THE EFFECT OF LEVERAGE, RETURN ON EQUITY, SALE, CAPITAL EXPENDITURE, ASSET TURNOVER, AND WORKING CAPITAL EXPENDITURE ON FINANCIAL DISTRESS

PENGARUH LEVERAGE, LABA ATAS EKUITAS, PENJUALAN, BELANJA MODAL, PERPUTARAN ASET, DAN BELANJA MODAL KERJA TERHADAP KESULITAN KEUANGAN

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ABSTRACT

This quantitative research aims to determine the effect of leverage, return on equity, sales, capital expenditure, asset turnover, and working capital expenditure on financial distress in transportation sector companies listed on the Indonesia Stock Exchange from 2019 to 2022. The independent variables used in this study are financial distress. Financial distress refers to the stage of declining financial conditions of a company that can be predicted through both internal and external factors, while the dependent variables in this study include the firm life cycle (leverage measured by the debt assets ratio, return on equity measured by net profit and company equity, sales, capital expenditure, asset turnover measured by sales, and working capital expenditure). This study uses a quantitative approach with regression analysis. Secondary data were obtained and analyzed using the Eviews program. The results of the tests showed that variables X1 (leverage), X2 (ROE), X3 (sales), and X4 (capital expenditure) do not have a significant effect on financial distress, while variables X5 (asset turnover) and X6 (working capital expenditure) have a significant effect. This research can help company management make decisions related to financial strategies to avoid or address financial distress.
Keywords: *Leverage, Return on Equity, Sales, Capital Expenditure, Asset Turnover, Working Capital Expenditure, Financial Distress*

ABSTRAK

Penelitian kuantitatif ini bertujuan untuk menentukan pengaruh leverage, return on equity, penjualan, pengeluaran modal, perputaran aset, dan pengeluaran modal kerja terhadap kesulitan keuangan pada perusahaan sektor transportasi yang terdaftar di Bursa Efek Indonesia periode 2019 hingga 2022. Variabel independen yang digunakan dalam penelitian ini adalah kesulitan keuangan. Kesulitan keuangan merujuk pada tahap penurunan kondisi keuangan perusahaan yang dapat diprediksi melalui faktor internal dan eksternal, sementara variabel dependen dalam penelitian ini meliputi siklus hidup perusahaan (leverage diukur dengan rasio utang terhadap aset, ROE diukur dengan laba bersih dan ekuitas perusahaan, penjualan, belanja modal, perputaran aset diukur dengan penjualan, dan belanja modal kerja). Penelitian ini menggunakan pendekatan kuantitatif dengan analisis regresi. Data sekunder diperoleh dan dianalisis menggunakan program Eviews. Hasil uji menunjukkan bahwa variabel X1 (leverage), X2 (ROE), X3 (penjualan), dan X4 (pengeluaran modal) tidak memiliki pengaruh signifikan terhadap kesulitan keuangan, sementara variabel X5 (perputaran aset) dan X6 (pengeluaran modal kerja) memiliki pengaruh signifikan. Penelitian ini dapat membantu manajemen perusahaan dalam mengambil keputusan terkait strategi keuangan untuk menghindari atau mengatasi kesulitan keuangan.
Kata Kunci: Leverage, Return On Equity, Penjualan, Pengeluaran Modal, Perputaran Aset, Pengeluaran Modal Kerja, Kesulitan Keuangan

INTRODUCTION
1.1. Overview

In a dynamic and competitive business environment, the sustainability and success of a company heavily depend on its ability to manage assets and financial performance effectively. One of the key aspects of financial management is leverage policy, which reflects the extent to which a company utilizes debt financing to enhance profit potential (Tang & Fiorentina, 2021). However, excessive use of leverage also carries a high risk of bankruptcy, forcing companies to carefully consider their

financial strategies to avoid neglecting shareholder interests (Izzah et al., 2019).

The importance of financial performance is also reflected in Return on Equity (ROE), which measures the efficiency of a company's use of capital and illustrates how effectively the company delivers returns to shareholders on their investments (M. Sari et al., 2019).

Additionally, in efforts to maintain and enhance its market position, sales growth becomes a key indicator of a company's success. High sales growth rates reflect the company's ability to effectively implement its business strategy and sustain its competitiveness amidst intense competition (Fahmi, 2018; Kasmir, 2015).

Furthermore, capital invested in acquiring fixed assets (Capital Expenditure) plays a crucial role in the operational efficiency and production capacity of a company. This investment allows companies to maximize the use of their fixed assets, expand production capacity, and improve their competitiveness in the market (Ahuja, 2017).

Related to capital expenditure, Total Asset Turnover (TATO) is a ratio that reflects the extent to which a company can optimize the use of all its assets in generating sales. TATO is an indicator of operational efficiency, measuring how much sales are generated from each unit of assets owned by the company (Kasmir, 2015).

Working capital expenditure can influence financial distress as companies with shorter cash conversion cycles can more quickly turn working capital into cash, increasing the company's cash holdings. This occurs because net working capital is largely held in highly liquid assets, allowing the company to have sufficient cash reserves to meet short-term obligations and avoid financial difficulties (Sethi & Swain, 2019).

In this context, it is inevitable that companies may experience financial distress, which is an indicator of declining financial performance. This phenomenon is often an early stage before bankruptcy. Financial distress can be caused by various factors, including poor managerial decisions, weaknesses in management, and lack of oversight of the company's financial condition (Silanno & Loupatty, 2021). With stable financial conditions, a company can manage its operations more smoothly. Conversely, if the company's finances are unstable, managing the company's operations will become more challenging. Financial distress describes a situation where a company faces difficulties in meeting its financial obligations, including debt payments (Yopie, 2021). Research results show empirical evidence that financial distress has a significant positive mediating effect in explaining the influence of stimulus variables on corporate fraud. Research results show empirical evidence that financial distress has a significant positive mediating effect in explaining the influence of stimulus variables on corporate fraud (Natalis, 2022).

