Analysis Of The Determinants Of Financial Distress In Technology Sector Companies On The Indonesia Stock Exchange For The 2019-2022 Period

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Article Info	ABSTRACT
Keywords: Liquidity leverage, Profitability Financial Distress Panel Data Regression	Companies in the technology sector tend to experience fluctuations in their financial performance. This research aims to determine the effect of liquidity, leverage and profitability on the occurrence of financial distress in technology sector companies from 2019 to 2022. This research uses quantitative research methodology and uses purposive sampling in taking samples. The testing methodology used is panel data regression, using a dataset consisting of 64 data points and carried out through the use of the E-Views 10 program. Research findings show that variables such as liquidity, leverage, and profitability do not have any influence on the likelihood of a financial disaster. There are other influencing factors such as government policies during the Covid 19 pandemic in the form of WFH and the macroeconomic situation such as interest rate hikes.
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INTRODUCTION

Global economic development is experiencing uncertainty due to the threat of economic recession experienced by China, the United States and Europe (Rachman, 2023) . This caused the Indonesian economy to be disrupted due to the Fed's policy of increasing interest rates so that the rupiah weakened against the dollar. The large amount of foreign funds flowing out caused the JCI to weaken with a decline of 2.5% (Setiawati, 2023) . The technology sector is one of the sectors affected, this sector strengthened by 380.4% in 2021. This significant increase was due to the fact that this sector was very relevant for business during the Covid 19 pandemic. However, in 2022, the technology sector experienced a decline of 42.61%. % due to an increase in interest rates which resulted in the operational costs of technology sector companies increasing. As a result of this increase in costs, the technology sector experienced a decline in profits despite the very high use of technology (Rahmentio, et al, 2022) . Hofer (1980) and Whitaker (1999) in Purwanti (2022) explain that when a company experiences negative net profits for several years, the company can be categorized as unhealthy and has the potential to go bankrupt.

According to Sitorus, Hernandy, et al. (2022) , a decline in financial condition or *Financial Distress* is when a company cannot continue its operations because it cannot pay debts at the specified time. If an entity does not have enough funds to carry out its operations, it often

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experiences financial difficulties. In other words, bankruptcy occurs when the company's overall assets are insufficient to meet external obligations (Purwanti, 2022) . According to Utami & Dewi Kartika (2019) , financial distress is a phase of decline in financial conditions that occurs before a company goes bankrupt or is liquidated. This is because the company's financial situation is in a state of crisis. Several studies have been conducted to determine whether a company is experiencing financial distress, including using liquidity, *leverage* , company size and profitability (Sa'diah, et al., 2023) , (Hadisantoso, Mayasari, & Yulianti, 2023) and (Ayinaddis & Tegegne, 2023).) , board of directors, accounting conservatism, sales growth and operating capacity (Zhafirah & Majidah, 2019) , (Widhiastuti & Rahayu, 2022) , (Heniwati & Essen, 2020) and (Aditya Kusuma Wardhana, 2021) .

Based on financial report data for the 2019-2022 period, of the 34 companies registered on IDX Techno, it is predicted that 35% of companies are in the distress zone, 32% of companies are in the gray zone and 33% are in the safe zone. Conditions like this can be detected through financial ratios (Agustini & Wirawati, 2019) . One of these ratios is liquidity (Zhafirah & Majidah, 2019).

Liquidity refers to a company's capacity to meet its short-term and daily financial obligations. (Ary Putri, Paramu, & Awwaliyah, 2020) . Liquidity can also be used to show the location of business assets (Phantohan, Hutabarat, & Cendana, 2023) . *Current ratio* is a tool for calculating liquidity (Ilham, Putri, Sinurat, Likdanawati, & Sinta, 2021) *.* A high *Current Ratio* value indicates that the possibility of a business facing financial problems is smaller (Purwanti, 2022) . In their research, Karlina & Rahman, 2023 , found that the level of liquidity as measured by the current ratio has a beneficial impact on the occurrence of financial difficulties. On the other hand, research by Zhafirah & Majidah, 2019 found that the level of liquidity, as measured by the current ratio, has no impact on financial difficulties.

