

2023_Witri_Analysis of Financial Performance, Risk and Financial Distress- Studies of Retail Companies in Indonesia During the Covid-19 Pandemic

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Submission date: 17-Jul-2023 11:06AM (UTC+0700)

Submission ID: 2132327908

File name: f_Retail_Companies_in_Indonesia_During_the_Covid-19_Pandemic.pdf (660.73K)

Word count: 7881

Character count: 44659

Analysis of Financial Performance, Risk and Financial Distress: Studies of Retail Companies in Indonesia During the Covid-19 Pandemic

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DOI: <https://doi.org/10.56293/IJMSSSR.2022.4662>

IJMSSSR 2023

VOLUME 5

ISSUE 4 JULY – AUGUST

ISSN: 2582 - 0265

Abstract: The objective of this research is to investigate the impact of various factors, namely profitability, liquidity, leverage, sales growth, board size comprising of a board of commissioners and a board of directors, company size, and management efficiency, on financial distress in the context of the Covid-19 pandemic. Financial distress refers to the unfavorable financial state of a company that can result in liquidation or bankruptcy. The present study employs secondary data sourced from financial reports and official information on the Indonesia Stock Exchange website. The study's sample comprised 186 observations of retail firms that were listed on the Indonesia Stock Exchange in the 2020-2021 quarter. The study employed purposive sampling as the data collection technique and utilized the EVIEWS 9 analysis technique. The study's findings indicate that profitability, liquidity, and company size significantly and negatively influence financial distress. Conversely, leverage and sales growth positively and significantly influence financial distress. However, board size and management efficiency have a non-significant negative effect on financial distress.

Keywords: financial performance, risk, financial distress

1. Introduction

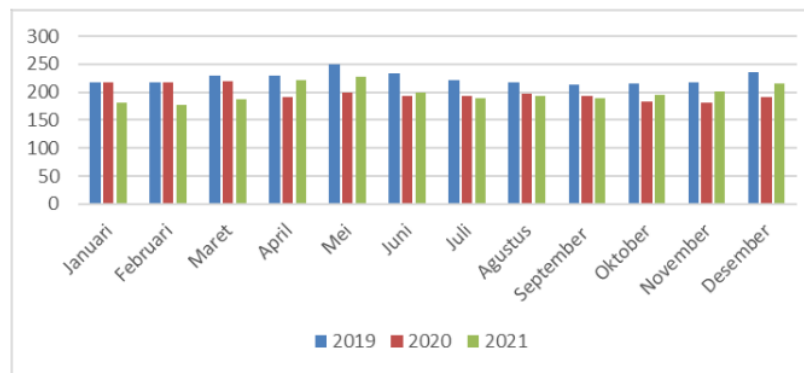
Financial distress is a state that a company undergoes before filing for bankruptcy or liquidation. The manifestation of financial distress indicates an unfavorable financial state of a company, which may lead to its insolvency as the primary contributing factor (Negara, 2016). This circumstance will affect the considerations of external parties, specifically investors contemplating investing in the company. As Spence (1973) signal theory, management, as the possessor of information, transmits signals in the form of information that reflect the state of a company. These signals benefit external parties, such as investors, to make informed decisions about whether to continue or withdraw their investments.

According to Yazdanfar & Öhman (2020), the principles of signal theory suggest that the transmission of information from a company is a crucial factor for investors in formulating future strategies for the company's advancement. If the signal or information produced pertains to a company's state, such as the manifestation of financial turmoil, it will result in a negative evaluation from investors. This presents a significant obstacle for the organization in acquiring fresh capital injections. In addition to the field of signaling theory, agency theory is also pertinent to the study of financial distress. Jensen & Meckling (1976) posit that a company's management is a manifestation of the agency principle. It is imperative to establish effective supervision and control mechanisms to mitigate the risk of information asymmetry and ensure compliance with relevant rules and regulations.

