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Affectors on The Financial Distress of Businesses Listed on The Indonesian Stock Exchange: Hotel, Restaurant, And Tourism

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ABSTRACT

The purpose of this research is to ascertain how operating capacity, liquidity, profitability, and leverage affect financial hardship in lodging, dining, and tourism businesses that are listed on the Indonesia Stock Exchange. With 35 hotel, restaurant, and tourism enterprises listed on the Indonesia Stock Exchange, this study employs quantitative methodologies. Additionally, 12 companies were selected as samples through the use of purposive sampling. In this work, logistic regression analysis, hypothesis testing, and descriptive statistics were employed as data analytic approaches. The findings demonstrate that the profitability ratio significantly and negatively impacts financial strain. This finding suggests that a company's financial performance improves with increased profitability, putting it in a better position to avoid financial trouble. Additionally, there is a noteworthy and positive correlation between the liquidity ratio and financial difficulty. It demonstrates that a company's likelihood of experiencing financial problems increases with its liquidity. Conversely, there is a negligible and adverse impact of the leverage ratio on financial distress. This finding suggests that a company's amount of leverage has an effect on the financial difficulties it experiences. Furthermore, financial distress is positively and significantly impacted by the operational capacity ratio. This finding demonstrates that the likelihood of experiencing financial trouble increases with TATO.

1. INTRODUCTION

Financial distress occurs before bankruptcy. Internal and external factors cause the causes of financial distress. Internal factors originate from the company management itself, including inefficient financial conditions so that the company experiences continuous losses, fraud committed by company management can also result in bankruptcy or financial difficulties. Meanwhile, external factors include macroeconomic conditions and global economic competition factors, for example, the company is late in following current trends, late in following consumer desires, raw material difficulties due to limited suppliers, less harmonious relationships with creditors, and tight business competition (Maulidina, 2014).

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The importance of analyzing financial distress in a company is based on the consideration that financial problems or difficulties that occur in a company will have a direct or indirect impact on the company's operational activities so these conditions must be anticipated by the company's management. Altman defines financial distress using the numbers in the financial reports and presenting them in a proxy or model, namely the Altman Z-Score, which can be a reference for whether a company has the potential to go bankrupt or not. Financial distress in general is a condition where a company experiences financial difficulties and is threatened with bankruptcy. Bankruptcy is generally defined as a situation where a company fails to carry out company operations so that it cannot generate profits and pay its creditors (Patunrui & Yati, 2017).

Several factors that influence financial distress include profitability, liquidity, leverage and operating capacity. Profitability with the Return On Assets (ROA) indicator is the ability of a business unit to earn a profit on several assets owned by the business unit. So the higher the ROA, the higher the net profit generated and vice versa (Indarti, 2020). With the high profitability of a company, the possibility that the company will experience financial distress will certainly be low.

The liquidity ratio with the Current Ratio (CR) indicator provides information that if current assets are greater than current liabilities, it can be said that the company's CR is high. This means how much current assets are available to cover short-term liabilities that are due soon. The inability to pay obligations on time will immediately be felt by creditors, especially creditors related to company operations (suppliers). This shows that the company's failure to pay its obligations is the initial door to financial distress.

Leverage ratio with the Debt to Asset Ratio (DAR) indicator, namely a financial ratio that shows the relative proportion between equity and debt used to finance company assets. The higher the DAR, the greater the amount of loan capital used to generate profits for the company. Bankruptcy of a company usually begins with a moment of failure to pay, this is because the greater the amount of debt, the higher the risk of financial distress. Operating Capacity, also called the activity ratio, is a ratio used to measure the extent of effective use of assets by looking at the level of asset activity (Halim & Hanafi, 2018). Operating capacity using the Total Asset Turnover Ratio (TATO) proxy. The higher the turnover of a company's assets, the more effective the company will be in managing it and the better the level of efficiency of asset users in supporting sales. If the TATO value is low, the occurrence of financial distress will be higher.

