

## Liquidity, Profitability, Firm Size, and Financial Distress

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### ABSTRACT

This issue arose from the sector's declining performance, with 46 companies on the watchlist board due to consecutive losses and negative earnings growth, indicating potential financial distress. Exacerbated by global economic slowdown and inflationary pressures, this condition was analyzed using quantitative methods. Financial distress was assessed via the modified Altman Z"-Score, with liquidity, profitability, and firm size as independent variables. Thirty-nine companies were selected through purposive sampling, resulting in 117 observations. Employing descriptive statistics, classical assumption tests, and multiple linear regression, this analysis examines the repercussion of these variables on financial distress. The findings show that liquidity, profitability, and firm size jointly generate a considerable impact. Partially, liquidity and firm size negatively relate to financial distress, while profitability shows a positive association. The results yield strategic insights for management and investors in mitigating potential financial distress.

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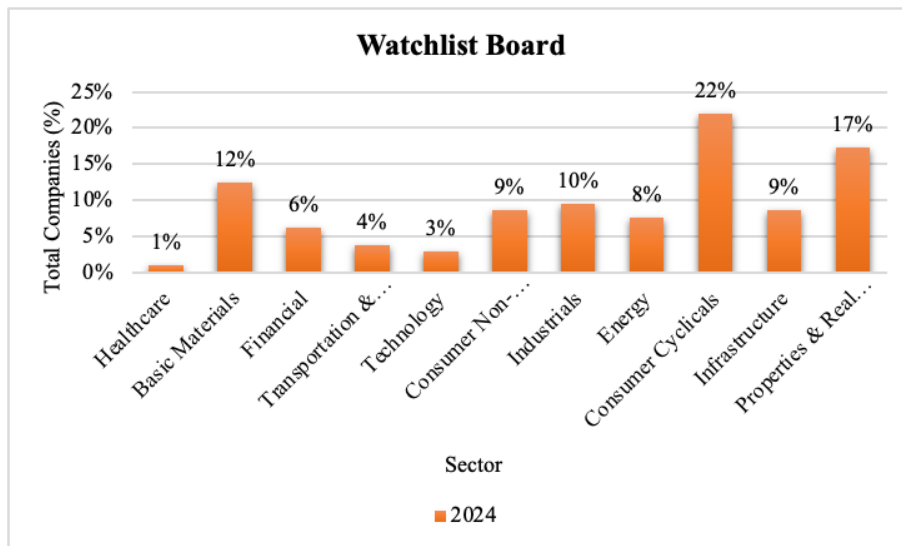
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## INTRODUCTION

As fundamental tools, financial statements encapsulate the fiscal posture and operational efficacy progression of a company over a given period, providing critical insights for managerial decision-making and external evaluation (Nilasari & Ismunawan, 2021), thus allowing for the assessment of the company's health or potential financial distress (Kasmir, 2019). Financial distress emerges when a company falters in overseeing its fiscal health, which can lead to financial losses (Syavira et al., 2024). One category of financial distress occurs when a company faces detrimental income for two consecutive years (Wijaya & Suhendah, 2023). If management does not immediately address its financial performance, the risk of bankruptcy will increase, causing negative consequences for management, creditors, investors, and the government (Swara, 2021).

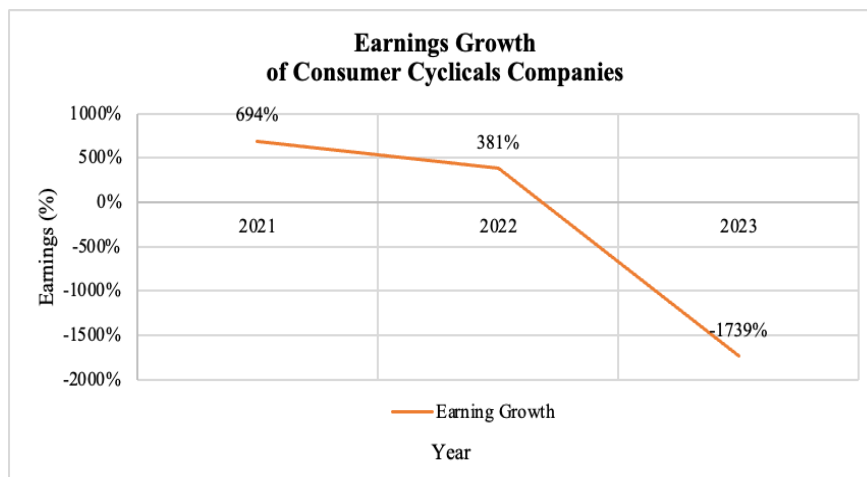
In line with the goal of enhancing investor protection, the Indonesia Stock Exchange (IDX) implemented a special monitoring board starting June 12, 2023, as a continuation of the Special Monitoring List for Equity Securities that was introduced on July 19, 2021. This system regulates stock trading based on 11 specific criteria, including poor financial conditions, lack of income, negative equity, audit opinions without a statement, and bankruptcy or suspension of debt payment obligations (PKPU). Stocks listed on this board are traded through periodic call auctions and serve as indicators of investment risk, particularly for novice investors (Indonesia Stock Exchange, 2024).