The next ratio that can detect financial distress is leverage (Noviyana, Koranti, Sriyanto, & Wijaya, 2024) . According to Utami & Dewi Kartika, (2019) , Leverage is a quantitative measure that shows a company's ability to fulfill its long-term financial commitments. The approach to assessing leverage is to look at the Debt-to-Equity Ratio (DER). (Sinurat & Cahyadi, 2021) . DER determines how much equity the company has to pay its obligations (Candy & Veni, 2023) . A high DER indicates that the profit earned is small (Nathania & Purwanto, 2023) . If the debt you have is more than your total equity, then there are more obligations that must be paid. If a company cannot generate sufficient income from its business, the company will have difficulty paying its obligations, which in turn can increase the risk of financial distress (Azizah, Nani, & Anggarini, 2023) . According to research by Azizah et al. (2023) , leverage has a positive effect on *financial distress* . In contrast to research by Suranta, Satrio, & Midiastuty (2023) , these individuals found that the use of leverage had no impact on financial difficulties.

The next ratio in detecting financial distress is profitability (Erwan, Martusa and Meythi, 2023) . Profitability refers to a company's ability to earn income (Sitanggang, Handayani and Sari, 2021) . One way to calculate profitability is to look at ROA (Arseto, Arfah and Siregar, 2022) . ROA is a ratio to measure the ability of a company's assets to be used to generate net profits (Parlina & Maiyaliza, 2023) . The company's net profit exceeds its total assets,

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indicating its extraordinary profitability. By implementing this approach, the company's ability to survive will increase significantly, thereby reducing the possibility of facing financial challenges (Azizah, Nani and Anggarini, 2023) . This is in line with research conducted by (Astuti, Hermuningsih and Maulida, 2021) which found that profitability influences *financial difficulties* . In contrast, research conducted by (Azizah, Nani and Anggarini, 2023) found that profitability does not affect financial distress.

Results from previous studies have been inconsistent. This research can fill the knowledge gap in academic literature regarding specific factors that influence financial distress in the technology sector, especially by focusing on the Indonesian capital market context. Research findings can serve as a basis for further research and theory development in this area.

The findings from this research can provide valuable guidance for investors, financial analysts, and risk managers to identify companies vulnerable to financial distress. This can lead to smarter investment decisions and more effective risk management. According to signaling theory, this corresponds to the way a company chooses to communicate information about its operations, which can reassure or discourage potential creditors and investors. (Saputri and Padnyawati, 2021)

METHOD

This research uses quantitative methods which aim to explain the specifics of the variables tested through numerical data (Gunawan and Lala, 2023) . This research is a research development of research (Purwanti, 2022) with the title Analysis Of The Effect Liquidity, Leverage, Profitability And Sales Growth On Financial Distress (Altman Z-Score (Emperical Study Of Retail Sub-Sector Companies Listed On The Indonesia Stock Exchange (Idx) 2015-2019. The research took place in 2023–2024 and took place in Tebing Tinggi City. The 2019-2022 technology sector corporate financial report was used as a secondary data source, information via related websites such as www.idx.co.id/id. , id.tradingview.com/ , and so on. The sampling method used is nonprobability sampling, namely using a purposive sampling approach. The information presented relates to technology sector companies for the period 2019 to 2022, based on specified criteria:

Table 1. Sample Selection Criteria

Information	Total
Technology sector companies listed on the Indonesia Stock Exchange for the 2019-2022 period	18
Technology sector companies inconsistently publish financial reports for the 2019-2022 period	(2)
Number of companies that can be used as samples	16
Number of Observation Data (16x4)	64

Based on the table above, researchers used data from 16 companies multiplied by 4 years, so there are 64 panel data. Data analysis techniques use classic assumption tests, panel data regression analysis, determination tests and hypothesis tests.

Table 2. Conceptual Framework
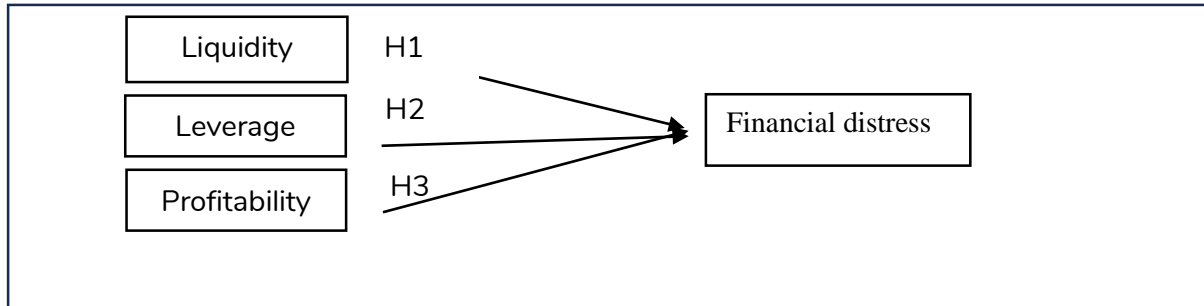
Based on the conceptual framework above, it can be explained as follows:

A high *Current Ratio* value indicates that the possibility of a business facing financial problems is smaller (Purwanti, 2022) . In their research, Karlina & Rahman, 2023 , found that the level of liquidity as measured by the current ratio has a beneficial impact on the occurrence of financial difficulties. On the other hand, research by Zhafirah & Majidah, 2019 found that the level of liquidity, as measured by the current ratio, has no impact on financial difficulties. Then it can be formulated:

H1 : liquidity influences financial distress in technology sector companies

A high DER indicates that the profit earned is small (Nathania & Purwanto, 2023) . If the debt you have is more than your total equity, then there are more obligations that must be paid. If a company cannot generate sufficient income from its business, the company will have difficulty paying its obligations, which in turn can increase the risk of financial distress (Azizah, Nani, & Anggarini, 2023) . According to research by Azizah et al. (2023) , leverage has a positive effect on *financial distress* . In contrast to research by Suranta, Satrio, & Midiastuty (2023) , these individuals found that the use of leverage had no impact on financial difficulties. Then it can be formulated:

H2: Leverage influences *financial distress* in technology sector companies

The company's net profit exceeds its total assets, indicating its extraordinary profitability. By implementing this approach, the company's ability to survive will increase significantly, thereby reducing the possibility of facing financial challenges (Azizah, Nani and Anggarini, 2023) . This is in line with research conducted by (Astuti, Hermuningsih and Maulida, 2021) which found that profitability influences *financial difficulties* . In contrast, research conducted by (Azizah, Nani and Anggarini, 2023) found that profitability does not affect financial distress. Then it can be formulated:

H3: Profitability influences *financial distress* in technology sector companies

Table 3. Operational Summary

No	Variable	Definition	Measurement	Scale
1	Liquidity (X1)	The company's ability to fulfill its short-term obligations (Zhafirah and Majidah, 2019)	$CR = \dfrac{Current\ Assets}{Current\ Liability}$	Ratio
2	Leverage (X2)	Measuring a company's assets financed by debt (Dirman, 2020)	$DER = \dfrac{Total\ Debt}{Total\ Equity}$	Ratio

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No	Variable	Definition	Measurement	Scale
3	Profitability (X3)	The company's ability to generate income (Sitanggang, Handayani and Sari, 2021)	$ROA = \dfrac{Net\ Ptofit}{Total\ Assets}$	Ratio
4	Financial Distress (Y)	Successive decline in company revenue levels (Gunawan and Lala, 2023)	$z = 6{,}56T^1 + 3{,}26T^2 + 6{,}72T^3 + 1{,}05T^4$	Formulas

RESULTS AND DISCUSSION

Results

Descriptive Statistical Analysis

Table 4. Descriptive Statistical Test Results

	Y	X1	X2	X3
Mean	7.081094	4.9625	2.365313	4.21375
Maximum	42.84	36.22	54.98	71.69
Minimum	-42.97	0.35	-4.09	-18.1
Std. Dev.	9.643644	6.503092	8.545443	11.27436

*) Source: Research Data, 2024

Based on the results of the descriptive test, it can be concluded that from 64 companies, the financial distress variable calculated with the Altman Z Score as a whole obtained a minimum value of -42.97 which means that the company is in very poor financial condition and is in the bankruptcy zone based on the zone discrimination indicator if the Z value < 1.81 The company is PT. Envy Technologies Indonesia Tbk. The maximum value is 42.84 which means that the company is in very healthy condition based on the zone discrimination indicator if the Z value > 1.23 The company is PT. Hensel Davest Indonesia Tbk. The mean value is 7.08, which means that in general the company is in a safe condition based on the indicator of the discrimination zone if the Z value > 2.99. The standard deviation value is 9.6 which means that the standard deviation value > the average value so that it indicates the spread of data.