Several previous studies conducted by Yustika (2015), Masitoh & Setiasi (2020), and Saputra & Salim (2020) show that profitability has a significant positive effect on financial distress. The studies conducted by Andre & Taqwa (2014), Indarti (2020), and Widhiari & Merkusiwati (2015) show that profitability has a negative effect on financial distress. The study conducted by Saputri & Padnyawati (2021) shows that profitability has no effect on financial distress. Moreover, the study conducted by Yudiawati, Rike & Indriani (2016) proves that liquidity has a positive effect on financial distress. The study conducted by Setyowati & Sari Nanda (2019) shows that liquidity has a negative effect. However, studies conducted by Andre & Taqwa (2014), Indarti (2020), and Masitoh & Setiasi (2020) show that liquidity has no effect on financial distress.

Furthermore, the studies conducted by Saputra & Salim (2020) show that leverage has a negative effect on financial distress. In addition, the study conducted by Saputri & Padnyawati (2021) shows that leverage does not affect financial distress. The study conducted by Setyawati (2021) shows that operating capacity has a positive effect on financial distress. The studies conducted by Yudiawati, Rike & Indriani (2016), Lisiantara & Febrina (2018), and Maulida et al., (2018) show that operating capacity has a negative effect on financial distress. Moreover, Yustika (2015), Ramadhani & Khairunnisa (2019), and Widhiari & Merkusiwati (2015) show that operating capacity does not affect financial distress. Furthermore, this research investigates the effect of profitability, liquidity, leverage, and operating capacity on financial distress in hotel, restaurant and tourism companies listed on the Indonesia Stock Exchange.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Financial Distress

Financial Distress is a condition where the company's finances are in an unhealthy or crisis state. Financial distress has a close relationship with bankruptcy in a company because at that time the company experiences a decline before the company experiences bankruptcy (Yustika, 2015). Financial distress occurs because many companies tend to experience illiquidity. Bankruptcy itself is usually defined as a condition or situation where a company fails or is no longer able to fulfil its debtor obligations because the company experiences a shortage and insufficient funds to continue its business so that the economic goals the company wants to achieve can be achieved, namely profit or profits. The profits earned by the company can be used to repay loans, and finance the company's operations and obligations that must be fulfilled can be covered with profits or assets owned.

Profitability

According to Halim & Hanafi (2018), profitability ratios are used to measure a company's ability to generate profits at certain levels of sales, assets and share capital. Profitability can be measured by ROA which can be used to measure a company's effectiveness in generating profits by utilizing the assets it owns.

High profitability indicates that the company has been successful in marketing its products so that it will increase sales and ultimately increase the profits earned by the company. With such high profits, the possibility that the company will experience financial distress is smaller. If ROA increases, the company's sales level will also increase and ultimately this will also increase the level of profitability that can be enjoyed by shareholders. Research results from Andre & Taqwa (2014), Indarti (2020), and Widhiari & Merkusiwati (2015) show that profitability as proxied by ROA has a negative and significant effect on financial distress. This is because the higher the profit a company makes, the less likely the company will experience financial distress.

H_1: Profitability ratio has a negative effect on predicting financial distress conditions.

Liquidity

The liquidity ratio is a ratio used to measure a company's ability to fulfil short-term obligations by looking at the company's current assets against its current liabilities (Hanafi and Halim, 2018:75). Calculating the level of liquidity can help company management determine the level of the company's ability to fulfil its short-term obligations. In this research, the liquidity ratio uses the Current Ratio (CR) proxy, namely the comparison between the amount of current assets and current debt. If current assets are greater than current liabilities, it can be said that the company's Current Ratio (CR) is high.

The liquidity ratio can be used to measure a company's ability to meet short-term obligations by looking at the company's current assets against its current liabilities (Halim & Hanafi, 2018). In this study, the Current Ratio (CR) indicator is used, which is a comparison between the amount of current assets and current liabilities. This liquidity ratio shows the ability of a company to fulfil its financial obligations which must be fulfilled immediately, or the company's ability to fulfill its financial obligations when they are billed.

