

THE EFFECT OF RETURN ON ASSET (ROA) AND COMPANY SIZE ON FINANCIAL DISTRESS

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ABSTRACT

Introduction/Main Objectives: When setting up a company, of course the aim is to make a profit, but it will also experience a decline in financial conditions. So many companies experience bankruptcy because these companies are less effective and efficient in managing financial reports. This research aims to determine and analyze the influence of return on assets (ROA) and company size on financial distress.

Background Problems : The company's inability to anticipate global developments by strengthening management fundamentals will result in company bankruptcy. One sign for a company that has the potential to experience bankruptcy is financial distress (Kristiana, 2018).

Novelty:

Research Methods: The method used in this research is descriptive analysis and verification analysis using secondary data. The population in this research is Manufacturing Companies in the Consumer Goods Industry Sector listed on the Indonesia Stock Exchange (BEI) 2017-2021. Meanwhile, the sample in this research was determined using a purposive sampling technique to obtain research sample data of 160 companies listed on the Indonesia Stock Exchange for 2017-2021. The analytical method used in this research is multiple linear regression analysis which is used with the help of SPSS 26 software .

Findings/Results : In research and data analysis conducted on manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange from 2017 to 2021, it was found that the company's net asset value (ROA) had a negative and significant effect on the level of financial difficulty. In other words, when ROA is higher, the level of financial distress is lower, and conversely, when ROA is lower, the level of financial distress is lower.

ARTICLE INFO

Keywords:
Financial Distress,
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(ROA), Company Size

Conclusion: Based on the research that has been carried out, the results obtained are: return on assets (ROA) and company size influence financial distress.

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1. Introduction

The business world is increasingly developing from year to year until now, making competition very tight between small companies and large companies. The company's inability to anticipate global developments by strengthening management fundamentals will result in company bankruptcy. One sign for a company that has the potential to experience bankruptcy is financial distress (Kristiana, 2018). In view of this financial distress phenomenon, Linda Grace, (2021) also states that the indicator of financial distress is where a company is experiencing a trend of liquidity difficulties, which can be seen from the company's inability to fulfill its obligations (debt). Generally, corporate financial distress can be seen from three process dimensions, namely time frame, financial distress, and process stages. The process of financial distress usually begins with a decline in financial performance until it reaches its lowest point.

To overcome and minimize the occurrence of bankruptcy in the company, management must supervise the company's financial condition by analyzing financial ratios, where financial ratios provide an indication of the financial strength of a company and the company needs to carry out appropriate management in the use of maintenance and record keeping within the company. We can find this in the return on assets (ROA) ratio and company size (Jaka Maulana et al, 2021).

Changes in world economic conditions today often affect the finances of large, medium to small companies. If management cannot handle possible financial threats, it will end in bankruptcy. At the end of 2019, the world was hit by the Covid-19 pandemic, causing many companies to experience loss-making conditions. Luciana (2003) indicates that there will be financial distress in a company if the company experiences negative net operating income for several years. Negative operating net income experienced by the company for more than one year can be an indicator of the threat of entering a financial distress condition in the company. These conditions can lead the company into the bankruptcy stage.

Based on data from the Central Statistics Agency (BPS) Statistics, (2020) in August 2020 showed that at the beginning of the pandemic economic growth decreased to reach 2.97% where in 2019 economic growth in Indonesia reached 5.09% in the same period after the implementation of PSBB (Large-Scale Social Restrictions) during the Covid 19 pandemic, especially for entrepreneurs.

The consumer goods industry sector is one of the sectors affected by the Covid-19 pandemic but is able to survive compared to other sectors. Reporting from Industri.kontan, (2020) the company PT Garudafood Putra Putri Jaya Tbk (GOOD) reported that until the first quarter of 2020 the company's net revenue fell 1.75% on an annual basis to IDR 2.24 trillion. In addition, consumer goods industry companies in 2019 experienced growth of 5.02 percent, while for 2020 quarter 1 only reached 2.83 percent.

However, after the PSBB was enforced in the second quarter of 2020, several consumer goods industry companies experienced an increase compared to before the pandemic, such as PT Indofood CBP Sukses Makmur Tbk (ICBP), which in the first semester of 2020 posted a net profit of IDR 3.37 trillion. This realization increased 31.12% from last year's achievement which was only Rp 2.57 trillion.

