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Financial and Macroeconomic Ratio Analysis Against Financial Distress

Nuraini Ariefah , Hirdinis
University Mercu Buana, Indonesia

Email: nurainiefah@gmail.com

Abstract

This study aims to analyze the effect of financial ratios and macroeconomic factors on financial distress in trade, service and investment sector companies during the 2018-2021 period. The sampling method used a purposive sampling technique with a total sample of 58 companies. Testing was carried out using E-Views using the panel data regression analysis method. Financial distress is measured using the Altman Z-Score where the higher the value indicates the healthier the company. The results showed that the profitability ratios as measured by Return on Assets had a significant positive effect on financial distress. That is, the higher the Return on Assets, the healthier the company's finances. The leverage ratio as measured by the Debt-to-Equity Ratio has no significant effect on financial distress. The liquidity ratio as measured by the Current Ratio has a significant positive effect on financial distress. In addition, the activity ratio as measured by Total Asset Turnover has a significant negative effect on financial distress. That is, the higher the total asset turnover of a company, the more un-healthy the company's financial condition will be. The inflation variable as measured by the Consumer Price Index has no significant effect on financial distress in companies in the trade, service and investment sectors during the 2018-2021 period.

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INTRODUCTION

Indonesia is one of the countries that implemented PSBB (large-scale social restrictions) and WFH (work from home) policies which gave investors concerns about the global crisis and resulted in a decline in stock performance. National GDP experienced a recession due to the Covid-19 pandemic. The Indonesian economy according to gross domestic product (GDP) at constant prices (ADHK) 2010 grew 5.02% in the fourth quarter of 2021 compared to the fourth quarter of 2020 (Kusnandar, 2022). In the second year of the pandemic, a number of large retail companies in Indonesia have announced losses and said they could not survive/went bankrupt (Azanella & Nugroho, 2021). Most of these companies are companies in the trade, service and investment sectors, where they experience the highest percentage of negative ROA compared to other sectors (Nurmala et al., 2022).

The researcher then conducted a pre-survey to identify factors that influence financial distress in the trade, services and investment sectors, especially in the case of the wholesale and retail trade

sub- sector, which was conducted on 100 companies, where 75% of the sample had the potential to experience financial distress and 25% of the sample was identified as experiencing financial distress. bankruptcy. The survey results revealed that companies experiencing financial problems tried to make loans and business mergers as a solution to overcome these problems and instead some companies actually closed their businesses because they were unable to fulfill their obligations (loans). According to Altman (1968), who first developed the Z-Score, defined Z-Score is an indicator that classifies companies based on their solvency. The higher the value, the lower the risk of bankruptcy.

In 2021, according to Bank Indonesia, inflation will be 1.56%, smaller than the previous year's 2.04%. The low inflation rate and external stability, which has been under control, have become Bank Indonesia's consideration for easing monetary policy, including by reducing interest rates (Bank Indonesia, 2021). Based on the results of global studies, it has been found that a combination of ratios from the external (macroeconomic) and internal (financial ratios) environment provides higher accuracy in predicting the occurrence of financial distress (Mahtani & Garg, 2018).

Financial ratio analysis is a tool for revealing the impact of various aspects of a company's financial decisions (Mahtani & Garg, 2018). In general, researchers use financial ratios as a proxy for company financial management. Several research results reveal that financial ratios measured using profitability, leverage, liquidity and activity have a significant effect on financial distress (Khoja et al., 2019). Meanwhile, research by Ardi et al. (2020) revealed that there is no influence between leverage and profitability on financial distress and there is a negative influence between liquidity on financial distress. Meanwhile, research by Damajanti et al. (2021) stated that profitability, liquidity and leverage have a significant effect on financial distress, but the activity ratio does not have a significant effect on financial distress. Acosta-Gonzalez et al. (2019) who researched the Spanish construction sector from 1995 to 2011 regarding analysis to predict financial distress where macroeconomic variables and financial ratios were used found that there was a significant relationship to financial distress. Thus, macroeconomic variables and financial ratios are able to predict with a high level of success financial distress.

