

Determinants of Financial Distress in Property and Real Estate Companies

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ABSTRACT

This study aims to examine the effect of financial ratios, consisting of operating capacity, quick ratio, working capital, and cash flow to sales, on financial distress. Financial distress is an interesting topic to discuss because research on this factor can predict the company's survival. In general, financial distress can be measured by analyzing financial statements. Financial statements are very useful for the companies to find out their financial position as the results of their operations in a given period. This study used the population concerning property and real estate companies listed on the Indonesia Stock Exchange in the period 2015-2017. This study used a purposive sampling technique for getting the sample. The population consists of 99 companies that meet the criteria as stipulated for the sample selection. The analytical method used is logistic regression with a significance level of 0.05. The test results in this study indicate that operating capacity has an effect on financial distress, while quick ratio, working capital and cash flow to sales have no effect on financial distress.

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh rasio keuangan yang terdiri dari operating capacity, quick ratio, modal kerja dan cash flow to sales terhadap financial distress. Financial distress merupakan topik yang menarik bagi banyak peneliti, karena penelitian mengenai financial distress dapat memprediksi kelangsungan hidup suatu perusahaan. Pada umumnya, kondisi financial distress dapat diukur dengan cara menganalisis laporan keuangan. Laporan keuangan sangat berguna bagi perusahaan untuk mengetahui posisi keuangan dari hasil usaha perusahaan tersebut dalam satu periode tertentu. Populasi yang digunakan pada penelitian ini adalah perusahaan property dan real estate yang terdaftar di Bursa Efek Indonesia pada periode 2015-2017. Teknik pengambilan sampel yang digunakan adalah teknik purposive sampling. Populasi dalam penelitian ini terdiri dari 99 perusahaan yang memenuhi kriteria untuk menjadi sampel penelitian. Metode analisis yang digunakan adalah regresi logistik dengan tingkat signifikansi 0,05. Hasil pengujian dalam penelitian ini menunjukkan bahwa operating capacity berpengaruh terhadap financial distress, sedangkan quick ratio, modal kerja dan cash flow to sales tidak berpengaruh terhadap financial distress.

1. INTRODUCTION

Competition between companies today has led to rapid changes in the economic sector. For that reason, every company is required to develop and advance therefore they can compete with other companies and increase their profits. Companies that are not ready to face the competition will experience a decline in sales. With such a condition, it can affect their financial condition. For almost a decade, the economic crisis has hit the world and this condition has caused almost all continents get the impact. In addition, the intensity of the economic crisis made Asian countries, which

were initially considered relatively free from the impact of the crisis, but in fact they still get difficulty to survive (Bank Indonesia, 2009). In this situation, companies are required to compete both nationally and internationally. This competition encourages the companies work hard to strengthen their management fundamentals in order to be competitive.

The 2008 global economic crisis hit Indonesia, resulting in a weakening of the Indonesian rupiah exchange rate and also caused the dollar exchange rate to rise, thus affecting Indonesian companies to experience financial distress. This condition caused

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investors not to be interested in investing in Indonesia and many Indonesian companies had to import their raw materials from abroad. Therefore, companies were required to be able to manage their finances so that bankruptcy would not occur. In the last five years, the stocks of 20 companies have been delisted from the IDX. This due to poor performance. The indicators of delisting, among others, are 1) the company's stocks are not traded in certain periods of time; 2) the company suffers losses for several years; 3) the company does not distribute dividends for several years, and various other conditions in accordance with the listing rules on the stock exchange (www.kabarbisnis.com).

Financial distress occurs before bankruptcy. Financial distress is the stage of declining financial condition that occurs before the company bankrupt or before they are liquidated. According to Khaliq et al. (2014), financial distress is a condition where a company has difficulty or even they cannot fulfill their obligations to creditors. In this case, information about financial distress is very useful for investors and creditors because it can help in making a decision whether they will continue to invest in stocks and provide loans at a company or stop it (<https://dosenakuntansi.com>).