Source: Data Processed by Researcher (2025)

**Fig. 1.** Watchlist Board

Figure 1 shows that there are 209 companies listed on the special monitoring board. Among these, the consumer cyclicals sector is the most dominant, representing 22% or 46 companies. This high number reflects the sector's poor performance, especially in terms of revenue, profit, and equity (Mulyana & Rahmawati, 2023).



Source: Data Processed by Researcher (2025)

**Fig. 2.** Earning Growth Consumer Cyclical Companies on 2021-2023

Figure 2 illustrates the profit growth percentage of consumer cyclicals companies from 2021 to 2023. Profit growth in 2021 reached 694%, then decreased to 381% in 2022 and dropped to -1739% in 2023. A company's profit growth can be assessed through its net profit. If a company's profit growth declines for two consecutive years, this indicates potential financial distress (Wijaya & Suhendah, 2023).

This phenomenon is aligned with the International Monetary Fund (2024) report, which states that the global economy has slowed since the post-pandemic recovery, driven by persistent inflation and sluggish productivity. Simultaneously, Badan Pusat Statistik (2024) reports a downward trend in Indonesia's economic growth in Q1 and Q2 of 2024. These macroeconomic conditions indicate a recessionary climate, with the consumer cyclicals sector being the most affected due to its nature as a secondary goods sector, where demand is highly sensitive to consumer purchasing power.

Consequently, the sector's declining earnings growth, as reflected in Figure 2, illustrates an increased vulnerability to financial distress.

From a theoretical perspective, signaling theory posits that financial statements act as signals to external parties regarding a company's health. Declining profits in the consumer cyclicals sector may generate negative perceptions, reducing investor and creditor confidence. Meanwhile, Agency Theory emphasizes the potential conflict between management and shareholders, which may result in suboptimal decisions and less transparent financial reporting factors that can intensify financial distress risk.

Financial distress can be assessed using the modified Altman Z"-Score model from 1995 (EM Z"-Score), which divides the company's condition into three zones: distress zone, grey area, and safe zone (Altman et al., 2017). Financial ratios, such as liquidity and profitability, are used to analyze whether these ratios influence the onset of financial turmoil, as appraised through the Altman Z"-Score model. The current ratio serves as an indicator of liquidity, with a higher value reflecting the entity's proficiency in satisfying its near-term financial commitments, thereby mitigating the risk of encountering financial adversity. As outlined by Abdullah et al (2023), Candradewi & Rahyuda (2021), and Bukhori et al (2022) who state that liquidity impacts financial distress. Profitability is measured by return on assets, which reflects management's effectiveness in generating profit from the company's assets. An increase in profitability correlates with a diminished probability of experiencing financial distress. This aligns with the analytical endeavors previously undertaken by Abdullah et al (2023), Isayas (2021), and Arifuddin et al (2023) which show that profitability significantly influences financial distress. The size of a firm holds a pivotal influence in forecasting the likelihood of financial distress. Larger companies, with more assets, are considered better able to handle financial challenges and reduce bankruptcy risks. This is corroborated by research from Isayas (2021), Pamungkas et al (2024), and Mudjiyanti & Gaos (2021) which suggests that firm size impacts financial distress.