According to Ramdani (2021), manufacturing companies experienced an increase in the financial crisis by 19 companies during the Covid-19 pandemic. This is due to the huge impact due to the decline in income due to Covid-19. Until 2021, reported based on the Central Statistics Agency concluded that the Indonesian economy in the second quarter of 2021 against the second quarter of 2020 experienced growth of 7.07% In addition, in the consumer goods industry sector, the cosmetic industry subsector experienced an annual decline of 3.5 percent and the chemical, pharmaceutical and traditional medicine industries by 11.46 percent. One of the factors of this economic decline is caused by the reduced ability of people's purchasing power resulting in a decrease in sales. Reporting from Kompas Fija Nurul Ulya (2020), the company's President Director admitted that there was a decline in sales of several Unilever products during the Covid-19 pandemic. Meanwhile, in MSMEs (micro, small, and medium enterprises) the results of a survey conducted by the Indonesian Institute of Sciences (LIPI) explained that 70% of MSMEs experienced a decline in sales.

The uncertainty regarding the cessation of the Covid-19 pandemic to financial inflation which caused the price of basic goods to increase, on the other hand, had an impact on the damage to the financial ecosystem caused by the Covid-19 pandemic. Conditions regarding the possibility of financial distress during the Covid-19 pandemic must be anticipated as soon as possible. Companies can conduct financial analysis related to the threat of financial distress before unexpected events such as the Covid-19 pandemic.

PT Hanjaya Mandala Sampoerna Tbk (HMSP) during the first semester of 2020 experienced a decline in net profit reaching 15.29% to IDR 4.886 trillion. The decrease in company profits was caused by a decrease in contributions from its subsidiaries and refinancing of a number of company debts. The size of a company is not only seen from the size of profits and assets but also its value needs to be built in growing the company.

Table 1. Manufacturing Company Profit and Loss Consumer Goods Industry Sector for the 2017-2021 period

Code	Year				
	2017	2018	2019	2020	2021
HMPS	IDR (12,670,534,000)	IDR 13,538,418,000	IDR 13,721,513,000	IDR (4,886,412,000)	IDR (4,133,981,000)
GGRM	IDR (7,755,347,000)	IDR 7,793,068,000	IDR 10,880,704,000	IDR (5,647,228,000)	IDR (4,134,576,000)
UNVR	Rp(7,004,562,000)	IDR 9,081,187,000	IDR (7,392,837,000)	IDR (7,163,536,000)	IDR (5,758,148,000)
MYOR	Rp(1,630,953,030,893)	IDR 1,760,434,280,304	IDR 2,039,404,206,764	Rp(962,566,553,728)	Rp.(939,521,885,046)
HOCKEY	IDR 72,940,291,987	Rp. 90.195.130.205	IDR 103,723,133,972	IDR (28,590,700,800)	Rp(11,417,880,300)

Source : www.idx.co.id (Data reprocessed, 2022)

Based on the data shown in table 1.1, manufacturing companies in the consumer goods industry sector for the 2017-2021 period tend to fluctuate. This is because operating profit has decreased so it cannot cover interest expenses. There are companies that experience a decline in profits from year to year, what is very striking is PT Unilever Indonesia Tbk (UNVR) which experienced a decline in net profit for three consecutive years, the biggest decline in profit in 2021

reached 19.61% from Rp. 7.39 trillion to IDR 5.75 trillion in 2021. And followed by PT Buyung Poetra Sembada Tbk (HOKI), whose net profit fell by 62.5% in 2020 to IDR 28.59 billion. The decline in company profits was caused by weakening sales, which was the main factor in releasing shares by investors and a decline in contributions from its subsidiaries. From the phenomenon above, if the company's profits continue to decline from year to year, it is feared that the company will experience financial distress.

2. Literature Review

Return on Assets (ROA)

ROA measure the effectiveness and ability in generating net income from the company's total assets, (Tosin and Otonne, 2020) This ratio is to see the extent to which the investment that has been invested is able to provide a return of profit as expected. The company will try to make this ratio bigger so that the company avoids potential financial difficulties, (Tharu and Shrestha, 2019).

ROA is a measure of net profits obtained from the use of assets. The higher this ratio, the better the asset productivity in obtaining net profits .

Return on Assets is used to calculate a company's ability to earn profits by using the total assets owned by the company after aligning them with the costs to finance these assets. Add up Return On Assets using the formula net profit after tax divided by total assets (Cahyono, Andini and Raharjo, 2016).

