

The Effect of Liquidity, Solvency and Profitability Ratio on Financial Distress in Tourism Sector Companies Listed on the Indonesia Stock Exchange In The 2020-2022 Period

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ABSTRACT

The impact of the Covid-19 pandemic has spread to many industries, including the tourism sector, which is the hardest hit sector in Indonesia. This study was conducted to determine the effect of the financial ratios of liquidity, solvency, and profitability on financial distress in tourism sector companies listed on the Indonesia Stock Exchange. The population in this study was 147 company financial reports. The sample determined through purposive sampling was obtained with a total of 105 samples. This type of research is explanatory research with a quantitative approach. The method used is logistic regression analysis using IBM SPSS 25. The results of the study show that partially the liquidity solvency ratio does not have a negative effect on financial distress, while partially the profitability ratio has a positive effect on financial distress. Simultaneously, the liquidity, solvency, and profitability ratios have an effect on financial distress.

INTRODUCTION

One of the key pillars of Indonesia's economy, the tourist industry contributes significantly to GDP and job creation. This industry is well-known for being labor-intensive and having the potential to enhance people's welfare due to its wide range of tourism attractions that draw both domestic and foreign visitors (Toreh, 2019). But the Covid-19 pandemic in 2020–2022 had a significant effect, leading to a dramatic fall in tourism and the industry's performance, which was mirrored in a sharp reduction in the number of visitors from both local and foreign countries (Ministry of Tourism and Creative Economy).

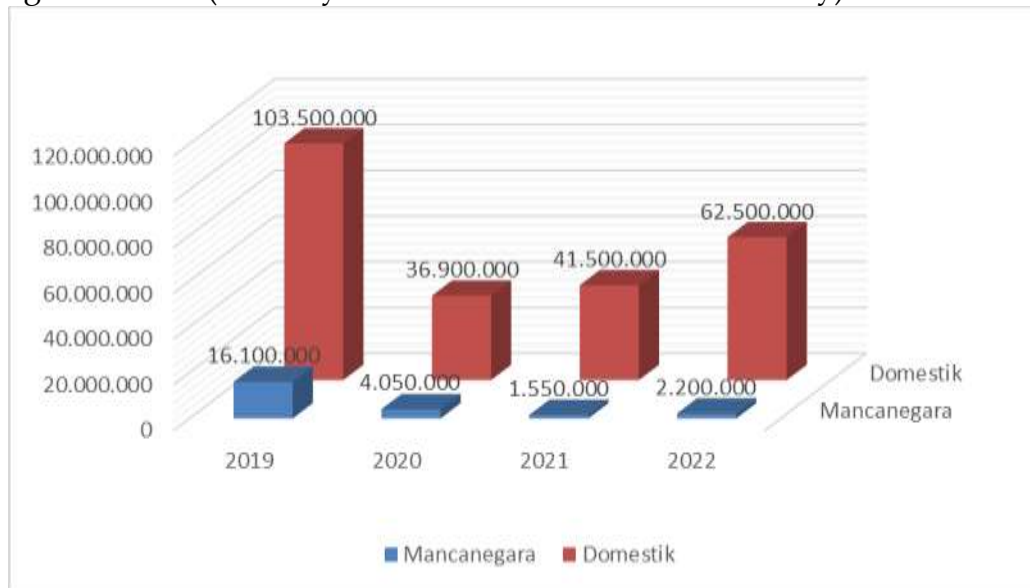


Figure 1. Graph of Number of Tourists

Source: Kemenparekraf RI

According to data, there was a significant decrease in the number of tourists, both domestic and foreign, between 2019 and 2020. Although domestic tourism rose somewhat between 2021 and 2022, it was still significantly lower than it was prior to the pandemic. In the meantime, international visitor numbers fell once more in 2021 and only slightly increased in 2022, falling short of pre-pandemic levels. Numerous tourism-related businesses have seen a drop in revenue and performance as well as an increase in the danger of going bankrupt as a result of this situation. Thus, there is concern that this may cause individuals to experience a period of financial hardship, often known as financial distress..