Previous research by Abdullah et al (2023) examined the impact of liquidity, profitability, and leverage on financial distress. Nevertheless, the study found the leverage variable to be insignificant. This research addresses the gap by replacing the leverage variable with firm size, utilizing the modified Altman Z"-Score model (1995) to measure financial distress, and focusing on the consumer cyclicals sector, which faces specific challenges as highlighted in the background. Unlike previous studies that focused on manufacturing companies, this study updates the period to 2021–2023 to align with the most recent IDX classification regulations introduced in 2021. Additionally, this study adopts multiple linear regression analysis, as opposed to the logistic regression method used in prior research, to augment the explanatory capacity of the model. This inquiry principally aspires to scrutinize the ramifications of liquidity, profitability, and firm size on the prevalence of financial distress within firms engaged in the consumer cyclicals sector listed on the Indonesia Stock Exchange during the 2021–2023 period. The empirical revelations of this investigation are anticipated to deliver significant academic insights and practical implications for corporate management, investors, and regulators, offering strategies to reduce the risks of financial distress.

## **LITERATURE REVIEW**

### **Signaling Theory**

Signaling theory, initially conceptualized by Spence (1973), posits that corporate entities transmit information to external stakeholders through financial disclosures as a mechanism to facilitate informed decision-making. Financial indicators, notably liquidity and profitability ratios, function as proxies that communicate a firm's fiscal stability and operational efficacy. Within this framework, managerial intent typically involves emitting affirmative signals to cultivate market credibility. Enterprises exhibiting

robust financial outcomes are inclined to convey optimistic signals, thereby fostering investor assurance and diminishing the probability of financial vulnerability. In contrast, subpar financial outcomes often generate unfavorable signals, which may elicit detrimental market responses and elevate the exposure to financial adversity (Nilasari & Ismunawan, 2021).

### **Agency Theory**

Jensen & Meckling (1976) introduced agency theory to explain the formal relationship between business owners, referred to as principals, and the managers they appoint to act on their behalf. In practice, this relationship is prone to conflict—especially when managerial interests deviate from those of the owners. Such misalignment is often worsened by information asymmetry, since managers typically hold more detailed knowledge about the firm’s internal state. The size of a company can influence how well it is monitored; larger firms usually implement stronger systems of corporate governance, which may help reduce agency-related issues. This theory provides a useful lens for understanding and addressing these tensions, particularly when tighter controls are needed to ensure alignment between both parties (Zvosec & Baer, 2022). Strategic errors made by managers can impose serious financial consequences on the firm’s owners, and in extreme cases, may trigger financial distress (Novitasari et al., 2023).

### **Financial Statement**

According to PSAK 201 (2022), financial statements are defined as an organized and systematic representation of an entity’s financial condition and operational outcomes. Their primary function is to deliver relevant information that supports stakeholders in making informed economic decisions. These reports are compiled by company management to communicate the firm’s financial progress and condition to interested external parties. Typically, financial statements are comprised of five fundamental sections: the statement of financial position, the income statement, the statement of changes in equity, the cash flow statement, and accompanying notes that offer further clarification and context.

### **Financial Distress**

Altman (1968) characterizes financial distress as a firm’s incapacity to generate returns that are proportional to the risks associated with invested capital, ultimately leading to an inability to fulfill financial obligations in a timely manner. This state is also marked by persistent challenges in managing cash flows, escalating debt levels, and a long-term decline in operational efficiency. Firms undergoing financial distress may report consecutive periods of negative net income (Nurdiwaty & Zaman, 2021).

Financial distress can be classified into various forms, including economic failure, business failure, technical insolvency, bankruptcy-related insolvency, and formal legal bankruptcy (Rahmat, 2020). One of the most extensively applied models for estimating bankruptcy risk is the Altman Z-Score, which has been refined over time to accommodate diverse business contexts. This research adopts the Z"-Score model tailored for emerging markets, which is applicable to both manufacturing and non-manufacturing firms. The model utilizes a benchmark Z"-Score value of 3.25, referred to as the Emerging Market (EM Z-Score) (Altman et al., 2017). The version employed in this study incorporates four financial ratios as predictive components, as equation (1).

$$Z'' = 3,25 + 6,56X_1 + 3,26X_2 + 6,72X_3 + 1,05X_4$$

$X_1$  is working capital/total assets,  $X_2$  is retained earnings/total assets,  $X_3$  is earnings before interest and taxes/total assets,  $X_4$  is book value of equity/total liabilities, and  $Z$  is overall index.