An early warning sign of financial distress is evident before bankruptcy in a company. Companies must identify early signs of financial distress to mitigate the likelihood of experiencing severe financial difficulties. The identification of financial distress can be facilitated using financial reporting. Mas'ud & Srengga (2015) posit that financial distress can be detected by examining financial statements. The manifestation of financial hardship is also influenced by the circumstances surrounding the outbreak of the Corona Virus Disease 2019 (Covid-19). In March 2020, Indonesia experienced the onset of the COVID-19 outbreak, which swiftly led to the economic destabilization of numerous impacted nations due to rapid virus transmission. In October 2020, the World Health Organization reported 41,809,078 confirmed cases that tested positive. The had a significant effect on the

deteriorating economy of Indonesia. According to data from the Central Statistics Agency (BPS), a decline in individuals' purchasing power has resulted in a 5.51% reduction in the gross domestic product (GDP). The enforcement of Large-Scale Social Restrictions (PSBB) by the government has reduced individuals' purchasing power, thereby posing a potential threat to the retail industry, leading to the possibility of retail companies facing bankruptcy.

Financial distress is a phenomenon that can affect companies across diverse sectors, including those operating within the Retail sub-sector and listed on the Indonesia Stock Exchange (IDX). The ongoing Covid-19 pandemic has had a significant impact on these companies. According to data from the Central Bureau of Statistics (BPS), retail enterprises play a significant role in propelling the Indonesian economy. In 2016, retail enterprises achieved a 15.24% contribution to Indonesia's Gross Domestic Product (GDP). The onset of the Covid-19 pandemic in March 2020 immediately adversely impacted the sales growth of retail companies in Indonesia. The sales growth experienced a notable decline in April 2020, which can be attributed to the prevailing circumstances of the Covid pandemic. This compelled companies, MSMEs, and small traders to temporarily shut down their outlets. Implementing Restricting Community Activities (PPKM) enforced by the government has resulted in a significant decline in sales, particularly for retail enterprises. Figure 1 explains the growth and retail sales index observed between 2019 and 2020.



Source: www.bi.go.id, 2023

Figure 1. Retail Sales Growth and Index, 2019—2021

The graphical representation depicted in Figure 1 illustrates the fluctuation of the sales index of the retail company. Notably, a significant decline in the index was observed in April 2020, which did not reach the level of 200, in contrast to the preceding month of March, wherein the index reached 220. The decrease in sales growth was impacted by the emergence of Covid-19 in Indonesia, which had a debilitating effect. Implementing government regulations such as social distancing, PPKM, and PSBB has resulted in declining retail sales due to reduced foot traffic from consumers who typically shop directly. This phenomenon can be attributed to the fear of contracting the Covid-19 virus, which has led individuals to avoid leaving their homes. Preliminary observations regarding the research phenomenon can be derived from the income statement and total assets of retail companies in 2020-2021, as reported on the Indonesian Stock Exchange website. Three corporations filed for bankruptcy, while multiple retail businesses were compelled to shut down their outlets or declare bankruptcy. This measure was implemented to enhance the financial performance of the respective companies.

The Hero Supermarket Tbk corporation initially incurred a financial deficit from 2018 to 2020. However, in 2020, the company experienced a substantial decline in revenue due to the Covid-19 pandemic, which compelled it to shutter all of its Giant outlets as of July 2020. The magnitude of this loss exhibited a significant rise compared to the previous year, as 2019 recorded a loss of 33.179 billion. According to the report, Ramayana Lestari Sentosa Tbk incurred a loss of 112 billion, despite having yet to record any losses in the preceding years of 2018-2019. The current circumstances of the Covid-19 pandemic have resulted in various economic challenges, including

diminished consumer purchasing power, reduced store operations, and a decline in rental income. The emergence of the suspension of stock trading is a noteworthy phenomenon. As per a circular issued by the Financial Services Authority (OJK), Trikomsel Oke Tbk., a retail firm, was compelled to undergo a suspension on October 5, 2020. This was attributed to a forecasted viewpoint that the organization would need to meet its responsibilities within the stipulated timeframe.

Given the phenomena observed in Indonesia and the dichotomy between prior research findings and data about the reasons companies are delisted from the Indonesia Stock Exchange, it is imperative to research the impact of financial ratios and company size on financial distress. The present study diverges from prior research by centering on retail firms publicly traded on the Indonesia Stock Exchange. To assess size variables, the study employs two measurements from the perspectives of the board of directors and the board of commissioners.

