these companies.

The research design uses quantitative research to examine the relationship between variables which is carried out by using the data process in the form of numbers as a tool to analyze and conduct research studies. Where the independent variables in this study are Profitability, Leverage, Interest Rates, and Inflation and the dependent variable in this study is Financial Distress.

Table 1: Research Variables and Indicators

No.	Variable	Indicator	Scale
1	Profitability	$ROA = \frac{Laba Bersih}{Total Asset}$	Ratio
2	Leverage	$DAR = \frac{Total debt}{Total Assets}$	Ratio
3	Interest rate	BI Rate	Ratio
4	Inflation	Inflation Rate	Ratio
5	Financial Distress	$ICR = \frac{EBIT}{Interest Expense}$ Distress Company = 1 (ICR < 1) Non Distress Firm = 0 (ICR > 1)	Nominal

The sample used is 17 companies with a total population of 48 companies in the property and real estate sub-sector for the period 2010-2018. The sample selection method uses purposive sampling method, which is a sample selection method where the researcher has certain criteria and objectives for the sample to be studied. The criteria used in this study are as follows:

- Property and real estate companies listed on the Indonesia Stock Exchange for the period 2010 - 2018.
- Property and real estate companies listed on the Indonesia Stock Exchange for the period 2010 - 2018 that do not publish financial reports and company financial data.
- Property and real estate companies that are not included in the main board category listed on the Indonesia Stock Exchange for the period 2010-2018

The data collection method uses literature study and documentation study. The data analysis method in this study used logistic regression analysis. Microsoft Excel 2010 and E-Views 9 are software

used for data processing.

Before carrying out a logistic regression analysis, a descriptive analysis is needed which aims to describe or describe something, for example circumstances, conditions, situations, events, activities and others. The measures used in descriptive statistics include frequency, central tendency (mean, median, mode), disperse (standard deviation and variance), coefficients and correlations between research variables.

This study uses logistic regression analysis because the dependent variable or dependent variable is a combination of metric and non-metric (nominal). According to Winarno (2015), there are several types of regression analysis using categorical data for the dependent variable, namely: linear probability model, logit model, probit model, and tobit model.

Logit analysis was used in this study. Where according to Laitinen and Kankaanpaa (1999), logit analysis provides the possibility of an outcome explained by the dichotomous dependent variable (variables that are opposite each other, for example: true - false, healthy - unhealthy) using the coefficient of the independent variable. The logit analysis model developed has the form of a cumulative logistic probability function.

The logistic regression model of this study can be described in the following model:

$$\text{Ln} \left(\frac{p}{1-p} \right) = \beta_0 + \beta_1 \text{ROA} + \beta_2 \text{DR} + \beta_3 \text{SB} + \beta_4 \text{INF} + \varepsilon$$

Where :

p	= Probability Perucompanies experiencing financial distress
1 - p	= Company probability who do not experience financial distress
β_0	= Constant
β_1 - β_4	= Logistic regression coefficient
ROA	= Return on Asset
DR	= Debt Ratio
SB	= Interest rate
INF	= Inflation
ε	= error

In the logit regression model the t statistic value is replaced with the z statistic, the R-squared is replaced with the McFadden R-Squared as a pseudo-R squared which is similar to the R-squared, the F statistical value is replaced with the LR statistic, and the p value of the F statistic is replaced with prob (LR statistic) because it uses the maximum likelihood (ML) estimation model and not the Ordinary Least Square (OLS) model. The maximum likelihood (ML) method is to find the regression coefficient so that the probability of the dependent variable is maximized.

Meanwhile, to see how much the ability of the independent variable to explain the dependent variable in this study, it is necessary to test the variation between variables by looking at the McFadden R-square value. Because the R-squared value in the logit model is between 0 and 1, then if the

probability value is more than 0.5 then we consider it as 1 and if the probability value is less than 0.5 then we consider it to be 0. The closer to zero (0), the more Small effect of all independent variables on the value of the dependent variable or it can be said that the smaller the ability of the model to explain changes in the value of the dependent variable. Meanwhile, if the closer to 1 can be said the stronger the model explains the variation of the independent variable on the dependent variable.

