

THE ROLE OF LEVERAGE IN MEDIATION THE EFFECT OF PROFITABILITY ON FINANCIAL DISTRESS

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Keywords :	Abstrak
<i>Profitability</i> <i>Leverage</i> <i>Financial Distress</i>	<i>The motivation behind this review is to decide on the direct and indirect effects of financial distress by using profitability as an intervening variable. The sample used is 38 companies in the manufacturing sector on the IDX for the 2018-2020 periode. Sampling technique used is purposive sampling technique. The tool used for data analysis in this study is SmartPls version 3. The results of this study are profitability has a positive and significant effect on financial distress, profitability has a negative and insignificant effect on leverage, leverage has a negative and significant effect on financial distress, leverage can not mediate of profitability on financial distress.</i>

INTRODUCTION

The development of the business was also affected by the economic uncertainty in Indonesia during the Covid-19 pandemic. New innovations and breakthroughs are carried out by the company's management so that the industry may survive in an uncertain economic situation. The right strategy should be implemented by the company so that the business continues (Rahajeng, 2021). The manufacturing sector is a sector that is leveraged by economic uncertainty. The largest state contribution came from the manufacturing industry, which amounted to 19.87 percent during the second quarter of 2020 despite the pandemic (Kementerian Perindustrian Republik Indonesia, 2020).

The manufacturing industry sector contributes to Indonesia's GDP by 20.61 percent in 2020 based on data from the Central Statistics Agency. Therefore, the

manufacturing sector is the main sector that drives national economic growth (Badan Pusat Statistik, 2021). However, for some time during the pandemic, several factories from the manufacturing sector stopped their operations. The sluggish sales and operations of the manufacturing sector occurred due to the cessation of company operations due to large-scale social restrictions. The decline in the condition of the manufacturing sector can also be seen from the Indonesian Purchasing Managers Index in 2020 which tends to decline.

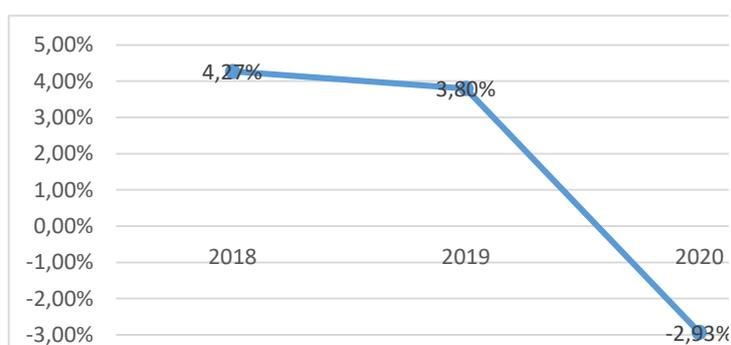


Figure 1. Manufacturing Industry GDP Growth Rate 2018-2020

Based on the figure above, the growth rate of the manufacturing industry's gross domestic product has been decreased over the last three years. In 2018 it was 4.27 percent then in 2019 it was 3.8 percent. This growth decreased drastically in 2020, reaching -2.93 percent (Badan Pusat Statistik, 2021). The phenomenon of the decrease in the growth rate of the manufacturing sector is a feature of the occurrence of financial distress. The company is declared to be in financial distress if it has difficulties in getting loans from creditors (Fahrul & Ridawati, 2020). Fiscal report investigation can be done to identify the beginning of monetary misery to decide if the organization's condition is great or moving toward the beginning of monetary trouble (Hanafi & Halim, 2018).

Profitability is used to know the ability of a company to benefit from sources owned by the company such as assets, capital and sales (Nugraha & Fajar, 2018). The profitability of companies experiencing financial distress is marked by a decrease in the profitability value from several periods and can also be negative or the company suffers a loss. According to Beaver, the chance of monetary misery increments as the organization's obligation increments. Firms have a decision between utilizing the advantages of obligation financing and the expense of their capital design to limit the expense of capital. Then again, development in the

obligation proportion past the ideal point can reinforce the potential for financial distress (Waqas & Md-Rus, 2018). Leverage shows how vigorously an organization is in the red depicting an image of how much obligation the organization employs. Companies encountering monetary pain frequently experience the ill effects of huge obligation loads described by high obligation and interest installments. The company's financial distress will increment assuming that there is an expansion in leverage or the organization's obligation proportion (Isayas, 2021).