During the last two years, the condition of the Indonesian economy had been unstable and even tended to decline. This has led to stagnant growth in the property sector. The companies do not address this problem properly, the property sector will decline. Many businessmen expect that the property entities can increase their market in order that they do not experience a decline. After a sustained weakening cycle in 2015 for three consecutive years, this condition has made investors more selective and careful in choosing the right business entity to invest in property sector (www.bisnis.com). According to Executive Director of Indonesia Property Watch (IPW) Ali Traghandha, business people in property companies should be cautious because they should have predicted that the decline in property would reach its lowest point in 2015 (<https://properti.bisnis.com>).

Financial distress has occurred in several property companies, such as PT Surya Semesta Internusa Tbk (SSIA). During the first six months of 2014, sales of the company's land decreased by 58% compared to sales in the previous period. Based on the company's

financial statements listed on the Indonesia Stock Exchange (IDX) in 2014, the company posted sales of IDR 243 billion from 16.7 hectares of land and contributed sales of IDR 573 billion (<https://www.rumah.com>). The performance of the property sector in the past three years in general did not provide good news. It had been predicted earlier that 2017 would be a year of recovery, but it was not proven and even pushed the value of stocks of business entities in the property sector to depreciate.

It is necessary to analyze the possibility of financial distress so that the management of the company can take action or make the right decision to overcome it. According to Aswinda (2013), financial distress occurs because management is unable to manage the company's debt properly. Large debt, but cannot produce maximum profit, causes the company to experience a continuous deficit. If they cannot overcome this condition, they will experience financial distress. One of the main reasons for the company to close its business is that the net income generated by the company is smaller than the expenditure. Therefore, the company is unable to pay its short-term obligations at maturity. In addition, the company also does not get any profit at all from its operational activities.

Financial distress is an interesting topic for many researchers to analyze, because it can be used to predict the survival of a company. In general, financial distress can be measured by analyzing financial statements, because financial statements are very useful to find out the financial position that has been obtained from the results of the company's operations in a certain period. Analyzing the company's financial statements requires a measuring instrument, such as financial indicators. The financial indicators used in this study are operating capacity, quick ratio, working capital, and cash flow to sales.

Operating capacity is calculated by total asset turnover by comparing total sales with total assets held by the company. The research conducted by Khaliq (2014) and Kusanti (2015) shows significant results, but not in line with that by Yustika (2015). Liquidity shows the company's ability to fulfill their financial obligations. In this case, liquidity ratio is calculated by a quick ratio, which is a comparison between current assets minus inventories with current liabilities. Research conducted by Widarjo and Setiawan (2009)

shows that liquidity, through a quick ratio, has a negative effect on financial distress, but it is not in line with research conducted by Ayu, Handayani, and Topowijono (2017).

In reference to working capital, it shows that it is the difference in current assets after being deducted by current liabilities. This ratio can describe the company's liquidity. The results of research by Endah and Hadiprajitno (2015) show that this ratio has an effect on financial distress, but the results of research conducted by Sudharma and Cahyono (2014) and Widhiari (2015) show that working capital has no effect on financial distress. Cash flow to sales measures the extent to which each sale becomes an operating cash flow. The results of research conducted by Frans (2017) show that cash flow to sales has a significant effect on financial distress, but the results of research conducted by Santo, Amalia, Fala and Khoirin (2017) show that cash flow to sales has no effect on financial distress. Therefore, there are inconsistencies in the results of previous studies.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

Signaling Theory

Signaling theory explains how companies should provide signal to the users of financial statements. This signal provides useful information about what the management have done to realize the owners' wishes. According to Brigham and Houston (2011), signaling is an action the company management has taken to provide guidance for investors regarding how management views the company's prospects. Besides that, signaling theory is a theory that can show the existence of information asymmetry between management and parties having interest in information within the company. This signaling theory is useful for showing behavior to parties having different access to information. Signaling theory can therefore disclose financial statements about how companies provide the signals. Conversely, if the company is in a state of financial distress and has bad prospects, the manager will give a signal by holding conservative accounting.