The most important macro variables are credit and land price fluctuations, two variables that are closely related to this sector. Research by Pham Vo Ninh et al. (2018) show that accounting, market and macroeconomic variables influence the possibility of financial distress in Vietnamese companies during the research period. In particular, four accounting proxies derived from the EMS model show a negative relationship with the probability of default. Thus, the higher the financial liquidity, asset productivity, solvency and profitability, the lower the possibility of financial distress. Apart from that, it was also found that the leverage ratio, inflation and interest rates on short-term government debt securities had a positive relationship with the company's financial distress. Based on the background presented previously, researchers are interested in further studying the factors that can detect financial distress, especially in the trade, service and investment sectors, so that the parties involved can plan and make the right decisions. The trade, services and investment sector itself is one of the sectors that contributed most to the decline in the JCI and the decline in GDP contribution. Apart from that, the trade, services and investment sectors are among the companies with the highest number of companies experiencing cases of financial distress from 2018 to 2021, where the highest number occurred in 2020, namely reaching 114 companies. The aim of this research is to determine the effect of profitability, leverage, liquidity, activity, inflation rate on financial distress in Trade, Services & Investment Sector Companies for the 2018-2021 Period.

Signaling theory (signaling theory) was first introduced by Spence (1973) stating that a signal or signal gives a signal, the sender (owner of the information) tries to provide relevant pieces of information that can be utilized by the recipient. The recipient will then adjust their behavior according to their understanding of the signal (Bahrun et al., 2020). The information presented in this research

is the company's financial reports (Putri & Harun, 2022). Signal theory can also be used by companies (agents), principals (investors) and other parties to reduce information asymmetry by producing quality financial reports. The relationship between signal theory and this research aims to determine the good financial condition of companies and those that will experience bankruptcy. This can be seen from the company's financial reports, which are examined using profitability, leverage, liquidity, activity and inflation. In this way, it is hoped that it will make it easier for investors to make decisions.

Financial distress is the inability of a company's assets to fulfill its obligations, where financial difficulties have two aspects, namely the company's current assets are not enough to meet all maturing obligations, or the company is illiquid and all the company's assets are not enough to meet all obligations at the time of liquidity or is called technical insolcency. (Hendrawan et al., 2022). Furthermore, financial distress reflects a broad concept which consists of several situations where a company faces financial difficulties, general terms to describe these situations are failure, insolvency, default and bankruptcy. If a company fails to find a solution, it is a sign that the company is on the verge of bankruptcy or financial distress (Damajanti et al., 2021). Meanwhile, indicators of a company's financial distress according to (Mulkarim et al., 2019) include negative or decreasing profitability, declining market value, poor or negative cash position or inability to pay off cash obligations, high employee turnover or low morale, decreased volume. sales, dependence on debt, and losses that are always suffered.

According to Muwidha & Indrawan (2020), financial distress is caused by internal factors in the company, a decline in financial performance within the company, while external macroeconomic factors consist of inflation, interest rates and exchange rates which are predictions of financial distress in the company (Wafi et al. , 2021). Harahap (2018) states that there are several signs that indicate a company is experiencing financial distress, namely a decrease in the amount of dividends distributed, a continuous decrease in profits, the closure/sale of one or more subsidiaries, layoffs on a large scale, and the price of goods/services. in the market continues to decline. The financial distress prediction model was first developed by Altman (1968).

The profitability ratio is a ratio that measures the overall effectiveness of management in relation to sales and investment (Hendrawan et al., 2022). This ratio shows the final result of the policies and decisions taken by company management such as Gross Profit Margin (GPM), Return On Investment (ROI), Return On Total Assets (ROA), and Return On Equity (ROE). (Asfali, 2019). Profitability calculations are presented using ROA. The leverage ratio is used to measure a company's ability to pay all its obligations, both short-term and long-term if the company is dissolved (Hendrawan et al., 2022). In addition, the Liquidity Ratio is defined as a ratio that reflects the company's ability to meet short-term obligations (debt). Liquidity ratios can be measured through Current Ratio (CR), Ratio, Quick Ratio (QR), Net Working Capital (NWC) (Asfali, 2019).

