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Analysis Of Financial Performance Against Financial Distress In Textile and Garment Companies

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Abstract: The purpose of this quantitative research is to find out how Liquidity, Leverage, and Profitability affect Financial Distress. Textile and Garment sub-sector manufacturing companies are the sample subjects in this study. The period used in this study is 5 years, namely from 2017-2021. Purposive sampling is the sampling method used in this study. A total of 12 companies made up the study's final sample. The type of data used in this study was secondary data, which was analyzed using descriptive statistics and panel data regression analysis methods with the use of Eviews 12. The results showed that Liquidity has no effect on Financial Distress, Leverage has a negative and significant effect on Financial Distress, because when the leverage value increases, the likelihood that the companies will be in financial distress will also rise. Meanwhile, Financial Distress has no influence with Profitability.

Keywords: Financial Distress; Liquidity; Leverage; Profitability

INTRODUCTION

Business competition is a natural thing. Business competition can occur due to the existence of one business actor with other business actors who have similarities in the business field, this can be said to be a good thing or a bad thing. Something good is if business actors can spur or encourage their companies to make products that are superior to others, while unfavorable business competition can be said if business actors cannot produce superior products due to factors that cannot be fulfilled, resulting in loss of customers and having an effect on decreasing company revenue, as is the case with business actors in the Textile and Garment business sector [1]. Recently, there have been layoffs due to the large number of incoming imported products compared to outgoing export products. In API records, around 43 thousand textile industry employees have been laid off since the Covid-19 pandemic emerged. Of course, this has a huge impact on the decline of the Indonesian economy. According to data from BPS, Indonesia's textile import volume grew from 2017-2021. In addition, it was recorded that the amount of textile imports grew from 21.11 percent in 2020 to 2.2 million tons in 2021. During 2017-2021, the value of textile imports averaged US$8.96 billion per year. In 2021, Indonesia's textile import value also increased by 30.91 percent to US$9.43 billion compared to the previous year. China is the country that imports the most fabrics from Indonesia with an import share of 48.87 percent in 2021. Indonesia also imports textiles from South Korea, Vietnam, Hong Kong, Taiwan and Malaysia [2].

Meanwhile, the Indonesian Textile Association (API) in the period 2018 to 2019 has recorded as many as 9 textile factories have closed their businesses due to losing competition with imported

products [3]. Given that the price of imported goods is cheaper than domestic goods, some locally produced goods are replaced by imported goods, causing Textile and Garment entrepreneurs to experience a decline in profits. This has the potential to cause financial problems for the business.

A company's financial performance can be used to anticipate financial distress, including liquidity, leverage, and profitability ratios. Liquidity is the first factor that can influence financial distress. Liquidity is the ability of an entity to pay off its current obligations that must be paid immediately with its current property. Utilizing the liquidity ratio, one may estimate how much of a company's short-term debt it can pay off. The second variable of financial distress is influenced by leverage, the leverage ratio shows the company's capacity to allocate its debt in relation to its workings and resources. The leverage ratio emphasizes the important role played by debt financing for businesses by showing the proportion of debt financing that serves as a guarantee of the assets of the business.

Profitability is a ratio that shows a firm's ability to make money or is used to employ a company in seeking profits by evaluating its capability, and it is the third factor that influences financial distress. The profitability ratio measures how a company can stay in business consistently by paying attention to the level of profitability to obtain profits (returns) with possible risks.

According to earlier research by [1] based on a study of how financial performance affects financial distress, while liquidity has a negative impact on financial distress, leverage and profitability have no bearing on it.

Hypothesis Formulation

Effect of Liquidity on Financial Distress

Liquidity capacity is the ability of an organization to meet its immediate contractual obligations. With low liquidity, the company can still pay its loans. However, if the business cannot pay off its debts. There is a possibility that the company will experience financial difficulties if its liquidity decreases. Financial distress has a detrimental impact on liquidity, according to research findings that concur with the conclusions of this study, according to Bukhori et al [4], Izzah et al [5], Handayani [6], Hanafi and Supriyadi [7].

H1: Liquidity has a negative effect on financial distress.

Effect of Leverage on Financial Distress

The leverage ratio emphasizes the important role that debt financing plays for a business by showing the proportion of debt financing that serves as collateral for the assets of the business. The company is obligated to repay its debts because the total amount of debt held is higher than the assets' worth assets. If the company uses more debt financing, the liabilities will be greater and this will increase the risk of future payment difficulties. Furthermore, it is possible that the business will quickly fall into financial trouble. According to previous research that strengthens the thesis of this research by Izzah et al [5], Hidayat et al [8], Golijot and Mahardika [9], Hanafi and Supriyadi [7], It asserts that there is a link between financial difficulty and a high leverage ratio.