If a company has too many total overdue liabilities, it is necessary to investigate whether there are any errors in the management of the company's funds, because if this situation is not handled quickly it will bring the company closer to financial distress. The study conducted by Setyowati & Sari (2019) shows that liquidity has a negative effect on financial distress. This shows that the higher the liquidity, the lower the company experiences financial distress.

H_2: Liquidity ratio has a negative effect on predicting financial distress conditions.

Leverage

Leverage is related to the company's ability to meet interest costs and repay long-term obligations following its payment schedule (Munawir, 2014). The leverage ratio is used to measure the extent to which a company's assets are financed with debt. This means that the amount of debt used by the company to finance its business activities is large compared to using its capital. In this research, the measure of leverage in a company is DAR (Debt to Asset Ratio), namely a financial ratio that shows the relative proportion between equity and debt used to finance company assets.

Using debt that is too high will endanger the company because the company will fall into the extreme debt category, that is, the company is trapped in a high level of debt and finds it difficult to release the debt burden. The greater the debt, the higher the possibility that the company will not be able to pay off its debts when they fall due. If this happens continuously, the company has the potential to experience financial distress. Therefore, the company must be able to fulfil its short-term and long-term obligations.

The studies conducted by Indarti (2020), Widhiari & Merkusiwati (2015), and Masitoh & Setiasi (2020) show that leverage as proxied by DAR (Debt to Asset Ratio) has a positive effect on financial distress. This shows that the leverage ratio as measured by DAR can be used to predict the condition of a company before bankruptcy occurs, so the higher the leverage ratio, the higher the risk of financial failure.

H_3: Leverage ratio has a positive effect on predicting financial distress conditions.

Operating Capacity

Operating Capacity or what is often referred to as the activity ratio is a ratio used to assess whether or not a company is effective in using assets to generate sales (Atika & Handayani, 2019). The activity ratio is a ratio used to measure the extent to which assets are effectively used by looking at the level of asset activity (Halim & Hanafi, 2018). Operating Capacity is known as the total asset turnover ratio, which is assessed by dividing sales by total assets (operating capacity = sales/total assets). In this research, the measuring tool used to calculate operating capacity is TATO (Total Asset Turnover Ratio). The higher the turnover of a company's assets, the more effective the company will be in managing it and the better the level of efficiency of asset users in supporting sales. If the TATO value is low, the occurrence of financial distress will be higher.

Operating capacity can be proxied by the ratio of total asset turnover. The total asset turnover ratio is calculated by dividing sales by total assets. The size of sales and total assets will influence the total asset turnover ratio. Where the increase in sales is relatively greater than the increase in assets, making this ratio even higher. A higher ratio also shows better turnover and indicates healthier current assets to meet current obligations to minimize the occurrence of financial distress. On the other hand, the increase in sales which is relatively smaller than the increase in assets makes this ratio even lower. A lower ratio also indicates that the company is holding too much inventory so it is not productive and the rate of return is low. This reduces the company's profits and makes the company's financial condition illiquid so that the possibility of financial distress becomes greater. The studies conducted by Yudiawati & Astiwi (2016), Lisiantara & Febrina (2018), and Maulida et al., (2018) show that operating capacity has a negative effect on financial distress. This shows that the higher the TATO (Total Asset Turnover Ratio), the lower the occurrence of financial distress conditions.

H_4: Operating capacity has a negative effect on predicting financial distress conditions.