To test how much the fit between the empirical data and the model, which determines whether the model formed is correct or not, a Goodness of Fit Test is needed using the Hosmer and Lameshow Test. If the Chi-square value (Prob. Chi-Sq.) In the Hosmer and Lameshow test is above the alpha value (0.05), then the model is said to be fit or in accordance with the research data so that it can be concluded that the model formed is correct and acceptable. .

Then Expectation-Prediction Evaluation test is needed to test the accuracy of the equation models and variables used in the study. If the results shown are close to 100%, the use of models and variables will be more accurate and correct.

Descriptive statistics

Based on Table 2 it is known that profitability as measured by ROA has an average value of 0.053692. The minimum ROA value is -0.102698 owned by PT. Rista Bintang Mahkota Sejati Tbk and the maximum ROA value is owned by PT. Lippo Cikarang Tbk, which is 0.258. The higher the ROA value, it means that the greater the net income, which means that the company's performance is getting better.

Table 2: Descriptive statistics

Date: 07/12/20 Time: 17:37 Sample: 2010 2018					
	FD	ROA	DR	SB	INF
Mean	0.934641	0.064308	0.401665	0.062278	0.049889
Median	1.000000	0.053692	0.418694	0.064800	0.037900
Maximum	1.000000	0.258529	0.787278	0.075400	0.083800
Minimum	0.000000	-0.102698	0.033530	0.045600	0.030200
Std. Dev.	0.247971	0.053969	0.168735	0.009440	0.021304
Skewness	-3.517091	0.704115	-0.341054	-0.224571	0.717605
Kurtosis	13.36993	4.715712	2.550554	2.151571	1.730151
Jarque-Bera	1000.972	31.40821	4.253873	5.874939	23.41121
Probability	0.000000	0.000000	0.119202	0.053000	0.000008
Sum	143.0000	9.839162	61.45472	9.528500	7.633000
Sum Sq. Dev.	9.346405	0.442725	4.327681	0.013546	0.068987
Observations	153	153	153	153	153

The leverage variable is measured using the Debt Ratio (DR). It can be seen that companies that have a minimum DR value of 0.033 (3.3%) are owned by PT. Rista Bintang Mahkota Sejati Tbk in 2016, and the maximum DR value of 0.787 (78.7%) belongs to PT. Plaza Indonesia Realty Tbk in 2017. This indicates that the higher the DR value, the greater the debt used in total assets to generate profits

and vice versa if the DR value is low.

The minimum interest rate is 0.045 (4.5%), meaning that in 2017 the company has an obligation of 4.5% of the borrowed capital from other parties. The maximum interest rate is 0.075 (7.5%). This shows that the company in 2014 had an obligation of 7.5% of the capital borrowed from other parties. The average (mean) interest rate is 0.062 (6.2%) and the standard deviation value of the interest rate is 0.009 (0.9%).

The minimum inflation value is 0.030 (3%), meaning that the lowest inflation rate during the 2010-2018 period occurred in 2016. The maximum inflation rate is 0.083 (8.3%). This shows that the highest inflation rate during the 2010-2018 period occurred in 2013. The average (mean) inflation rate was 0.049 (4.9%) and the standard deviation value of inflation was 0.021 (2.1%).

Hypothesis testing

To test the effect of profitability, leverage, interest rates, and inflation on financial distress, a logistic regression model is used to test the hypothesis.

