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Determinants of Financial Distress: Evidence in the Energy Sector

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ABSTRACT

This study aims to determine the effect of Liquidity, Leverage, Activity, and Profitability on the Financial Distress of Energy Sector Companies. The variables studied include Liquidity, Leverage, Activity, and Profitability. The sampling method used in this research is purposive sampling, namely applying certain criteria and eliminating the population according to research needs. The sample used is 47 companies. The data required is secondary data obtained from the Indonesian Stock Exchange through the website www.idx.co.id and related company websites. The data collection method used is the documentation method. The results of the study simultaneously show that the variables of liquidity, leverage, activity and profitability have an effect on financial distress. In partial research, it shows that the liquidity variable has an effect on financial distress, the leverage variable has an effect on financial distress, the activity variable has no effect on financial distress, and the profitability variable has an effect on financial distress.

Introduction

In the era of globalization throughout the world, it is currently affecting world economic conditions and increasing business development. Increasingly advanced developments in this era of globalization will influence intense competition and will force business people to further develop the quality and quantity of their companies. In competition to achieve goals and increase profits, companies are forced to strengthen their basic management in order to survive and avoid financial crises *(financial distress)* which leads to bankruptcy. Financial Distress is a company's financial condition that is in a state of financial crisis that leads to bankruptcy.

Companies that experience bankruptcy or can be said to be in a condition *financial distress* could be threatened *delisting* or delisting from the Indonesian Stock Exchange (BEI). Susilowati (2019:20) states that companies that experience delisting generally experience financial distress or financial difficulties due to not being able to fulfill their obligations. Delisting is an early indicator for a company that will experience bankruptcy. According to *cekdollarmu.eu.org* In 2017-2020 there were still 24 companies that were delisted from the Indonesian Stock Exchange. According to

cnbcindonesia.com In 2021 there are 14 companies that have the potential to be delisted. The following is a list of energy companies that were indicated to be experiencing financial distress and were

therefore expelled (*delisting*) from the Indonesian stock exchange for 5 consecutive years.

Table 1
List of Energy Companies Delisted from the IDX in 2017-2021

No	Code	Issuer Name	Recording Date	Deslisting Date
1	TKGA	PT Permata Prima Sakti Tbk	06/01/1992	16/11/2017
2	BRAU	Brau Coal Energy Tbk	19/08/2010	16/11/2017
3	ATPK	Bara Jaya International Tbk	17/04/2002	13/08/2019
4	BORN	Borneo Lumbung Energy & Metal Tbk	26/11/2010	20/01/2020
5	CKRA	Cakra Mineral Tbk	19/05/1999	28/08/2020

Source :www.cekdollarmu.eu.org

Companies that experienced listing in 2017 forced to delist (*force delisting*) such as PT Permata Prima Sakti Tbk (TKGA), and Berau Coal Energy Tbk (BRAU) because they experienced conditions or events that either legally or financially affected the continuity of the company's status as a listed company. TKGA and BRAU shares have been suspended for more than two years because the two companies have not carried out their obligations such as reporting financial reports. Furthermore, in 2019 the BEI delisted the company Bara Jaya Internasional Tbk (ATPK) again because it experienced conditions that financially or legally affected the survival of the company's status as a public company. Then in 2020 there was another delisting carried out by the IDX of PT Borneo Lumbung Energi and Metal Tbk (BORN) and PT Cakra Mineral Tbk (CKRA). either financially or legally, regarding the continuity of status as a public company.

Based on these reasons, it can be concluded that the company was delisted because it carried out business consolidation, was declared bankrupt, disrupted the survival and growth of the company and chose to *go private*. Companies that have the potential to experience bankruptcy with the emergence of financial distress are very interesting to carry

out research because it is a threat that can be experienced by all companies regardless of the type or size of the company and can happen at any time. Seeing the huge losses for various parties resulted in thinking about predicting financial *distress* through a prediction model, it is necessary to develop it in the hope that it can be used as a reference for early identification of conditions leading to bankruptcy.

