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Profitability, Liquidity, Solvability and Financial Distress: The Impact on Firm Value? (Case Study of Various Industrial Sector Companies, Tbk 2018-2020)

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Abstract

This study aims to examine and analyze the effect of profitability, liquidity and solvency on financial distress and their impact on firm value both directly and indirectly in companies in the various industrial sectors of Tbk for the 2018 – 2020 period. The type of research used in this research is explanatory research (explanatory research) using a quantitative approach. The technique used in taking the sample is purposive sampling method, obtained a sample of 34 companies from a total population of 53 companies. The type of data used is secondary data. Data analysis was performed using descriptive statistics and inferential statistics using the SmartPLS tool. The results showed that the profitability variable proxied by ROE had a negative and significant effect on firm value, the profitability proxied by ROA had no effect on firm value. Liquidity and solvency have a negative and insignificant effect on firm value, while financial distress has a positive but not significant effect on firm value. Liquidity has a positive and significant effect on financial distress, while profitability and solvency have a positive but not significant effect on financial distress. Profitability, liquidity and solvency through financial distress have no significant effect on firm value.

INTRODUCTION

Towards end of December 2019, the world was shocked by the Coronavirus Disease (Covid-19) pandemic originating from Wuhan City, China. On Wednesday 11 March 2020 the World Health Organization (WHO) officially declared the Covid-19 outbreak a global pandemic (Putri et al, 2021). This pandemic shows a very significant

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rapid spread and continues to increase. The spread of the Covid-19 pandemic to various parts of the world, including Indonesia.

The impact of the Covid-19 pandemic has been quite felt by several manufacturing companies in Indonesia, one of which is the various industrial sector. The CNBC online daily as of October 20 2020 reported that the Indonesian manufacturing industry had been hit hard due to the impact of the Covid-19 pandemic, including the various industrial sectors. Performance reports from issuers in the textile and automotive sub-sectors as one of the labor-intensive sectors were also not very encouraging. It was observed that only a handful of issuers were able to record net profit growth and the rest still had to struggle with losses. This phenomenon can be seen from the performance of financial ratios of manufacturing companies in various industrial sectors from various sub-sectors listed on the official website of the Indonesia Stock Exchange at the link www.idx.co.id. The performance data of financial ratios of manufacturing companies in various industrial sectors from various sub-sectors are as follows:

Table 1. Average Conditions of ROA, ROE, CR for Various Industry Sub-Sectors

Sub Sector	ROA (*Return On Aset*)			ROE (*Return On Equity*)			CR (*Current Ratio*)			DER (*Debt to Equity Ratio*)		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Automotive and Computers	0,004	0,03	0,03	0,001	0,04	0,03	2,35	2,85	2,14	0,84	0,98	1,00
Textiles and Garments	-0,02	0,02	0,01	-0,23	0,02	-0,04	1,64	1,89	1,72	5,62	-4,17	1,59
Machinery and Heavy Equipment	-0,13	0,02	0,005	0,25	0,03	0,08	0,73	1,06	0,62	0,30	1,72	12,20
Electronics	0,03	0,04	0,04	0,06	0,08	0,17	1,26	2,92	1,00	0,71	1,03	2,06
Cable	0,02	0,07	0,05	0,03	0,12	0,10	2,88	2,18	1,62	0,59	0,77	1,05
Footwear	-0,19	0,02	0,05	-0,72	0,04	0,04	1,16	2,40	1,95	3,61	1,57	-0,92
Average value	-0,05	0,03	0,03	-0,10	0,05	0,06	1,67	2,22	1,51	1,94	0,32	2,83

Source of : www.idx.co.id, diolah, 2022

Based onTable 1 above, it can be seen that there is a phenomenon of decline in the industry average ROA in almost all sub-sectors except the electronics and cable sub-sectors. This phenomenon occurs because of company policies to implement WFH (Work From Home), where an internet connection is needed so that the pandemic conditions that occur can be said to still have a positive effect on sales and the level of ROA in the electronics and cable sectors. On average, the ROA value for various industrial sectors during 2018 to 2020 tends to decrease, from 0.03 in 2018 and 2019 then decreases to (-) 0.05 in 2020.