Based on the results of hypothesis testing in table 3, the logistic regression equation is obtained as follows:

$$\text{Ln} \left(\frac{FD}{1 - FD} \right) = -3,906 + 17,550ROA + 6,780DR + 63,082SB - 4,287INF + \varepsilon$$

From the logistic equation it can be seen that the effect of the independent variable on the dependent variable is interpreted as follows:

- Effect of Profitability (ROA) on Financial Distress

Based on table 3, it can be seen that the significance value for the profitability variable with the ROA proxy is below 0.05, namely 0.0218 or 0.0218 < 0.05, which means that H_0 is rejected and H_1 is accepted. Where profitability affects Financial Distress.

Table 3: Result of Hypothesis Test Analysis (Logistic Regression)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-3.906278	2.793144	-1.398524	0.1620
ROA	17.55050	7.652955	2.293297	0.0218
DR	6.780736	2.277304	2.977528	0.0029
SB	63.08293	50.62352	1.246119	0.2127
INF	-4.287668	23.21156	-0.184721	0.8534
McFadden R-squared	0.303057	Mean dependent var	0.934641	
S.D. dependent var	0.247971	S.E. of regression	0.220916	
Akaike info criterion	0.401936	Sum squared resid	7.222978	
Schwarz criterion	0.500970	Log likelihood	-25.74813	
Hannan-Quinn criter.	0.442166	Deviance	51.49626	
Restr. deviance	73.88874	Restr. log likelihood	-36.94437	
LR statistic	22.39248	Avg. log likelihood	-0.168288	
Prob(LR statistic)	0.000167			
Obs with Dep=0	10	Total obs	153	
Obs with Dep=1	143			

- Effect of Leverage (DR) on Financial Distress

Based on table 3 it can be seen that the significance value for the leverage variable with DR proxy is below 0.05, namely 0.0029 or $0.0029 < 0.05$, which means that H_0 is rejected and H_1 is accepted. Where leverage has an effect on Financial Distress.

- Effect of Interest Rates on Financial Distress

Based on table 3 it can be seen that the significance value for the interest rate variable is above 0.05, namely 0.2127 or $0.2127 > 0.05$, which means that H_1 is rejected and H_0 is accepted. Where interest rates have no effect on Financial Distress.

- Effect of Inflation on Financial Distress

Based on table 3 it can be seen that the significance value for the inflation variable is above 0.05, namely 0.8534 or $0.8534 > 0.05$, which means that H_1 is rejected and H_0 is accepted. Where inflation has no effect on Financial Distress.

Variable Variation Test

To test for variable variations, it can be seen from the McFadden R-squared value obtained from the calculation results in table 3 using the E-Views 9 program, it can be seen that the results are 0.303 or 30.3%, which means the variability of the dependent variable (Financial Distress) is can be explained by the variability of the independent variables (profitability, leverage, interest rates, and inflation) of 30.3%. The remaining 69.7% can be explained by other factors outside of this model.

Model Feasibility Test

Model feasibility test using the Hosmer and Lameshow test. Where the feasibility hypothesis of the regression model is as follows:

H_0 : The hypothesized model fits the data

H_1 : The hypothesized model does not fit or does not fit the data

This test is carried out with the Goodness of fit as measured by the prob value. chi square test on the Hosmer and Lameshow test. With the following results:

Table 4: Results of the Analysis of the Hosmer and Lameshow test

H-L Statistic	7.8230	Prob. Chi-Sq(8)	0.4509
Andrews Statistic	106.3108	Prob. Chi-Sq(10)	0.0000

Based on table 4, the significance value of the Hosmer and Lameshow test shows a significance value of 0.4509. With a significance value greater than 0.05, it means that H_0 is accepted. This means that this model shows that it is suitable for use in further analysis, because the hypothesized model is fit with research observation data.