Company Size

According to (Jogiyanto, 2017) company size is the size of the company can be measured by the total assets / large assets of the company by using the calculation of the logarithmic value of total assets. States that company size is a scale that can classify companies into large and small companies according to various methods such as total assets or total assets of the company, share market value, average sales level, and number of sale. Company size is generally divided into 3 categories, namely large firm, medium firm, and small firm. The company's maturity stage is determined based on total assets, the greater the total assets indicating that the company has good prospects in the relatively long term.

Size company describe big or small company seen from total assets or from total sale. Total assets Which increase on A company see that company capable arrange his finances with good, (Roslita, 2022). Size company classified become company small, medium and large based on sales level, quantity assets, and the amount of equity of the industry, (Cristiana & Nyman, 2022).

Financial Distress

Financial Distress is a condition where the company's finances are in an unhealthy or critical condition. Financial distress has a close relationship with company bankruptcy, because declining financial conditions risk bankruptcy (Yeni Yustika, 2015). This research measures a company's financial condition based on bankruptcy analysis developed by Altman which found that there are similar financial ratios that can be used to predict bankruptcy (Z-score).

Financial Distress is a condition in which the company experiences financial difficulties so that the company experiences a crisis which results in the company being unable to fulfill its obligations. A crisis or a decline in financial conditions prior to bankruptcy, makes it difficult for the company to fulfill its obligations, (Prihadi, 2020).

In their study, Sari & Diana (2020) conclude three conditions that may lead to the financial distress of a company. They are financial difficulties, increasing debt and interest rates, and financial losses (Siahaan et al., 2023).

3. Method, Data, and Analysis

The method used in this research is descriptive analysis and verification analysis using secondary data. This study uses a basic type of research with a quantitative approach. The analytical method used in this research is multiple linear regression analysis which is used with the help of SPSS 26 software.

Descriptive analysis is analysis used to create systematic, factual and accurate descriptions, images or paintings regarding the facts and characteristics as well as the relationships between the phenomena being investigated. Verification analysis can be interpreted as research carried out on a certain population or sample with the aim of testing a predetermined hypothesis (Sugiyono 2017:20). This test was carried out to find out how much influence return on assets (ROA) and company size have on financial distress.

The population in this research is Manufacturing Companies in the Consumer Goods Industry Sector listed on the Indonesia Stock Exchange (BEI) 2017-2021. Meanwhile, the sample in this research was determined using a purposive sampling technique to obtain research sample data of 160 companies listed on the Indonesia Stock Exchange for 2017-2021. The analytical method used in this research is multiple linear regression analysis which is used with the help of SPSS 26 software.

4. Result and Discussion

Descriptive Analysis

Descriptive analysis was carried out to determine the mean, maximum, minimum and standard deviation values. The aim of this analysis is to provide a systematic description of factual and accurate data regarding the facts and relationships between the phenomena being studied.

Table 2. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Return On Assets	160	-.57	.92	.0697	.15473
Company Size	160	1.32	1.51	1.4464	.03961
Financial Distress	160	-2.14	2.05	.3664	.78896
Valid N (listwise)	160				

Source : SPSS 26 output. (processed data)

Based on table 1, the descriptive statistics of ROA, company size and financial distress for Manufacturing Companies in the Consumer Goods Industry Sector listed on the Indonesia Stock Exchange for 2017-2021 can be explained as follows:

1. ROA had the lowest value of -0.57% by KICI in 2018, and the highest value was 0.92% owned by MERC in 2018, with an average of 0.069%. The standard deviation or standard deviation of

ROA is 0.154%. This value means that the standard deviation is greater than the mean, indicating that the standard deviation value is greater than the average value, which means that the data distribution is uneven, because the difference between one data and another is greater than the average value. The number of ROA observations consists of 160 data, which is the total result of multiplying 32 companies over 5 years, namely 2017-2021.

2. Company size has the lowest value of 1.32% by GGRM in 2020 and the highest value of 1.51% is owned by SCPI in 2019 with an average of 1.44. The standard deviation or standard deviation of company size is 0.039%. This value means that the standard deviation value is smaller than the average value (mean), so it can be said that the data is homogeneous, which means that on average institutional ownership has a low level of deviation.
3. Financial distress had the lowest value of -2.14% by MBTO in 2017 and the highest value was 2.05% by KLBF in 2018 with an average of 0.3661%. The standard deviation or standard deviation of financial distress is 0.788. This value means that the standard deviation is greater than the mean, indicating that the standard deviation value is greater than the average value, which means that the data distribution is uneven, because the difference between one data and another is greater than the average value.