Another profitability value that is used as a benchmark for investors is Return On Equity (ROE). Good profitability will certainly make the company value good

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because the profit level is what the public and company owners care about. The higher the ROE value, the better the condition of the company, the greater the income earned by the company and will increase the share price of the company concerned so that it can increase the value of the company. The phenomenon of the average ROE value is not much different from ROA. The company's ability to generate profits during 2020 also fell due to the sluggish economic level and the State of Indonesia in a recession, because one of them in 2020 was facing the Covid-19 pandemic. On average, the ROE value for various industrial sectors during 2018 to 2020 tends to decrease. In 2018 the average value of ROE was 0.06 and then decreased to 0.05 and in 2020 it was (-) 0.10.

The Current Ratio is a ratio to measure a company's ability to pay short-term obligations or debts that are due soon when billed as a whole. According to Kasmir (2017: 143), the industry standard financial ratio value for CR is 200% or 2 times. From the Table of Average Current Ratio values above, it can be seen that the worst decrease in ratio values occurs in the machinery and heavy equipment sector, while the best increase in ratio values occurs in the cable sector. On average, the CR value for various industrial sectors during 2018 to 2020 fluctuated and tended to decrease. In 2018, the average CR value was 1.51 then to 2.22 and in 2020 to 1.67.

According to Kasmir (2017) for the industry standard the DER value is 80% or 0.8. A DER that is too high has a negative impact on company performance, because a higher debt level indicates that the company's interest expense will be greater and reduce profits.

Based on Table 1 and the description above, it can be seen that the average DER value for all sectors fluctuates and tends to decrease. The most severe movement in DER values was experienced by the textile and footwear sectors. On average, the DER value for various industrial sectors during 2018 to 2020 fluctuated and tended to increase. It was recorded that the average DER value in 2018 was 2.83. In 2019 it decreased to 0.32 and then rose again to 1.94 in 2020.

Based onTable 1 and the description above, it can be seen that the average DER value for all sectors fluctuates and tends to decrease. The most severe movement in DER values was experienced by the textile and footwear sectors. On average, the DER value for various industrial sectors during 2018 to 2020 fluctuated and tended to increase. It was recorded that the average DER value in 2018 was 2.83. In 2019 it decreased to 0.32 and then rose again to 1.94 in 2020 Financial Distress or company financial difficulties during the Covid-19 pandemic like this can be easy and quickly experienced by companies in various sectors causing the value of a company to decrease. Financial distress is a condition where a company experiences financial difficulties or liquidation that must be faced before bankruptcy occurs. According to Shilpa & Amulya (2017) financial distress is defined as the company's inability to meet its current financial obligations.

According to Hery (2017: 5) defines that the notion of corporate value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through an activity process for several years, that is, starting from when the company was founded until now. Meanwhile, according to Silvia Indrarini (2019: 2) the notion of firm value is the investor's perception of the level of success of managers in managing the company's resources entrusted to them which is often associated with stock prices.

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The first internal variable that affects company value is the size of the company's profitability. Profitability is the company's ability to earn profits. The profit earned by the company comes from sales and investment decisions by the company. Profits that will be distributed to shareholders are profits after interest and taxes. Companies that have a high level of profitability will be in demand by investors for their shares. Companies that have high profitability and succeed in recording increased profits will show that the company is performing well, so that it will create a positive response to shareholders and make the company's stock price increase. Profitability can be measured using Return On Assets (ROA) and Return On Equity (ROE). Return on Assets (ROA) is one of the profitability ratios. In the analysis of financial statements, this ratio is most often highlighted, because it is able to show the company's success in generating profits. ROA is able to measure a company's ability to generate profits in the past to be projected in the future. . While Return On Equity (ROE) is a profitability ratio that shows a comparison between profit (after tax) and capital (core capital) of a bank, this ratio shows the percentage level that can be generated in managing available capital to get net income.