When a company's finances are unstable or in crisis, it is said to be in financial distress (Platt and Platt, 2002). This situation arises when a business is unable to meet its responsibilities. Not only does financial strain or difficulty harm the company's financial system, but it also harms the organization in its entirety. A corporation may go into liquidation if its personnel and financial resources are lost (Titik Krisnanti and Farida, 2019). A number of circumstances, including sharp drops in income, heavy debt loads, a loss in market demand, high running costs for the business, or inefficient policies, can lead to financial hardship..

To fully comprehend the mechanisms influencing financial hardship, a thorough investigation of the fall in financial performance in this sector is necessary. A company's financial health can be assessed using financial ratios, such as profitability, liquidity, and solvency (Kasmir, 2019). The solvency ratio indicates the amount of debt utilized for financing, the profitability ratio reveals the company's ability to turn a profit, and the liquidity ratio assesses the company's capacity to satisfy short-term obligations..

Numerous elements that affect financial difficulty in businesses have been examined in a number of studies. Research by Hasty and Nursiam (2023) found that the liquidity ratio had no effect on financial distress; however, research by Habil (2023), Fauzan and Situngkir (2023), Eny and Mychelia (2024), and Belva and Ita (2024) found that the liquidity ratio had an effect on financial distress. According to study by Habil (2023), studies by Angriani et al. (2023) and Jonathan and Sarwo (2023) indicated that the solvency ratio had an impact on financial hardship. This contrasts with Hasty and Nursiam's (2023) research, which found no relationship between financial difficulty and the solvency ratio. Habil's (2023) and Putri and Nirawati's (2024) analysis of the profitability ratio revealed a relationship between it and financial distress. However, Belva and Ita (2024) and Angriani et al. (2023) claimed that there is no connection between financial difficulty and the profitability ratio..

The many firm sectors examined, time periods, and study samples are to blame for the variations in the research findings reported in earlier studies. The purpose of this study is to examine the impact of profitability, solvency, and liquidity ratios on financial distress in tourism-related firms that are listed on the Indonesia Stock Exchange between 2020 and 2022. It is also anticipated to help close the gap between the disparities in earlier research findings while offering an alternative viewpoint by utilizing various business sectors. These results should aid management of the organization in recognizing risks and implementing the required countermeasures. They should also give investors and other stakeholders guidance when it comes to choosing investments..

LITERATURE REVIEW

Signalling Theory

According to Brigham and Houston (2011), Signaling Theory (Signal Theory) is an activity made by a firm to give investors guidance about how management views the company's prospects. The company's information releases include financial reports with data, comments, ratios, and descriptions for both the current and upcoming periods. Because they can be used to assess a company's performance and financial situation and forecast the likelihood of future financial difficulties, financial reports are crucial (Sutra and Mais, 2019). Investment decisions will be based on the interpretation of the financial report as a statement or signal to investors on the company's financial condition. Essentially, signal theory helps investors interpret the information that management delivers. Essentially, signal theory explains that investor information from management will serve as a signal to the market. Positive information will cause the market to respond positively as well. On the other

hand, the market will also respond negatively if the information is unfavorable. Wahyudin (2015).

Liquidity Ratio

The liquidity ratio, according to Kasmir (2019), is a statistic used to assess a company's capacity to finance and pay bills when they become due. Investors frequently utilize this liquidity ratio as a gauge to identify financial events and conditions in order to respond swiftly and effectively to issues (Fahmi, 2017). The current ratio is used in this study to calculate the liquidity ratio. The better the corporation is at meeting its short-term obligations or debts, the higher the current ratio. Here is the current ratio formula:

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Solvency Ratio

The solvency ratio, sometimes referred to as the leverage ratio, is used, according to Fahmi (2015), to determine the extent to which a business is debt-financed. The Debt to Asset Ratio (DAR) is used in this study to calculate the solvency ratio. Due to their heavy reliance on debt as a source of finance, companies with high debt ratios will face significant financial risk as well as a reasonable chance of default (Kartika and Hasanudin, 2019). This is the debt-to-asset ratio formula:

$$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Profitability Ratio

Harahap (2017) defines profitability ratio as the business's capacity to turn a profit over a specific time frame. The profitability ratio in this study is calculated using return on assets (ROA). The ROA ratio itself displays the return or outcomes on the assets that the business has utilized. According to Kasmir (2015), return on assets (ROA) is a gauge of how well management is handling the company's assets. A company's ability to generate profits is shown by the bigger the value of the profitability ratio. This is the return on asset formula:

$$ROA = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Financial Distress

According to Platt and Platt (2002), financial distress is the state in which a company's finances are unstable or in disarray. Not only is information on financial difficulty crucial for the company, but it's also a valuable resource for potential investors and other stakeholders. Investors and other stakeholders, including creditors, will lose faith in the company if its financial situation deteriorates. The Springate Model is used in this study to quantify financial distress (S-Score). Because Gordon L.V. Springate created this model in 1978, it is known as the springate model. The equation is:

$$S\text{-Score} = 1,3A + 3,07B + 0,66C + 0,4D$$

Information:

- A : Working Capital/ Total Asset
- B : Net Profit Before Interest and Taxes/ Total Asset
- C : Net Profit Before Taxes/ Total Asset
- D : Sales/ Total Asset

Where if:

S-Score < 0.862 = unhealthy or potentially experiencing financial distress

S-Score > 0.862 = healthy or not experiencing financial distress

Here, financial anguish takes on a binary, changeable shape. those that fall into the category of financial hardship will be assigned a value of 0, while those that do not will be assigned a value of 1.

Pengembangan Hipotesis

The disparities between the background research results and the research results from earlier studies suggest that there is still inconsistency in the research outcomes. Thus, the writer endeavors to formulate the subsequent conjecture:

1. The effect of liquidity on financial distress.

The ability of a business to settle its short-term debts is gauged by its liquidity ratio. When a business has a high level of liquidity, it means that its current assets are available to meet its short-term liabilities. On the other hand, a company that has a lower liquidity value is less likely to be able to meet its short-term obligations and so runs the danger of going bankrupt. This is consistent with studies by Habil (2023), Fauzan and Situngkir (2023), and Eny and Mychelia (2024), which demonstrate the impact of the liquidity ratio on the financial distress of the organization. As a result, the following theory is possible to formulate:

H1: Liquidity ratio has an effect on financial distress

2. The effect of solvency on financial distress.

A ratio called the solvency ratio illustrates the extent to which a company's assets are financed by debt. Because assets are much less than debt, a firm that obtains the majority of its financing from third parties or creditors runs the danger of future difficulties with payment or settlement. Financial trouble for the company is a possibility if things are not handled correctly. A company's level of financial hardship or issues is directly correlated with its solvency ratio. This is consistent with studies by Jonathan and Sarwo (2023) and Angriani et al. (2023) that show the solvency ratio influences a company's financial difficulties. Consequently, the following theory can be formulated:

H2: Solvency ratio has an effect on financial distress

3. The effect of profitability on financial distress.

A profitability ratio can be used to determine how much profit a business makes overall from its assets. The more efficiently a business uses its resources, the more profit or gain it will experience. On the other hand, wasteful use of resources will make it harder for the business to grow its profits, which will ultimately lead to the company running into financial trouble. This is consistent with studies by Habil (2023) and Putri and Nirawati (2023), which show that a company's financial hardship is influenced by its profitability ratio. As a result, the following theory is possible to formulate:

H3: Profitability ratio has an effect on financial distress

4. The effect of liquidity, solvency and profitability ratios on financial distress.

According to research findings by Putri and Nirawati (2024) and Fauzan and Situngkir (2023), a company's financial hardship is influenced simultaneously by its liquidity, solvency, and profitability measures. As a result, the following theory is possible to formulate:

H4: Liquidity, solvency and profitability ratios simultaneously influence financial distress.