In this research, the liquidity ratio is measured by the current ratio, namely comparing current assets with current liabilities, therefore the liquidity ratio is often called short term liquidity. The activity ratio measures the company's effectiveness in using the assets it owns or it could also be said that this ratio is used to measure the level of efficiency in utilizing company resources (Hendrawan et al., 2022). Activity ratios can be measured through inventory turnover, the average ratio of the receivables collection period (fixed asset turnover), and the total asset turnover ratio (total asset turnover) (Asfali, 2019). Inflation is a benchmark for seeing changes if there is a continuous and even increase in the prices of goods, and they influence each other (Hendrawan et al., 2022). Inflation can be calculated based on the respective price levels of several types of basic public goods that are bought and sold in the market. Inflation calculations are carried out by the Central Statistics Agency (BPS) in Indonesia. BPS conducts surveys to collect price data for various goods and services that are

considered to represent public consumption spending. This data is then used to calculate the inflation rate by comparing current prices with the previous period (Bank Indonesia, 2021).

METHOD

This research design is included in causality research or often called associative research. Based on its type, this research is quantitative research, which is a research method based on an event that actually happened, which is used to examine a certain population or sample (Sugiyono, 2018). Meanwhile, causality research is a type of study that aims to find out several assumptions about whether or not there is a relationship between two or more research variables (Sugiyono, 2019). This research uses secondary data obtained from the Indonesia Stock Exchange (BEI) for the 2018-2021 period. Furthermore, this research uses the Z-Score which was first developed by Altman (1968) for measuring financial distress as the research dependent variable.

The population in this research is trade, service & investment sector companies listed on the Indonesia Stock Exchange (BEI) for the 2018-2021 period. The total population in the trade, service & investment sector for the 2018-2021 period is 178 companies, not all of the population will be research objects so sampling is necessary. The total population in the trade, service & investment sector is 178 companies listed on the Indonesia Stock Exchange (BEI) for the 2018-2021 period, not all of the population will be research objects so it is necessary to take samples that meet the sample criteria, namely companies in the trade, service, and investment sectors. & investments listed on the IDX andcompanies not listed on the IDX respectively during the 2018-2021 period.

The data used in this research is secondary data, which provides data to data collectors indirectly, such as documents. In this research, secondary data includes financial reports and other documents published by companies during the 2018-2021 period. The following are the names of companies in the trade, service and investment sectors, something that has no meaning for the recipient and still requires processing.

There are five independent variables used in this research, namely profitability ratio, leverage ratio, liquidity ratio, activity ratio, and inflation rate. The author uses return on assets (ROA) as a measurement for profitability ratios, debt to equity ratio (DER) for measuring leverage ratios, current ratio (CR) for measuring liquidity ratios, total asset turnover (TATO) for measuring activity ratios, and Price Index Consumers (CPI) for measuring the inflation rate in trade, service and investment sector companies listed on the Indonesia Stock Exchange for the 2018-2021 period. The measurement scale used in this research is a ratio scale, which can be used to express ranking between levels, and the distance or interval between levels is clear, and has an absolute value of 0 (zero) (Kurniawan & Puspitaningtyas, 2016).

Descriptive statistical analysis is used to provide a brief explanation of the variables studied, as explained by Ghozali (2019). Thus, classical assumption tests (Chow, Hausman, LM tests, multicollinearity, heteroscedasticity), panel data regression analysis, hypothesis testing (termination coefficient test, t test, statistical f test), and descriptive statistical analysis are used to analyze the average value. , maximum value, minimum value, and descriptive statistical values for the variables financial distress, profitability, leverage, liquidity, activity, and inflation rate in this research.

RESULTS AND DISCUSSION

This research uses Trade, Services and Investment Sector companies listed on the Indonesia Stock Exchange (BEI) as research samples. There are a total of 178 companies registered in this subsector (see table 4.1). Referring to the sampling criteria in this research, there were 120 companies

that did not pass the sampling criteria. Therefore, the number of observations in 2018–2021 was 232 (58 in each year). The following are the results of descriptive statistical testing.