The next factor that affects the value of the company is liquidity. The liquidity ratio, also known as the working capital ratio, is the ratio used to measure how liquid a company is (Kasmir, 2019: 130). The greater the liquidity, the more the company is able to pay off its obligations so that the cash turnover within the company is very good and can give a positive perception of the company's condition. Liquidity can be calculated using the Current Ratio (CR), by dividing current assets by current liabilities.

The third factor that affects the value of the company is solvency. Wiagustini (2010: 76) states that solvency can be interpreted as the ability of a company to pay off the company's financial obligations both in the short term and in the long term. Solvability can be measured using the Debt to Equity Ratio (DER), which is the ratio used to assess debt to equity.

If the condition of financial distress can be predicted earlier, then the company's management can take actions that can be used to improve the company's financial condition. Management can take merger or takeover actions so that the company is better able to pay debts and manage the company better (Masdupi et al., 2018).

RESEARCH METHODS

The location of this research is at the Indonesia Stock Exchange (IDX). Where the data obtained is based on the source www.idx.co.id which focuses on manufacturing companies in the various industrial sectors listed on the Indonesia Stock Exchange and data taken from the 2018-2020 period.

According to Sugiyono (2017), population is a generalized area consisting of a group of objects and subjects that have qualities and characters that are in accordance with the research. The population in this study is classified as a finite population, namely a population whose number is known. The population used in this study are 50 manufacturing companies in the various industrial sectors listed on the IDX for the period 2018 – 2020.

Meanwhile, according to Sugiyono (2017), the sample is part of the number and characteristics possessed by the population. The sampling technique in this study was a

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purposive sampling technique, in which the data were selected based on certain criteria that fit the research objectives. The criteria are as follows: 1) Manufacturing companies in the various industrial sectors that have been and are still listed on the IDX during the period 2018 to 2020. 2) Manufacturing companies in the various industrial sectors that publish audited financial reports successively during the period 2018 to 2020. 3) Manufacturing companies in the various industrial sectors which publish complete information data regarding indicators for each variable needed by researchers during the period from 2018 to 2020. 4) Manufacturing companies in the various industrial sectors which use the rupiah currency in their financial reports. 5) Manufacturing companies in various industrial sectors that use United States dollars in their financial reports.

Table 2. Total Population and Sample

Population	53 Company
Companies that are not listed in 2018	6 Company
Companies that are not listed in 2019	1 Company
Companies that do not publish complete financial statements	11 Company
Sample results	53 – 18 = 35 Company

Source of : Date Example, 2022

The data obtained was then carried out by descriptive statistical analysis and evaluation of the measurement model. Evaluation of the measurement model is an evaluation of the contract with its indicators. This evaluation went through 2 stages, namely towards Convergent Validity (seen based on the loading factor for each construct) and Discriminant Validity (seeing Composite Reliability and Cronbach Alpa). After evaluating the measurement model, then testing the hypothesis with PLS (Partial Least Square) was carried out. PLS is a component or variant based SEM structural equation model with the help of SMARTPLS software, V.3.

RESULTS AND DISCUSSION

Before testing the research hypothesis, a descriptive analysis of the research variables was first carried out.

Table 3. Descriptive Analysis

	Mean	Min	Max	Standard Deviation
X1 (ROA)	0,333	- 63,000	61,000	11,571
X2 (ROE)	- 4,876	- 341,000	154,000	51,255
X3 (CR)	217,324	6,000	1.304,000	209,771
X4 (DER)	253,524	- 343,000	11.429,000	1.127,528
Y2 (PBV)	139,657	- 92,000	2.059,000	249,351
Y1 (ZSCORE)	165,724	- 997,000	890,000	278,904

Source of : The data is processed by SMART PLS V.3, 2022

Based on the table above, the profitability variable proxied by Return On Assets (ROA) has a mean value of 0.333 with a minimum value of -63,000, a maximum value