H2: Leverage has a positive effect on financial distress.

Effect of Profitability on Financial Distress

Profitability is the capacity of a business to make money by optimizing certain resources and share capital. A company with a high and profitable profitability value is one that has historically generated good earnings. On the other hand, businesses can experience financial difficulties if their profitability is low and negative. In accordance with previous research that supports this research

topic by Sari et al [10], Ardi et al [1], Nurdiwaty and Badrus [11] Profitability has no effect on financial difficulties.

H3: Profitability has a negative effect on financial distress.

Literature Review

Signaling Theory

Signaling Theory is a strategy used by management to tell investors how they feel about the company's future prospects. Investors will ultimately base their decision to finance a business on the details offered by the company formally, through financial reports, which serve as investor notification of the company's financial position [12].

Investors will then analyze and interpret the announcement of financial data and company conditions as positive or negative news. This theory is true. Financial statements are a kind of information provided by company management to outsiders or investors. The data provided to management is very important because it has the power to influence how investors choose to invest their money in the company.

Financial Distress

When a business does not have the cash flow to make the payments due under a contract, financial distress occurs. When a business is unable to fulfill its overdue commitments, it is said to be in financial distress. Financial distress is closely related to the amount of cash flow and profit generated by the company. Financial distress can be considered a stage in one's financial downfall that occurs before bankruptcy or liquidation. Financial distress is a liquidity problem that can signal the beginning of corporate bankruptcy if it occurs. According to Arbetus Yudi Yuniarto [13] says that signs of financial distress appear when the debtor or company exceeds the payment schedule to creditors or when the cash flow for the company's projections states that the business cannot meet the payment schedule to creditors.

Liquidity

A company's capacity to repay its short-term financial obligations is evaluated using liquidity ratios. As a result, if the business is billed, the business will be able to pay its debts, especially those that have matured Yeni Wati [14]. The current ratio, It shows if a company can use its existing assets to cover its short-term liabilities, replaces the liquidity ratio. When a company's current ratio rises, its current assets also rise, thus allowing the company to provide funds immediately whenever needed to pay its current liabilities. In this way, the possibility of experiencing financial difficulties can be avoided by the company.

Leverage

The leverage ratio measures the company's capacity to use resources or assets with fixed costs, such as debt or special shares, in order to achieve its goals, namely maximizing profits and owner wealth Nur Wahyuni [15]. The leverage ratio used to evaluate the amount of money coming from debt is calculated using the ratio of debt to assets, it measures the business's ability to pay its debts, both immediate and long-term. The use of corporate debt increases proportionally to how difficult it is for the company to pay off its debts. In addition, a low Debt to Asset Ratio can provide positive information to investors about the company.

Profitability

The capacity of a business to generate profits is described by the profitability ratio, which is used by businesses to assess their own ability to generate profits Hery [16]. The Return On Assets proxy shows the profitability of all assets used for business operations that can generate profits for the company. The company's profitability keeps rising as a result of the efficient use of its resources to make money, which can lower the risk of bankruptcy. The company will have sufficient finances, can meet payments as needed at any time, and can avoid financial difficulties with the increasing amount of profit generated.

METHOD

Quantitative methods were used in this study. Businesses in the textile and apparel sector that are listed on the Indonesia Stock Exchange (IDX) make up the study's population. Data from 2017-2021 is included in the research period. Purposive sampling was employed during the sample selection procedure, with the following criteria: The Indonesia Stock Exchange (IDX) lists the shares of Textile and Garment companies from 2017-2021, as well as companies that have negative profits for the last two years, which is a warning indicator of financial difficulties for the company. This study uses the help of Microsoft Office Excel and Eviews 12 for data processing and hypothesis testing.

Variable measurement, in this study the independent variable consists of:

Liquidity proxied by Current Ratio (CR)

$$\text{CR} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \text{ x } 100\% \quad \ldots\ldots (1)$$

Suwartini and Sumiyati [17]

Leverage proxied by Debt to Assets Ratio (DAR)

$$\text{DAR} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \text{ x } 100\% \quad \ldots\ldots (2)$$

Suwartini and Sumiyati [17]

Profitability proxied by Return On Assets (ROA)

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \text{ x } 100\% \quad \ldots\ldots (3)$$

Suwartini and Sumiyati [17]

RESULTS AND DISCUSSION

Result

The following table displays the test results:

Table 1 Model Conclusion

Methods	Testing	Results
Chow Test	CEM vs FEM	FEM
Hausman Test	FEM vs REM	FEM

Source: Data processed (Eviews 12)

The Fixed Effect Model (FEM) model is a panel data regression model that can be used in the panel data regression equation test, according to the findings of the three tests that have been run.