Table 1. Descriptive Statistics

	Profitability_X1	Leverage_X2	Liquidity_X3	Activity_X4	Inflation_X5	FD_Y
Mean	-0.001236	2.210930	2.944839	1.176426	0.023500	12.48116
Median	0.019230	0.627753	1.495062	0.847929	0.022950	2.978661
Maximum	0.541276	149.8694	83.47834	6.894514	0.031300	1225.146
Minimum	-3.093687	-43.08635	0.027167	0.000000	0.016800	-11.49784
Std. Dev.	0.242855	12.01481	6.639576	1.150104	0.005981	83.92188
Skewness	-9.035718	8.945486	9.253736	1.846353	0.133913	13.40886
Kurtosis	115.1846	107.3736	103.7144	7.519880	1.268277	190.8802
Jarque-Bera	124815.6	108401.5	101363.8	329.2988	29.68241	348175.6
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	-0.286817	512.9358	683.2026	272.9307	5,452000	2895.629
Sum Sq. Dev.	13.62402	33346.16	10183.40	305.5526	0.008263	1626906.
Observations	232	232	232	232	232	232

Source: Eviews data processing by the author

The profitability variable which is proxied using Return on Assets (ROA) has the lowest value of -3.094687 (-309.3687%) obtained by PT. Himalaya Energi Perkasa Tbk. (HADE) in 2019. The highest value for this variable was 0.541276 (54.1276%) obtained by PT. Asler International Group Tbk. (RONY) in 2018. The average value for ROA is -0.001236 (-0.1236%) while the standard deviation is 0.242855 (24.2855%). A standard deviation value that is greater than the average value indicates that the Return on Assets (ROA) variable has a large spread. Thus, the results of the descriptive analysis for the Leverage variable which is proxied by the Debt to Equity Ratio (DER) has the lowest value of -43.08635 (-4308.635%) obtained by PT. Dwi Guna Laksana Tbk. (DWGL) in 2018. The highest value for this variable was 149.8694 (14986.94%) obtained by PT. First Media Tbk. (KBLV) in 2021. The average value for DER is 2.210930 (221.093%) while the standard deviation is 12.01481 (1201.481%). A standard deviation value that is higher than the average value indicates that the Debt to Equity Ratio (DER) variable has a large spread.

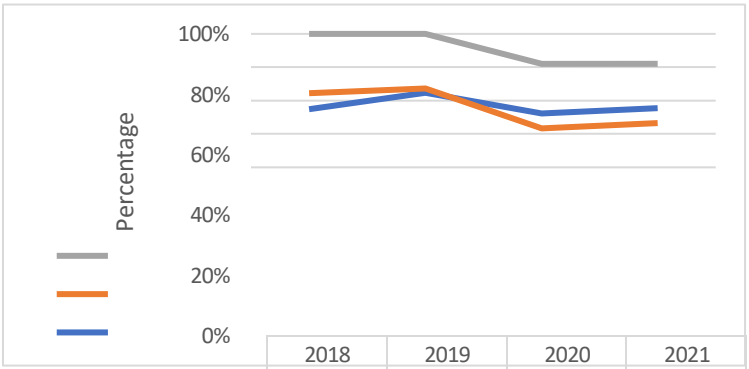
The Liquidity variable which is proxied by the Current Ratio (CR) has the lowest value of 0.027167 (2.7167%) obtained by PT. First Media Tbk. (KBLV) in 2020. The highest value for this variable was 83.47834 (8347.834%) obtained by PT. Himalaya Energi Perkasa Tbk. (HADE) in 2018. The average CR value was 294.4839% while the standard deviation was 6.639576 (663.956%). A standard deviation value that is higher than the average value indicates that the Current Ratio (CR) variable has a large spread. Meanwhile, the Activity variable which is proxied by Total Asset Turnover (TATO) has the lowest value of 0.000 (0%) obtained by PT. Akbar Indo Makmur Stimec Tbk. (AIMS)in 2018 and 2019. The highest value for this variable was 6.894514 (689.4514%) obtained by PT. Nusantara Communications Partners Tbk. (MKNT) in 2020. The average value for TATO is 1.176426 (117.6426%) while the standard deviation is 1.150104 (115.0104%). A standard deviation value that is lower than the average value indicates that the Total Asset Turnover (TATO) variable has a smaller distribution.