Financial distress can be predicted using financial ratios. One of the ratios that can be used to analyze a company's financial condition is the liquidity ratio. According to Ardiyos (2013:327) the liquidity ratio is a comparative relationship between current assets and current liabilities that must be fulfilled by the company in a short time, in other words the liquidity ratio is the company's ability to fulfill its short-term obligations. Research conducted by Lailatul Maulidia & Nur Fadjrih Asyik (2020), Aisyah, et al (2017) states that liquidity has no significant effect on financial *distress* in a company. This is in contrast to the results of research conducted by Ni Made Inten Septiani and I Made Dana (2019),Masdupi, Erni, Abel Tasman, & Atri Davista(2018), stated that liquidity has a positive and significant effect on financial *distress*.
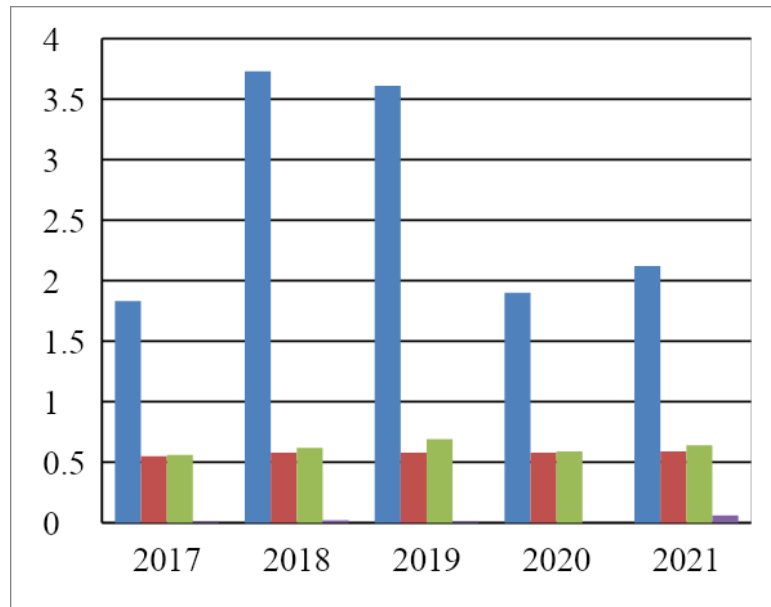
Figure 1

Average Liquidity, Leverage, Activity and Profitability of Energy Sector Companies
Source: Processed data, 2022

Based on Figure 1, it shows that the average liquidity of energy sector companies fluctuates every year. From the graph, it can be seen that in 2018 there was an increase from 2017, namely 3.73 from 1.83. In 2020, this ratio experienced another large decline from the previous year from 3.61 to 1.90.The average leverage ratio of energy sector companies has continued to increase over the past five years. In 2017 this ratio level was 0.55 or 55%. From 2020 to 2021 this ratio has increased from 0.58 to 0.59 or 59%. The average activity ratio in 2017 was 0.56. Then in 2018 and 2019 there was a quite good increase from 2017, namely 0.62 and 0.69. However, in 2020 this ratio decreased to 0.59. In 2021, this activity ratio again increased by 5% from the previous year to 0.64. And Profitability ratio, the graph shows that in 2018 it increased by 0.01 from 0.01 to 0.02. However, in 2020 it decreased by 0.02 percent from 0.02 in 2018 down to 0.00. Then, in 2021 there was an increase of 0.06.

Literature Review
Signal Theory*(Signaling Theory)*
Signaling Theory or signal theory is an action taken by management to provide signals or instructions to investors about how

management views the company's prospects in the future (Brigham & Houston, 2014: 33). The information presented by the company in the form of financial reports becomes a signal or announcement to investors regarding the company's financial condition which will later be used for investors' investment decisions in the company. Announcements regarding financial data and company conditions heard by investors will be processed and interpreted into good news or bad news. If the signal is good, there will be an increase in trading volume of the company's shares. Conversely, if the signal is bad, there will be a decrease in trading volume in the company's shares.

Financial Distress
Financial distress is the stage of decline in a company's financial condition that occurs before bankruptcy. Munawir (2013) terms "*financial distress* used to reflect the existence of problems with liquidity that cannot be resolved without having to change the scale of operations or restructure the company" meaning that the company is in an unsafe position from the threat of bankruptcy or the company's inability to pay off its short-term debt which will then lead to bigger

problems such as not solvable between the amount of debt that is greater than the amount of assets.