Considering the importance of these factors, this study aims to investigate the impact of leverage, ROE, sales growth, capital expenditure, asset turnover, and working capital expenditure on the likelihood of financial distress in companies. With a deep understanding of these factors, it is hoped that companies can take more prudent steps in managing their finances and develop appropriate business strategies in line with the dynamic market conditions and economic environment.

1.2. Significance of the Study and Research Gaps

Researchers have conducted previous studies and found 20 studies relevant to the current research. These studies serve as references for conducting this research. The majority of previous studies were conducted by observing companies listed on the Indonesia Stock Exchange (IDX) over various periods, using various variables such as profitability, liquidity, leverage, return on equity, sales, capital expenditure, asset turnover, and working capital expenditure.

One example of previous research is by Puspita Sari and Iffah Zatil Ismah, who investigated the effect of working capital strategy on the probability of a company experiencing financial distress in the context of the company life cycle. Their findings indicated that the working capital strategy does not moderate the probability of a company experiencing financial distress at different stages of the company life cycle (P. Sari & Ismah, 2023).

Another study by Baiq Vica Artamevia and Nanik Wahyuni examined the effect of profitability on financial distress moderated by capital structure in coal sector companies on the IDX. The results showed that profitability does not affect financial distress in coal companies, and capital structure does not influence the relationship between profitability and financial distress (Artamevia & Wahyuni, 2022).

A third journal by Calista Alvernia and Mutiara Maimunah focused on the effect of profitability, liquidity, and leverage on financial distress in food and beverage manufacturing companies on the IDX for the period 2018-2020. The results indicated that profitability has a negative effect on financial distress, while liquidity and leverage have a positive effect on financial distress (Alvernia & Maimunah, 2022).

From various previous journals, findings show consistency in some variables, such as profitability often having an influence on financial distress, where high profitability levels tend to reduce the likelihood of a company experiencing financial difficulties. However, there are also results that show variability in the influence of other factors such as liquidity, leverage, and capital structure on financial distress, depending on the sector and characteristics of the company..

Previous research illustrates that factors such as leverage, return on equity, sales, capital expenditure, asset turnover, and working capital expenditure significantly impact a company's financial condition. Previous studies have shown that these factors play a crucial role in influencing the probability of a company experiencing financial distress. Therefore, referring to findings from previous journals will provide a strong foundation in designing the research methodology, selecting relevant variables, and interpreting the results. Building on the existing knowledge from previous studies, this research can contribute to deepening the understanding of factors influencing financial distress in companies.

1.3. Research Objectives and Questions
Research Objectives
1. To determine the effect of leverage on financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022.
2. To determine the effect of return on equity on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022.

3. To determine the effect of sales on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022.
4. To determine the effect of capital expenditure on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022.
5. To determine the effect of asset turnover on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022.
6. To determine the effect of working capital expenditure on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022.

Research Question
1. Is there an effect of leverage on financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022?
2. Is there an effect of return on equity on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022?
3. Is there an effect of sales on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022?
4. Is there an effect of capital expenditure on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022?
5. Is there an effect of asset turnover on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022?
6. Is there an effect of working capital expenditure on the level of financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2022?

1.4. Contribution to Knowledge

This research is expected to make a significant contribution to the knowledge in the field of corporate financial analysis. By thoroughly examining the effects of leverage, return on equity, sales, capital expenditure, asset turnover, and working capital expenditure on financial distress, this study aims to provide new insights into efforts to prevent and manage financial risks at the corporate level. The findings of this research are anticipated to serve as a foundation for the development of more effective strategies and policies in managing corporate financial health.

LITERATURE REVIEW
1.5. Leverage

In this context, companies must have a clear debt policy, as described by (Keintjem et al., 2020). This debt policy outlines the extent to which the company will obtain funding through debt and serves as a strategy for financing its operational activities. Leverage itself is an indicator of how much of a company's assets are financed through debt. Susanti et al. (2019) explain that the debt-to-equity ratio (DER) and the debt-to-asset ratio (DAR) can be used to measure leverage. Kusumawardani (2012) clarifies that leverage is the ratio between debt and equity, and a higher leverage indicates a greater dependency on external parties. (Kasmir, 2015) and Brigham dan Huston (2014) describe leverage as reflecting the extent to which

a company uses debt financing in its operations. Brigham and Huston (2014) also provide a formula for measuring financial leverage, which is total debt divided by total assets, then multiplied by 100%.

Leverage ratios are useful for assessing a company's ability to repay all of its debts. Leverage occurs due to the use of company funds in the form of debt from third parties (Widhiari & Merkusiwati, 2015). Leverage serves as a measure of debt financing relative to the company's assets. High leverage ratios can result in the company being unable to meet its debt obligations, potentially disrupting operational activities and leading to financial distress.