The inflation variable which is proxied using the Consumer Price Index (CPI) has the lowest value of 0.016800 (1.6800%) which occurred in 2020. The highest value for this variable was

0.031300 (3.1300%) which occurred in 2018 .The average value for inflation is 0.023500 (2.3500%) while the standard deviation is 0.005981 (0.5981%). A standard deviation value that is lower than the average value indicates that the inflation variable has a low distribution. Furthermore, the Financial Distress (FD) variable which is proxied by the Altman Z-Score has the lowest value of -11.49784 obtained by PT. Modern International Tbk. (MDRN) in 2020. The highest value for this variable was 1225.146 obtained by PT. Sanurhasta Mitra Tbk. (MINA) in 2018. The average FD value is 12.48116 while the standard deviation is 83.921881. A standard deviation value that is higher than the average value indicates that the Financial Distress (FD) variable has a large spread.

Percentage data from research results, with the percentage calculation of financial distress predictions using the Altman Z-Score method in Trade, Services and Investment Sector Companies, for the 2018-2021 Period is depicted graphically below. The number of current years in the research is 4 (four) years, with a total of 58 (fifty eight) companies. Figure 1. is the percentage of financial distress using the Altman Z-Score method in companies in the trade, service and investment sectors for the 2018-2021 period.

Figure 1 . Interpretation of Financial Distress



	2018	2019	2020	2021
Grey Zone	35,49	32,52	34,06	33,11
Distress Zone	9,66	2,56	-7,84	-8,35
Safe Zone	54,69	64,12	45,76	51,51

Source: Data processed

In 2018 there were 14 companies experiencing financial distress, including BMTR, CNKO, DWGL, DYAN, ICON, IKAI, INTA, KBLV, KONI, MAMI, MDRN, MPPA, PUDP, SILO, with a percentage of 9.6%. In the gray zone there are 15 companies including ABMM, APII, ATIC, CSAP, FORU, GEMA, JSPT, STPE, MICE, MIDI, MNCN, MTDL, SDPC, UNTR, with a presentation of 35.4%. Meanwhile, the remaining 54.6% is in the safe zone, consisting of 29 companies including ACES, AIMS, AKRA, BLTS, BLUE, BMSR, DAYA, DNET, EPMT, FAST, HADE, HERO, KOIN,KREN, LPPF, MAPB, MAPI , MFMI, MIKA, MINA, MKNT, RALS, RANC, RONY, SCMA, SFAN, SHID, TURI, WICO.

In 2019, 11 companies experienced financial distress, namely ABMM, ATIC, CNKO, AKAI, INTA, KBLV, MAMI, MDRN, MLPT, MPPA, PUDP, with a presentation of 2.56%. In the gray zone there are 15 companies including AKRA, APII, BMTR, CSAP, DWGL, DYAN, FORU, GEMA, ICON, JSPT, KONI, MICE, SDPC, SILO, UNTR, with a presentation of 32.5%. Meanwhile, the remaining 64.1% is in the safe zone consisting of 31 companies including ACES, AIMS, BLTZ, BLUE, BMSR, DAYA, DNET, EPMT, FAST, HADE, HERO, JTPE, KOIN, KREN, LPPF, MAPB,

MAPI, MFMI , MIDI, MIKA, MINA, MKNT, MNCN, MTDL, RALS, RANC, RONY, SCMA, SFAN, SHID, TURI, WICO.

In 2020, 16 companies experienced financial distress, including ABMM, AIMS, ATIC, CNKO, DWGL, DYAN, ICON, IKAI, INTA, JSPT, KBLV, MAMI, MDRN, MPPA, PUDP, SILO, amounting to -7.84%. In the gray zone there are 15 companies, namely AKRA, APII, BMTR, CSAP, FAST, GEMA, HERO, KONI, LPPF, MAPB, MAPI, MFMI, MICE, MIDI, SDPC, with a percentage of 34.0%. Meanwhile, the remaining 45.7% is in the safe zone consisting of 27 companies including ACES, BLTZ, BLUE, BMSR, DAYA, DNET, EPMT, FORU, HADE, JTPE, KOIN, KREN, MIKA, MINA, MKNT, MLPT, MNCN , MTDL, RALS, RANC, RONY, SCMA, SFAN, SHID, TURI, UNTR, WICO.