Verification Analysis

Classic assumption test

1. Data Normality Test

The normality test is carried out using the Kolmogorov-Smirnov test, provided that if the probability value of the Kolmogorov-Smirnov test is > 0.05 then the model has normally distributed residuals, and vice versa (Prihadi, 2019:20).

Table 3. Data Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residuals
N		160
Normal Parameters ^{a, b}	Mean	.0000000
	Std. Deviation	.74671295
	Most Extreme Differences	
	Absolute	.065
	Positive	.065
	negative	-.044
Statistical Tests		.065
Asymp. Sig. (2-tailed)		.095 ^c

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

Source : SPSS 26 output. (data processed 2022)

In Figure 4.2, it can be seen that the Kolmogorov-Smirnov value is significant. The result obtained was 0.095. This significant value is greater than 0.05 ($0.095 > 0.05$), which means that the data used in this research has a normal distribution, and can be used for further testing processes for research purposes.

2. Multicollinearity Test

The multicollinearity test aims to test whether the regression model has a correlation between the independent variables used.

Table 4. Multicollinearity Test Results

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Return On Assets	0.655	2,338
	Company Size	0.655	2,338
a. Dependent Variable: Financial Distress			

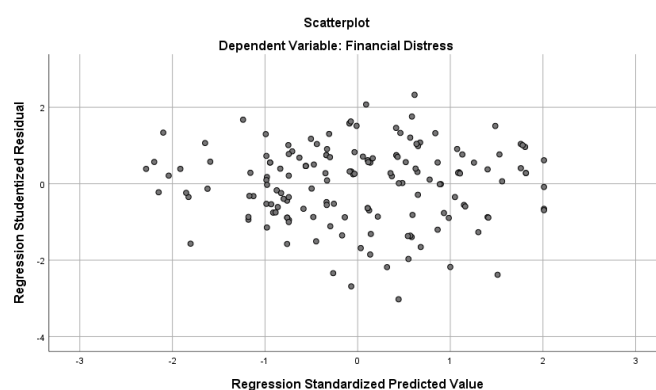
Source : SPSS 26. (processed data)

In table 4.3 above, it can be seen that each VIF value of the independent variables ROA and company size is 2,338. Both VIF values are smaller than 10 (<10), so this value means that there is no perfect correlation between the independent variables, so it can be said that there are no symptoms of multicollinearity in the research model used.

3. Heteroscedasticity Test

According to Ghozali (2018:137), the heteroscedasticity test aims to test for differences in residual variance from another observation period or to describe the relationship between the predicted value and the Student Delete Residual value.

Figure 1. Heteroscedasticity Test Results



Based on Figure 1 above, the scatterplot graph shows that the data points are spread both above and below the number 0 on the Y axis and the data points are not only gathered above and below, this can be concluded that there is no heteroscedasticity in the regression model used.

4. Autocorrelation Test

The autocorrelation test aims to find out whether in the regression model there is a correlation between confounding errors in period t and confounding errors in period t-1 (previously).

Table 5. Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.214 ^a	0.322	0.302	0.43791	1,885
a. Predictors: (Constant), Company Size, Return On Assets					
b. Dependent Variable: Financial Distress					

Source : SPSS 26 output. (data processed 2022)

In table 4 above, the Durbin-Waston (DW) statistical value is 1.885. Next, compare this value with a significant value of 0.05 %, number of samples (n) = 160 and number of independent variables (k) = 2, then the upper limit value (du) = 1.7668 is obtained. So it can be stated that the DW statistical value has the equation $dU \leq d \leq 4-dU$, where the results of the DW statistical value in the table are $1.7668 \leq 1.885 \leq 2.2332$ so it can be concluded that in this study this occurred good autocorrelation

Multiple Linear Regression Test

The multiple linear regression test is used to predict the condition (up and down) of the dependent variable (level of independence), if the two independent variables (ROA and company size) as predictor factors are manipulated (increasing and decreasing their values).