2. Literature Review

Jensen & Meckling (1976) posit that agency theory posits divergent interests between corporate owners and management. The agency relationship is a contractual arrangement between the principal, typically the shareholder or owner of a company, and the agent, who is granted the authority to act on behalf of the principal to execute the company's operations. An agency conflict may arise if an agent deviates from the principal's expectations. The scenario is likely to result in the emergence of agency costs. The concept of agency costs pertains to the expenses that the principal bears to monitor and manage agents' actions. The reduction of costs can be achieved by allocating dividends to shareholders. It is commonly assumed that the distribution of dividends is a prerequisite for agents to finance fresh investments, attracting potential investors' attention toward the company. The agents can effectively communicate the advantages of paid-up capital to the investors. Agency theory posits that expenses are linked to the monitoring of shareholders, as well as costs borne by management in producing lucid financial reports. Enhanced management and supervision within a company can mitigate the likelihood of financial distress.

Jama'an (2008) posits that signal theory pertains to how a company conveys signals to external parties or users of financial statements. The signal serves as an external communication from the company, conveying its superior standing relative to other firms. The signal conveyed is recommended to be positive, as this would result in a corresponding increase in the company's valuation commensurate with the external investment inflows. This phenomenon can be attributed to the confidence that third-party entities derive from the indications conveyed by the organization. The manifestation of financial distress can be discerned through the financial reports disseminated by the company. These financial statements serve as a communication mechanism the company's management employs to convey pertinent information to the stakeholders involved. According to Nindita (2014), financial distress may lead to bankruptcy due to the inability to meet financial obligations and generate sufficient profits. According to Hanafi & Halim (2018), while temporary and not excessively severe, financial distress can escalate into insurmountable challenges if not addressed promptly. The extant literature has employed various metrics to assess financial distress. Luh et al. (2015). An ICR value of less than one is indicative of financial distress. In their study, Merkusiwati (2014) utilized negative Earning Per Share (EPS) as a proxy for financial distress. According to Andre & Taqwa, (2014), a company can be in a state of financial distress if it records negative net operating profit for two consecutive years, in addition to ICR and EPS. Profitability is a metric that indicates the capacity of a company to generate profits. The assessment of profitability can be conducted through various metrics such as profit margin, return on assets (ROA), return on equity (ROE), and earnings per share (EPS). Harahap (2015) defines profitability as the capacity of a company to generate profits utilizing all available resources and capabilities. The Return on Assets (ROA) ratio is used to assess profitability. According to Hanafi & Halim (2018), the Return on Assets (ROA) metric evaluates a firm's capacity to produce earnings by utilizing its entire asset base while accounting for expenses.

The liquidity ratio is a metric that characterizes a firm's capacity to settle its liabilities. Harahap (2015) explained that the liquidity ratio pertains to the capacity of a company to discharge its immediate liabilities. The assessment of liquidity can be conducted through the utilization of the current ratio and quick ratio. The quick ratio is a financial metric that determines a company's liquidity level by subtracting the inventory from the total assets. As per Hanafi & Halim (2018), the current ratio is a metric that evaluates a firm's capacity to fulfill its immediate financial obligations with its present assets. A company's ability to cover its current debt with current assets positively correlates with a higher current ratio. Leverage shows the relationship between company debt to capital

and assets (Harahap, 2015). Leverage occurs because the company uses funds from third parties in the form of debt. The greater the company's debt compared to the company's assets, the greater the risk of default. High leverage will cause the company to be in a state of financial distress if it is not matched by adequate assets to pay off its debts (Adindha et al., 2017). With assets that are higher than the debt, these assets can cover the debt and can avoid financial distress. Sales growth reflects the investment success of the past period and can be used as a prediction of future growth. According to Kesuma (2009) also states that sales growth is an increase in the number of sales from year to year or from time to time. High sales growth, it will reflect the company's revenue which also increases. The growth rate of a company will affect the ability to maintain profits in marking future opportunities. High sales growth reflects increased income so that the tax burden increases. Salloum & Azoury (2012) board size consists of the number of directors and commissioners in a company. Board size plays an important role in the company in making long-term as well as short-term decisions. The board of directors is responsible for risk management, management of internal controls and corporate communications. Board size influences financial distress, which is caused by the main factors related to corporate governance. The role of the board of commissioners is also to support the auditor's duties in carrying out investigations with the aim of disclosing actual conditions in the field, this can affect the possibility of financial distress.