**Table 1.** Discrimination Zone of the Modified Altman Z"-Score (1995)

Z"-Score	Discrimination Zone
$Z'' < 3,75$	Distress Zone
$3,75 < Z'' < 5,85$	Grey Area
$Z'' > 5,85$	Safe Zone

Source: Altman et al (2017)

### Liquidity

A company's liquidity illustrates its capacity to fulfill short-term financial commitments as they come due. This capacity is generally ensured when the value of current assets surpasses that of short-term liabilities. Liquidity is typically appraised by means of the current ratio, which serves as a primary indicator of short-term financial health (Zutter & Smart, 2019:138). Compared to other liquidity metrics, the current ratio offers a broader perspective, as it encompasses the entirety of current assets (Corporate Finance Institute, 2020). The ratio evaluates a firm's ability to settle obligations expected to mature within one year, emphasizing how effectively the firm can convert its current assets into cash to discharge its liabilities. Current assets typically include items anticipated to be liquidated or utilized within a year or a standard operating cycle (Kieso et al., 2022). On the other hand, current liabilities comprise obligations that are due within a 12-month period, such as trade payables, tax obligations, short-term borrowings, and other operating expenditures (Amasita et al., 2023).

### Profitability

Profitability illustrates the degree to which a firm optimizes its assets in producing earnings and deliver value to its shareholders. A prominent metric for assessing profitability is the return on assets (Mahardika & Mulyawan, 2023). This ratio assesses the firm's ability to leverage its total assets to generate profit after taxes. It serves as a vital measure enabling managerial bodies to critically appraise the firm's operational efficiency and the extent to which its assets are strategically mobilized. As noted by Usmany & Loupatty (2023), the return on assets is shaped by two principal factors: (1) the efficiency of asset turnover, which pertains to how quickly assets engaged in the firm's operations are converted into revenue, and (2) the profit margin, which reflects the proportion of profit relative to net sales and indicates the company's capacity to generate profit from its sales.

### Firm Size

As posited by Brigham & Houston (2021), firm size denotes the magnitude of an enterprise, typically delineated through multiple dimensions such as gross revenue, aggregate asset holdings, or shareholders' equity. In Indonesia, firm size is classified into four categories based on UU No. 20 Tahun 2008, which include micro, small, medium, and large businesses. A commonly applied method for measuring firm size is the natural logarithm of total assets. This measure indicates that a company with significant total assets is considered to have reached a stable phase, capable of sustaining its performance over extended periods (Rahma & Dillak, 2021).

### Hypothesis Development

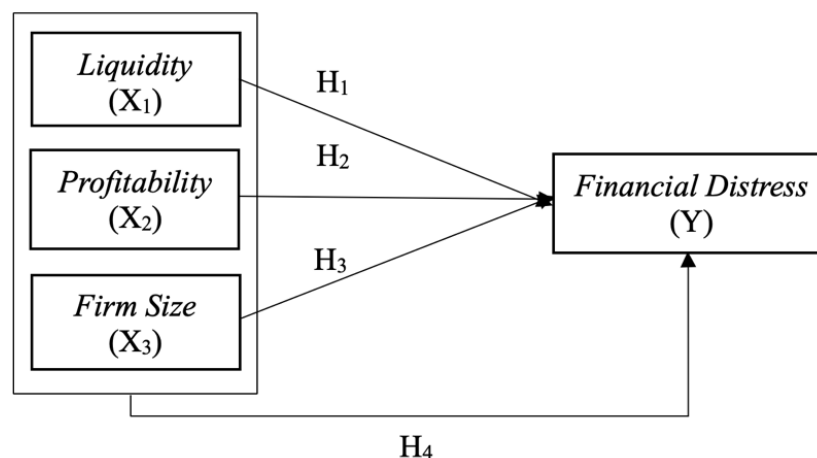
Firms with robust liquidity levels are typically less vulnerable to the risk of insolvency. This capacity reflects their ability to efficiently deploy current assets to meet short-term liabilities as they come due, thereby reducing their exposure to financial distress. On the contrary, a lack of liquidity signals potential

challenges in meeting immediate obligations, increasing the firm's susceptibility to financial instability (Candradewi & Rahyuda, 2021). Drawing upon signaling theory, a firm's capability to settle short-term debts promptly or secure necessary funding is viewed as a positive signal to external stakeholders, especially investors and creditors. Such signals suggest financial fortitude, bolstering confidence in the firm's operational longevity, and mitigating the reputational and operational risks that accompany financial distress (Sari & Wahyuni, 2023). These assertions are supported by empirical research from Abdullah et al (2023), Candradewi & Rahyuda (2021), and Bukhori et al (2022) who uncover a notable association between a firm's liquidity position and its susceptibility to financial distress.