According to Kristanti (2019) there are factors that influence financial distress which can be predicted using financial ratios, namely: liquidity ratios, leverage, activity, profitability and market ratios.

Financial Ratio Analysis

According to Hery (2015:164) financial ratio analysis is the analysis most often carried out to assess the financial condition and performance of a company compared to other financial analysis tools.

Liquidity

Liquidity can be interpreted as how much the company's ability to pay its obligations. The level of liquidity of a company can be measured using the liquidity ratio. According to Kasmir (2018:129), liquidity is a ratio that shows a company's ability to pay short-term payments that are due or a ratio to determine the company's ability to finance obligations when they are billed.

Current ratio (CR), *Current ratio* used to measure the ability of current assets to pay current liabilities. This ratio is calculated by dividing current assets by current liabilities.

Leverage

The leverage ratio is used to measure debt to the total capitalization of a company. According to Kasmir (2018: 151), leverage is a ratio used to measure the extent to which a company's assets are financed with debt, in other words the extent of the company's ability to pay all its obligations, both short-term and long-term obligations.

Debt to Asset Ratio (DAR) is a ratio used to determine the amount of assets financed by debt. This ratio is important to see the company's solvency or ability to settle all its long-term obligations. This ratio is calculated by dividing total debt by total assets.

Activity

Activity Ratio Shows the level at which a company utilizes its resources optimally. In other words, the activity ratio aims to measure the company's activities using funds. Harahap (2013; 303) in Fatmawati and Rihardjo (2017) activity ratio is a ratio that describes the activities carried out by a company in carrying out its operations, both in sales, purchasing and other activities.

Total Assets Turnover Ratio (TATO) is a ratio used to determine a company's ability to generate sales from its total assets by comparing total net sales with average total assets. This ratio is calculated by dividing sales by total assets.

Profitability

According to Ardiyos (2013:460) profitability ratio is a calculation used to determine a company's profit in a certain period in the future. Profitability can be used to assess the extent to which a company can generate profits at an acceptable level. The higher the profitability ratio of a company illustrates the higher the company's profits.

Return On Assets (ROA) is a calculation of the rate of return on company profits related to the company's total assets. This ratio is calculated by dividing net profit by total assets.

Research methods

The type of research used in this research is associative research, because this research explains the influence or relationship between the variables liquidity, leverage, activity and profitability and variable Y, namely financial distress. The location of the research carried out in this research is the Indonesian Stock Exchange (BEI), website www.idx.co.id, and related company websites. The population in this research is all Energy Companies Listed on the Indonesia Stock Exchange (BEI) in 2017-2021, namely 76 companies. The sample used in the research was 47 companies. The technique used in taking this sample is purposive sampling. The data required in this research is secondary data.

Secondary data is data that has been processed in research results, because the data is obtained indirectly but from notes, books, magazines in the form of company published financial reports, government reports, articles, books as theories, and so on. The data collection method used is documentation. The data required in this research was obtained through books, the internet via websites www.idx.co.id and the website of each company in the research sample. The analysis used in this research is quantitative. This method is called a quantitative method because the research data is in the form of numbers and analysis uses statistics.

Results and Discussion

Research result
Descriptive Statistical Analysis

Table 2
Descriptive Statistical Analysis

	N	Mean	Std. Deviation
Y= Financial Distress	235	-1.1253	2.11514
X1 = Liquidity	235	2.6388	9.56661
X2 = Leverage	235	.5754	.30797
X3 = Activity	235	.6205	.48480
X4 = Profitability	235	.0215	.14867
Valid N (listwise)	235		

Source: Analysis results, 2023

Average value financial *distress* amounting to -1.1257, meaning that during the research period energy sector companies experienced an increase of -1.1257. The standard deviation of 2.11514 indicates that the size of the spread of the financial distress variable during the research period was 2.11514 out of 235 cases that occurred.