The concept of company size pertains to the magnitude of an organization. Sopian (2017) claims that the scale of company size serves to classify companies into either large or small categories. The magnitude of a company can be measured by its total assets or net sales, as stated by Hasnawati & Sawir (2015). According to Rajan and Zingales (1995), corporations possessing substantial total assets are more capable of diversifying and are comparatively less susceptible to bankruptcy. During periods of financial distress, the resources and assets of a company are constrained. Hence, organizations may prioritize efficacy in administration, defined as achieving optimal output while minimizing input utilization. The greater the efficiency of a company's management, the more it can mitigate the risk of financial distress. The financial performance of a company provides an overview of its financial status. When analyzed in terms of company profitability, this overview can mitigate the likelihood of financial distress. Similarly, when viewed from the perspective of liquidity, which pertains to the company's ability to meet its financial obligations, a higher ability to pay off such obligations can also reduce the risk of financial distress. Similarly, leverage, defined as the interplay between capital and debt, can mitigate the likelihood of financial distress, provided that the magnitude of capital surpasses the magnitude of debt obligations. The impact of sales growth on a company's profitability is directly proportional. A higher level of sales growth leads to a better impact on profitability growth. Consequently, an increase in sales growth reduces the risk of financial distress.

This study examines the potential risks companies face about their board size, company size, and management efficiency. This analysis centers on the board size variable concerning corporate governance and its function in overseeing and scrutinizing the auditor's responsibilities. If corporate governance is deemed inadequate and the level of auditor supervision is insufficient, it may impact the likelihood of financial distress. The scale of a company, as denoted by its size, has a significant bearing on its financial performance. Specifically, when a company is categorized as small, its financial condition is likely to be impacted, affecting the risk of financial distress. Management efficiency pertains to the optimal utilization of resources to achieve maximum output. When a company practices management efficiency with good governance, it can effectively mitigate financial distress. Conversely, if a company is deemed to have inefficient management, it may elevate the likelihood of financial distress. Figure 2 depicts the research model as per the findings of this analysis.

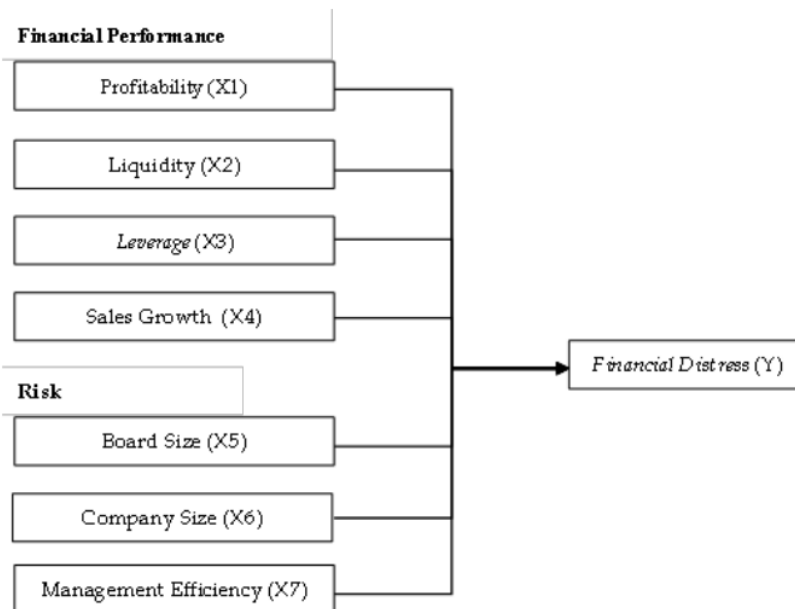


Figure 2. Research Model

Hypothesis Development

Increased profitability will likely mitigate the likelihood of the organization encountering financial hardship. This finding indicates that financial distress is inversely correlated with profitability. Ample financial resources reduce the likelihood of a firm encountering financial distress. Kusanti & Andayani (2015) conducted a study, financial stability can convey a favorable impression to external stakeholders regarding the company's financial health. The aforementioned assertion aligns with Geng et al. (2015) proposition that companies may encounter financial distress and potentially face bankruptcy due to declining profitability. The aforementioned assertion aligns with a study conducted by Isayas (2021), which revealed that profitability exerts a noteworthy adverse impact on financial distress. The findings of Finisthtya (2019) dan Indriaty et al. (2019) suggest that profitability significantly impacts financial distress, in contrast to other studies.