Based on the hypothesis presented above, the following framework of thought can be created:

Framework

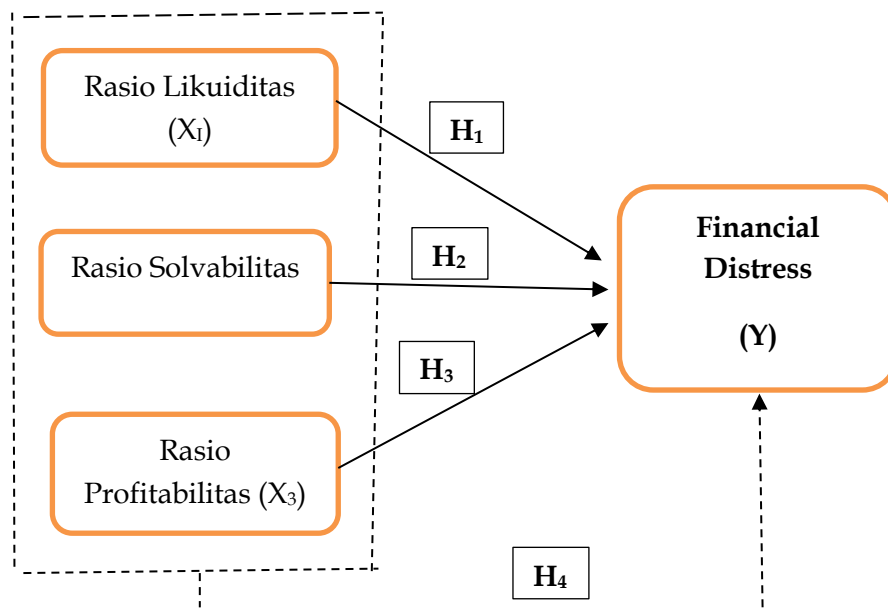


Figure 1. Framework

METHODOLOGY

Types of research

The author's research methodology in this work is classified as quantitative explanatory research.

Population and Research Sample

All financial records from tourism-related companies registered on the Indonesia Stock Exchange are the study's population, and the reports were obtained from the Indonesia Stock Exchange's official website, www.idx.co.id. In this study, a purposive sampling strategy with predetermined criteria is used for sampling. The following criteria were applied to choose the study's sample:

Table 1. Sample Criteria with Purposive Sampling Technique

No	Description	Amount of Data	
1	Tourism Sector Companies Listed on the IDX 2020-2022	49	147
2	Companies That Did Not Report Complete Annual Financial Reports 2020-2022	(14)	(42)
Samples That Meet the Criteria		35 x 3	105

Source: Data from the author (2024)

The financial statements for the years 2020–2022 from 35 companies that fit the requirements were used to establish the number of samples, based on the previously mentioned criteria. Thus, there are $35 \times 3 = 105$ samples total.

Data Analysis Technique

This study will employ logistic regression analysis as its analytical method, with the IBM SPSS 25 computer software serving as the analysis instrument. When the dependent variable has a dichotomous form, Ghozali (2018) states that logistic regression can be used to determine the relationship or relationship between dependent variables and independent factors. This method can be used to forecast the strength of the association between variable X and variable Y and to conduct hypothesis tests.

RESEARCH RESULT AND DISCUSSION

Descriptive Statistical Analysis

The process of gathering and synthesizing variable data after it has been processed to make it presented and explained generally is known as descriptive statistics. The following table provides a general description of the data used in this study:

Table 2. Descriptive Statistical Analysis Results

	N	Min	Max	Mean	Std. Deviation
CR	105	0,01	140,25	5,0851	17,21826
DAR	105	0,00	1,09	0,4184	0,26253
ROA	105	-0,52	0,26	-0,0463	0,09566
FDS	105	0	1	0,09	0,281
Valid N (Listwise)	105				

Source: Data from the author (2024)

Overall Model Fit**Table 3. Overall Model Fit Block 0 Result**

Iteration		-2 Log likelihood	Coefficients
			Constant
Step 0	1	66,479	-1,657
	2	61,637	-2,211
	3	61,428	-2,358
	4	61,427	-2,367
	5	61,427	-2,367

Source: Data from the author (2024)

The -2LL value of 61.427 is displayed in the calculation result of -2LL at block number = 0 (step 0), based on the image above.