The signal they obtained is in the form of information about the company's financial statements. The company's published financial statement can motivate the investors or public to invest. The public through media can therefore help the company's financial reporting process. The principle of signaling

theory is to prevent companies from doing earnings management, which causes invalid financial statements made by the company. Financial statement is important information, Therefore it is not allowed to change its contents. Financial statement is information used by investors as a reference in looking at the survival of a company by assessing the condition of the income statement. Information on financial statements is essentially an overview of the company performance at present and in the future. The transmitted signal is empirical evidence and therefore financial ratios have an effect on the probability of financial distress, and this can be used as information for stakeholders and shareholders. The result of this signal determines what steps to take next.

Signaling theory concerns with financial distress. The company will provide information through financial reports that show the negative or positive profits obtained by the company for several years. Therefore, companies can provide signals to investors or other users of financial statements. Companies that get good news or choose positive profits for several years will get investment from investors through information obtained in the company's financial statements.

The Effect of Operating Capacity on Financial Distress

Operating capacity is a ratio that measures a company's ability to manage the assets for the operations. If the company cannot maximize their assets, they cannot either maximize their income and consequently it allows them to experience financial distress (Hidayat, 2014).

The study proxies the operating capacity by total asset turnover. A high total asset turnover ratio shows the effectiveness of the company in using its assets to generate sales. Research conducted by Kusanti (2015) and Khaliq (2014) shows that operating capacity, with a proxy of total assets turnover, has a significant effect on financial distress. This shows that the better the operating capacity achieved by the company, the lower the possibility of financial distress. This can be a signal for investors and creditors to invest in the company because they consider the being capable of managing their corporate finances.

The Effect of Quick Ratio on Financial Distress

Quick ratio is one indicator of the liquidity ratio,

which is the ratio between liquid current assets minus inventory with short-term liabilities. This shows how capable the company is to pay its current obligations. The inability of companies to fulfill their current obligations, such as trade payables, short-term loans, and others, is an extreme liquidity problem. This can lead to forced sales of investment and other assets. And the worst possibility is to lead to insolvency and bankruptcy (Ayu, Handayani and Topowijono, 2017).

In this study, the researchers used quick ratio to measure a company's ability to fulfill its short-term obligations. They did it by using the most liquid assets or assets that are closest to cash. Since it is easy to convert the current assets into monetary units, the researchers expect that the companies can pay these short-term liabilities with a number of current assets. In order to be able to pay off the company's short-term liabilities, the company must have a high quick ratio. An increasingly liquid company will be able to pay off its obligations so that it can provide a positive signal to outsiders that the company is able to pay off its debt and avoid financial problems. Conversely, if it turns out that the company has low current assets, or the number of current assets is smaller than the amount of short-term liabilities, the company is feared to have difficulty paying its short-term liabilities. This can trigger financial distress (Haq 2013). This research is supported by the result of research conducted by Widarjo and Setiawan (2009) that quick ratio has an effect on financial distress.

The Effect of Working Capital on Financial Distress

The study can view the effective management of working capital in a company by looking at the cash conversion cycle indicator. Companies with effective and efficient management of working capital can be seen from the shorter cash conversion cycle. It can be concluded that the shorter the cash conversion cycle, the higher the company's profits. If the company holds the inventory and collection of credit for too long, it will have an impact on the higher cash conversion cycle, which means that working capital management is increasingly inefficient because there is a high opportunity cost that will reduce the company's profit.

Working capital is a measure of a company's current assets with total capitalization (Lakhsan, 2013). This ratio shows the company's ability to generate

net working capital from all its total assets. This working capital is used to finance the company's operations or overcome financial difficulties that may occur (Lakhsan, 2013). Large working capital will show or provide a signal to external parties or financial report users (external parties) that the company is able to run the company's operations so that it will reduce the occurrence of financial distress. This research is supported by the result of research conducted by Endah and Hadiprajitno (2015) which shows that working capital ratio has a significant effect on financial distress.

The Effect of Cash Flow to Sales on Financial Distress

Researchers can use cash flow information for predicting financial distress in a company. An important factor in predicting a company's financial distress is the position of cash because cash flow can provide more accurate prediction.