H₁: Profitability has a negative and significant effect on financial distress

Liquidity is the ratio of current assets to current liabilities. The higher a company's ratio of current assets to current debts, the greater its ability to meet its short-term obligations (Harahap, 2015). Companies with high liquidity will be able to pay off these debts, which will not accumulate, signaling to outsiders that the company can pay off its current debts and avoid financial difficulties. According to Research Results Isayas (2021); Kismdan Waqas & Md-Rus (2018), liquidity substantially negatively impacts financial distress. In contrast to Dianova & Nahumury (2019) and Liahmad et al. (2021), the liquidity ratio positively impacts financial distress.

H₂: Liquidity has a negative and significant effect on financial distress

High levels of company leverage can exacerbate financial distress. High leverage indicates that the company's liabilities outweigh its assets. The greater the company's debt will send a negative signal to outsiders, including investors, who will be hesitant to invest in the company due to the increased likelihood that it will experience financial distress. According to multiple studies by Amalia (2020) and Ceylan (2021), leverage positively and significantly impacts financial distress.

H₃: Leverage has a positive and significant effect on financial distress

Better sales growth will affect the company's profitability growth; consequently, the higher profitability growth due to the improved sales growth will reduce the risk of financial distress. Isayas (2021) found that sales growth had a negative and significant effect on financial distress, consistent with Samsul Arifin et al., (2021) and Waqas & Md-Rus (2018) also found a negative and significant effect on sales growth on Financial Distress. In contrast, Dirman (2020) and Fredrick & Osazemen C (2018) findings indicate that sales growth has a positive and statistically significant effect on financial distress.

H₄: Sales growth has a negative and significant effect on financial distress

Board size is a reflection of board size, with a larger board size scale that will influence long-term and short-term decision-making, thus board size that has high oversight capacity will mitigate the overall risk of financial distress. Atosh & Iraya, (2018); John & Ogechukwu (2018); and Yusra & Bahtera (2021) board size has a positive and significant effect on financial distress. Whereas the research by Manzanegue et al. (2015) who found that board size has a negative and significant effect on financial distress.

H₅: Board size has a positive and significant effect on financial distress

The amount of sales a company generates in a given year is indicative of its size. This revenue will be reinvested in the company's operations. Therefore, large companies will be more resistant to economic problems if this indicates that their operational activities are smooth and that they avoid financial distress. Merkusiwati (2014) found that the size of a company has a negative and significant effect on financial distress.

H₆: Company size has a negative and significant effect on financial distress

Management efficiency describes the use of minimal input in producing maximum output, if the company performs management efficiency with good governance it will minimize financial distress. In line with Atosh & Iraya (2018) which measured management efficiency from management concentration with the result that management concentration and financial distress had a negative and significant relationship.

H₇: Management efficiency has a negative and significant effect on financial distress.

3. Research Method

The research was conducted at retail companies listed on the Indonesia Stock Exchange over a period of quarterly periods starting from 2020-2021. The sample in this study was determined by purposive sampling method based on these criteria. The sample in this study were 30 retail companies listed on the Indonesia Stock Exchange that met the criteria. This research was observed over a period of quarterly periods starting from 2020-2021, a total of 186 observations were obtained, this was because as many as 54 experienced outlier data, 186 observations were obtained, this was because as many as 54 experienced outlier data.

Table 1. Company data used as a sample

Criteria	Total
Retail companies listed on the IDX 2020—2021	41
There were no published quarterly financial reports during 2020-2021	3
There is no required company information	2
The company has been delisted from the IDX or moved sectors	6
Companies that use foreign units (dollars) in their reports	0
Sample (data that meets the criteria)	30
Observation Data (30x8)	240
Data outliers	54
Total sample observations for 2020-2021	186

Source: IDX Company Annual Report, processed, 2023

The data collection method used in this study is to analyze secondary data related to research objects such as annual company financial statements and audit reports which can be accessed through the official website of the Indonesia Stock Exchange (IDX). Data analysis techniques used descriptive statistics, namely describing data, classic assumption tests consisting of normality tests, autocorrelation tests, heteroscedasticity tests, and

multicollinearity tests, and hypothesis testing. The regression model equation is:

$$ICR = \beta_0 + \beta_1 ROA + \beta_2 CR + \beta_3 DR + \beta_4 Sales + \beta_5 Board + \beta_6 Size + \beta_7 Eff + \epsilon$$

- ICR = Interest Coverage Ratio
- β_0 = Constanta β
- ROA = Profitability
- CR = Liquidity
- DR = Leverage
- Sales = Sales Growth
- Board = Board Size
- Size = Company Size
- Eff = Management Efficiency
- ϵ = Error