Puspita Sari & Iffah Zatil Ismah (2023) found in their study that leverage did not have a significant effect on financial distress in non-financial companies listed on the Indonesia Stock Exchange from 2010 to 2020. Conversely, Baiq Vica Artamevia & Nanik Wahyuni (2022) found similar results, indicating no significant effect of leverage on financial distress, considering capital structure as a moderating factor. Nurifah Lausiria & Katiya Nahda (2022) found that liquidity and profitability ratios had a significant impact on financial distress, while leverage did not significantly affect companies in the consumer goods sector on the Indonesia Stock Exchange from 2016 to 2020. Other studies, such as those by Luke Suciyati Amna et al. (2021) and Pipit Lia Indarti (2020), also reported similar findings, where profitability and liquidity did not significantly influence financial distress, and leverage had no significant impact (Amna et al., 2021). Calista Alvernia & Mutiara Maimunah (2022) observed that profitability, liquidity, and leverage simultaneously had a significant impact

on financial distress in food and beverage manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2020. Based on the above discussion, the proposed hypothesis is:

H1: There is a positive effect of leverage on financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

1.6. Return on Equity

Return on Equity (ROE) is an important indicator in financial analysis that measures how efficiently a company uses its equity to generate profit. According to Safitri and Mukaram (2018), ROE is a financial ratio related to profitability. This ratio is part of the analysis of the company's balance sheet and income statement. ROE is calculated by comparing the net income generated by the company to its equity, indicating how much profit is generated from each unit of equity owned by the shareholders.

Sari et al. (2019) explain that Return on Equity (ROE) measures the returns available to the owners of a company on their invested capital. ROE reflects the amount of profit provided to shareholders as a result of their equity investment. In other words, ROE provides an insight into the efficiency of the company's use of its own capital.

Jufrizen and Fatin (2020) state that Return on Equity (ROE) is also an indicator of the company's ability to generate net profit for shareholder equity returns. ROE is one of the financial ratios used to measure profitability from equity. A high ROE indicates the company's ability to optimize the use of its own capital to generate returns for shareholders (Jufrizen & Al Fatin, 2020).

Thus, ROE plays a crucial role in evaluating a company's financial performance and provides an overview of how well the company is generating

profit from its equity. This ratio is important for investors and other stakeholders to assess how well the company is providing returns on their capital investment (Jufrizen & Al Fatin, 2020; M. Sari et al., 2019).

According to Brigham and Houston (2017), Return on Equity (ROE) is a metric that measures the return on common shareholder investment by comparing net income to common equity. If a company achieves a high ROE ratio, it indicates that the company is in a stable financial condition and not threatened by potential financial distress.

Based on the analysis of several previous studies, there are varied results regarding the impact of Return on Equity (ROE) on financial distress. Some studies, such as those by Calista Alvernia and Mutiara Maimunah (2022) and Ayumi Rahma (2020), show that ROE does not have a significant effect on financial distress (Rahma, 2020). Similarly, research by Luke Suciyati Amna et al. (2021), Eka Rima Prasetya and Rakhmawati Oktavianna (2021), and Suryani (2019) also indicates no significant impact of ROE on financial distress. Despite this variation, these findings consistently reject the hypothesis that ROE has a positive effect on financial distress. However, other studies present different findings (Amna et al., 2021; Prasetya & Oktavianna, 2021; Suryani, 2021). Some research, such as that by Nelli Novyarni and Meylawati Dewi (2020), finds a positive effect of ROE on financial distress (Novyarni & Dewi, 2020). Additionally, studies by Vira Ainal Mardiah and Muhammad Nuryatno Amin (2022) and Friska Syalomytha and Maria Natalia (2023) show a significant impact of ROE on financial distress (Mardiah & Amin, 2022; Syalomytha & Natalia, 2023). Therefore, the proposed hypothesis is:

H2: There is a positive effect of ROE on financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

1.7. Sales

Sales refer to the activities involving interactions between sellers and buyers aimed at persuading individuals to purchase the offered goods and services (Swastha dalam Sulbahri, 2020). Another definition of sales is the exchange of goods and services based on considerations of value, such as monetary considerations (Winardi dalam Sulbahri (2020).

Sales volume plays a crucial role in a company's success. It includes the total revenue generated by the company during a specific marketing period. Sales volume encompasses not only cash transactions but also credit transactions, calculated as a total of the revenue achieved. If sales volume increases while distribution costs decrease, the company can achieve higher profits. Conversely, if sales volume decreases, the company's profits will also decline (Swastha & Irawan dalam Sulbahri (2020).

Kotler (2000) defines sales volume as the amount of goods sold in monetary terms over a specific period, including effective service strategies. According to Swastha & Irawan (1999:150), sales volume represents the maximum sales level that can be achieved by a seller (Sulbahri, 2020). Novyarni & Dewi (2020) found that Sales Growth has a significant positive effect on Financial Distress (Novyarni & Dewi, 2020). Additionally, Friska Syalomytha and Maria Natalia (2023) also state that Sales Growth has a significant positive effect on Financial Distress (Syalomytha & Natalia, 2023). Therefore, the proposed hypothesis is:

H3: There is a positive effect of sales growth on financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

1.8. Capital Expenditure

Capital Expenditure (CapEx) refers to the expenditures made by an entity with the aim of enhancing, repairing, or acquiring an asset that is expected to provide future benefits. This can include investments in production equipment, facilities, technology, and other assets with long-term value. It is important to note that because capital expenditures are considered to provide benefits in the future, they are not categorized as daily operational costs but rather classified as capital expenditures (Yanti, 2020).

The method of measuring capital expenditure can vary depending on the context of the analysis. In studies conducted by Yanti et al. (2019) and Arfan et al. (2017), capital expenditure was calculated by dividing the value of Net Property, Plant, and Equipment (PPE) by total assets. This measurement method provides a clear picture of how extensively an entity allocates resources to acquire and maintain productive assets in its operations (Arfan et al., 2017; Yanti, 2020).