Cash flow ratio analysis reveals that cash flow information has the ability to explain in detail the overall activities of the company. Cash flow information obtained from cash flow statements is able to describe general relationships between failed and non-failed entities. When a company is declared in healthy condition, it will be a good signal for investors and will make the investors interested in making further decisions. On the contrary, when a company is declared in unhealthy condition, it will be a bad signal for investors and the investors will look for other companies. The investor disinterest in the company can be seen from the condition of the company that is experiencing financial distress, therefore the higher the ratio calculated from the cash flow statement, the lower the likelihood of financial distress. Vice versa, the lower the ratio calculated from the cash flow statement, the more likely the company is experiencing financial distress. Research conducted by Julius (2017) found that information on cash flow values has a significant influence on financial distress.

The framework underlying this research can be described in Figure 1.

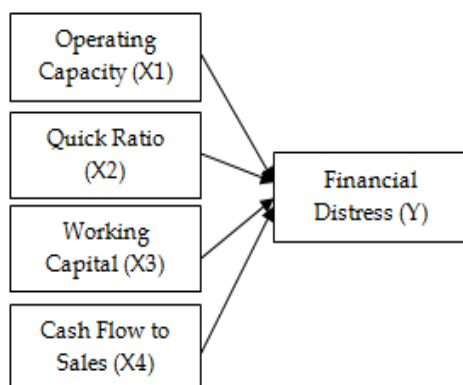


Figure 1
Framework

3. RESEARCH METHOD

Sample Classification

The population in this study is property and real estate companies listed on the Indonesia Stock Exchange (IDX) period 2015 - 2017. The study took the sample using a purposive sampling technique, that is, the technique of determining samples with certain criteria. The criteria of the samples are as follows:

1. Property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period 2015-2017 and published audited financial statements
2. Property and real estate companies that were not delisted from the Indonesia Stock Exchange (IDX) for the period 2015-2017.
3. Property and real estate companies that published financial reports or annual reports that presented complete data in accordance with the variables used for the period 2015-2017.

Based on predetermined criteria, 99 company data were obtained as samples in this study.

Research Data

This study uses secondary data taken from audited financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) obtained through the official IDX website. Data collection in this study is conducted using documentation method, that is, by reading, recording, and analyzing data or information on audited financial statements published by the manufacturing companies based on predetermined criteria.

Research Variable

The variables used in this study include the dependent variable (financial distress) and the independent variables (operating capacity,

quick ratio, working capital, and cash flow to sales).

Operational Definition of Variable

Financial Distress

Corporate financial distress is a condition where the results of the company's operations are not enough to meet the company's obligations. Corporate financial distress is determined using dummy variables with the following measurements:

1 (one) = Companies that experience financial distress

0 (zero) = Companies that do not experience financial distress

Companies that have interest coverage ratio (ICR) less than one are considered experiencing financial distress, while companies that have interest coverage ratio (ICR) more than one are considered not experiencing financial distress. Measurement of interest coverage ratio, according to Hadi (2014), is:

$$\text{Interest Coverage Ratio} = \frac{\text{Operating Profit}}{\text{Interest Expense}}$$

Operating Capacity (X₁)

Operating capacity is a description of the company's ability to use its assets to generate sales. Operating capacity, that is proxied by total asset turnover, can determine the effectiveness of the use of assets in generating sales. Companies that have a low operating capacity level can show that the companies are experiencing financial distress. The formula used is as follows:

$$\text{Total Asset Turnover} = \frac{\text{Sales}}{\text{Total Assets}}$$

Quick Ratio (X₂)

Quick ratio is one indicator of liquidity ratio, in which if a company has assets that can pay its obligations on time, the company has a smaller opportunity to experience financial distress. Liquidity ratio is an important indicator for measuring a company's financial liabilities. This study uses quick ratio to determine the extent to which the number of assets can meet the obligations. The formula used is as follows:

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Debt}}$$

Working Capital (X_3)

This ratio measures the company's ability to meet its short-term obligations, the smaller the working capacity ratio, the worse the liquidity condition of the company (Subramanyam, 2010). The formula used is as follows:

$$\text{Working Capital} = \frac{\text{Net Sales}}{\text{Current Assets} - \text{Current Debt}}$$

Cash Flow to Sales (X_4)

The study used cash flow to sales ratio for measuring the extent to which each sale will be an operating cash flow that will show the company's ability to generate operating cash flows from sales to finance the company's needs. If the company is able to meet its needs and maintain the stability of cash flows well, the potential of the company to experience financial distress will be smaller. Operating cash flows are measured using the efficiency ratio group that the researchers did the proxy by cash flow to sales. The formula used is:

$$\text{Cash Flow to Sales} = \frac{\text{Total cash flow from operating activities}}{\text{Total Assets}}$$

Data Analysis Technique

The analytical methods used in this study are descriptive statistical data analysis, logistic regression analysis, and hypothesis testing.