The liquidity variable (X1) which is proxied with the current ratio as a whole has a minimum value of 0.35 which means that the company is in a low liquidity position where its current assets are only 0.35 of its current debt. The company is PT. Envy Technologies Indonesia Tbk. (2022). The maximum value of 36,22 whih means that the company is with high liquidity where its current assets are 36,22 its current debt. This company is PT. Hensel Davest Indonesia Tbk. (2022) and a mean value of 6,50 which indicates a higher current asset value than current debt. Every Rp. 1 current debt can be filled with 6,50 current assets owned by the company. The standard deviation value is 9.6 which means that the standard deviation value > the average value so that it indicates the spread of data.

The leverage variable (X2) proxied with DER as a whole obtained a minimum value of -4.09 meaning that the company has a negative equity value or the company in the previous period was unable to pay its due debts. The company is PT. Envy Technologies Indonesia

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Tbk. (2022). The maximum value of 54.98 means that the value of the company's debt is 54.98 its equity value. The company is PT. Anabatic Technologies Tbk. (2021) and the mean value of 2.36 which shows that the average company has debt 2.36 its equity. This means that the equity currently owned by the company cannot be used to pay all its debts. The standard deviation value is 8.5 which means that the standard deviation value > the average value so that it indicates the spread of data.

The profitability variable (X3) proxied with the overall ROA obtained a minimum value of -18.1 which means The company suffered a loss of 18.1% of total assets. The company is PT. Kioson Commercial Indonesia Tbk. (2020). The maximum value of 71.69 which means that the company gets a net profit of 71.69 of total assets. The company is PT. Nusantara Tbk Voucher Distribution Tbk. (2021). and a mean value of 4.2 which means that every Rp. 1 of the company's assets can generate Rp. 4.2 profit. The standard deviation value is 11.2, which means that the standard deviation value > the average value so that it indicates the spread of data.

Model Significance Test

1. Test Chow

   The hypothesis used is as follows:

   H0: Common Effect Model

   H1: Fixed Effect Model

   The testing criteria carried out are:

   If the Prob Chi-Square value is > 0.05: H0 is accepted

   If the Chi-square Prob value <0.05: H1 is accepted

   Table 5. Chow Test Results

Effect Test	Statistics	Prob
Cross-section F	2.71	0.0049
Chi-square cross-section	41.23	0.0003

   The Chow test results in the table above show that the Prob Chi-Square value is 0.0003 < 0.05, meaning that H0 is rejected and H1 is accepted, so the Fixed Effect Model is more appropriate to use.

2. Hausman test

   The hypothesis used is as follows:

   H0: Fixed Effect Model

   H1: Random Effect Model

   The testing criteria carried out are:

   If the Chi-Square Prob value <0.05: H0 is accepted

   If the Prob Chi-square value is > 0.05: H1 is accepted

   Table 6. Hausman Test Results

Test Summary	Chi-Sq Statistics	Prob
Random cross-section	21.36	0.0001

Based on the Hausman test findings in the table above, the Fixed Effect Model is a better choice because the Prob Chi-Square value is 0.0001 < 0.05, which means H0 is

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accepted and H1 is rejected. These two experiments demonstrate the Fixed Effects Model as a standard tool for hypothesis testing.

Panel Data Regression Test

1. Fixed Effects Model

Table 7. Fixed Effect Test Results

Variable	Coefficient	Std. Error	t-Statistics	Prob
C	-0.492687	0.268714	-1.833502	0
X1	-0.02603	0.162855	-0.159834	0.0733
X2	-0.140802	0.110664	-1.272338	0.8737
X3	10.18093	1.748564	5.822451	0.2098
R-squared	0.539771	Mean dependent var		7081094
Adjusted R-squared	0.35568	SD dependent var		9.643644
SE of regression	7.740911	Akaike info criteerion		7.172445
Sum Squared resid	2696,477	Schwarz Criterion		7.813364
Log likelihood	-210.5182	Hannan-Quincriter.		7.424935
F-statistic	2.932081	Durbin-Watson stat		1.3932
Prob(F-statistic)	0.001764			

The results of the table above show that variables X1 , 0.05.

Coefficient of Determination

The coefficient of determination value varies from zero to one. The ability of the independent variable to explain the dependent variable will decrease if the value is low. If the value is close to one, it means that the data needed to estimate the dependent variable is almost entirely provided by the independent variable.

Table 8. Coefficient of Determination Test Results

R-squared	0.539771
Adjusted R-squared	0.35568

Based on Table 7, the coefficient of determination (R^2) value adjusted for R-squared is 0.35. When viewed as a whole, the independent variable influences the dependent variable by 35%. However, there are several things that impact the remaining 65%.