Furthermore, capital expenditures can also have a significant impact on an entity's financial performance. By allocating funds for investments in productive assets, an entity can expect increased productivity and efficiency in the long run. However, decisions related to capital expenditure must be carefully considered due to the long-term nature of these investments and their impact on the entity's capital structure and liquidity (Yanti, 2020)

Sari & Ismah (2023) found that capital expenditure has a positive and significant effect on financial distress (Sari & Ismah, 2023) Therefore, the proposed hypothesis is:

H4: There is a positive effect of capital expenditure on financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

1.9. Asset Turnover

Asset Turnover is an activity ratio used to assess how well a company utilizes its resources to support its operations. Activity ratios generally indicate the level of efficiency in utilizing assets to achieve optimal results (Irham, 2012). Specifically, Asset Turnover (TATO) reflects the efficiency of using a company's total assets to generate a specific volume of sales (Famiah & Handayani, 2018).

According to Kasmir (2015), the Total Asset Turnover ratio measures how quickly a company's assets turn over and determines the amount of sales generated from each unit of assets. The calculation is straightforward: dividing net sales by total assets. A higher TATO value indicates better performance in maximizing assets to achieve optimal sales (Kasmir, 2015).

E. Hartono and Fuadi (2022) explain that TATO reflects activities involved in a company's operations, including sales, purchases, and other activities. This ratio compares sales to various asset elements owned by the company. Meanwhile, Rahayu and Utami (2021) state that activity ratios measure how effectively a company utilizes all its resources, including investments in various types of assets(Rahayu & Utami, 2021).

Using a simple formula, Total Asset Turnover can be calculated by dividing net sales by total assets. This ratio provides insight into how well a company leverages its assets to achieve

the desired sales volume (Rahayu & Utami, 2021).

Previous research has not extensively analyzed the relationship between asset turnover and financial distress. Therefore, the proposed hypothesis is:

H5: There is a positive effect of asset turnover on financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

1.10. Working Capital Expenditure

Working capital expenditure can influence financial distress because companies with shorter cash conversion cycles can more quickly convert working capital into cash, thereby increasing the company's cash holdings. This occurs because net working capital is largely held in highly liquid assets, allowing the company to maintain sufficient cash reserves to meet short-term obligations and avoid financial difficulties (Sethi & Swain, 2019). Previous research has not extensively explored the impact of working capital expenditure on financial distress. Therefore, the proposed hypothesis is::

H5: There is a positive effect of working capital expenditure on financial distress in transportation sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022.

1.11. Financial Distress

Financial distress is a condition where a company faces financial difficulties that threaten its sustainability or its ability to continue as a going concern. This term can also refer to the state before liquidation occurs. Rodoni and Ali (as cited in Silanno & Loupatty, 2021) identify three main factors that can cause financial distress: insufficient capital, large debt and interest burdens, and suffering losses. These three factors

are interrelated and need to be balanced to prevent financial distress that could lead to bankruptcy (Silanno & Loupatty, 2021).

Various methods have been developed to predict financial distress. One of these methods involves using ratio analysis of financial information found in a company's financial statements. Altman (as cited in Silanno & Loupatty, 2021) introduced the Z-score model, which is a score derived from a combination of financial ratios to estimate the likelihood of company bankruptcy (Silanno & Loupatty, 2021).

There are also various definitions of financial distress depending on the type. Baldwin and Mason (1983) state that a company experiences financial distress if it cannot meet its financial obligations, violating debt covenants, and reducing or eliminating dividend financing. Damodaran (1997) identifies micro factors causing financial distress, including the amount of debt, losses from operations, and cash flow difficulties (Silanno & Loupatty, 2021).

Fahmi (2018) categorizes financial distress into four levels, ranging from Category A (very high and extremely threatening) to Category D (low). In each category, companies are expected to take specific measures to address the financial difficulties they face (Fahmi, 2018).

METHODOLOGY
1.12. Theoretical framework

This research is based on the analysis of factors influencing the level of financial distress in companies. Leverage can be a significant risk factor in corporate finance, as excessive use of debt can increase financial risk. Furthermore, return on equity will be analyzed to understand its relationship with the level of financial distress. Return on equity reflects the level of

profitability and financial performance of a company, which can affect long-term financial stability. Additionally, sales will be a focus of the study to determine its contribution to the company's financial condition and the potential for financial distress. The impact of capital expenditure on the level of financial distress will also be analyzed. Capital expenditure can affect liquidity and the overall financial health of the company. Moreover, asset turnover will be evaluated to understand the role of asset usage efficiency in reducing financial distress risk. Finally, working capital expenditure will be analyzed to determine its impact on the level of financial distress.
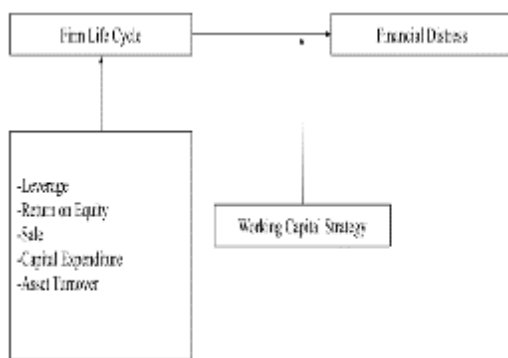
Picture 1. Theoretical Framework Penelitian

1.13. Research Paradigm

The research paradigm of this study aims to identify and analyze the factors influencing the level of financial distress in companies objectively and based on empirical data. A quantitative method will be used to collect and analyze data from financial statements and related company information. This study will adopt a deductive approach, where hypotheses about the impact of leverage, return on equity, sales, capital expenditure, asset turnover, and working capital expenditure on financial distress will be tested based on the collected empirical data. Additionally, this research will utilize a cross-sectional

approach, where data will be gathered from various companies at a specific point in time to allow for comparative analysis across companies. By employing quantitative methods, this study aims to make a significant contribution to understanding the factors affecting the level of financial distress in companies.