The results of descriptive statistical tests for the liquidity variable have an average of 2.6388, meaning that during the research energy sector companies experienced an increase of 2.6388. The standard deviation of 9.56661 indicates that the size of the spread of the liquidity variable during the research period was 9.56661 out of 235 cases that occurred.

Descriptive statistical test results for variables leverage has an average of 0.5754, meaning that during the research energy sector companies experienced an increase of 0.5754. Standard Deviation of 0.30797 indicates that the size of the variable is spread *leverage* during the research period it was 0.30797 out of 235 cases that occurred.

Descriptive statistical test results for activity variables has an average of 0.6205, meaning that during the research energy sector companies experienced an increase of 0.6205. Standard Deviation of 0.48480 indicates that the size of the variable is spread leverage during the research period it was 0.48480 out of 235 cases that occurred.

Descriptive statistical test results for the Profitability variable has an average of 0.0215, meaning that during the research energy sector companies experienced an increase of 0.0215. The standard deviation of 0.14867 indicates that the size of the spread of the profitability variable during the research period was 0.14867 from 235 cases that occurred.

Classic assumption test
Normality test

Table 3
Normality test

		Unstandardized Residual
N		235
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.02078220
Most Extreme Differences	Absolute	.039
	Positive	.034
	Negative	-.039
Test Statistic		.039
Asymp. Sig. (2-tailed)		.200[c,d]

Source: 2023 analysis results

Based on Table 3l, it is known that the Asymp.Sig (2-tailed) significance value of 0.200 is greater than 0.05. So in accordance with the basic decision making of the Kolmogorov-Smirnov normality test above, it can be concluded that the data is normally distributed. Thus, the assumption or statement of normality in the regression model has been fulfilled.

Multicollinearity Test

Table 4
Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	X1 = Liquidity	.963	1.039
	X2 = Leverage	.826	1.211
	X3 = Activated	.819	1.222
	X4 = Profitabiltas	.699	1.431

Source: 2023 analysis results

Based on table 4, it shows that the value*Tolerance* of Liquidity (X_1) is 0.963, Value*Tolerance* from*Leverage* (X_2) is 0.826, Value*Tolerance* from Activity (X_3) is 0.819, and Value*Tolerance* of Profitability (X_4) is 0.699. This shows that the tolerance value is greater than 0.10, which means that multicollinearity does not occur. And the VIF value of the Liquidity variable (X_1) is 1,039, *Leverage* (X_2) is 1.211, Activity(X_3) is 1.222, and Profitability (X_4) is 1,431. This shows that the VIF value is smaller than 10, so it can be concluded that multicollinearity does not occur.

Autocorrelation Test

Table 5
Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000[a]	1.000	1.000	.02096	1.943

Source: Analysis results, 2023

Based on the results of table 5, the Durbin-Watson test in this study was 1.943. The du value can be seen through the Durbin-Watson table where k = 4 and n = 47, so it can be obtained that the du value is 1.7203 and the dl value is 1.3535. Meanwhile, the value of (4-dl) 4- 1.3535 = 2.6465 and the value of (4-du) 4-1.7203 = 2.2797. So the du value (1.7203) is smaller than the Durbin-Watson value (1.943), and the Durbin-Watson value is smaller than the 4-du value (2.2797). The conclusion is 1.7203 <1.943 <2.2797, so there is no autocorrelation effect.