Hypothesis testing

1. Partial Influence Test (T Test)
   Criteria for testing carried out:
   If t count ≤ t table or Sig. > 0.05, indicating Ho is accepted and Ha is rejected

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If t count ≥ t table or Sig. < 0.05, indicating Ho is rejected and Ha is accepted

Table 9. T Test Results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	10.18093	1.748564	5.822451	0
X1	-0.492687	0.268714	-1.833502	0.0733
X2	-0.02603	0.162855	-0.159834	0.8737
X3	-0.140802	0.110664	-1.272338	0.2098

a. Liquidity Variable (CR)

Compared to the essential t value of 1.99, the calculated t value of -1.80 is smaller. Beyond that, with a significance level of 0.07 it exceeds the limit of 0.05. As a result, liquidity does not have a significant impact on financial distress.

b. Variable Leverage (DER)

The calculated t value was -0.15, with a significance level of 0.87. Comparing this value with the critical t value of 1.99, we find that the t value is smaller than the critical value. In addition, the significance level of 0.87 is greater than the threshold of 0.05. Therefore, it can be concluded that leverage has no significant effect on financial distress.

c. Profitability Variable (ROA)

A t value of -1.27 at a significance level of 0.21 was calculated. The calculated t value of -1.27 is smaller than the critical t value of 1.99 if we compare the two values. Furthermore, the limit of 0.05 is exceeded by the significance level of 0.21. As a result, profitability does not have a significant impact on financial distress .

DISCUSSION

Based on the results of hypothesis testing carried out, the relationship between variables can be explained as follows:

The influence of the liquidity variable on the Financial Distress variable

Based on the results of the analysis, it is concluded that the first hypothesis is rejected, indicating that the liquidity variable has no influence on financial distress. This is in line with research conducted by Aditya Kusuma Wardhana, (2021). This shows that liquidity is not relevant to monetary issues. This finding shows that the company is able to meet its short-term obligations using its current assets because of its good liquidity. The current ratio only considers current assets and short-term liabilities, while financial difficulties relate to long-term conditions. The current ratio has no impact on the financial crisis situation (Agustini & Wirawati, 2019) . The technology companies examined in this study have favorable current asset values relative to their short-term liabilities. This condition can be observed by looking at the average current ratio of technology sector companies which is at 4.96 in the 2019-2022 period.

The influence of the leverage variable on the Financial Distress variable

After analyzing the second hypothesis, it is known that this hypothesis is rejected, this shows that the leverage variable has no influence on financial difficulties. This is in line with research conducted by Suranta et al., (2023). It is said that a high level of leverage does not

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necessarily mean a company will go bankrupt. This is because companies with significant levels of debt can finance their asset acquisitions effectively and increase the company's profitability. Long-term debt can become the main capital for a company, allowing it to generate large profits. This can be seen from technology sector companies which have an average ROA during the 2019-2022 period of 4.21 while the average debt value is 2.37.

The influence of the Profitability variable on the Financial Distress variable

After analyzing the third hypothesis, it was determined that this hypothesis was rejected. This means that profitability has no impact on financial distress. This is in line with research conducted by Aji & Anwar, (2022). This study shows that there is no correlation between high or low return on assets (ROA) and a subsequent decrease or increase in financial difficulties. Poor profitability does not necessarily indicate financial distress. However, by implementing cost reduction measures and asset reduction strategies, organizations can mitigate the possibility of facing financial difficulties, even when there are no significant profits. (Dini, Selvia, Octavia, & Sidebang, 2021) . In the technology sector that was sampled in the re search in 2020, ROA decreased to 0.86 due to the Covid-19 pandemic and experienced a significant increase to 8.96 due to the government policy to carry out WFH . However, during this increase, the financial distress figure also increased to 6.63 from the previous year, namely 6.37 in 2020. This indicates that an increase or decrease in ROA cannot directly affect financial distress, there are government policy regulations and the macroeconomic situation that also influence it.

CONCLUSION

The results of hypothesis testing show that from 2019 to 2022, financial difficulties are not influenced by liquidity ratios, leverage or profitability in technology businesses listed on the Indonesia Stock Exchange . This is due to additional factors that have an influence, such as macroeconomics and government policy restrictions. It is hoped that the findings of this research will provide a valuable reference and comparison for future academics who wish to explore similar themes. Investors should consider this when making investment choices in the technology sector .

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