1.14. Research Object

This research will focus on transportation sector companies listed on the Indonesia Stock Exchange (BEI) during the period 2019 to 2022. The selection of non-financial sector companies was carried out to ensure that the research results were not influenced by the special characteristics of the financial sector.

1.15. Population and Sample

A sample is a representative subset of the entire population with specific characteristics (Sugiyono, 2016). This study employs a non-probability sampling method using purposive sampling technique. This technique allows for sample selection based on specific considerations. In this case, the sample consists of non-banking companies listed on the Indonesia Stock Exchange (IDX) that regularly report their financial statements from 2019 to 2022. The companies are also selected based on the availability of information relevant to the research variables. Based on these criteria, a total of 22 companies were selected.

1.16. Definitions and Measurements of Variables
1. Leverage: Leverage is an indicator of the extent to which a company's assets are financed through debt. It will be measured using the debt to equity ratio, which reflects the company's dependence on loans to fund

operations and investments. The formula for the Debt to Equity Ratio (DER) is as follows:

2. Return on Equity (ROE): According to Safitri and Mukaram (2018), ROE is a financial ratio related to profitability. It is part of the balance sheet and income statement analysis. ROE is measured by comparing the company's net income with its equity. ROE will be measured by comparing the company's net income with shareholders' equity, providing insight into how efficiently the company generates profit from its own capital. The formula for ROE is:

3. Sales: Sales volume includes both cash and credit transactions, calculated as the total revenue generated. An increase in sales volume, with a decrease in distribution costs, can lead to higher profits. Conversely, a decrease in sales volume may lead to reduced profits (Swastha & Irawan in Sulbahri, 2020). Sales will be measured as the total revenue from the company's operations, as reported in the income statement.

4. Capital Expenditure: Capital Expenditure (CapEx) refers to expenditures made by an entity to enhance, repair, or acquire assets expected to provide future benefits. CapEx will be measured as the total expenditure for investments in fixed assets or long-term capital. The formula for measuring Capital Expenditure is:

Capital Expenditure = Current Year's Fixed Asset Balance - Previous Year's Fixed Asset Balance + Depreciation Expense for the Current Period

5. Asset Turnover: Asset Turnover will be measured as the ratio of total revenue to total assets of the company. It reflects the company's efficiency in using its assets to generate revenue. The formula for calculating Asset Turnover is: Asset Turnover = Sales / Total Assets × 100%

6. Working Capital Expenditure: Working Capital Expenditure (WCE) is the expenditure made by a company to support daily operations, ensuring that the company has sufficient liquidity to meet short-term obligations. WCE includes inventory purchases, accounts payable payments, and financing of accounts receivable. Effective working capital management ensures smooth cash flow, timely payments to suppliers, and maintenance of a healthy operational cycle without liquidity issues. The common formula for calculating working capital is Working Capital = (Inventory + Accounts Receivable + Cash and Cash Equivalents) - Accounts Payable.

1.17. Data Collection Method

Data will be collected from two primary sources: public financial data from annual financial reports available on the Indonesia Stock Exchange (IDX) and the official websites of the companies.

1.18. Data Analysis Method

Data analysis uses multiple regression analysis techniques. This analysis aims to determine the influence of several independent variables on one dependent variable (Sugiyono, 2016). Multiple linear regression is chosen to explain the relationship and the extent of the influence of independent variables on the dependent variable. Before conducting the analysis, classical assumption tests are carried out to ensure the model does not experience issues such as normality, multicollinearity,

autocorrelation, and heteroscedasticity (Ghozali, 2016).

3.7.1 Descriptive Statistics

Descriptive analysis is used to describe the collected data to obtain a concise overview of the data set without making generalizations (Sugiyono, 2018:239). This statistic facilitates a quick understanding of the data condition.

3.7.2 Classical Assumption Tests

Classical assumption tests are conducted to check the compliance of the data used in the model with the provisions in regression analysis. Several tests conducted include normality test, heteroscedasticity test, autocorrelation test, and multicollinearity test. The normality test aims to determine whether the independent and dependent variables have a normal distribution. Ghozali (2016:154) emphasizes that a good regression model should have data that approximates or conforms to a normal distribution. This test uses the Kolmogorov-Smirnov test approach, where if the significance value is greater than 0.05, it can be concluded that the data has a normal distribution. Conversely, if the significance value is less than 0.05, it can be concluded that the data is not normally distributed (Ghozali, 2016).

The heteroscedasticity test aims to assess whether there is an unequal variance between the residuals of one observation and another. If the residual variance is balanced, it is called homoscedasticity, while if it differs, it is called heteroscedasticity (Ghozali, 2016:134). The Glejser test is used to detect the presence of heteroscedasticity by regressing the absolute value of the residual against the independent variables. If the significance probability

is above the confidence level of 0.05, it can be concluded that there is no heteroscedasticity (Ghozali, 2016).

The autocorrelation test aims to check whether there is a correlation between errors in the linear regression model in period t with errors in the previous period (Ghozali, 2016:107). If there is a correlation, then there is an autocorrelation problem. The Durbin-Watson (d) test is used to detect the presence of autocorrelation. The d value is first calculated, then compared with the upper bound (dU) and lower bound (dL) from the Durbin-Watson table. If 0 < d < dL, there is positive autocorrelation; dL < d < dU indicates inconclusive results; dU < d < 4-dU means there is no autocorrelation; 4-dU < d < 4-dL indicates inconclusive results; and 4-dL < d < 4 indicates negative autocorrelation (Ghozali, 2016).