Descriptive Analysis

Descriptive statistics are a description of data seen from the mean, maximum, minimum, standard deviation, variance, sum, range, kurtosis, and skewness values (Ghozali, 2013: 19). Descriptive analysis is used to look at the description of the available data.

Logistic Regression Analysis

The researchers used logistic regression for testing whether the probability of the occurrence of the dependent variable can be predicted by its independent variables (Ghozali, 2013: 321). Logistic regression analysis techniques do not require classical normality and assumption tests on the independent variables. There are several steps in carrying out the logistic regression analysis:

Testing the Feasibility of the Regression Model

1. Log likelihood value.

Log likelihood value is the possibility of

a hypothesized model describing data input (Ghozali, 2013: 340). To test the feasibility of the model is done using the log likelihood value, that is, by comparing the value of the first log likelihood value, where the model only includes the constant, and the second log likelihood value, where the model uses constants and independent variables. If the first log likelihood value is greater than the second log likelihood value, it shows that the regression model is good so that the decrease in loglikelihood shows a better regression.

2. Cox and Snell's R Square and Nagelkerke's R Square.

Cox and Snell's R Square is a measure that attempts to replicate the size of R^2 in multiple regression based on likelihood estimation techniques. Likelihood estimation is difficult to interpret because it has a maximum value of less than 1 (one). Nagelkerke's R square is a modification of the Cox and Snell coefficients which is useful to ensure that the values vary between 0 (zero) and 1 (one) which is done by dividing Cox and Snell's with their maximum values.

3. Hosmer and Lemeshow's Goodness of Fit test.

It is useful to test the null hypothesis that the empirical data are suitable or in accordance with the model. If the value of Hosmer and Lemeshow's Goodness of Fit Statistics is greater than 0.05, the null hypothesis (H_0) is accepted, which means that the model can predict the value of research observations and the model can be accepted because of the compatibility with the observational data in the study. If the value of Hosmer and Lemeshow's Goodness of Fit Test Statistics is equal to or less than 0.05, the null hypothesis (H_0) is rejected which means that there is a significant difference between the model and the observation value therefore the Goodness fit model is not good because the model cannot predict the observation value in the study.

Classification Table

Accuracy of classification predictions (2x2 classification tables) is useful for calculating correct and incorrect estimation values. In the column, there are two predictive values of the dependent variable: healthy condition means cannot influence financial distress (0), and unhealthy condition means can affect financial distress (1), while the healthy value (0) and unhealthy value (1) show the actual observation value of the dependent variable. By using

perfect model, all cases will be on a diagonal with an accuracy rate of 100%. The correct percentage will be the same in both lines, if the logistical model has homoskedasticity.

Hypothesis Testing

A hypothesis is a statement about population which will be proven by data. Therefore, hypothesis is a statement about population parameters that need to be verified. Hypothesis testing is done by comparing the probability value (sig) with a significance level (α) of 5 percent. The results of this test have a standard of significance $\alpha = 5$ percent with the criteria:

1. If the probability value of sig. $\leq \alpha$, then H_0 is rejected and H_a is accepted. This means the independent variable has an influence on the dependent variable.
2. If the probability value of sig. $> \alpha$, then H_0 is accepted and H_a is rejected. This means that the independent variable has no influence on the dependent variable.

4. DATA ANALYSIS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive analysis explains and describes the data seen from the minimum, maximum, mean, and standard deviation values. The following is an explanation of the descriptive analysis. The results of descriptive statistical analysis can be seen in Table 1.