Based on the phenomenon that the manufacturing sector is the main sector that contributes to the Indonesian economy during the pandemic even though the GDP of the manufacturing sector has decreased, so the researcher wants to see predictions of bankruptcy or financial distress in the manufacturing sector in Indonesia and the dissimilarity of research results in previous studies, the researcher wants to re-examine using different indicators of financial distress, namely the Grover indicator or G Score. From the above background, the researchers took a study entitled "The role of profitability in mediating leverage on financial distress"

LITERATURE REVIEW

a. Financial Distress

Financial distress is financial conditions, ranging from difficulties regarding future profits, unable to meet its debts so that at one time the company was liquidated (Yuliana, 2018). According to Hanafi & Halim (2018:260) financial distress is done to get an early admonition of liquidation. The previous the indications of insolvency, the better for the board since it can make enhancements. Lenders and financial backers can create arrangements to deal with awful conceivable outcomes that can happen.

The indicator used in this study is the G Score. The grover method is a method that will be used in measuring financial distress because the grover method is a model created by using a reassessment of the Altman Z-Score model (Yuliana, 2018).

b. Leverage

According to Harahap (1998:306) the leverage is a ratio that shows the company is financed by debt, namely equity. A good company is one that has a composition of equity greater than liabilities or debt.

The solvency ratio calculates the company's ability to meet its long-term debts. A company that is not solvable is a company whose total debt is greater than its total assets. The solvency ratio measures long-term liquidity with a focus on the right side of the balance sheet (Hanafi & Halim, 2018).

The indicator used in this study is the Debt to Assets Ratio. According to Khoir, et.al, (2013) the debt to asset ratio shows the size of the company's assets financed by debt.

c. Profitability

Profitability shows the company's ability to earn profits through existing capabilities and resources, namely sales activities, cash, capital, number of employees, and number of branches (Harahap, 1998). Companies that have high profits will prioritize internal funding over external funding. High profitability indicates that the company has a profit that can be used as funding without the need to use a loan (Kaliman & Wibowo, 2017).

The ratios used in this study are return on assets (ROA) and net profit margin (NPM). According to Hanafi and Halim (2018:81) ROA is a measure of a company's ability to generate net income based on the number of assets it owns..

RESEARCH METHODS

This type of research is quantitative descriptive research where the research approach aims to analyze data using mathematical formulations (Sugiyono, 2019). This study aims to examine the independent variable, namely the solvency of the dependent variable, namely directly or through profitability as a mediating variable. The data obtained from financial statements Sharia Investment Gallery at UIN Malang and the official website of the IDX. Based on information, the number of issuesrs is 163. From the following data, the population will be sampled based on predetermined criteria. Below are the criteria used to choose the sample.

Table 1. Company Criteria

No	Criteria	Amount
1	Population	163
2	Manufacturing sector companies that didn't publish complete financial reports during the 2018-2020 period	8
3	Manufacturing sector companies that experienced two to three years of profit during the 2018-2020 period	117
	Sample	38

Sources of information were obtained from the financial budget reports of manufacturing companies listed on the IDX for the period 2018-2020 on the www.idx.co.id website. In addition, the data were obtained from the company's official website which was used as the research sample. The data analysis technique utilized is SmartPLS version 3.0.

RESULT AND DISCUSSION

a. Descriptive Statistics Test

Table 2. Descriptive Statistics

Variabel	Mean	Median	Min	Max	St Dev
G Score	-378	-43	-7351	1245	1377
DAR	730	579	0	5168	807
ROA	-60	-41	-1050	222	132

Source: Smart PLS 3.0 output

By paying attention to the table, there are mean, median, min, max, and standard deviation values for each variable.

b. Convergent Validity Test

Table 3. Convergent Validity

Variabel	Loading Factor	Keterangan
G Score	1	Valid
DAR	1	Valid
ROA	1	Valid

Source: Smart PLS 3.0 output

By paying attention to the table, the value generated by the outer loading of the G Score, DAR and DER indicators is above 0.7 so that the indicator is said to be valid. So that the data can be further analyzed.