Heteroscedasticity Test
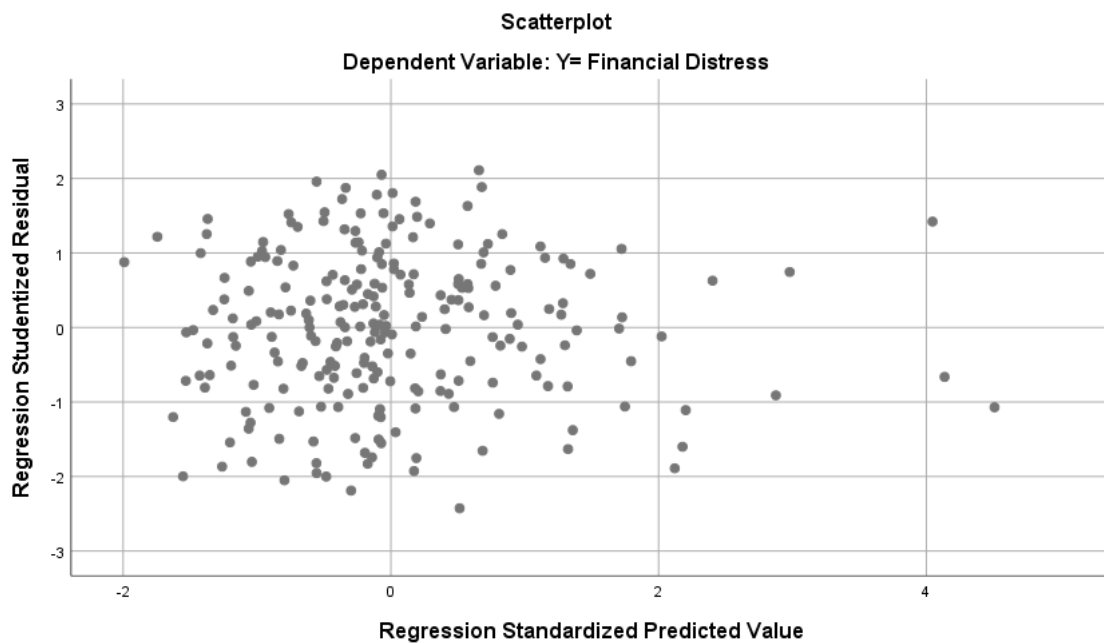
Figure 3.
Heteroscedasticity Test

Source: Analysis results, 2023

Based on the research results in Figure 3, it shows that there is no particular pattern, as well as the pattern of scattered dots above, it can be concluded that heteroscedasticity does not occur.

Multiple Linear Regression Analysis

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Table 6
Multiple Linear Regression Analysis

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Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-4.297	.004	
	X1 = Liquidity	-.004	.000	-.018
	X2 = Leverage	5.704	.005	.831
	X3 = Activated	-.005	.003	-.001
	X4 = Profitabiltas	-4.488	.011	-.315

Source: Analysis results, 2023

$Y=-4.297 - 0.004X_1 + 5.704X_2 − 0.005X_3 - 4.488X_4$

The constant value (α) has a negative value of -4.297. The negative sign means that it shows a negative influence (in the opposite direction) between the independent variable and the dependent variable. This shows that if all the independent variables include liquidity (X_1), leverage (X_2), activity (X_3) and profitability (X_4) has a value of 0 percent or has not changed, then *Financial distress* is -4.297.

Liquidity regression coefficient value (X_1) has a negative value of 0.004. This shows that if each liquidity experience increases by 1%, the financial *distress* will experience a decrease of 0.004 assuming leverage, activity and profitability are considered constant. The negative sign means that it shows a negative influence (in the opposite direction) between the liquidity variable and financial *distress.* Regression coefficient value leverage (X_2) has a positive value of 5.704. This shows that if leverage increases by 1%, the financial *distress* will increase by 5,704 assuming constant liquidity, activity and profitability. The positive sign means that it shows a unidirectional influence between the leverage variable and financial *distress.*

Activity regression coefficient value (X_3) has a negative value of 0.005. This value shows that there is a negative influence (in the opposite direction) between the activity variable and financial *distress.* This means that if the activity variable increases by 1%, then the opposite is true for the variable financial *distress* experienced a decrease of 0.005 assuming liquidity, *leverage* and constant profitability.

Profitability regression coefficient value (X_4) has a negative value of 4,488. This shows that there is a negative influence (in the opposite direction) between the profitability variable and financial *distress.* This means that if the profitability variable increases by 1%, then the opposite is true financial *distress* will experience a decrease of 4,488 assuming liquidity, *leverage* and regular activity.

Hypothesis testing

F Statistical Test

Table 7
F Statistical Test

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1046.767	4	261.692	595551.250	.000[b]
Residual	.101	230	.000		
Total	1046.868	234			

Source: Analysis results, 2023

Based on table 7, it shows that the calculated F value 595551,250 while the F table is 2.410894. The calculated F value > F table (595551.250 > 2.410894) thus shows that the table above has significant values for the liquidity, leverage, activity and profitability variables, namely $0,000 < 0,05$. Thus Ho_1 rejected and Ha_1 accepted, meaning that this variable simultaneously has an influence and is significant on financial *distress*.