Prediction Level Accuracy

This test aims to test the accuracy of the equation and variable models used in the study. Where if the results are close to 100%, the use of models and variables will be more correct and accurate. The test results are shown as follows:

Table 5: Expectation-Prediction Evaluation Test Results

Expectation-Prediction Evaluation for Binary Specification						
Equation: UNTITLED						
Date: 07/12/20 Time: 17:39						
Success cutoff: C = 0.5						
	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
P(Dep=1)≤C	2	2	4	0	0	0
P(Dep=1)>C	8	141	149	10	143	153
Total	10	143	153	10	143	153
Correct	2	141	143	0	143	143
% Correct	20.00	98.60	93.46	0.00	100.00	93.46
% Incorrect	80.00	1.40	6.54	100.00	0.00	6.54
Total Gain*	20.00	-1.40	0.00			
Percent Gain**	20.00	NA	0.00			

Based on table 5, it can be seen that the level of accuracy is 93.46% with the variables of profitability, leverage, interest rates, and inflation on financial distress. So it can be said that the use of models and variables is accurate and correct with an accuracy rate of 93.46%.

DISCUSSION

The Effect of Profitability on Financial Distress

The logistic regression test results show that the ROA variable has a significance value of 0.0218 which is smaller than the significance level of 5% (0.05). So in this study accept the first hypothesis (H₁) which states that profitability has an effect on financial distress.

This means that the profitability (ROA) of the company affects the company to experience financial distress. The regression test results show that the regression coefficient of the ROA variable is positive, which means that the smaller the ROA value, the more it can increase the occurrence of financial distress in the company.

The Effect of Leverage on Financial Distress

The logistic regression test results show that the DR variable has a significance value of 0.0029 which is smaller than the 5% (0.05) significance level. So in this study accept the first hypothesis (H₁) which states that leverage has an effect on financial distress.

This means that the leverage (DR) owned by the company affects the company to experience financial distress. The regression test results show that the regression coefficient of the DR variable is positive, which means that the greater the DR value, the more it can increase the occurrence of Financial

Distress in the company.

The Effect of Interest Rates on Financial Distress

The results of hypothesis testing can be seen from the significance value of the interest rate obtained at 0.2127, where this value is greater than the significance level of 5% (0.05). So it can be said that the first hypothesis is rejected and H_0 is accepted. So it proves that interest rates have no influence on Financial Distress.

It can be said that interest rates do not affect companies to experience financial distress. The regression test results show that the regression coefficient of the interest rate variable is positive, which means that the greater the value of the interest rate, the more likely the company will be financial distress.

The Effect of Inflation on Financial Distress

The results of hypothesis testing are seen from the significant value of inflation obtained by 0.8534 where the value is greater than or above the significance value of 5% (0.05), then H_0 is accepted and H_1 is rejected. This means that inflation has no effect on Financial Distress.

It can be said that inflation does not affect companies to experience financial distress. The regression test results show that the regression coefficient of the inflation variable is negative, which means that the greater the inflation value, it can reduce the possibility of the company's financial distress.

CONCLUSION

The purpose of this study was to determine the relationship between profitability, leverage, interest rates, and inflation on financial distress in the property and real estate sub-sector companies listed on the Indonesia Stock Exchange 2010-2018. The sample used for this study were 153 companies.

Based on data analysis and discussion that has been done, it can be concluded as follows:

- Profitability has an effect on Financial Distress.
- Leverage effect on Financial Distress.
- Interest rates have no effect on Financial Distress.
- Inflation has no effect on financial distress.

Therefore, the suggestions that can be conveyed in this study include :

- Academics

Researchers provide suggestions for further research by expanding the object of research to include all types of companies listed on the IDX.

- Practitioner

Investors are advised to pay more attention to financial ratios in assessing the condition of a company, especially the company's profitability ratio, because if the ROA value is high, the possibility of a company experiencing decreased distress is likely. However, investors are also expected to keep an eye on the macroeconomic conditions that occur even though in this study the macroeconomic conditions have no direct effect, but sometimes the macroeconomic conditions can experience unpredictable fluctuations. And for companies are advised to pay more attention to signs of financial distress and respond as quickly as possible to avoid the risk of bankruptcy.

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