In this study, the dependent variable is financial distress measured by the ICR. This study's independent variables are profitability, liquidity, leverage, sales growth, board size, firm size, and management effectiveness. Return on assets (ROA) quantifies profitability. The current Ratio was used to measure liquidity. The Debt-to-Equity Ratio (DER) quantifies leverage. Comparing the current period's sales minus the previous period's sales to the previous period's sales multiplied by 100% yields a measure of sales growth. The size of a board is determined by adding the number of directors and commissioners. The size of a company is determined by multiplying the logarithm of the number of outstanding shares at the end of the year by the stock's closing price. The efficiency of management is determined by comparing operational expenses to operating income. The variables used in this study and how they were measured are listed form table 2.

Table 2. Variable and Measurement

Variable	Measurement
Dependent Variable	
Financial Distress	$ICR = \frac{\text{Earnings before interest and tax}}{\text{Interest Expense}}$
Independent Variable	
Profitability	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$
Liquidity	$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$
Leverage	$DR = \frac{\text{Total Liabilities}}{\text{Total Assets}}$
Sales Growth	$Sales = \frac{\text{Sales of current time period} - \text{Sales of previous time period}}{\text{Sales of previous time period}} \times 100$
Board Size	Board = Σ Board of Commisioners + Σ Board of Directors
Company Size	Size = $\text{Ln}(\text{Number of shares outstanding} \times \text{Stock Closing Price})$
Management Efficiency	$Eff = \frac{\text{Operating Costs}}{\text{Operating Income}}$

4. Result and Discussion

Retail companies listed on the Indonesia Stock Exchange which were used as the research population were 30 retail companies for the 2020-2021 quarter. The number of samples in this study are 30 retail companies listed on the IDX and there are 186 observations that will be made by researchers during the 2020-2021 quarter.

Descriptive Statistical Test Results

Table 3. Descriptive statistical test results

Variable	Sample	Mean	Median	Standard Deviation	Minimum	Maximum
ICR	186	1.642190	1.345472	1.788150	-3.506558	7.556318
ROA	186	-3.693013	-3.864368	1.009369	-6.907755	-0.105361
CR	186	0.348109	0.385262	1.057308	-3.912023	0.385262
DR	186	-0.498527	-0.598002	1.199828	-6.907755	4.329944
Sales	186	2.750311	2.736962	1.171870	-0.867501	7.278387
Board	186	2.105747	2.197225	0.344808	1.386294	2.708050
Size	186	3.351246	3.363322	0.050774	3.232779	3.455686
Eff	186	4.203500	1.780000	110.9518	-664.8000	1567.630

Source: Data Processed (EViews 9, 2023)

The results of descriptive statistics on the profitability variable (X1), the value of financial distress by measuring ICR has an average value of 1.642190, a median value of 1.345472, a standard deviation value of 1.788150, a minimum value of -3.506558, and a maximum value of 7.556318. The leverage variable of 186 observations in retail companies for the 2020-2021 quarter period has an average value of -0.498527, a value of -0.598002, a standard deviation value of 1.199828, a minimum value of -6.907755, and a maximum value of 4.329944. The sales growth variable of 186 observations for retail companies for the 2020—2021 quarter period has an average value of 2.750311, a value of 2.736962, a standard deviation value of 1.171870, a minimum value of -0.867501, and a maximum value of 7.278387. The board size variable of 186 observations in retail companies for the 2020-2021 quarter period has an average value of 2.105747, a value of 2.197225, a standard deviation value of 0.344808, a minimum value of 1.386294, and a maximum value of 2.708050. The board size variable analyzed based on data from 186 observations of retail companies for the 2020-2021 quarter period has an average value of 2.197, a standard deviation value of 0.344, a minimum value of 1.3862 and a maximum value of 2.70805. The company size variable consisted of 186 observations for retail companies for the 2020—2021 quarter period, which had an average value of 3.351246, a value of 3.363322, a standard deviation value of 0.050774, a minimum value of 3.232779, and a maximum value of 3.455686. The management efficiency variable of 186 observations in retail companies for the 2020-2021 quarter period has an average value of 4.203500, a value of 1.780000, a standard deviation value of 110.9518, a minimum value of -664.8000, and a maximum value of 1567.630.