3. RESEARCH METHOD

Population and Sampling Techniques

The data studied will be grouped into 2 groups, namely healthy companies and companies experiencing financial distress. The population in this study was 35 hotel, restaurant and tourism companies listed on the Indonesia Stock Exchange for the 2017-2020 period. Meanwhile, the sample selection for this research uses a purposive sampling method, namely a sample selection technique with certain considerations. Criteria used in sample

selection (1) Hotel, restaurant and tourism companies listed on the Indonesia Stock Exchange during the year of observation, namely 2017-2020. (2) Hotel, restaurant and tourism companies that provide annual reports for 2017-2020. (3) Hotel, restaurant and tourism companies that provide data related to research variables. (4) Hotel, restaurant and tourism companies that use the rupiah currency. The number of samples selected to meet the criteria in this research was 12 companies, so the total research data was 12 companies x 4 years of research = 48 research data. The data used is secondary data, in the form of financial reports of hotel, restaurant and tourism companies listed on the Indonesia Stock Exchange for the 2017-2020 period obtained from the official IDX website, http://www.idx.co.id and the company website.

Research Variables and Operational Definitions

Dependent Variable

Financial Distress

The dependent variable in this research is Financial Distress using a dummy variable with a nominal size, namely one (1) if the company experiences financial distress and zero (0) if the company does not experience financial distress (Rusaly, 2016). According to Halim & Hanafi (2018), financial distress is carried out to obtain early warnings of bankruptcy (early signs of bankruptcy). The earlier the signs of bankruptcy, the better for management because management can make improvements. Creditors and shareholders can also make preparations to overcome various bad possibilities. Financial Distress is measured using the Altman Z-Score model. The bankruptcy model most commonly used in detecting the bankruptcy of a company is the Altman Z-Score model.

Independent Variable

Profitability (X_1)

According to Kasmir (2018), the profitability ratio is a ratio to assesses a company's ability to seek profits or returns in a certain period. This ratio also provides a measure of the level of effectiveness of a company's management as indicated by the profits generated from sales or investment income. It is said that a company has good profitability if it can meet the profit target that has been set using the assets or capital it owns. According to Halim & Hanafi (2018), the formula for the profitability ratio is as follows:

$$ROA = Net\ Profit / Total\ Assets$$

Liquidity (X_2)

The liquidity ratio is a ratio used to measure a company's ability to meet short-term obligations by looking at the company's current assets against its current liabilities (Halim and Hanafi, 2018:75). Furthermore, according to Kasmir (2018), the current ratio is a ratio to measure a company's ability to pay short-term obligations or debts that are immediately due when they are collected in full. This means how much current assets are available to cover short-term liabilities that are due soon. According to (Kasmir 2018:135) states that the formula for finding the current ratio is as follows:

$$Current\ Ratio = Current\ Assets / Current\ Liabilities$$

Leverage (X_3)

Leverage is a ratio that shows the extent to which a company is financed by debt, and also shows an indication of the level of security from lenders (Munawir, 2014). Bankruptcy of a company usually begins with a moment of failure to pay, this is because the greater the amount of debt, the higher the risk of financial distress. According to Kasmir (2018), the formula for finding the Debt to Asset Ratio is as follows:

$$Debt\ to\ Asset\ Ratio = Total\ Debt / Total\ Assets$$

Operating Capacity (X_4)

The activity ratio is a ratio used to measure the extent to which assets are effectively used by looking at the level of asset activity (Halim & Hanafi, 2018). Operating capacity can

be proxied by the ratio of total asset turnover (total assets turnover ratio). A high total asset turnover ratio can indicate that a company is more effective in managing its assets so that it can generate greater sales. Operating capacity can measure the level of efficiency in managing the company's resources. According to (Halim & Hanafi, 2018), the formula for finding the Total Asset Turnover Ratio (TATO) is as follows:

Total asset turnover = (Sales)/(Total Assets)

Data Analysis Technique

Logistic regression hypothesis testing is used because the independent variables are a combination of metric and non-metric. Logistic regression is used to test whether the probability of occurrence of the dependent variable can be predicted by the independent variable. Logistic regression analysis techniques no longer require normality tests and classic assumption tests on the independent variables.

