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Analysis of financial distress in banking companies listed on the indonesian stock exchange

Isnaeni Rokhayati[1]✉, Sodik dwi Purnomo[2], Diah Retnowati[3], Hari Winarto[4], Agus Prabawa[5], Heris Kencana[6]

Fakultas Ekonomika dan Bisnis Universitas Wijayakusuma, Purwokerto.

Abstract

Financial distress is a condition when a company experiences an inability to fulfill all financial obligations in the long term. This study analyzes capital structure, female directors, liquidity, and profitability predicting the possibility of financial companies in the 2018-2020 period experiencing financial distress. The research population is financial companies operating on the IDX in the 2018-2020 period with as many as 105 companies. Determination of the sample used is purposive sampling method with the results of 46 companies. The research analysis technique is panel data regression with the best fixed effect model. Based on the analysis results show that the capital structure has a significant effect on financial distress where the higher the company's leverage will cause financial distress. While female director, liquidity, and profitability have no significant effect on the company's financial distress. It is expected that the company will always pay attention to the level of use of leverage so that it can maintain the optimal condition of the company's cash. For future research, it is possible to add variables such as inflation rate, interest rate, tax, firm size, growth sales which can affect financial distress.

Key words: Financial distress, capital structure, female director, liquidity, profitability, financial company

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✉ Corresponding Author
Email Address: isnaeni_akbar@yahoo.co.id
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INTRODUCTION

Development in the financial sector requires careful planning and the implementation process of implementing policies that have been formulated such as seeking to further intensify or focus on the level of economic monetarization carried out in several ways including increasing access to financial institutions, transparency, and efficiency, as well as encouraging the rate of return. rational one. The financial sector is a group of service industry companies that are categorized as public companies and have been listed on the Indonesia Stock Exchange. occurs when the financial sector is not able to develop properly can cause the economy to experience obstacles in an effort to increase economic growth (Handayani & Abubakar, 2017).

The impact of the Covid-19 pandemic was felt by financial companies, especially those engaged in financial institutions, but the Financial Services Authority (OJK) said that basically there were several players in the financing industry who had experienced financial difficulties before the pandemic hit. Media Bisnis.com also conveyed the main reasons for the financing industry players experiencing financial difficulties, namely due to the difficulty of meeting the minimum capital requirement of below Rp 100 billion, unsuitable business partners, declining loan quality, ignoring corporate governance, and not meeting the equity to paid-in capital ratio. at least 50 percent. The Financial Services Authority through the Head of the Department of Supervision of the Non-Bank Financial Industry (IKNB) stated that the financing industry faces major challenges to maintain cash flow during the pandemic (Bisnis.com, 2020).

Financial distress or financial distress is when a company experiences an inability to fulfill all financial obligations, especially in the long term due to business failure conditions (Elloumi & Gueyie, 2001). According to Ghasemzadeh et al (2021), another definition of financial distress is the cost of financial distress and tax benefits of balanced debt, if the company has high financial difficulties, it will experience less debt financing. Financial distress or financial difficulties can occur as a result of companies making decision-making efforts but they are carried out inappropriately, it can also occur due to lack of supervision of financial conditions and there are several weaknesses that are interconnected with each other so that their use is not in accordance with what is needed. According to Supriati et al, (2019), suggesting the stage of declining financial conditions that occurred prior to bankruptcy or liquidation, if this is not resolved, it will have an impact on the company.

The influence of capital structure on the company's financial distress was carried out by several researchers and some of them obtained the results that capital structure had a positive and significant effect on financial distress as stated by (Giovanni et al, 2020) and (Asfali, 2019). According to Ikpesu & Eboiyehi (2018), and (Saad & Abdillah 2019), the results show that capital structure has a significant negative effect on financial distress.

The second factor is that female directors have no effect on financial distress (Maghfiroh, 2020). According to Kristanti (2015), Ningrum & Hatane (2017), and (Zhou, 2019) the results obtained the female directors have a negative and significant effect on financial distress. The effect of liquidity on financial distress which in some research results found differences, namely according to Kartika & Hasanudin (2019), shows that the liquidity variable has a negative effect.