Classical Assumption Test Results

The normality test results show that the jarque-bera probability value is 0.605152 which is greater than $\alpha = 0.05$ so it can be concluded that the residual data has followed a normal distribution. Therefore, this research can be continued with autocorrelation testing. In the autocorrelation test results, the Durbin-Watson Stat value is 1.807754 while the Durbin Upper (DU) and Durbin Lower (DL) values with sample (n) are 186 and k = 7 respectively 1.80123 and 1.51465 and value 4 -DU is 2.198877 and 4-DL is 2.48535. The Durbin Watson stat value is between DU and 4-DU, namely DU (1.80123) < DW (1.807754) < 4-DU (2.198877) so it can be concluded that there is no autocorrelation in this study. The results of the heteroscedasticity test used the Breush-Pagan-Godfrey test with a probability value $\chi^2 > \alpha$ (0,1148 > 0,05) thus, the model is free from heteroscedasticity problems. It can be said that the model is free from heteroscedasticity problems. Furthermore, the results of the multicollinearity test show that the value of centered VIF on the variable profitability, liquidity, leverage, sales

growth, board size, company size and management efficiency is less than 10, it can be stated that there is no multicollinearity problem in this study.

Hypothesis Testing Results

The outcomes of testing a hypothesis with simultaneous test results (f test) and partial test results (t test). Based on the partial test results of testing the regression model, Fcount 0.05, the model is deemed suitable and significant. The value of f table is calculated as follows: $df1=k-1$, $df1=7-1$, $df2=n-k$, $df2=186-7$, f table = 2.15. Table 3 displays the results of the simultaneous test (F test) performed on the above regression results. The probability value (F-statistic) of 0.000000 is less than the value = 0.05, and the F-statistic value of 15.82869 is greater than F-table 2.15, so it can be concluded that the variables of profitability, liquidity, leverage, sales growth, board size, company size, and management efficiency all influence financial distress simultaneously. In Table 3 are displayed partial t-test results.

Table 4. Partial Test Results (t Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Results
ROA	1.009323	0.095043	1.997769	0.0485	Accepted
CR	0.225389	0.035557	2.517739	0.0134	Accepted
DR	-1.012462	0.030943	-3.233074	0.0017	Accepted
Sales	-0.258383	0.019285	-2.719865	0.0077	Rejected
Board	-0.183199	0.028490	-0.686929	0.4937	Rejected
Size	0.109132	0.023153	2.034959	0.0445	Accepted
Eff	-0.003204	0.000318	-0.575415	0.5663	Rejected

Source: Data Processed (EViews 9, 2023)

Discussion

Financial distress indicates that the company's finances are unstable, to the point where they are the primary cause of bankruptcy. This condition will influence external party considerations, specifically investors' decisions to invest in the company. Profitability significantly and positively influences the Interest Coverage Ratio (ICR). ICR proxies measure financial distress, and high profitability indicates a company's profits increase. As a result, increased profitability will affect ICR, causing it to rise, which can reduce financial distress for retail companies. Therefore, profitability has a significant and negative impact on financial distress. Enhanced profitability will reduce the frequency of financial distress. Liquidity has a positive and significant impact on the Interest Coverage Ratio (ICR).

The greater the company's liquidity, the greater its ability to pay off its debts, thereby increasing the ICR. This indicates that the greater the liquidity, the lower the level of financial distress and the greater the likelihood of avoiding financial problems such as default. Therefore, liquidity has a significant and negative effect on financial distress. The Interest Coverage Ratio (ICR) is significantly and adversely impacted by leverage. This explains why the ICR measures financial distress and why high leverage will lower the ICR. A reduction in the ICR will exacerbate financial distress. It is feared that the company will file for bankruptcy if its debt exceeds its assets, particularly during the Covid-19 condition. In the conditions of Covid-19, the company encountered financial difficulties because its income was less than its expenses. Still, it continued to carry out its required activities, such as paying long-term and short-term debt. Thus, leverage has a significant and positive impact on financial distress.

The growth in sales has a significant and negative effect on the interest coverage ratio (ICR). ICR proxies measure financial distress; increased sales growth will decrease ICR, increasing the risk of financial distress. Profits earned by a company are affected by the growth of its sales. The company's profits should be sufficient to prevent financial distress. However, it differs from sales growth in the conditions of Covid-19 in that it does not describe a company that has declared bankruptcy, as it earns profits and reduces expenses or costs that are not significant to maintain sales growth. High sales growth frequently necessitates significant investments, and businesses must consider the appropriate funding sources to finance these investments. Companies may elect to finance the

investment with debt because the cost of debt is typically less than the cost of equity. However, as previously mentioned, the risk of financial distress can increase if sales growth is too rapid and investments are too large. Therefore, sales growth has a significant and positive impact on financial distress.