Based on Table 1, it indicates that the number of samples used in this study, during the observation period of 2015-2017, is as many as 99 companies. The minimum value of operating capacity is 0.0062 owned by PT. Bhuwanatala Indah Permai Tbk. (BIPP) in 2016. The minimum value is due to ineffectiveness in managing company assets so that it cannot generate sufficient sales compared to the total assets held. The maximum value of operating capacity is 0.5211 owned by PT. Fortune Mate Indonesia Tbk. (FMII) in 2016. The maximum value is because the company was able to achieve the company's high sales target.

Based on Table 1, it suggests that the minimum value of quick ratio is -0.0377 owned

by PT. Jaya Real Property Tbk. (JRPT) in 2017. This can be interpreted that the value of quick ratio is proxied by current assets minus current inventory divided by the company's current debt that has small value. The maximum value of quick ratio is 7.5370 owned by PT. City Retail Development Tbk. (NIRO) in 2016. The maximum value is proxied by current assets minus current inventory divided by the company's current debt that has high value.

Based on Table 1, it appears that the minimum value of working capital is -8.8098 owned by PT. Intiland Development Tbk. (DILD) in 2016. The minimum value of working capital is proxied by net sales divided by current assets minus current liabilities of the company and has a small value. The maximum value of working capital is 11.6789 owned by PT. Plaza Indonesia Realty Tbk. (PLIN) in 2017. This is because the value of working capital is proxied by net sales divided by current assets minus current liabilities of the company and has a high value.

Based on Table 1, it shows that the minimum value of cash flow is -0.2840 owned by PT. Indonesia Prima Property Tbk. (OMRE) in 2017. The value of cash flow to sales is proxied by the amount of cash flow from operating activities divided by the total assets of the company and has a small value. The maximum value of cash flow to sales is 3.4153 owned by PT. Summarecon Agung Tbk. (SMRA) in 2016. The value of cash flow to sales is proxied by the amount of cash flow from operating activities divided by the company's assets and has a high value.

Hypothesis Testing

Overall Model Fit

The value of -2 Likelihood Log in Block 0 is 126.030, while in block 1 is 117,063. From these results, it can be concluded that H_0 is accepted and H_a is rejected, which means that the model hypothesized fits with the data, because it has -2 Log Likelihood in block 0 that experiences a decrease in block 1.

Table 1
Results of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean
Operating Capacity (OC)	99	0.0062	0.5211	0.1879
Quick Ratio (QR)	99	-0.0377	7.5370	1.3051
Working Capital (WC)	99	-8.8098	11.6789	0.7327
Cash Flow to Sales (CFTS)	99	-0.2840	3.4153	0.0648

Source: Data processed

Testing the Feasibility of Regression Models

Nagelkerke's R square is a modification of the Cox and Snell coefficients to ensure that the values vary from 0 (zero) to 1 (one). The value of Nagelker's R² can be interpreted as the value of R² at multiple regression. In the SPSS output, it can be seen that the value of nagelkerke R² is 0.120, which means that the dependent variable can be explained by the independent variable of 12%. Next, whether the empirical data are in accordance with the model or not can be seen using the value of Hosmer and Lemeshow's goodness of fit test. Hosmer and Lemeshow's goodness of fit is done to test the null hypothesis that empirical data is suitable or in accordance with the model (there is no difference between the model and the data so that the model can be said to be fit). If the value of Hosmer and Lemeshow Goodness of fit is greater than 0.05, the null hypothesis cannot be rejected and this means that the model is able to predict the value of its observations or it can be said that the model is accepted because it matches the observational data.

The results of SPSS output indicate that the statistical value of hosmer and goodness of fit is 1.754 with a significance probability of 0.988 which is far above 0.05. From these results it can be concluded that the model is accepted, and it can be said that H₀ is accepted because the significance level is > 0.05, which means that financial ratios can be used to predict financial distress conditions.

Logistic Regression Analysis

To test the hypothesis in a study, logistic regression test is conducted on all variables, such as operating capacity, quick ratio, working capital, and cash flow to sales in predicting financial distress conditions. Based on the results of SPSS output, it can be seen that the independent variables included in the model are as follows:

1. The variable of operating capacity has a significance value of 0.011, where this value is smaller than 0.05, which means that operating capacity has an effect on financial distress. Therefore, H₁ is accepted.
2. The variable of quick ratio has a significance value of 0.284, where this value is greater than 0.05, which means that the quick ratio has no effect on financial distress. Therefore, H₂ is rejected.
3. The variable of working capital has a significance value of 0.300, where this

value is greater than 0.05, which means that working capital has no effect on financial distress. Therefore, H₃ is rejected.