Table 4. Overall Model Fit Block 1 Result

Iteration		-2 Log likelihood	Coefficients			
			Constant	CR	DAR	ROA
Step 1	1	57,426	-1,366	-0,005	-0,092	4,903
	2	37,980	-1,818	-0,011	0,268	16,303
	3	26,288	-2,134	-0,015	0,273	32,780
	4	19,563	-2,336	-0,015	-0,679	52,938
	5	16,299	-2,466	-0,014	-2,371	75,518
	6	15,114	-2,637	-0,011	-4,056	97,814
	7	14,888	-2,767	-0,009	-5,147	112,636
	8	14,876	-2,806	-0,009	-5,465	116,960
	9	14,876	-2,809	-0,009	-5,485	117,230
	10	14,876	-2,809	-0,009	-5,485	117,231

Source: Data from the author (2024)

The value of -2LL of 14.876 is produced at block number = 1 (step 1). Thus, it can be deduced that the regression model employed in this study fits the data and is capable of providing an optimal and well-fitting explanation for the data because there is a reduction in the model fit at block number 1 when compared to block number 0.

Goodness of Fit Test**Table 5. Goodness of Fit Test Result**

Step	Chi-square	df	Sig.
1	0,608	8	1,000

Source: Data from the author (2024)

The model's viability test yielded a Chi Square value of 0.608 and a significance level of 1,000. As can be seen, the significant value of $1,000 > 0.05$ indicates that H_0 is accepted, indicating that the model can produce reliable predictions for this investigation and is consistent with its observation value.

Nagelkerke's R Square (Coefficient of Determination)

Table 6. Coefficient of Determination Result

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	14,876 ^a	0,358	0,809

Source: Data from the author (2024)

The above determination coefficient table shows that the dependent variable financial distress's variability can be explained by the independent variables CR, DAR, and ROA by 80%, with a Nagelkerke's R Square value of 0.751. Other factors not included in the model may have an impact on the remaining 20%.

Classification Matrix

Table 7. Classification Matrix Result

Step	Observed		Predicted		
			FDS	Sehat	Percentage Correct
1	FDS	FDS	95	1	99,0
		Sehat	2	7	77,8
Overall Percentage					97,1

Source: Data from the author (2024)

Based on the above-mentioned classification matrix, the model's 97.1% predictive power is quite high. There are $95 + 1 = 96$ samples that are experiencing financial distress (FDS), of which 95 are from companies that are experiencing financial difficulty and 1 is from samples that are not experiencing financial distress. 99.0% of the classifications are accurate. The total number of samples classified as healthy is therefore $2 + 7 = 9$ samples, of which 2 are from businesses that are financially distressed and 7 from businesses that fall into the healthy category. The classification accuracy is 77.8%.

Hypothesis test

Partial Test

With a significant level of $\alpha = 0.05$, the t table value is 1.98373. The number of samples runs from ($n=105$), the number of independent variables and dependent variables ranges from ($k=4$), and the degree of freedom = $n-k = 105-4 = 101$.

Table 8. Partial Test Result

Ket	B	Wald	Sig.
CR	-0,009	0,039	0,844
DAR	-5,485	1,413	0,235
ROA	117,231	6,896	0,009
Constant	-2,809	3,451	0,063

Source: Data from the author (2024)

The results of examining the relationship between financial hardship and the liquidity, solvency, and profitability ratios can be partially explained by looking at the preceding table:

H1: Liquidity ratio has an effect on financial distress

The current ratio (CR), which measures the liquidity ratio variable, has a negative B value of -0.009, a Wald result (t count) that is smaller than the t table ($0.039 < 1.98373$), and a significance level that is greater than the predefined threshold ($0.844 > 0.05$). This demonstrates that, for the 2020–2022 period, the liquidity ratio's independent variable has no detrimental impact on the financial distress of tourism sector companies listed on the Indonesia Stock Exchange. Consequently, the first hypothesis is disproved.