Negative and insignificant effects of board size on the interest coverage ratio (ICR). The larger the board, the higher the ICR, which increases the likelihood of financial distress. Large board membership will result in ineffective and inefficient decision-making. In making decisions, the total size of the board, including both the Board of directors and the board of Commissioners, will not spark debate, nor will suggestions or input from the Board of directors and Board of commissioners. In the conditions of Covid-19, both the board of directors and the commissioners have their suggestions and opinions when interested agents have differing perspectives. Consequently, the board of directors and the commissioners utilize the best perspective when addressing the company's financial condition and progress during the Covid-19 period. The results were inconclusive in testing the hypothesis that board size has a positive but insignificant effect on financial distress.

The company's size positively and significantly affects the interest coverage ratio (ICR). The ICR level is greater the larger the company. It indicates that the larger a company is, the lower its risk of financial distress. Large companies typically have experience dealing with various economic issues, so if confronted with these issues, they will quickly find a solution and survive. The size of a company is defined by the total amount of assets it owns; if the company's assets are substantial, it will be simple to diversify and experience minimal financial distress. Under the conditions of Covid-19, many businesses suffered significant losses, and some even declared bankruptcy. This is due to the company's limited ability to repay debt. The company's ability to repay is determined by the size of its assets and its liabilities. In this study, firm size significantly and negatively impacts financial distress.

The effect of management efficiency on the interest coverage ratio (ICR) is negative and insignificant. Increasing the company's management efficiency will decrease its ICR, thereby increasing the risk of financial distress. Based on the findings of this study's hypothesis testing, management efficiency has a small effect on financial distress. According to the pecking order theory, management effectiveness is not directly affecting financial distress. This is because the company places greater emphasis on selecting funding sources and capital structure when managing the risk of financial distress. The conclusion is that management efficiency has a positive and negligible effect on financial distress.

Based on the simultaneous test (f test) results, the independent variables of profitability, liquidity, leverage, sales growth, the board size, company size, and efficient management affect financial distress. The adjusted R-squared value is 0.541191, this means that 54.11% of the variable profitability, liquidity, leverage, sales growth, board size, company size, and management efficiency affect financial distress, while other independent variables influence 45.89%.

5. Conclusions And Suggestions

Financial distress is an unhealthy financial condition that can lead to bankruptcy for a company. Multiple components within the company can be used to describe its financial distress. This study utilized the components of financial performance and company risk as variables influencing financial distress. The results indicated that profitability, liquidity, and company size had a negative and statistically significant effect on financial distress. In contrast, leverage and sales growth had a positive and statistically significant effect, and board size and management efficiency had a negative and insignificant effect. Multiple tests indicate that profitability, liquidity, leverage, sales growth, board size, company size, and efficiency management affect financial distress. The adjusted R-squared value is 0.541191, which indicates that 54.11 percent of the variable's profitability, liquidity, leverage, sales growth, the board size, company size, and management efficiency influence financial distress, while 45.89 percent are affected by other independent variables.

The authors can provide sound advice to the government, businesses, and future researchers based on the study's research findings. During the Covid-19 pandemic, the government should pay close attention to the condition of retail companies. In the context of the Covid-19 pandemic, the government can consider solutions that are not significantly detrimental to retail businesses when formulating environmental policies and regulations. For retail companies, strategies can be devised to reduce financial distress, particularly during the Covid-19 pandemic. In

this circumstance, the impact profoundly affected retail companies, causing many to declare bankruptcy and some to cease operations entirely. Companies that do not prepare strategies for financial distress during the Covid-19 pandemic have consequently experienced mass layoffs.

Future research can gain insight into the company's financial performance and risk of financial distress as measured using the ICR method. Future research can use methods or proxies to measure financial distress, such as Altman (Z-Score), Springate, Zmijewski (X-Score), Grover, and Ohlson Models and add new normal conditions that affect the impact of financial distress. Researchers suggest using or adding other proxies to represent the financial ratios used and extend the research period. Furthermore, it can be proved that the financial ratios used in this research can predict the company's financial distress condition.

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