Therefore, logistic regression is generally used if the multivariate normal distribution assumption is not met (Ghozali, 2016). Logistic regression is used because the dependent is a dummy variable (nonmetric) or can be measured on a nominal scale. Meanwhile, the independent variable is measured using a ratio scale which does not require the assumption of data normality. Logistic regression analysis aims to predict the size of the dependent variable for each independent variable whose value is known. Logistic regression analysis is used to test whether the variables Profitability, Liquidity, Leverage and Operating Capacity affect Financial Distress.

4. RESULTS

Furthermore, the results of regression testing are displayed in Table 2, as follows:

Table 2. Regression Results

Dependent Variable	Independent Variable	Regression Coefficient	Significant		Result
Financial Distress	Constant	.556			
	Profitability	-.279	.022	H_1	Significant
	Liquidity	.022	.031	H_2	Significant
	Leverage	-.009	.730	H_3	Insignificant
	Operating Capacity	.017	.033	H_4	Significant
Omnibus Test of Model	.000				
Cox & Snell R Square	.383				
Nagelkerke R Square	.538				

Source: SPSS Output (2022)

Based on Table 2, the logistic regression formula can be seen as follows: (a). The Omnibus Test of Model Coefficients in logistic regression analysis aims to find out whether all the independent variables or one of the independent variables affect the dependent variable. The results of the Omnibus Tests of Model Coefficients show that the model significance value is 0.000. This indicates that based on the SPSS results the significance level is below 5% or 0.05, which indicates that the independent variables used together have an effect on predicting Financial Distress conditions in hotels, restaurants and tourism sector companies listed on the Stock Exchange Indonesia for the 2017-2020 observation period or at least one of the variables used in the research has an influence on the prediction of Financial Distress conditions in hotels, restaurants and tourism sector companies listed on the Indonesia Stock Exchange for the 2017-2020 observation period. (b). The Cox and Snell R values are 0.383 and the Nagelkerke R Square value is 0.538, which means that 53.8% of the factors predicting financial distress conditions in hotels, restaurants and tourism sector companies listed on the Indonesia Stock Exchange for the 2017-2020 period are influenced by independent variables,

namely Profitability, Liquidity, Leverage, and Operating Capacity. (c). The test results for the Profitability variable show that the regression coefficient results are -0.279 and the resulting significant value is 0.022<0.05, so it can be concluded that partially the Profitability variable has a negative and significant effect on the prediction of financial distress conditions. Therefore, the first hypothesis is accepted. (d). The test results for the Liquidity variable show that the regression coefficient results have a value of 0.022 and a significant value of 0.031<0.05, so it can be concluded that partially the Liquidity variable has a positive effect on predicting financial distress conditions. Therefore, the first hypothesis is rejected. (e). The test results for the Leverage variable show that the regression coefficient results have a value of -0.009 and a significant value of 0.730>0.05, so it can be concluded that partially the Leverage variable does not affect predicting financial distress conditions. Therefore, the first hypothesis is rejected. (f). The test results for the Operating Capacity variable (X4) show that the regression coefficient results have a value of 0.017 and a significant value of 0.033<0.05, so it can be concluded that partially the Operating Capacity variable has a positive and significant effect on the prediction of financial distress conditions. Therefore, the first hypothesis is rejected.

The Effect of Profitability Ratios on Predicting Financial Distress Conditions

Based on the research results, shows that the profitability ratio has a negative and significant effect on the prediction of financial distress conditions in hotels, restaurants and tourism sector companies listed on the Indonesia Stock Exchange for the 2017-2020 observation period. The results of this research follow the hypothesis that the profitability coefficient value with the ROA indicator obtained has a negative and significant direction. This is because the higher the profit a company makes, the less likely the company will experience financial distress.

The results of this research are in line with the theory of Halim & Hanafi (2018) which states that the profitability ratio is used to measure a company's ability to generate profits at certain levels of sales, assets and share capital. Profitability is measured by ROA, which can measure a company's ability to generate profits in the past and then project them into the future. High profitability indicates that the company has been successful in marketing its products so that it will increase sales and ultimately increase the profits earned by the company. By achieving high profits, the possibility that the company will experience financial distress is smaller. If ROA increases, the company's sales level will also increase and ultimately this will also increase the level of profitability that shareholders can later enjoy. However, in 2020 during the Covid-19 pandemic, the ROA value decreased to -4.22, but this did not cause financial distress because it was supported by profits from the previous year.