The multicollinearity test aims to check whether there is a correlation between independent variables in the regression model (Ghozali, 2016:103). The VIF (Variance Inflation Factor) and tolerance value are used to detect the presence of multicollinearity. If the tolerance value > 0.10 and VIF < 10, it can be concluded that there is no multicollinearity. Conversely, if the tolerance value < 0.10 and VIF > 10, then there is multicollinearity (Ghozali, 2016).

3.7.3 Multiple Linear Regression Analysis

Multiple linear regression analysis considers the linear relationship between two or more independent variables and the dependent variable. The data used is usually interval or ratio (Ghozali, 2016:99). The multiple linear regression formula in this study is: $Y = a + L + ROE + S + CE + AE + WCE + e$ (Ghozali, 2016).
Keterangan:

Y   : Dependent Variable
a   : Constant
b   : Regression Coefficient
L   : Leverage
ROE   : Return on Equity
S   : Sale
CE   : Capital Expenditure
AE   : Asset Turnover
WCE   : Working Capital
Expenditure
e   : error tern

3.7.4 Model Feasibility Test

The model feasibility test is carried out through several tests below:

1. Coefficient of Determination (R2): This measures how much the model can explain the variation in the dependent variable by considering the independent variables. The R2 value ranges from zero to one. It reflects the proportion of variation in the dependent variable that can be explained by the independent variables included in the model, while the rest is explained by other factors not included.

2. F-Test: This test assesses whether the independent variables collectively have a significant influence on the dependent variable. The F-test results are obtained from the analysis of variance (ANOVA) table. In this study, the significance level used is 5%. The hypothesis testing criteria using F statistics are: a) If the F significance value < 0.05, there is a significant collective influence between the independent variables and the dependent variable. b) If the F significance value > 0.05, there is no significant collective influence.

3. T-Test: This test assesses the extent to which individual independent variables explain the variation in the dependent variable (Ghozali, 2016:99). The decision criteria for t-test are: a) If the significance value

(sig t) $\leq$ 0.05, the independent variable individually has a significant influence on the dependent variable. b) If the significance value (sig t) > 0.05, the independent variable individually does not have a significant influence on the dependent variable.

2. Analysis and Findings

Based on the statistical tests conducted using E-Views, the first set of results obtained includes the descriptive statistical test data as follows.

Figure 2. Descriptive Statistical Test Results

The descriptive statistical test results provide valuable information about the variables observed in the study. By referring to the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, and Jarque-Bera test, an in-depth understanding of each variable's characteristics can be obtained.

The Financial Distress variable has a mean of about 3.32 with a median value of 1.78. The data distribution tends to be right-skewed, indicated by a positive skewness of 3.99. A high kurtosis of 24.74 signifies the presence of extremes in the distribution tails. The significant Jarque-Bera test (2747.28)

with a probability close to zero confirms that the data distribution does not follow a normal distribution. This indicates that the entities in the dataset have significant variations in financial distress levels, with the possibility of outliers influencing the overall distribution.

The Leverage variable represents the debt level of an entity. The mean of this variable is around 0.097, while the median is 0.056. The range of values is between -0.707 and 1.325. A standard deviation of 0.281 indicates significant variation in debt levels among the entities in the dataset. The data distribution tends to be right-skewed, indicated by a positive skewness of 1.13. A high kurtosis of 6.63 signifies the presence of extremes in the distribution tails. The significant Jarque-Bera test (93.84) with a probability close to zero shows that the data distribution does not follow a normal distribution. This suggests that the debt levels of entities in the dataset have significant variation, with the possibility of outliers influencing the overall distribution.

The ROE (Return on Equity) variable has a mean of about 0.13 with a median value of 0.04. The data distribution tends to be right-skewed, indicated by a positive skewness of 2.35. A high kurtosis of 31.55 signifies the presence of extremes in the distribution tails. The significant Jarque-Bera test (4292.00) confirms the non-normality of the data distribution. This indicates significant variation in the efficiency of companies in generating profits from their equity, with the possibility of outliers influencing the overall distribution.

The Sales variable has a mean of about 50.66 with a median value of 3.35. The data distribution is significantly right-skewed, indicated by a positive skewness of 8.14. A high kurtosis of 74.66 signifies the presence of extremes

in the distribution tails. The significant Jarque-Bera test (27673.03) with a probability close to zero confirms the non-normality of the data distribution. This indicates significant variation in company sales figures, with the possibility of outliers influencing the overall distribution.

The Capital Expenditure variable has a mean of about -0.05 with a median value of 0.00. The data distribution tends to be left-skewed, indicated by a negative skewness of -4.52. A high kurtosis of 49.31 signifies the presence of extremes in the distribution tails. The significant Jarque-Bera test (11411.65) confirms the non-normality of the data distribution. This indicates significant variation in company capital expenditures, with the possibility of outliers influencing the overall distribution.

The Asset Turnover variable has a mean of about 0.03 with a median value of 0.02. The data distribution tends to be right-skewed, indicated by a positive skewness of 1.20. A high kurtosis of 25.51 signifies the presence of extremes in the distribution tails. The significant Jarque-Bera test (2625.42) confirms the non-normality of the data distribution. This indicates significant variation in the efficiency of companies in using their assets to generate sales, with the possibility of outliers influencing the overall distribution.

The Working Capital Expenditure variable has a mean of about 147.75 with a median value of 2.43. The data distribution is significantly right-skewed, indicated by a positive skewness of 10.55. A high kurtosis of 115.40 signifies the presence of extremes in the distribution tails. The significant Jarque-Bera test (67023.94) with a probability close to zero confirms the non-normality of the data distribution. This indicates significant

variation in company working capital expenditures, with the possibility of outliers influencing the overall distribution.