Statistical Test t

Table 8
Statistical Test t

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-4.297	.004		-1121.107	.000
X1= Liquidity	-.004	.000	-.018	-27.830	.000
X2= Leverage	5.704	.005	.831	1165.141	.000
X3= Activated	-.005	.003	-.001	-1.665	.097
X4= Profitabiltas	-4.488	.011	-.315	-406.967	.000

Source: Analysis results, 2023

Liquidity has t_{count} is 27,830 which shows that liquidity has a negative influence on financial *distress*. Nilai $t_{count} > t_{table}$ (27.830 > 1.651477) and the significance value of liquidity is $0.000 < 0.05$ then Ho_2 rejected Ha_2 accepted, meaning there is a significant influence between liquidity and financial *distress*.

Leverage has t_{count} is 1165,141 which shows that leverage has an influence on financial distress. t value$_{count} > t_{table}$(1165.141 > 1.651477). The significance value of leverage is $0.000 < 0.05$ thenTo_2 rejected Ha_2 accepted, meaning there is a significant influence between leverage against financial *distress.*

Activity has t count is1.665 which shows that the activity has an influence on financial *distress.* The calculated t value > t table (1.665 > 1.651477). The significance value of the activity is $0.097 > 0.05$ so,To_3 accepted Ha_3 rejected, meaning there is no significant influence between activities to financial *distress.*

Profitability has t count is406,967 which shows that profitability has an influence on financial distress. The calculated t value > t table (406.967 > 1.651477). The significance

value of profitability is $0.000 < 0.05$ then To_4 rejected Ha_4 accepted, meaning there is a significant influence between profitability against financial *distress.*

Discussion
Influence of Liquidity, Leverage, Activity and Profitability on*Financial Distress* in Energy sector companies.
Based on the test results together, it shows that liquidity, leverage, activity and profitability have a significant effect on financial *distress.* Based on the proposed hypothesis, there is a significant relationship between the variables liquidity, leverage, activity and profitability financial *distress.* So the proposed hypothesis is accepted.

The influence given to this research is negative. The results of this research are in line with the theory put forward by Kristanti (2019) which states that influencing factors financial *distress* including liquidity ratios, leverage, activity, profitability, and market ratios.

The results of this research are in line with research conducted by Nakhar Nur Aisyah, Farida Titik Kristanti, & Djusnimar Zultilisna (2017) which shows that the liquidity variable,*leverage*, activity, profitability together have a significant effect on financial *distress.*

The Influence of Liquidity on Financial Distress in Energy Sector Companies.
Based on the partial test results, there is a significant influence between liquidity and financial distress. Based on the proposed hypothesis, there is a significant relationship between the liquidity variable and financial *distress.*So the proposed hypothesis is accepted.

Liquidity in this research is negative. The liquidity ratio is a ratio that reflects a company's ability to pay its short-term debt as it matures (Kasmir, 2018). If the company is able to fund or pay off its short-term obligations smoothly, the company will

experience potential financial *distress* will get smaller.

In line with research conducted by Masdupi, Erni, Tasman, & Davista. (2018), andJustika Dwi Cahyani, Novi Permata Indah (2021) which shows that the liquidity ratio with proxies current *ratio* have a negative and significant influence on financial *distress* a company. The higher the liquidity value, the lower the risk that this will occur financial *distress* at the company. Vice versa, the lower the liquidity, the higher the risk of occurrence financial *distress* at the company.