The results of this research also support the results of studies conducted by Andre & Taqwa (2014), Indarti (2020), and Widhiari & Merkusiwati (2015) showing that profitability as proxied by ROA has a negative and significant effect on financial distress. This is because the higher the profit a company makes, the less likely the company will experience financial distress. The research results are not in line with Saputri & Padnyawati (2021) who show that profitability does not affect financial distress. This shows that high or low profitability values do not affect the possibility of financial distress.

Based on the results of the research, theoretical and empirical studies, to reduce predictions of financial distress, hotel, restaurant and tourism sector companies listed on the Indonesia Stock Exchange need to review and control profitability ratios, where the level of the company's ability to generate profits is adjusted to total assets. which are owned. Companies need to improve asset efficiency and effectiveness to be more productive.

The Effect of Liquidity Ratios on Predicting Financial Distress Conditions

Based on the research results, shows that the liquidity ratio has a positive and significant effect on the prediction of financial distress conditions in hotels, restaurants and tourism sector companies listed on the Indonesia Stock Exchange for the 2017-2020 observation period. The results of this study are not by the hypothesis, because the CR coefficient value obtained has

a positive and significant direction. This shows that the higher the liquidity, the higher the company experiences financial distress.

The results of this research are in line with the theory of Muhardi (2013:57 in Yudiawati & Astiwi (2016) which states that the limit for a good current ratio for a company is between 1 and 2. Furthermore, Kasmir (2018) states that measuring the liquidity ratio is if the company can meet obligations, the company is said to be liquid. On the other hand, if the company is unable to fulfil its obligations, it is said to be illiquid. Calculating the level of liquidity can help company management determine the level of the company's ability to meet its short-term obligations.

The results of this research also support research conducted by Yudiawati & Astiwi (2016) showing that liquidity has a positive and significant effect on financial distress. This shows that the higher the level of liquidity, the higher the possibility of the company experiencing financial distress. The research results are not in line with Setyowati & Sari (2019) who conclude that liquidity has a negative effect on financial distress. This shows that the higher the liquidity, the lower the company experiences financial distress because an increase in the liquidity ratio indicates improving conditions.

Based on these results, it can be stated that to reduce financial pressure on companies in the hotel, restaurant and tourism sectors listed on the Indonesia Stock Exchange for the 2017-2020 period, they are expected to pay attention to the comparison between current assets and current liabilities so that they can show financial performance based on adequate liquidity.

The Effect of Leverage on Predicting Financial Distress Conditions

Based on the research results, shows that the leverage ratio does not affect predicting financial distress conditions in hotels, restaurants and tourism sector companies listed on the Indonesia Stock Exchange for the 2017-2020 observation period. The results of this study are not following the hypothesis where the DAR coefficient value obtained has a negative direction but the sig value is greater than 0.05. This shows that the leverage ratio as measured by DAR has no impact on predicting the condition of the company before bankruptcy occurs, so high or low leverage does not affect financial distress. Furthermore, the results of this study also show that high or low leverage has no effect on financial distress, where the company's activities are financed by debt has no effect on financial distress. This also shows that high debt does not always have a high or low probability of bankruptcy. This is because companies that have high levels of debt can fulfil their asset purchases and increase company profits, long-term debt can be used as initial capital for the company to get large profits. The size of the company's use of debt does not affect financial distress conditions.

The research results are not in line with the statement from Fahmi (2014), who stated that leverage measures how much a company is financed with debt. The use of debt that is too high will endanger the company because the company will fall into the extreme leverage category, that is, the company is trapped in a high level of debt and it is difficult to get rid of the debt burden. The greater the debt, the higher the possibility that the company will not be able to pay off its debts when they fall due. If this happens continuously, the company has the potential to experience financial distress.