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of 61,000 and a standard deviation value of 11,571. The profitability variable proxied by Return On Equity (ROE) has a mean value of -4.876 with a minimum value of -341.000, a maximum value of 154.000 and a standard deviation value of 51.255. The liquidity variable proxied by the Current Ratio (CR) has a mean value of 217.324 with a minimum value of 6.000, a maximum value of 1304.000 and a standard deviation value of 209.771. The solvency variable proxied by the Debt to Equity Ratio (DER) has a mean value of 253,524 with a minimum value of -343,000, a maximum value of 11,429,000 and a standard deviation value of 1,127,528. The company value variable proxied by Price to Book Value (PBV) has a mean value of 139.657 with a minimum value of -92.000, a maximum value of 2.059.000 and a standard deviation value of 249.351. The financial distress variable proxied by Altman (Z-Score) has a mean value of 165.724 with a minimum value of -997.000, a maximum value of 890.000 and a standard deviation value of 278.904.

Table 4. *R-Square*

	R Square
Financial Distress	0,285
Company Value	0,514

Source of : The data is processed by SMARTPLS V.3, 2022

The goodness of fit assessment is known from the Q-square value. The Q-square value has the same meaning as the determination coefficient (R-square) in the regression analysis, where the higher the Q-square, the better or more fit the model can be with the data. The results of the Q-Square calculation are as follows:

Q-square = 1- [(1-$R^2$1) x (1-$R^2$2)]
= 1- [(1-0,285) x (1-0,514)]
= 1- (0,715 x 0,486)
= 1 – 0,3475
= 0,6525

Based on the calculation results above, a Q-square value of 0.6525 is obtained. This shows the magnitude of the diversity of the research data that can be explained by the research model is 65.25%. While the remaining 34.75% is explained by other factors that are outside this research model. Thus, from these results, this research can be stated as having a good goodness of fit.

Based on the data processing that has been done, the results can be used to answer the hypothesis in this study. Hypothesis testing in this study was carried out by looking at the T-statistics values and P_values. The following are the results of hypothesis testing used in this study through the inner model:

Table 5. *T-Statistic and P-Value*

Hypothesis	Influence	*Original*	*Sample*	*T Statistics*	*P*

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		Sample (O)	*Mean (M)*	*(O/STDEV)*	*Values*
H1	Profitabilitas ->Company Value	- 0,739	- 0,626	2,457	0,014
H2	Likuiditas ->Company Value	- 0,076	- 0,089	0,930	0,353
H3	Solvabilitas ->Company Value	- 0,014	0,085	0,047	0,963
H4	Financial Distress ->Company Value	0,153	0,215	0,973	0,331
H5	Profitabilitas ->Financial Distress	0,298	0,339	1,754	0,080
H6	Likuiditas ->Financial Distress	0,468	0,484	7,935	0,000
H7	Solvabilitas ->Financial Distress	0,189	0,238	1,335	0,182
H8	Profitabilitas ->Financial Distress ->Company Value	0,046	0,067	0,775	0,439
H9	Likuiditas ->Financial Distress ->Company Value	0,072	0,106	0,852	0,395
H10	Solvabilitas ->Financial Distress ->Company Value	0,029	0,054	0,520	0,603

Source of : The data is processed by *SMART PLS* V.3, 2022

The Profitability variable at Manufacturing Companies Tbk, the Various Industry Sector for the 2018 – 2020 period has a negative and significant effect on Company Value. This can be seen from the effect value of -0.739 with a t-statistic value of 2.457 and a significance level of 0.014 indicating that the level of profit earned from assets has a negative effect on Company Value. In addition, the deteriorating state of the international economy due to COVID-19 has had an impact on the Miscellaneous Industry sector from various sectors. Meanwhile, if the ROE value is high, the company value cannot be increased. This is probably because investors are more technically oriented than micro-fundamentals. The results of this study are in accordance with the results of research conducted by Mahendra (2011) which states that profitability proxied by ROE has a negative effect on company value.

The Liquidity variable in Manufacturing Companies Tbk, the Various Industry Sector for the 2018 – 2020 period has no significant effect on Company Value. Judging from the effect value of -0.076 with a t-statistic value of 0.930 and a significant level of 0.353 indicates that liquidity negatively affects investor interest when considering stock purchase decisions. An investor in investing certainly looks at the current ratio factor of a company. Because this comparison illustrates the company's competence when dealing with current debt using the company's current assets. The more difficult they are to cover their current debt, the more negatively it affects an investor to invest. The results of this study are in accordance with previous research by Thaib & Dewantoro (2017) where liquidity has a negative and insignificant effect on company value..