The following table shows the outcomes of the panel data regression model test:

Table 2 Panel Data Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,257656	0,293076	0,879142	0,3840
X1	0,012830	0,166406	0,077103	0,9389
X2	-0,587081	0,102887	-5,706056	0,0000
X3	0,404138	1,281081	1,437801	0,1574

Source: Data processed (Eviews 12)

Using the Eviews 12 software computation and the panel data regression model test table previously mentioned, the following results are obtained:

$$Y = 0.26 + 0.01\,X_1 - 0.59\,X_2 + 0.40\,X_3$$

Where:

Y = Financial Distress
a = Constant
b = Regression Coefficient
ε = Epsilon (other factors not examined)
X1 = Liquidity
X2 = Leverage
X3 = Profitability

Hypothesis Test

F test

The following table displays the findings of the F hypothesis test:

Table 3 Hypothesis Test Results F (Simultaneous)

F-statistic	111,1422
Prob(F-statistic)	0,000000

Source: Data processed (Eviews 12)

The F-statistic value obtained is 111.1422 as seen from the list of F hypothesis test results above. The number of F table is 2.766. So there is a category of F-statistic > F table or 111.1422 > 2.766. This demonstrates how all independent factors together have an impact on the dependent variable.

Test t

Table 2 data shows that the value of the liquidity variable (X1) is 0.077103. 2.003 as the t table value and 0.9389 as the significance level or Prob value. Thus, the t-Statistic category < t table and the probability value exceeds 0.05 or 0.077103 < 2.003 > 0.9389. This shows that financial distress is not influenced by liquidity. The leverage variable (X2) is -5.706056, t table 2.003 and significance 0.0000. t-Statistic value of -5.706056 and probability of 0.05, there is a t-Statistic > t table category or -5.706056 > 2.003 < 0.0000. These results imply that leverage adversely and significantly impacts financial distress. The profitability variable (X3) is 1.437801, t table 2.003 and Prob. of 0.1574. The significance level > 0.05 and t-Statistic 1.437801 or 1.437801 < 2.003 > 0.1574, means there is a category of t-Statistic < t table. This fact proves that profitability has no impact on financial difficulty.

Analysis Coefficient of Determination (R^2)

The reliability coefficient (R^2) shows the capacity of the model to describe the variable under study. The results of the coefficient of determination test are shown in the following table:

Table 4 Test Results of the Coefficient of Determination $(R)^2$

R-squared	0,971892
Adjusted R-squared	0,963148

Source: Data processed (Eviews 12)

The table above displays the results of calculating the coefficient of determination (R^2). The simultaneous contribution of liquidity, leverage and profitability to financial distress is indicated by the Adjusted R Square value of 0.963148. This figure implies that liquidity, leverage and profitability have an effect of 96.3148% on financial distress and another 3.6852% is influenced by other elements that the study methodology does not account for. The coefficient of determination test (R^2) were used to determine this result.

Descriptive Statistical Analysis

A list of research elements, including Current Ratio, Debt to Asset Ratio, Return On Assets, and Financial Distress, is provided using descriptive statistical analysis. I will provide a summary of the descriptive statistical analysis test results:

Table 5 Descriptive Statistical Test Results

	X1	X2	X3	Y
Mean	1.464167	1.260167	-0.053500	-0.485000
Median	1.030000	0.750000	-0.030000	0.565000
Maximum	5.540000	9.150000	1.980000	5.870000
Minimum	0.060000	0.080000	-2.310000	-10.74000
Std. Dev.	1.559274	1.640108	0.412425	3.864800
Skewness	1.351680	2.857707	-0.807561	-0.999386
Kurtosis	3.880867	11.65406	25.72161	3.564687
Observations	60	60	60	60

Source: Data processed (Eviews 12)

Using the results of the descriptive statistical test, it is obtained that the highest liquidity value is obtained in the company PT Golden Flower, Tbk in 2021, which is 5.540000 and the lowest value is obtained in the company PT Argo Pantes, Tbk in 2020, which is 0.060000. The highest leverage value was obtained by the company PT. Asia Pacific Investama, Tbk in 2019 amounting to 9.150000 while the lowest value was in the company PT. Tifico Fiber Indonesia, Tbk in 2019 amounting to 0.080000. The highest profitability value was obtained in the company PT Sunson Textile Manufacturer, Tbk in 2018 amounting to 1.980000 and obtained the lowest value of -2.310000 in 2017 at the company PT Polychem Indonesia, Tbk. There is the highest financial distress value in the company PT. Tifico Fiber Indonesia, Tbk in 2019 of 5.870000 and the lowest value of -10.74.000 in 2020 at the company PT. Asia Pacific Fibers, Tbk.