The results of this research are supported by research conducted by Saputri & Padnyawati (2021) showing that leverage does not affect financial distress. This condition is caused because the company has high total debt but the company also has high total assets, so the company is able to pay debts with the assets owned by the company. This means that the company can manage funding from debt so that the company can generate profits, the profits of which can then be used to pay off obligations even though interest charges are high. The research results are not in line with the research results of Indarti (2020), Widhiari & Merkusiwati (2015), and Masitoh & Setiasi (2020) which show that leverage has a positive effect on financial distress. This shows that the leverage ratio measured by DAR can be used to predict the condition of a company before bankruptcy occurs, so the higher the leverage, the higher the risk of financial failure.

The Effect of Operating Capacity on Predicting Financial Distress Conditions

Operating capacity can be proxied by the ratio of total asset turnover (total assets turnover ratio). A high total asset turnover ratio can indicate that a company is more effective in managing its assets so that it can generate greater sales. Operating capacity can measure the level of efficiency in managing the company's resources. The total asset turnover ratio is calculated by dividing sales by total assets. The size of sales and total assets will affect the total asset turnover ratio. Where the increase in sales is relatively greater than the increase in assets, making this ratio even higher. A higher ratio also shows better turnover and indicates healthier current assets to meet current obligations to minimize the occurrence of financial distress. On the other hand, the increase in sales which is relatively smaller than the increase in assets makes this ratio even lower. A lower ratio also indicates that the company is holding too much inventory so it is not productive and the rate of return is low. This reduces the company's profits and makes the company's financial condition illiquid so that the possibility of financial distress becomes greater.

How effectively the company utilizes all the resources under its control. All of these activity ratios involve comparisons between sales and investment levels in various types of assets. Activity ratios assume that there should be a proper balance between sales and various elements of assets, namely inventory, receivables, fixed assets and other assets.

Based on these results, companies need to review the activity ratios that management can use to make decisions consisting of several types. The use of the desired ratio depends on the wishes of company management. This means that whether or not the activity ratios that will be used are complete depends on the needs and goals that the company management wants to achieve.

5. CONCLUSION

Based on the results of the analysis and hypothesis testing that has been carried out, it can be concluded as follows: *first*, There exists a negative and noteworthy correlation between the profitability ratio and financial distress. This implies that a company's financial performance improves with more profitability, hence reducing the likelihood of financial distress. *Second*, Financial distress is positively and significantly correlated with the liquidity ratio, meaning that the higher the liquidity, the more financially distressed the organization is. *Third*, Neither high nor low levels of corporate leverage contribute to a company's financial difficulty; rather, the leverage ratio has a negative and negligible impact on it. This allows the business to avoid financial difficulties by allowing it to sustain debt levels and foresee the risks associated with carrying that debt. *Fourth*, Financial distress is positively and significantly correlated with the operating capacity ratio, meaning that situations leading to financial hardship are more likely to arise when operating capacity is larger.

6. LIMITATION AND SUGGESTIONS

Based on the analysis and conclusions presented above, the following recommendations can be made by researchers: Businesses should continue to maximize profit generation on various business unit assets since higher profitability translates into more net profit earned, which lowers the likelihood of financial trouble for the organization. Businesses should further enhance the management of their current assets and liabilities to avoid financial difficulties. Greater ratios suggest that the business is neither managing cash or capital appropriately nor is it maximizing the utilization of its current assets. Companies are expected to manage their debt more skillfully to prevent negative effects on their financial situation. Leverage is a sign that a company has more debt than capital, which increases the burden the company bears on external parties and may limit the amount of net profit the company will make. As a result, companies must pay closer attention to their debt levels to avoid financial distress. Businesses are expected to focus more on total asset turnover, which is calculated by dividing sales by

total assets. The idea is that the higher a company's asset turnover, the more proficiently it manages its assets and the more effectively its asset users support sales, preventing financial distress.

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