Leverage To *Financial Distress* in Energy sector companies.
Based on the partial research results, there is a significant influence between the variables leverage to financial distress. Based on the proposed hypothesis, there is a significant relationship between the leverage variable and financial *distress.*So the proposed hypothesis is accepted.
Ratio Leverage is a measuring ratio used to measure the extent to which a company's assets are financed with debt, in other words the extent of the company's ability to pay all its obligations, both short-term and long-term obligations (Kasmir, 2018: 151). Ratio Leverage emphasizes the important role of debt funding for companies by showing the percentage of company assets supported by debt funding. Thus the company has an obligation to fulfill its debt obligations. If a company has financing that uses more debt, then its responsibilities will be even greater and this is at risk of payment difficulties in the future due to debts that are greater than the assets owned, it is likely that the company will easily experience conditions financial *distress.*

In line with researchYogi Agung Permana Putra, I G. A. Purnamawati, and Edy Sujana, (2017) and Christon Simanjuntak, Farida Titik K, & Wiwin Aminah, (2017) which states that there is a significant positive influence between the ratio leverage with

financial *distress.* The increasing use of debt will result in the company having difficulty paying its debts. This will cause the ratio to increase leverage so that it will result in a greater likelihood that the company will experience conditions financial *distress.*

Influence of activity on financial *distress* in Energy sector companies.

Based on partial research results, activity variables have an influence on financial *distress.* Based on the proposed hypothesis, the activity variable is not significant financial *distress.* So the proposed hypothesis is rejected. The results of this research indicate that both companies have value total *asset turnover* both large and small can experience financial *distress.*

The Activity Ratio is used to measure a company's effectiveness in using its assets. The higher the asset turnover, the more effective the company's total assets are in generating sales, but you also need to pay attention to the costs incurred in sales. In this case, the company can experience financial distress when the company is unable to streamline the costs incurred in each sale.

In line with research conducted by Nakhar Nur Aisyah, Farida Titik Kristanti, & Djusnimar Zultilisna (2017) and research conducted by Eric Eka Firdianto (2021) which shows that activities have no influence on financial *distress.* This means that the size of sales activity has no influence on conditions financial *distress* company.

Effect of Profitability on financial *distress* in Energy sector companies.

Based on partial research results, there is an influence between profitability variables on financial *distress* Based on the proposed hypothesis, there is a significant relationship between the profitability variables and financial *distress.* So the proposed hypothesis is accepted.

Profitability can be used to assess the extent to which a company can generate profits at an acceptable level. Profitability with ROA as a proxy shows the total assets used for company operations that are able to provide profits for the company. ROA uses profit as a way to assess the effectiveness of using company assets to generate profits. If the use of company assets is effective in generating net profit, a company's profitability will continue to increase and will be able to reduce the risk of bankruptcy. The higher the company's profit, the more the company will have good funding and be able to meet payments if needed at any time so that this can be avoided financial *distress*

In line with research conducted by Nakhar Nur Aisyah, Farida Titik Kristanti, & Djusnimar Zultilisna (2017), Lailatul Maulidia, and Nur Fadjrih Asyik, (2020) stated that profitability with ROA and Masdupi, Erni, Tasman, & Davista (2018), using the ROE proxy has a significant negative effect on financial *distress* a company. This means that the greater the company's profits, the greater the risk of occurrence financial *distress* at the company. Vice versa, the lower the company's profitability, the greater the possibility of the condition occurring financial *distress.*

Conclusions and suggestions

Based on the research results above, it can be concluded as follows:

1. There is an influence of liquidity, leverage, activity and profitability on financial *distress* in energy sector companies listed on the Indonesian Stock Exchange.
2. There is an influence on liquidity financial *distress* in energy sector companies listed on the Indonesian Stock Exchange.
3. There is influence leverage to financial *distress* in energy sector companies listed on the Indonesian Stock Exchange.
4. There is no effect of activity on financial *distress* in energy sector companies listed on the Indonesian Stock Exchange.

5. There is an influence on profitability financial *distress* in energy sector companies listed on the Indonesian Stock Exchange.

Based on the research results and discussion above, researchers can provide the following suggestions.

1. Investors are expected to pay attention to the company's financial condition first which can influence investment decisions.
2. For future researchers, this research can be used as a reference for further research by considering the sample or data that will be used, and can add an observation period because the longer the observation time interval, the greater the opportunity to obtain more accurate information about the variables to be studied.
3. For academics, it is hoped that the research results can be used as a reference and reference material for conducting further research and it is hoped that it can add other factors that will influence financial *distress*.

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