The Solvency variable in Manufacturing Companies Tbk in the Multi-Industry sector for the 2018 – 2020 period has no significant effect on Company Value. Judging from the effect value of -0.014 with a t-statistic value of 0.047 and a significant level of

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0.963, it indicates that one of the factors in the decline in Company Value is the result of debt continuing to grow without control. When the company's debt conditions are extreme leverage, the public will doubt whether the debt can be paid or not. From this study it can be concluded that the value of the debt to equity ratio does not have an impact on the desire of investors when reviewing the desire to buy shares. Investors are more concerned with the company's prospects than the debt-to-equity ratio, so that an increase or decrease in the debt-to-equity ratio is not accompanied by an increase or decrease in company value. From the assumption that a good company makes the interest of investors to start investing will increase and have a direct impact on Company Value. The results of this study are in line with the research conducted by Hadi & Suharmanto (2019) which says that DER has a negative and insignificant effect on company value.

The Financial Distress variable in Manufacturing Companies Tbk, the Various Industry Sector for the 2018 – 2020 period has no significant effect on Company Value. Judging from the effect value of 0.153 with a t-statistic value of 0.973 and a significant level of 0.331 indicates that the higher the value of financial distress, the higher the Company Value. This is contrary to the actual theory where the higher the Financial Distress value, the inversely proportional to the Company Value that investors will see. The higher the Financial Distress provides information that the higher the level of corporate debt. Some investors tend to choose not to invest in the company resulting in a decrease in price followed by a decrease in company value. This research is in line with research conducted by Sijuang (2018) which says that financial distress has a negative and insignificant effect on company value. However, this is contrary to research conducted by Mega (2019) which found that financial distress has a significant effect on company value.

The Profitability variable at Manufacturing Companies Tbk, the Various Industry Sector for the 2018 – 2020 Period has a positive but not significant effect on financial distress. This can be seen from the effect value of 0.298 with a t-statistic value of 1.754 and a significance level of 0.080. The value of profitability can have a positive effect on financial distress if the profits obtained by the company are low, the possibility of financial distress is increasingly real, because low profits are the source of the ineffective use of assets in obtaining profits and a decrease in net income in a row. This research is in line with the research of Kalimah (2017) and Christine et al., (2019) which states that profitability has a positive effect on financial distress. distress.

The Liquidity variable in Manufacturing Companies Tbk, the Various Industry Sector for the 2018 – 2020 period has a positive and significant effect on financial distress. This can be seen from the effect value of 0.468 with a t-statistic value of 7.935 and a significance level of 0.000. Therefore, the higher the liquidity ratio (current ratio), the more capable the company is in paying its short-term obligations so that in this case the company will be far from financial distress (financial distress). The results of this study support previous research conducted by Wulandari (2019) which stated that the liquidity ratio (current ratio) has a positive and significant effect on financial distress.

The solvency variable in Manufacturing Companies Tbk, the Various Industry Sector for the 2018 – 2020 period has a positive but not significant effect on financial distress. Judging from the effect value of 0.189 with a t-statistic value of 1.335 and a significant level of 0.182, it indicates that the sample companies in this study financed

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their operational activities more by using capital obtained from third parties in the form of debt. A large company tends to rely most of its financing on bank loans or creditors. Therefore, it can be said that large companies tend to have a large level of leverage ratio as well, but even though they have a large level of leverage ratio with a large company size, it can be said that these companies are better able to avoid financial difficulties or financial distress by diversifying their business. . Therefore it can be concluded that leverage has no effect on the possibility of financial distress. The results of this study support previous research conducted by Wulandari (2019) which stated that the leverage ratio (DER) has no effect on financial distress.