H2: Solvency ratio has an effect on financial distress

With a Wald result (t count) smaller than the t table ($1.413 < 1.98373$), the solvency ratio variable with the debt to asset ratio (DAR) proxy has a negative B value of -5.485. Its level of significance is higher than the specified threshold of significance ($0.235 > 0.05$). This indicates that, for the 2020–2022 timeframe, the solvency ratio, as an independent variable, has no detrimental impact on the financial distress of tourism industry companies listed on the Indonesia Stock Exchange. The second hypothesis is thus disproved..

H3: Profitability ratio has an effect on financial distress

The profitability ratio variable with return on asset (ROA) proxy has a smaller level of significance than the predetermined level of significance ($0.009 > 0.05$), and a positive B value of 117.231 with a Wald result (t count) greater than t table ($6.896 > 1.98373$). This indicates that, for the 2020–2022 timeframe, the financial hardship of tourism industry companies listed on the Indonesia Stock Exchange is positively impacted by the independent variable of the profitability ratio. As a result, the third hypothesis is confirmed..

Simultaneous Test

Table 9. Simultaneous Test Result

		Chi-square	df	Sig.
Step 1	Step	46,551	3	0,000
	Block	46,551	3	0,000
	Model	46,551	3	0,000

Source: Data from the author (2024)

H4: Liquidity, solvency and profitability ratios simultaneously influence financial distress.

The Chi Square calculation result, based on the results shown, is 46.551 with a degree of freedom (df) of 3. The pertinent Chi Square value with a significance threshold of 0.05 is 7.815. This indicates that the value of the Chi Square calculation exceeds that of the Chi Square table. Subsequently, the significant value derived from the aforementioned table is 0.000, which is less than the designated significance level of 0.05. This demonstrates how the independent factors influence the dependent variables concurrently. This indicates that the fourth theory is agreed upon.

CONCLUSIONS AND RECOMMENDATIONS

The Influence of Liquidity Ratio on Financial Distress

According to the findings, the liquidity variable, as determined by the current ratio, indicates that, for the 2020–2022 period, financial hardship in tourism sector companies listed on the IDX is negatively impacted by the liquidity ratio and has no bearing on it.

The signaling theory, which states that one of a company's financial ratios, the liquidity ratio, can be used as a signal for the company to provide information to external parties regarding the company's condition, does not support the liquidity ratio's ineffectiveness in predicting financial distress. In this study, the ratio cannot provide information regarding financial distress because there are no discernible differences in the liquidity of companies that are indicated to be healthy and those that are experiencing financial distress. However, the ratio can provide an overview of a company's ability to pay its short-term debts. This might be the case because businesses in the tourism industry were given a great deal of support, incentives, and help from the government or other external parties during the Covid period, which helped to lessen the impact of liquidity from financial turmoil. Furthermore, a lot of tourism businesses are lowering expenses by temporarily shuttering unproductive locations, laying off employees, and practicing effective cash management.

This implies that, in the Covid scenario, liquidity has no bearing on whether a business is experiencing financial crisis or not. In order to prevent financial difficulty, some businesses may also restructure their loans to secure acceptable payment circumstances while having little cash. This is consistent with the findings of Jonathan and Sarwo (2023), who found no relationship between financial distress and the liquidity ratio.

The Influence of Solvency Ratio on Financial Distress

The reported findings indicate that, for the 2020–2022 timeframe, the solvency ratio, as determined by the debt to asset ratio, has a negative correlation and no effect on financial distress in the tourism sector companies listed on the IDX. This demonstrates that variations in the debt-to-asset ratio have no effect on the state of financial crisis. The lack of a relationship between financial distress and this solvency ratio is most likely the result of unique circumstances associated with the COVID-19 epidemic. In order to prevent financial trouble, businesses with high or low DAR values can still use capital to buy assets and can still earn a profit. Furthermore, the Covid-19 government's economic stimulus packages, which included tax benefits, low-interest loans, and incentives for the travel and tourism industry, can assist businesses in managing their debt and preserving their solvency. Numerous businesses in the tourism sector have also been successful in restructuring and renegotiating their debts with creditors during the Covid epidemic. This contributes to the preservation of financial stability and lessens solvency constraints. Examples of this include postponing debt payments, lowering interest rates, or extending debt maturities. Therefore, solvency alone cannot be used to determine financial distress in the context of the Covid pandemic.