In 2021 there are 17 companies experiencing financial distress including ABMM, ATIC, CNKO, DWGL, DYAN, HERO, ICON, IKAI, INTA, JSPT, KBLV, MAMI, MDRN, MLPT, MPPA, PUDP, SHID with a presentation of -8 .35%. In the gray zone there are 12 companies including AKRA, APII, BMTR, CSAP, FSAT, GEMA, MAPI, MICE, MIDI, SDPC, SILO, WICO, with a presentation of 33.11%. Meanwhile, the remaining 51.5% is in the safe zone, consisting of 29 companies including ACES, AIMS, BLTZ, BLUE, BMSR, DAYA, DNET, EPMT, FORU, HADE, JTPE, KOIN, KONI, KREN, LPPF, MAPB, MFMI , MIKA, MINA, MKNT, MNCN, MTDL, RALS, RANC, RONY, SCMA, SFAN, TURI, UNTR.

Panel data regression can be carried out with three models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), Random Effect Model (REM). Each model has advantages and disadvantages. The choice of model depends on the assumptions used by the researcher and the fulfillment of the requirements for correct statistical data processing, so that it can be statistically justified. Therefore, the first step that must be taken is to choose the right model from the three available models. The following are the test results:

Based on the test results using the Random Effect Model (REM), the Financial Distress equation was obtained = -19.08939 – 0.9157289X^1 + 0.044310X^2 + 1.800803X^3 – 4.745734X^4 + 1351.123X^5

From the results of this equation, in this model there are variables that have a prob value < alpha 0.05. These variables include X^1 , X^3 , and X^4 . So it can be concluded that if the Rixed Effect Model (REM) is used, the research is considered feasible.

To analyze panel data, appropriate model specification tests are needed to characterize the data. To choose the most appropriate model, there are several tests that can be carried out, namely the Chow Test and the Hausman Test. Based on the p-value of the Chow Test results in table 4.3, it shows a number smaller than alpha 0.05 so that it rejects the null hypothesis, it can be concluded that the Fixed Effect The best (FEM) model. Because the results of the Chow Test reject H0, the test continues with the Hausman Test. Furthermore, based on the p-value of the Hausman test results in table 4.4 which shows a number greater than alpha 0.05 so that it fails to reject the null hypothesis, it can be concluded that the random effect model (REM) is the best. Meanwhile, based on the p-value of the LM test results in table 4.5, it shows that the Breusch-Pagan probability value is 0.00003 which is less than 0.05, thus rejecting the null hypothesis, it can be concluded that the random effect model (REM) is the best. So, based on the correlation value for each X variable, it is known that none of them has a value above 0.90. This means that there is no violation of multicollinearity.

Data Analysis Results (Hypothesis Testing)

The test results in table 4.8 show that the coefficient of determination or adjusted R2 is 0.467, this means that 46.7% of the financial distress variable can be explained by the independent

variables profitability, leverage, liquidity, activity and inflation while the remaining 53.3% is explained by other variables outside this research. Simultaneous test to test whether overall profitability, leverage, liquidity, activity and inflation variables have an effect on the financial distress variable. Based on the p-value in table 4.8, the value obtained is 0.011635, where this number is less than 0.05, which means the test results reject H0. The conclusion is that simultaneously all independent variables have an influence on the dependent.

The results of the H1 test show that profitability has a significant positive effect on the financial distress value (significance value 0.0071 and coefficient value 0.915728) so the hypothesis is accepted. The results of the H2 test show that leverage has no effect on the financial distress value (significance value 0.9213) so the hypothesis is rejected. The results of the H3 test show that liquidity has a significant positive effect on the financial distress value (significance value 0.0298 and coefficient value 1.8001) so the hypothesis is accepted. The results of the H4 test show that the activity ratio has a significantnegative effect on the financial distress value (significance value 0.0130 and coefficient value -4.746) so the hypothesis is accepted. The results of the H5 test show that inflation has no effect on the financial distress value (significance value 0.1050) so the hypothesis is rejected.