The profitability variable mediated by financial distress in Manufacturing Companies Tbk, the Various Industry sector for the 2018 – 2020 period has an effect of 0.046 with a t-statistic value of 0.775 and a significant level of 0.439. Means that profitability has no significant effect on Company Value through financial distress as an intervening variable. When investors observe past price fluctuations and estimate stock prices, changes in stock prices tend to move in a certain direction (Hirdinis, 2019). The results of this study are in line with previous research conducted by Belthasar (2017) which states that profitability has no effect on company value with financial distress as an intervening variable.

The Liquidity variable in Manufacturing Companies Tbk, the Multi-Industry sector for the 2018 – 2020 period has no significant effect on Company Value which is mediated by the financial distress variable. Judging from the effect value of 0.072 with a t-statistic value of 0.852 and a significant level of 0.395. So it can be concluded that with the presence or absence of Financial Distress as an intervening variable, this variable is unable to mediate the relationship between liquidity and Company Value. The results of this study are in line with previous research conducted by Belthasar (2017) which stated that liquidity has no effect on company value with financial distress as an intervening variable or it can also be said that financial distress is unable to mediate the effect of liquidity on company value.

The Solvency variable in Manufacturing Companies Tbk, the Multi-Industry sector for the 2018 – 2020 period has no significant effect on Company Value which is mediated by the financial distress variable. Judging from the effect value of 0.029 with a t-statistic value of 0.520 and a significant level of 0.603. Based on the description above, it can be concluded that with the presence or absence of Financial Distress as an intervening variable, this variable is not able to mediate the relationship between solvency and Company Value. The results of this study are in line with previous research conducted by Belthasar (2017) which stated that solvency has no effect on company value with financial distress as an intervening variable.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the testing and discussion as presented in the previous chapter, the following conclusions can be drawn:

1. Profitability Return On Assets (ROA) has a mean value of 0.333. Profitability Return On Equity (ROE) has a mean value of -4.876. Liquidity Current Ratio (CR) has a mean value of 217.324. Solvability Debt to Equity Ratio (DER) has a mean value of

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253.524. Company Value Price to Book Value (PBV) has a mean value of 139.657. Altman's financial distress (Z-Score) has a mean value of 165.724.

2. The variable financial distress has a positive and insignificant effect on Company Value in Manufacturing Companies Tbk for the period 2018 – 2020.
3. The variable profitability has a positive and insignificant effect on financial distress in Manufacturing Companies Tbk for the period 2018 – 2020.
4. The variable liquidity has a positive and significant effect on financial distress in Manufacturing Companies Tbk for the period 2018 – 2020.
5. The solvency variable has a positive and insignificant effect on financial distress in Manufacturing Companies Tbk for the period 2018 – 2020.
6. The financial distress variable as an intervening variable is unable to mediate the effect of profitability on Company Value in Manufacturing Companies Tbk for the period 2018 – 2020.
7. The financial distress variable as an intervening variable is unable to mediate the effect of liquidity on Company Value at Manufacturing Companies Tbk for the 2018-2020 period.
8. The financial distress variable as an intervening variable is unable to mediate the effect of solvency on Company Value at Manufacturing Companies Tbk for the 2018-2020 period.

Based on the results of the research and the conclusions obtained, the researcher tries to provide suggestions that can be used as a basis for input as follows:

1. For the Company

   The results of this study are expected to help or provide information on financial management, especially on factors that affect Company Value through financial distress as an intervening variable by looking at the actual situation.

2. For Investors

   The results of this study can be used by investors as a reference in making investment decisions in manufacturing companies Tbk, the Multi-Industry Sector to pay attention to profitability, liquidity and financial distress before investing their funds, because profitability affects Company Value while on the other hand profitability and liquidity affect financial distress in Manufacturing Companies Tbk for the 2018 period – 2020 (Studies in the Various Industries sector)

3. For Further Researchers

   It is better to increase the number of samples that meet the research criteria. The greater the number of samples, the more representative the research results will be and not only for manufacturing companies in various industrial sectors, but for all companies listed on the Indonesia Stock Exchange.

   It is advisable to expand the research by adding other variables so that more complete information is obtained about the factors that influence company value. Not only using the variables of profitability, liquidity, solvency and financial distress.

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