After obtaining the descriptive statistical test results, a chow test was conducted to determine the panel data regression model with the following results::

Redundant Fixed Effects Tests
Equation: FEM
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.072843	(30,86)	0.0000
Cross-section Chi-square	108.741995	30	0.0000

Figure 3. Chow Test Results

The test results show that the Probability Cross-section Chi-square value is 0.0000, which is clearly smaller than the commonly established significance level (0.05). Therefore, it can be concluded that there is a significant difference between the Common Effect Model and the Fixed Effect Model. From these results, the Fixed Effect Model is more appropriate and better at explaining the variation in the data compared to the Common Effect Model. This result provides a significant contribution to the context of model selection in panel data analysis, and the results can serve as a basis for further interpretation and more accurate decision-making within the framework of the Fixed Effect Model.

After conducting the Chow test, the next step was to perform a Hausman test. The Hausman test aims to compare the effectiveness of the Fixed Effect Model and the Random Effect Model in the context of panel data regression. The primary goal of this test is to determine which model is more suitable for describing the relationships among variables in the dataset. The Hausman test results are as follows.

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.427862	6	0.3770

Figure 4. Hausman Test Results

Based on the calculations, the Probability Cross-section random value is found to be 0.3770, which is greater than the significance level $\alpha=0.05$. If the Probability Cross-section random value is greater than the established significance level (e.g., $\alpha=0.05$), there is not enough statistical evidence to reject the null hypothesis. In this context, it indicates that there is no significant difference between the Fixed Effect Model and the Random Effect Model. Therefore, in model selection, there is no clear tendency to prefer one model over the other based on the Hausman test results. This may suggest that both models provide similar estimates in the context of the panel data analysis in question.

The next test conducted was the Lagrange Multiplier test with the following results.

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided
(all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	155.3699 (0.0000)	1.697494 (0.1925)	157.0674 (0.0000)
Honda	12.46475 (0.0000)	-1.302879 (0.9037)	7.892833 (0.0000)
King-Wu	12.46475 (0.0000)	-1.302879 (0.9037)	2.300361 (0.0107)
Standardized Honda	13.27289 (0.0000)	-1.097765 (0.8636)	4.473639 (0.0000)
Standardized King-Wu	13.27289 (0.0000)	-1.097765 (0.8636)	-0.022799 (0.5091)
Gourieroux, et al.	--	--	155.3699 (0.0000)

Figure 5. Lagrange Multiplier Test Results

The Lagrange Multiplier test results, referring to the Breusch-Pagan value found to be 0.0000, indicate that this probability is smaller than the 95% significance level ($\alpha = 0.05$), with the Chi-Square distribution used as the basis

for testing. In the context of the Hausman test, this finding suggests that there is a significant difference between the Common Effect Model and the Random Effect Model. Therefore, the decision taken is that the Random Effect Model is more suitable compared to the Common Effect Model for explaining the relationships among variables in the analysis of the data in question.

Next, to answer the research questions, a panel data regression test was conducted with the following results.

$$Y = 3.530 - 2.916*X1 - 0.031*X2 - 0.000*X3 - 0.476*X4 + 4.291*X5 - 0.000*X6$$

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.294468	0.431080	7.642357	0.0000
LEVERAGE (X1)	-1.672857	2.019082	-0.828528	0.4097
ROE (X2)	-0.040462	0.413827	-0.097776	0.9223
SALE (X3)	0.000759	0.001631	0.464999	0.6431
CAPITALEXPENDITURE (X4)	-0.677744	1.057204	-0.641072	0.5232
ASETTURNOVER (X5)	4.041895	1.877075	2.153295	0.0341
WORKINGCAPITALEXPENDITURE (X6)	7.16E-05	0.000228	0.314708	0.7537

Figure 6. Panel Data Regression Test

	Weighted Statistics		
Root MSE	4.131669	R-squared	0.094093
Mean dependent var	1.647451	Adjusted R-squared	0.047236
S.D. dependent var	4.366916	S.E. of regression	4.254506
Sum squared resid	2099.695	F-statistic	2.008084
Durbin-Watson stat	1.372555	Prob(F-statistic)	0.070051

Figure 7. Panel Data Regression Test

The panel data regression analysis using the Common Effect Model, Fixed Effect Model, and Random Effect Model approaches, as well as additional tests like the Chow Test, Hausman Test, and Lagrange Multiplier Test, has been conducted to evaluate the most suitable regression model in the context of this study. The analysis results show that the Random Effect Model is

the more appropriate model to use in this study, and the regression results are expressed in the following equation: Y = 3.530 - 2.916X1 - 0.031X2 - 0.000X3 - 0.476X4 + 4.291X5 - 0.000X6.

The t-test results conducted for each independent variable show the individual influence of these variables on the dependent variable. In this case, the X1 (leverage) variable does not show a significant influence with a t-Statistic of -0.828528 and a Probability of 0.4097. The X2 (ROE) variable also does not show a significant influence with a t-Statistic of -0.097776 and a Probability of 0.9223. The X3 (sale) variable has an insignificant influence with a t-Statistic of 0.464999 and a Probability of 0.6431. The X4 (capital expenditure) variable also does not show a significant influence with a t-Statistic of -0.641072 and a Probability of 0.5232. However, the X5 (asset turnover) variable shows a significant influence with a t-Statistic of 2.153295 and a Probability of 0.0341, as does the X6 (working capital expenditure) variable with a t-Statistic of 0.314708 and a Probability of 0.7537.