The coefficient constant value in table 4.8 is -19.08939. This shows that financial distress will be worth -19.08939 points if the independent variables profitability, leverage, liquidity, activity and inflation are worth 0. The coefficient value of 0.915728 on profitability indicates that if the profitability variable increases by 1 unit then the financial distress value will increase by 0 .915728 points. Likewise for other independent variables that influence the dependent variable where a change of 1 unit will change the financial distress value according to the respective coefficient value. Based on the test results, the following regression equation can be formulated:

Financial Distress = -19.08939 + 0.915728 Profitability + 1.8001 Liquidity - 4.746 Activity + ε

DISCUSSION

The results of hypothesis testing show that the profitability variable has a positive effect on the financial distress value. This indicates that the test of the profitability variable on the financial distress value accepts the first hypothesis (H1). This means that if the profitability of a company increases, the value of financial distress will also increase. An increase in the value of financial distress indicates that the larger the company is, the healthier it is. The results of this research are supported by research (Aisyah, Kristanti, et al., 2017); (Andriansyah, 2018); (Masdupi et al., 2018). The relationship between signaling theory and profitability in the results of this research shows that if the company's profitability increases, the value of financial distress will increase. This can provide a signal to investors regarding the conditions currently occurring in the company. Profitability as proxied by ROA figures the total assets used for company operations that are able to provide profits for the company. Profitability is a signal of management's ability to gain profits or profits by using company assets. ROA is one way to assess management's effectiveness in using company assets to generate profits. If the company's assets are effectively used to generate net profits, a company's profitability will continue to increase and will be able to reduce the risk of bankruptcy. The higher the profits obtained by the company, the better the company will be funded and able to meet payments if needed at any time and can avoid financial distress.

The results of hypothesis testing show that the leverage variable has no effect on the financial distress value. This indicates that the leverage test on the financial distress value rejects the second hypothesis (H2). The results of this research are supported by several studies (Aisyah et al., 2017; Ariyanti, 2016; (Saputra & Salim, 2020) and (Suprihatin & Giftilora, 2020). The relationship between signaling theory and leverage in the results of this research shows that if the company's leverage having a high value means that the company has high debt, which will increase the risk of

default and cause financial distress. This can provide a signal for investors to consider in making decisions. The leverageratio which is proxied by DER measures how much the company's assets are financed by debt, the higher the debt ratio indicates the greater the level of use of the company's debt. The leverage ratio is considered to have no effect on the financial distress conditions experienced by companies in the trade, services and investment sectors because the majority of companies in this sector use leverage as capital in the form of debt obtained from third party. This debt is used for productive operations and to generate profits that can prevent them from experiencing financial distress. In addition, companies that have a small or large risk of default will not necessarily have an impact on financial distress because this is influenced by the company's ability to use its assets productively to generate profits.

The results of hypothesis testing show that the liquidity variable has a positive effect on the value of financial distress. This indicates that the test of the liquidity variable on the financial distress value accepts the third hypothesis (H3). This means that if liquidity in a company increases, the value of financial distress will also increase. An increase in the value of financial distress indicates that the larger the company is, the healthier it is. The results of this study are supported by research (Masdupi et al., 2018); (Zulaecha & Mulvitasari, 2019); (Yusbardini & Rashid, 2019). The relationship between signaling theory and liquidity in the results of this research shows that if the company's liquidity increases, the value of financial distress will increase. This can provide a signal to investors regarding the conditions currently occurring in the company. The liquidity ratio proxied by CR shows a signal to investors regarding the company's ability to fulfill its short-term liabilities using its current assets. The higher the current ratio, the higher the company's current assets so that the company can provide funds quickly if at any time it is needed to pay off current liabilities. In this way, the potential for the company to experience financial distress can be avoided. A company that is able to increase its liquidity value, the company will be more liquid and healthy, meaning that the company will be further away from the potential for financial distress. However, if a company has low liquidity, it is feared that the company will not be able to pay its short-term liabilities, because this could indicate that the company is not in a liquid condition because the company's current assets cannot cover its current liabilities, which could trigger financial distress.