Contrary to signaling theory, this suggests that a high solvency ratio effects a company's high risk of going through financial crisis and can be utilized by a business to send signals to outside parties in order to give them an overall idea of how financially stable the business is.

This study's findings support those of Hasty and Nursiam (2023), who found no relationship between financial difficulty and the solvency ratio.

The Influence of Profitability Ratio on Financial Distress

The given results indicate that, for the 2020–2022 timeframe, financial hardship in tourism sector companies listed on the IDX is significantly influenced by the profitability ratio, as assessed by return on asset. ROA gauges how effectively a business makes money off of its assets. The analysis's findings indicate that a greater rise in profitability is genuinely correlated with an increase in the S-Score financial distress score. When there is little chance of the business going bankrupt and an increase in this value allows the company to move into the healthy category.

This demonstrates that, in comparison to businesses with low profitability levels, those with high profitability levels are suggested to have more solid financial conditions. The study's findings are consistent with the signaling theory, which holds that disclosing data on profitability levels can serve as a reference signal for determining whether an organization is doing well or not for both the organization and outside parties like investors, etc. The findings of this investigation are consistent with those of studies by Putri and Nirawati (2024), Fauzan and Situngkir (2023), and Jonathan and Sarwo (2023), which discovered a beneficial relationship between profitability and financial distress. Thus, it can be said that a company's likelihood of going through financial difficulties can be decreased by having a high degree of profitability.

The Effect of Liquidity, Solvency, and Profitability Ratios on Financial Distress Simultaneously

Based on the outcomes of simultaneous hypothesis testing, the following conclusion was drawn: the financial distress circumstances in tourism sector enterprises are influenced or affected by the liquidity ratio, solvency ratio, and profitability ratio taken collectively. This demonstrates how comprehensive information about a company's financial health may be obtained by combining several financial ratios. Many tourism businesses have experienced severe setbacks as a result of the Covid epidemic, including a sharp drop in earnings. As a result, cautious financial planning and management are required to mitigate the danger of financial distress brought on by the unpredictability of the pandemic situation.

CONCLUSION

With an 80.9% prediction accuracy, the goal of this study is to ascertain the impact of profitability, solvency, and liquidity ratios on financial distress in tourist industry companies listed on the Indonesia Stock Exchange for the 2020–2022 timeframe. Based on the findings of the logistic regression analysis and the conversation surrounding this research, the following conclusions can be drawn: the liquidity ratio has a positive impact on financial distress in tourism-related companies listed on the Indonesia Stock Exchange in 2020–2022, the solvency ratio has a positive impact on financial distress in tourism-related companies listed on the Indonesia Stock Exchange in 2020–2022, and the combination of the liquidity, solvency, and profitability ratios has an impact on financial distress in tourism-related companies listed on the Indonesia Stock Exchange in 2020–2022.

The results of this study are anticipated to be beneficial to a company in two ways: firstly, they should alert it to potential financial distress by constantly monitoring financial conditions, particularly profitability ratios; and secondly, they should help it capitalize on opportunities that arise after the pandemic by using assets or other strategies to generate maximum profits once again. Investment decisions can be made using the information in this study.

ADVANCED RESEARCH

For Further Researcher

1. Because this study only looks at one kind of sector – the tourism sector – it is impossible to extrapolate the findings to other sectors. Thus, additional research can employ a different kind of sector..
2. Additional study can include other independent variables like activity ratio, cash flow, company size, etc. that could have a major impact on financial difficulty..
3. More study can employ other prediction models, a longer time frame, and more samples.

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Granting the author the ability to finish the research project titled "The Effect of Liquidity, Solvency, and Profitability Ratios on Financial Distress in Tourism Sector Companies Listed on the Indonesia Stock Exchange for the period 2020-2022," we thank Allah, the Most Gracious and the Most Merciful, for this gift. Remember to offer the prophet Muhammad SAW, his family, and friends your prayers and greetings.

At last, the writer acknowledges that this report is far from flawless and still needs work. We would really appreciate any feedback, ideas, and constructive criticism for upcoming improvements.

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