The F-test was conducted to determine whether all the independent variables together have an influence on the dependent variable. The F-test results show that the F-statistic Probability is 0.070051, which is greater than the 0.05 significance level. Therefore, the null hypothesis (H0) is not rejected, indicating that not all the independent variables together have an influence on the dependent variable.

Next, testing the coefficient of determination (R2) is carried out to determine how well the regression model is able to explain variations in the data. The results show an adjusted R square of 0.047236 or 4.72%, which indicates that the model can only explain around 4.72% of the variation in the dependent variable. The remainder, amounting to

95.28%, is explained by other variables not included in the model. This shows that there are still other factors that contribute to variations in the dependent variable that are not covered by this regression model.

DISCUSSION AND CONCLUSION
Discussion

In this study, panel data regression analysis was conducted to identify the impact of several independent variables on financial distress in non-banking sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2022. The regression results indicated that the Random Effect model is more suitable for this research context. The regression equation obtained is as follows: Y = 3.530 - 2.916X1 - 0.031X2 - 0.000X3 - 0.476X4 + 4.291X5 - 0.000X6. Here, the coefficient -2.916 on X1 indicates that for every one-unit increase in X1, there is a decrease of 2.916 units in Y, while other variables remain constant. Similarly, for other variables, the regression coefficients provide information about the extent of the impact of a one-unit change in the independent variable on the dependent variable, with other variables held constant.

A t-test was conducted to evaluate the influence of each independent variable on the dependent variable individually. The results showed that variables X1 (leverage), X2 (ROE), X3 (sales), and X4 (capital expenditure) do not have a significant effect on financial distress. However, variables X5 (asset turnover) and X6 (working capital expenditure) do show a significant effect on financial distress

Next, an F-test was conducted to determine whether all independent variables collectively influence the dependent variable. The results showed that not all independent variables collectively influence the dependent variable, with the F-statistic probability being greater than the significance level of 0.05. The coefficient of determination (R^2) test was conducted to determine how well the regression model explains the variation in the data. The results showed that the model only explains about 4.72% of the variation in the dependent variable, with the remaining explained by other variables not included in the model.

In this study, leverage does not show a significant influence on financial distress. This result aligns with several previous studies, such as those by Puspita Sari & Iffah Zatil Ismah (2023), Baiq Vica Artamevia & Nanik Wahyuni (2022), and Nurifah Lausiria & Katiya Nahda (2022). These findings suggest that although leverage is often considered a potential factor increasing financial distress risk, it is not always the case, especially if companies implement well-planned debt policies and effective risk management (Artamevia & Wahyuni, 2022; Lausiria & Nahda, 2022; P. Sari & Ismah, 2023). Other studies also indicate that factors such as liquidity and profitability may play a more significant role in determining financial distress risk than leverage itself (Lausiria & Nahda, 2022).

ROE also does not show a significant influence on financial distress in this study. This finding is consistent with several previous studies, such as those by Calista Alvernia & Mutiara Maimunah (2022), Ayumi Rahma (2020), Luke Suciyati Amna et al. (2021), Eka Rima Prasetya and Rakhmawati Oktavianna (2021), and Suryani (2019). This indicates that a high ROE does not always guarantee the financial stability of a company, with other factors affecting financial conditions (Alvernia & Maimunah, 2022; Amna et al., 2021; Prasetya &

Oktavianna, 2021; Rahma, 2020; Suryani, 2021). A high ROE does not necessarily indicate low financial distress risk, especially if accompanied by revenue declines or other operational issues (Rahma, 2020). Therefore, ROE needs to be analyzed alongside other factors to understand its potential influence on financial distress.

Sales growth does not show a significant influence on financial distress in this study. This contradicts some previous studies, such as those by Novyarni & Dewi (2020) and Friska Syalomytha, Maria Natalia (2023), which found that sales growth has a significant positive influence on financial distress (Novyarni & Dewi, 2020; Syalomytha & Natalia, 2023). This difference may reflect variations in industry contexts or company characteristics studied. It may also be due to other factors such as operational efficiency or cash management affecting the relationship between sales growth and financial distress.

In this study, capital expenditure also does not show a significant influence on financial distress. However, this finding differs from the research conducted by Sari & Ismah (2023), who found that capital expenditure has a positive and significant influence on financial distress (P. Sari & Ismah, 2023). This difference may be due to differences in research methodology or sample characteristics used. It could also be because companies manage their investments carefully, avoiding waste or unprofitable projects.

Asset turnover shows a significant influence on financial distress in this study. However, previous studies have not extensively analyzed the relationship between asset turnover and financial distress, making this finding a new contribution to the literature on factors influencing financial distress.

Working expenditure does not show a significant influence on financial distress in this study. This is consistent with the lack of extensive previous research analyzing the relationship between working expenditure and financial distress. However, this result indicates that, at least in this study's context, investment in research and development does not directly contribute to financial distress risk..

CONCLUSION

Based on the panel data regression analysis, it is concluded that in this study's context, the most suitable regression model is the Random Effect Model. The t-test results show that variables X1 (leverage), X2 (ROE), X3 (sales), and X4 (capital expenditure) do not have a significant influence on financial distress, while variables X5 (asset turnover) and X6 (working capital strategy) do have a significant influence. However, the F-test results show that not all independent variables collectively influence financial distress. Furthermore, the coefficient of determination (R^2) of 4.72% indicates that the regression model only explains a small portion of the variation in financial distress, highlighting the presence of other factors not covered by this model. Therefore, further research is needed to deepen the understanding of factors influencing financial distress risk in companies.

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