The results of hypothesis testing show that the activity variable has a negative effect on the financial distress value. This indicates that the test of activity variables on financial distress values accepts the fourth hypothesis (H4). This means that if the activity ratio in a company increases, the value of financial distress will decrease. An increase in the value of financial distress indicates that the larger the company is, the healthier it is. The results of this research are supported by research (Aisyah, Kristanti, et al., 2017); (Simanjuntak et al., 2017).

The relationship between signaling theory and activity in the results of this research shows that if company activity increases, the value of financial distress will decrease. This can provide a signal to investors regarding the conditions currently occurring in the company. The activity ratio proxied by TATO is a signal to investors regarding management's ability to optimize assets to obtain income, for example small assets but capable of generating large income, indicating that management isprofessional. . The activity ratio can figure out the company's level of efficiency in utilizing the company's existing resources. High activity from the company will increase the company's profits, this puts the company in a financially secure position. The negative influence of the activity ratio on the financial distress value (Altman Z-Score) shows that even though a company has a large total assets turnover (TATO) value, it cannot necessarily avoid the company's financial condition. The higher the total asset turnover, the more effectively the company's resources are used to generate sales, so the company can be said to be healthy. On the other hand, if the total asset turnover value of a company is small, then the company resources used cannot generate sales. As a result, the company does not make a profit to continue running its business. Thus, the company cannot streamline the costs incurred in terms of operations, thereby triggering

financial distress.

The results of hypothesis testing show that the inflation variable has no effect on the financial distress value. This indicates that the inflation test on the value of financial distress rejects the fifth hypothesis (H5). The results of this research are supported by research (Farida & Darmawan, 2017); (Priyatnasari & Hartono, 2019); (Sandi & Amanah, 2019); (Nurriadianis & Adi, 2019). Inflation is considered to have no effect on financial distress conditions because the impact of an increase/decrease in inflation on each company will be different, where the majority of companies will be able to survive conditions of high inflation. Inflation that occurred in Indonesia in the research year was still below 10%, where inflation in a country was still below 10%, so the probability level of influence on the company's financial distress was still small. Apart from that, inflation that occurred in Indonesia in the year under study still did not fluctuate excessively, so companies were still able to control and anticipate the company's financial health. As for steps that can be taken to deal with inflationary conditions, companies can take steps by implementing internal cost efficiency as well as carrying out innovation and variations in products as a form of anticipation and control by the company. This can provide a signal for companies to face inflation.

CONCLUSION

Profitability ratios have a significant positive effect on the value of financial distress in companies in the Trade, Services and Investment sectors for the 2018-2021 period. Thus, if a company's profitability increases, the value of financial distress will also increase. An increase in the financial distress value indicates that the company is said to be healthier. Furthermore, Leverage has no effect on the value of financial distress in companies in the Trade, Services and Investment sectors for the 2018- 2021 period. Because the majority of companies in the trade, service and investment sectors use leverage as capital in the form of debt obtained from third parties.

Liquidity has a significant positive effect on the value of financial distress in companies in the Trade, Services and Investment sectors for the 2018-2021 period. Thus, if a company's liquidity increases, the value of financial distress will also increase. An increase in the financial distress value indicates that the company is healthy. Meanwhile, activity has a significant negative effect on the valueof financial distress in companies in the Trade, Services and Investment sectors for the 2018-2021 period. This means that if a company's activity ratio increases, the financial distress value will decrease, and vice versa. Thus, inflation has no effect on the value of financial distress in companies in the Trade, Services and Investment sectors for the 2018-2021 period. Because inflation that occurred in Indonesia in the research year was still below 10%, where inflation in a country is still below 10%, the probability level of influence on the company's financial distress is still small. Apart from that, inflation that occurred in Indonesia in the year under study still did not fluctuate excessively, so companies were still able to control and anticipate the company's financial health.

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