4. The variable of cash flow to sales has a significance value of 0.405, where this value is greater than 0.05, which means cash flow to sales has no effect on financial distress. Therefore, H₄ is rejected.

Thus, the research model can be concluded into the equation as follows:

$$\ln P/1-P = 0.156 + (6.461) \text{ Operating Capacity} + 0.166 \text{ Quick Ratio} + 0.070 \text{ Modal Kerja} + 0.440 \text{ Cash Flow to Sales}.$$

Classification Table

Classification table shows the predictive power of the regression model to predict the possibility of the company experiencing financial distress. The results of SPSS illustrate companies that experience financial distress and those that do not experience non-financial distress. Based on the table, it can be known that the companies that do not experience non-financial distress consist of 66 data, while from the observations, it can be seen that there are only 61 data and 5 data are still indicated of non financial distress, so as to produce classification accuracy of 92.4%, which is obtained from 61/66. The number of companies experiencing financial distress, based on the SPSS output, consists of 33 data, while the results of the observations, there are only 26 data and 7 data are still indicated. Therefore, the classification accuracy of the data of the companies that experience financial distress is 21.2%, which comes from 26/33.

Overall, this model has a classification accuracy of 68.7%. Therefore, the researchers can conclude that from 99 data observations, only 66 data observations that have classification accuracy using a logistic regression model. The interesting thing from the classification table is about data classification of companies that experience financial distress, that is, only 7 data from all 33 data of companies that experience financial distress. This can happen because management certainly does not want the company to experience financial distress, therefore when the management finds symptoms or signs that the company will experience financial distress, the management will take action to look for remedial sorelutions. Therefore, the company will not go bankrupt.

Hypothesis Testing

a. Hypothesis 1

Based on the results of the study, profitability ratio has a regression coefficient of -6.461 (negative sign) with a significance level of $0.011 < 0.05$. Thus, operating capacity has a significant influence in predicting financial distress conditions and it can be concluded that H1 is accepted.

b. Hypothesis 2

Based on the results of the study, leverage ratio has a regression coefficient of 0.166 with a significance level of $0.284 > 0.05$. Thus, quick ratio has no significant influence in predicting financial distress conditions and it can be concluded that H2 is rejected.

c. Hypothesis 3

Based on the results of the study, sales growth ratio has regression coefficient of 0.070 with a significance level of $0.300 > 0.05$. Thus, working capital ratio has no significant influence in predicting financial distress conditions and it can be concluded that H3 is rejected.

d. Hypothesis 4

Based on the results of the study, liquidity ratio has a regression coefficient of 0.440 with a significance level of $0.405 < 0.05$. Thus, cash flow to sales ratio has no significant influence on financial distress conditions and it can be concluded that H4 is rejected.

Discussion

The effect of operating capacity on financial distress

The operating capacity ratio has a significant influence in predicting financial distress conditions and H1 is accepted. Company's low operating capacity level indicates that the company does not produce enough sales compared to the company's assets. Operating capacity is considered effective if the high sales volumes have an impact on total assets owned and provide results that benefit the company. This means that companies that have large total assets also become trust for investors to invest their capital.

Company's low operating capacity value indicates that the company has little operating capacity value compared to company's high asset value so that the company experiences financial distress. Ineffective use of assets shows poor company performance because

it is not able to generate sufficient sales. However, company's high operating capacity value shows that the company is effective in using its assets so that it can generate sales and the company can avoid financial distress. The results of this study are in line with the results of research conducted by Khaliq (2014) and Kusanti (2015), but are not in line with the results of research conducted by Yustika (2015).

The effect of quick ratio on financial distress

This ratio does not have a significant effect in predicting financial distress conditions and H2 is rejected. The absence of influence of quick ratio on financial distress is caused by the higher the number of current assets, the faster a company will cover debt.