Table 6. Multiple Linear Regression Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,331	2,226		1,452	,001
	Return On Assets	-1,761	,433	,275	-1.117	,003
	Company Size	-1,289	,612	,166	-2,144	,009
a. Dependent Variable: Financial Distress						

Source : SPSS 26 output. (processed data)

Based on table 5, a multiple linear regression equation can be prepared in the research as follows:

$$Y = 2,331 - 1,761*ROA - 1,289*company\ size + \epsilon$$

The constant in the regression model is 2.331 and has a positive sign. This means that if ROA and company size are zero, then the value of financial distress is 2,331. ROA regression coefficient is

1,761 and has a negative sign. This means that if ROA increases by one unit, there will be a decrease in financial distress by 1,761. Firm size regression coefficient is 1,289 and has a negative sign. This means that if the size of the company increases by one unit, there will be a decrease in financial distress by 1,289. Residual value (ϵ) means error, which is an error in predicting sample data made by the researcher.

Coefficient of Determination Test

Table 7. Coefficient of Determination Test

Coefficients ^a				
Model		Correlations		
		Zero-order	Partials	Part
1	(Constant)			
	Return On Assets	0.321	0.239	0.202
	Company Size	0.297	0.221	0.197
a. Dependent Variable: Financial Distress				

Source : SPSS 26 output. (processed data)

Based on table 6 above, the zero-order value for the ROA variable is 0.321 and for company size it is 0.297, the amount of contribution of each independent variable to the dependent variable can be calculated as follows: Based on these calculations, it can be seen that the partial contribution of ROA to financial distress is 10.30 % and the partial contribution of company size to financial distress is 8.82 % .

Model Feasibility Test (F Test)

The model feasibility test in this research was carried out using the statistical F test. This test was carried out to find out whether the model consisting of ROA variables and company size was feasible or appropriate (Goodness Of Fit Model) is used to predict financial distress

Table 8. Statistical F Test Results

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9,238	2	3,258	6,232	,000 ^b
	Residual	77,322	157	,465		
	Total	84.210	159			

a. Dependent Variable: Financial Distress

b. Predictors: (Constant), Company Size, Return On Assets

Source : SPSS 26 output. (processed data)

Based on the results from table 7 above, the calculated F-value is 6.232 with a probability value of 0.000. At a significance level of 0.05, the F-table value = $(n - k - 1) (160 - 2 - 1) (157) = 3.05$. These results show that the calculated F-value is $6.232 > F\text{-table value } 3.05$. So it can be said that the model used in this research is appropriate or meets the Goodness of Fit Model criteria for predicting financial distress in Manufacturing Companies in the Consumer Goods Industry Sector listed on the Indonesia Stock Exchange for 2017-2021.

5. Conclusion and Suggestion

Based on the results of research and data analysis results that have been carried out on Manufacturing Companies in the Consumer Goods Industry Sector listed on the Indonesia Stock Exchange in 2017-2021 regarding the influence of ROA and company size on financial distress, the following conclusions can be drawn:

1. ROA has a negative and significant effect on financial distress. This means that the higher the ROA, the lower the financial distress, and vice versa, when the ROA decreases, the financial distress will experience an increase. This means that the ROA variable can be used to measure the financial distress variable, but negatively.
2. Company size has a negative and significant effect on financial distress. This means that the higher the company size, the lower the financial distress, and vice versa, when the company size decreases, the financial distress will decrease will experience an increase. This means that this company size variable can be used to measure the financial distress variable, but negatively.

Based on the results of the research and discussions carried out by the researcher, the researcher provides several suggestions related to the writing that has been carried out to serve as useful input and considerations for interested parties :

1. Companies that obtain profitability (ROA) that are not yet optimal, companies need to maximize the management of their assets and improve company management so that the company can utilize existing capital and increase sales so as to generate profits, reduce loans and increase its current assets.
2. Companies that have a small company size, the company is likely to experience economic pressure from a financial perspective or in terms of resources such as natural resources and human resources and this event is regardless of the size or size of the company. It is hoped that the company will improve its financial management by evaluating and improving its financial management and identifying areas that need improvement and improving company performance.
3. The limitation of this research is that it only examines Manufacturing Companies in the Consumer Goods Industry Sector listed on the Indonesia Stock Exchange in 2017-2021, only using two independent variables, only five research years were used, and each variable only uses one proxy. Future researchers should do the following things:
 - a. Increase the number of research samples so that the number of samples used as research objects is greater.
 - b. Adding other variables that can influence financial distress such as return on equity, price earnings ratio, debt to equity ratio, net profit margin and other factors not used in this research.
 - c. The research objects used can use other manufacturing sectors such as the basic industrial and chemical sectors or various industrial sectors.

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