Classical Assumption Test

The multicollinearity test and the heteroscedasticity test make up this study's traditional assumption test, the following are the results of the data that have been obtained:

Multicollinearity Test

If the correlation value is more than 0.85, then multicollinearity is possible in this study. The following table shows the results relating to the multicollinearity analysis:

Table 6 Multicollinearity Test Results

	X1	X2	X3
X1	1.000000	-0.451372	0.037204
X2	-4.513720	1.000000	-0.101049
X3	0.037204	-0.101049	1.000000

Source: Data processed (Eviews 12)

Considering the outcomes of the correlation coefficient between X1 and X2 is -0.451372 or -0.451372 < 0.85, the correlation between X1 and X3 is 0.037204 or 0.037204 < 0.85, and the correlation between X2 and X3 is -0.101049 or -0.101049 < 0.85. So it can be said that the correlation between independent variables passes the test and there is no multicollinearity.

Heteroscedasticity Test

Heteroscedasticity with the Glejser test does not occur if it is greater than 5% or Prob. value 0.05. The findings of the heteroscedasticity test are shown in the subsequent table:

Table 7 Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.243440	0.168439	1.445272	0.1553
X1	0.104058	0.095638	1.088032	0.2824
X2	0.013477	0.059132	0.227917	0.8207
X3	0.070051	0.161545	0.433631	0.6666

Source: Data processed (Eviews 12)

The Eviews 12 heteroscedasticity test findings indicate that the significance worth is Prob. superior to 0.05. The regression model can be used to predict the rise in financial distress based on the input of liquidity, leverage, and profitability variables since there is no evidence of heteroscedasticity in the model.

Discussion

Effect of Liquidity on Financial Distress

Research findings show that liquidity has no effect on financial distress. The liquidity ratio compares the company's short-term debt with its current assets and current obligations to determine its ability to settle [14]. Existing funding or obligations to repay short-term loans will also lessen the likelihood that the company would face financial issues.

The ability of a corporation to fulfill short-term obligations out of its current assets is shown by its current ratio, replaces the liquidity ratio. More current assets mean a greater current ratio for the business, which allows it to provide cash whenever needed to pay its current liabilities. The company can avoid potentially experiencing financial difficulties in this way.

The Effect of Leverage on Financial Distress

Research findings show that leverage has a negative and significant effect on financial difficulties. The leverage ratio measures how well a company can use resources and capital with fixed charges, such as debt or preferred stock, to achieve its goals [15].

By displaying the a measure of how much of a company's assets are financed by debt, the leverage ratio highlights the importance of debt financing to a business. Therefore, the company must fulfill its debt obligations. If the company uses more debt financing, the liabilities will be greater and it will likely have difficulty making future payments because the debt exceeds the value of the company's assets, the likelihood of financial hardship for the company increasing. By taking on additional debt, the corporation will have a harder time paying off its bills, which will increase the leverage ratio and increase the likelihood of the company facing financial distress.

The Effect of Profitability on Financial Distress

Research findings show that profitability has no effect on financial difficulties. The company's capacity to make money is shown by its profitability ratio [18]. The ROA proxy for profitability reveals the total assets used for business activities that can generate profits for the company. The profitability of a company will continue to increase and be able to reduce the danger of bankruptcy with the efficient use of company assets to generate net income. A company will have sufficient finances and be able to make payments whenever it experiences difficulties the more profits it makes.

CONCLUSION

The test findings show that there is no correlation between liquidity and financial distress. This shows that increasing the value of liquidity reduces the likelihood of a financial crisis in the organization. Financial distress is negatively and significantly affected by leverage. As a result, using more debt will make it more difficult for companies to repay their debt, increase their leverage ratio, and increase their risk of experiencing financial distress. Financial distress is not affected by profitability. This implies that if the company's profit is getting bigger, it will make the company have good funding and can fulfill payments if needed at any time and can avoid financial distress.

The investigation covered a very small total of six samples as it included only 12 Textile and Garment companies as some companies did not meet the research criteria. This constraint may negatively impact the research findings. Given that the focus of this study is just manufacturing businesses in the textile and garment sector, Future studies are anticipated to broaden the research topic by include all businesses involved in manufacturing that are listed on the Indonesia Stock Exchange. There are just three independent factors in the study: liquidity, leverage, and profitability the dependent variable is financial distress.

Based on the conclusions and limitations that have been described, the authors try to provide suggestions that may be useful as follows: Investors and potential stock investors must conduct a careful evaluation of the company's financial statements before deciding to buy new shares or sell existing shares. This requires a closer look at the company's financial status as well as the company's initiatives to improve financial performance. To provide a more precise and in-depth picture of the factors that influence financial distress, future researchers should conduct research using sources other than manufacturing industry companies in the textile and apparel subsector listed on the Indonesia Stock Exchange (IDX). To get a more accurate or representative estimate, it can also be done by adding other independent variables in the study.

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