c. Discriminant Validity Test

Table 4. Discriminant Validity

Indicator	AVE	Description
Financial Distress	1	Valid
Leverage	1	Valid
Profitability	1	Valid

Source: Smart PLS 3.0 output

From the table above, it can be seen that the results of the Average Variance Extracted (AVE) analysis has a value of more than 0.7, so the data can be said to be valid.

d. Reliability Test

Table 5. Reliability Test

Indicator	Composite Reliability	Cronbach's Alpha	Description
Financial Distress	1	1	Reliable
Leverage	1	1	Reliable
Profitability	1	1	Reliable

Source: Smart PLS 3.0 output

The consistency of the measuring instrument used can be seen from Cronbach's Alpha. From the table above, it can be seen that the results of the analysis of Cronbach's Alpha and Composite Reliability have a value of more than 0.7, so the data can be said that the measuring instrument can be said to be consistent and reliable so that it can be used.

e. Structural Model

Table 6. Structural Model

Indikator	R Square	R Square Adjusted
Financial Distress	0,925	0,923
Profitabilitas	0,028	0,019

Source: Smart PLS 3.0 output output

R-Square value of the leverage variable can be explained by leverage of 0.28 percent and 99.72 percent is explained by other variables not included in this study. The value of R-Square financial distress variable can be explained by the leverage of leverage of 92.5 percent the remaining 7.5% is explained by other variables not included in this study.

f. Hypothesis testing

Table 7. Hypothesis Test

Variable	Original Sample	St Dev	T - statistics	P - value
X -> Y	0,287	0,080	3,579	0,000
X -> Z	-0,167	0,115	1,457	0,146
Z -> Y	-0,871	0,094	9,314	0,000
X -> Y -> Z	0,146	0,080	1,829	0,068

Source: Smart PLS 3.0 output

In testing the hypothesis, the following results were obtained.

1. The Effect of Profitability on Financial Distress in the Manufacturing Sector for the 2018-2020 period

The t-statistic value of the profitability variable on financial difficulties is $3,579 > 1.96$, which indicates that the t-statistic value is greater than the t-table. Then the p-value is $0.000 < 0.05$ so the p - value is smaller than the sig

value. The results of the analysis of the first hypothesis indicate that profitability has a significant and positive effect on financial distress so that the hypothesis is accepted.

2. The Effect of Profitability on the Leverage of the Manufacturing Sector for the 2018-2020 period

The t-statistic value of the profitability variable on leverage is $1,457 < 1.96$, which indicates that the t-statistic value is smaller than the t-table. Then the p-value is $0,146 > 0.05$ so that the p-value is greater than the sig value. The results of the analysis of the hypothesis indicate that profitability has no significant and negative effect on leverage, so it is rejected.

3. The Effect of Leverage on Financial Distress in Manufacturing Sector 2018-2020

The t-statistic value of the profitability variable on financial difficulties is $9,314 > 1.96$ which indicates that the t-statistic value is greater than the t-table. Then the p-value is $0.000 < 0.05$ so the p-value is smaller than the sig value. The results of the analysis of the hypothesis show that leverage has a significant and negative effect on financial difficulties so that the hypothesis is accepted.

4. Profitability can mediate of Leverage on Financial Distress

The t-statistic value of the indirect relationship of profitability mediate of leverage on financial distress is $1.829 < 1.96$ which indicates that the t-statistic value is smaller than the t-table. Then the p-value is $0,068 > 0.05$ so that the p-value is greater than the sig value. This shows that the profitability variable indirectly has a positive and insignificant effect on financial distress and is rejected.

CONCLUSIONS AND SUGGESTIONS

In view of the aftereffects of examination and conversation of exploration on the impact of leverage on financial distress with profitability as the intervening variable, it very well may be closed as follows.

1. Profitability has positive and huge impact on financial distress
2. Profitability has a negative and inconsequential impact on leverage
3. Leverage has negative and critical impact on financial distress

4. Leverage cannot mediate the effect of profitability on financial distress

Based on the description of the discussion and the conclusions from the results of this study, the suggestions that can be given are as follows:

1. The next researcher is expected to add other measurement methods for each variable, because in this study only one indicator is used for each variable
2. The next researcher is expected to be able to use a longer time range, for example five research periods, because this study was conducted from 2018-2020

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