Based on research results, companies that have a high quick ratio will tend to experience high financial distress conditions. This will increase the trust of creditors or investors. This trust makes it easy for companies to obtain funds from their debts, therefore companies tend to use their debt for the company's operational activities. The use of large debt will cause a large interest burden, thus resulting in the possibility of the company experiencing high financial distress.

The results of this research are not in accordance with the theory which shows that there is a significant relationship between quick ratio and financial distress, whereas based on the research there is no significant relationship. The results of this research are not in line with the results of research conducted by Widarjo and Setiawan (2009) that the quick ratio has a significant influence in predicting financial distress. However, the results of this research is in line with the results of research conducted by Ayu, Handayani and Topowijono (2017) that quick ratio has no influence on financial distress.

The effect of working capital on financial distress

The working capital ratio does not have a significant effect in predicting financial distress and H3 is rejected. The absence of a significant effect of working capital in predicting financial distress conditions may be due to the ineffective sales results and the small sales achieved which causes the company's working capital to be unpredictable by the company.

Based on the results of this study, the researchers can conclude that the decrease in the value of working capital compared to total

assets causes the company to have difficulty repaying its short-term liabilities, therefore the smaller the value of working capital, the greater the possibility to experience financial distress which causes the company's bankruptcy due to the unavailability of sufficient current assets to cover its obligations. Conversely, the greater the working capital, the smaller the possibility to experience financial distress. Companies that have high value of current assets compared to the value of current debt can pay off their high liabilities.

The results of this study are not in line with the results of research conducted by Endah and Hadiprajitno (2015), that working capital has a significant influence on financial distress. However, the results of this study are in line with the results of research conducted by Sudharma and Cahyono (2014) that working capital has no significant effect in predicting the condition of financial distress of a company.

The effect of cash flow to sales on financial distress

The cash flow to sales ratio does not have a significant effect in predicting financial distress and H4 is rejected. The absence of significant influence of cash flow to sales on financial distress is because the cash flow to sales generated by the company is high, therefore it shows the company's ability to utilize assets to produce high cash flow to sales. The high value of operating cash flow means that the sale results are greater than the operating expenses incurred.

The high value of cash flow to sales shows the company's high ability to manage cash flow to sales based on the number of its assets, therefore the high cash flow ratio value shows the low possibility of the occurrence of financial distress. Conversely, the low cash flow ratio value shows the high possibility of the occurrence of financial distress.

The results of this study are consistent with the results of research conducted by Santoso, Amalia and Khoirin (2017) that cash flow to sales has no significant effect on financial distress. However, the results of this study are not in accordance with the results of research conducted by Endah and Hadiprajitno (2015) and Frans (2017) that cash flow to sales has a significant effect on financial distress.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

Conclusion

Based on the results, explanations and discussion of the analysis above, it can be concluded that:

1. Operating capacity has an effect on company's financial distress, or H1 is accepted.
2. Quick ratio has no effect on company's financial distress, or H2 is rejected.
3. Working capital has no effect on company's financial distress, or H3 is rejected.
4. Cash flow to sales has no effect on company's financial distress, or H4 is rejected.

Limitation

There are some limitations that can influence the results of the study, for example, there are several companies that do not have a complete financial report or annual report on the variables used in this study in the period 2015-2017, therefore the data must be eliminated.

Suggestion

This study suggests that for the next researchers it is better for the researchers to do are as follows:

1. The next researchers, with similar topics, are expected to minimize the number of data in outliers and use the test tools other than SPSS. In addition, the next researchers are expected to develop this research by adding the population of companies used as research samples, not only manufacturing companies. Therefore other types of industries listed on the Indonesia Stock Exchange.
2. The next researchers are expected to add other independent variables that are thought to affect the integrity of financial statements, such as auditor industry specialization and the size of the public accounting firm, so that they can cover a wider range of research.
3. The next researchers are expected to use indices other than interest coverage ratio (ICR) to determine the grouping of companies that experience financial distress, such as EPS, Springate, Z score, and others.
4. The next researchers are expected to add to other sectors because the data used in this study have a small category of financial distress and to expand independent

variables, such as managerial ownership, institutional ownership, GCG, and other financial ratios such as company age.

5. The next researchers are expected to add other sectors to the sample used because the data included in the category of financial distress are still few.

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