Other research shows that the liquidity variable has no effect on financial distress in the study (Santosa et al, 2020). This research will refer to the research of Kartika & Hasanudin, (2019); Yohanson & Putra, (2020); Gitau Muigai, (2017); Kristanti, (2015); Azalia & Rahayu, (2019); and Zhou, (2019). However, this study only focuses on variables that are not aligned, such as capital structure, female directors, and liquidity. These variables have an effect on financial distress, but based on research conducted by other researchers, the results are not the same so that it needs to be re-examined. In addition, this study uses other variables included in the financial ratio indicators, namely profitability. Because logically profitability can be included in the variables in this study because profitability is related to company profits if the company has a large enough profit it will definitely avoid the risk of financial difficulties, where profitability is often used to predict financial distress in a company.

Based on the existing research gap, researchers will conduct research to analyze the Effect of Capital Structure, Female Director, Liquidity, and Profitability on Financial Distress in Financial Companies Listed on the Indonesia Stock Exchange for the 2018-2020 period.

METHODS

This research is a quantitative research using multiple regression linear regression analysis of panel data. The population in this study are all financial companies listed on the IDX for the 2018-2020 period as many as 105 companies. The sample used in this study were 46 financial companies using purposive sampling method. The purposive sampling method is sampling limited to certain types of data with certain criteria that can provide the desired information. The intended criteria include (1) Financial companies that are consistently listed on the IDX during the 2018-2020 period. (2) Financial companies listed on the Indonesia Stock Exchange in 2018-2020 present financial reports using rupiah units. (3) Financial companies listed on the Indonesia Stock Exchange in 2018-2020 which contain complete information about female directors.

Research data is secondary data obtained from financial reports of financial companies listed on the Jakarta Stock Exchange for the period 2018 to 2020 published on the IDX. The method of analysis used multiple linear regression analysis of panel data. Panel data regression analysis using the help of Eviews-10 model with the best model is the fixed effect model, so that the results of the equation are as follows:

Y = a + b X1it + b X2it + b X3it + b X4it + e

The t-test was used to test the significance of the effect of capital structure, female director, liquidity and profitability variables on financial distress. Based on the results

RESULTS AND DISCUSSION

The results of the research analysis using multiple linear regression panel data with the fixed effect model can be seen in table 1, while for testing the research hypothesis using the t test.of panel data analysis, the model used in this study is the fixed effect model, so that the results of the equation are as follows:

Y = 5,827992 + 1,685504X1it + 13,22681X2it + 0,221883X3it - 0,147098X4it + e

Table 1.
Fixed Effect Panel Data Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.827992	3.584954	1.625681	0.1076
X1	1.685504	0.620685	2.715554	0.0080
X2	13.22681	10.39878	1.271957	0.2067
X3	0.221883	0.205318	1.080679	0.2828
X4	-0,147098	0.706730	-0.208138	0.8356

Based on the results of data analysis with the t test for testing the capital structure variable, it shows that the tcount is greater than the ttable value (2.715554 > 1.65630) and the significance is less than 0.05 (0.0080 < 0.05). This shows that the capital structure has a positive and significant effect on financial distress. These results indicate that capital structure has a positive and significant effect on financial distress in financial companies listed on the Indonesia Stock Exchange.

The results of this study are the same as the results of research conducted by (Ghasemzadeh et al, 2021); and (Giovanni et al, 2020); This study contradicts research conducted by (Gitau Muigai, 2017); (Pure, 2018) which states that capital structure has a negative and significant effect on financial distress. The results of this study indicate that the higher the level of the company's capital structure, the higher the possibility of financial distress in financial companies. A high capital structure shows that it can trigger high financial risk, companies that have large interest and principal loans and are not matched by high and stable sales results, allowing the risk of default (Moleong, 2018). The results of this study are in accordance with the trade-off theory which states that companies that dare to owe up to a certain point, the level of financial distress follows the level of the company's debt then the interest which was originally a profit of the company will now impact on the company's inability to pay off all its obligations (Ikpesu & Eboiyehi, 2018).

Companies that have a low burden that comes from debt, the company's performance can be improved and avoid financial distress. It is better if the burden incurred for company funding is managed properly and correctly so that the company is able to operate, invest, and have the opportunity to always develop and increase profits.

Based on the results of the t-test analysis for the female director variable, it shows that the tcount value is greater than the ttable value (1.271957 > -1.65630) and the significance is greater than 0.05 (0.2067 > 0.05). This shows that female directors have a positive and insignificant effect on financial distress. This means that the female director has no effect on financial distress, whether or not there is a female director of financial distress, financial distress may or may not occur.

The results of this study are the same as the research conducted by (Ariska et al, 2021); and (Koerniawan & Malelak, 2021). This study contradicts research conducted by (Liao et al, 2019); and which states that female director has a negative and significant effect on financial distress. The results of this study indicate that the higher the presence of female directors or the presence of female directors in financial companies, the higher the probability of financial distress. Currently, the role of women in the world of work looks better, so the number of women pursuing careers has increased significantly. However, there are still many companies who do not believe in making women on the board of directors. Therefore, gender diversity has no effect on financial distress. The company is expected not to have to consider the gender of the director who leads the company, but the company should focus more on the competence of each director who occupies the position so that it can provide an important role for the progress of the company.

Based on the results of the t-test analysis for the liquidity variable, it shows that the tcount is greater than the ttable value (1.080679 > -1.65630) and the significance is less than 0.05 (0.2828 > 0.05). This shows that liquidity has a positive and insignificant effect on financial distress. The results of this study are the same as the research conducted by (Sulastri & Zannati, 2018); (Fitri, 2020); and (Runis Makkulau, 2020). This study contradicts research conducted by (Curry et al, 2018); and (Moch et al, 2019) which states that liquidity has a negative and significant effect on financial distress. The results of this study reveal that a high company liquidity ratio will basically make the company avoid financial distress conditions, but different conditions occur when the company always increases the amount of debt, the company will experience a condition of reduced cash which causes liquidity because the company is unable to pay obligations that have matured. The opposite happens if the company's liquidity ratio is low, it means the company is in a bad condition because it is unable to fulfill its obligations. The high liquidity ratio makes the company able to pay a number of obligations, but even though the company has a high liquidity value, in reality it does not really have an impact on the possibility of the company suffering from financial distress because the company can still fund its operational activities using its current debt. Financial companies should manage their current assets because if current assets have been managed properly, they can be used as collateral for current liabilities so that financial difficulties can be avoided.

Based on the results of the t-test analysis for the profitability variable, it shows that the tcount value is smaller than the ttable value (-0.208138 < -1.65630) and the significance is greater than 0.05 (0.8356> 0.05). This shows that profitability has a negative and insignificant effect on financial distress. Where the increase in the level of profitability will reduce financial distress but the effect is not strong on financial distress.

The results of this study are in line with the research conducted (Khotimah & Yuliana, 2020); and (Wati & Agustina, 2015); This study contradicts the results revealed by (Rodoni & Ali 2014); and (Debby Cristine, 2019). The results of this study reveal that the size of the profitability obtained by the company is not a factor that significantly affects the financial distress experienced by the company. Profitability reflects the company's ability to earn profits by using its assets. Profitability does not have a significant effect on the prediction of the occurrence of financial distress. This happens because high company profits do not necessarily make financial companies suffer from financial distress. The company is expected to always be alert in all situations because when the company shows an increase in profits, it cannot always avoid the company from financial difficulties. This can happen because of inflation which causes investors to discourage investing in the company even though the company is in a fairly high profit condition.

CONCLUSION

The results of the study using regression analysis of research data show that the capital structure variable has a positive and significant effect on financial distress in financial companies listed on the IDX in 2018 to 2020. While the Female director variable has a positive and insignificant effect on financial distress in financial companies listed on the IDX. 2018 to 2020. For the Liquidity variable, it

has a positive and insignificant effect on financial distress in financial companies listed on the IDX in 2018 to 2020. And for the Profitability variable, it has a negative and insignificant effect on financial distress in financial companies listed on the IDX in 2018 to 2020. 2020. The limitations of the study include that the female director, liquidity and profitability variables cannot explain the effect on financial distress. For further researchers, it is possible to expand the population so that not only financial companies listed on the Indonesia Stock Exchange, can use other proxies to measure liquidity such as quick ratios and are expected to conduct journal reviews in order to make more accurate hypotheses.

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