Corporations that report elevated returns on assets (ROA) typically exhibit exceptional profitability, which enhances their financial flexibility and diminishes the likelihood of encountering distress situations. High profitability signals efficient asset management, strong earnings generation, and a resilient competitive position (Safitri & Yuliana, 2021). Consistent with signaling theory, firms actively utilize financial statements to convey strategic messages of strength and dependability to the market. These signals act as indicators of the firm's quality, attracting positive market sentiment and emphasizing the firm's strategic competence in capitalizing on future opportunities. As a result, profitability is reinforced, providing a protective buffer against financial distress (Susanti & Takarini, 2022). This theoretical and empirical relationship is echoed in the works of Abdullah et al (2023), Isayas (2021), and Arifuddin et al (2023) all of whom highlight the decisive role of profitability in mitigating financial distress.

Moreover, firm size emerges as another critical determinant in the discourse on financial stability. Larger firms, endowed with more extensive asset bases, are typically better equipped to weather financial turbulence and stave off bankruptcy threats compared to their smaller counterparts. Their enhanced access to external financing and institutional credibility facilitates the procurement of credit on more favorable terms (Syuhada et al., 2020). Additionally, their ability to diversify business operations enables them to expand revenue streams and optimize production costs, which collectively bolster their capacity to fulfill financial obligations and reduce distress exposure (Pamungkas et al., 2024). This assertion finds empirical validation in the research of Isayas (2021), Pamungkas et al (2024), dan Mudjiyanti & Gaos (2021) who conclude that firm size holds significant predictive power in explaining variations in financial distress.

To gain a deeper understanding of the associations between the independent variables and the dependent variable, this study utilizes a conceptual framework. The conceptual framework underlying this research is depicted in Figure 3.



Source: Data Processed by Researcher (2025)

**Fig. 3.** Research Framework

Based on the conceptual framework, this study has the following hypotheses:

**H<sub>1</sub>:** Liquidity affects financial distress

**H<sub>2</sub>:** Profitability affects financial distress

**H<sub>3</sub>:** Firm size affects financial distress

**H<sub>4</sub>:** Liquidity, activity, profitability, and firm size affect financial distress

## METHOD

The research adopts a quantitative framework, concentrating on firms within the consumer cyclicals sector listed on IDX over the period from 2021 to 2023. The operational definitions for each variable in this study are outlined in Table 2.

**Table 2.** Variable Operationalization

Variable	Measurement	Measurement Scale	Source
Liquidity (X1)	$CR = \frac{\text{Current Asset}}{\text{Current Liabilities}}$	Ratio	Brigham & Houston (2021)
Profitability (X2)	$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$	Ratio	Brigham & Houston (2021)
Firm Size (X3)	$\ln = (\text{Total Asset})$	Ratio (Transformed)	Isayas (2021)
Financial Distress (Y)	$Z'' = 3,25 + 6,56X1 + 3,26X2 + 6,72 X3 + 1,05X4$	Interval	Altman et al (2017)

Source: Data Processed by Researcher (2025)

The population for this study comprises 159 companies within the sector. A purposive sampling technique was applied, utilizing the ensuing criteria as Table 3. Based on these criteria, 39 companies were selected as samples, resulting in 117 observations (39 companies × 3 years).

**Table 3.** Selection of Research Sample

No	Description	Total
	Population of consumer cyclicals sector companies listed on IDX	159
1	Companies that were consistently listed on the IDX during the 2021–2023 period	-40
2	Companies that published audited annual financial reports ending on December 31	-17
3	Financial statements denominated in Rupiah	-11
4	Companies that incurred losses for two consecutive years during the observation period	-57
	<b>Sample</b>	<b>39</b>
	<b>Total Sample (39 x 3)</b>	<b>117</b>

Source: Data Processed by Researcher (2025)

This study employs secondary data derived from financial statement published by entities officially registered on the Indonesia Stock Exchange website (<https://www.idx.co.id>). The data were gathered through the documentation method.

The analytical procedure is executed through the application of descriptive statistical analysis techniques to offer a comprehensive summary of the data, as well as classical assumption tests, which include tests for normality, multicollinearity, autocorrelation, and heteroscedasticity. Once all assumptions are satisfied, multiple linear regression is employed to examine the impact of each independent variable on financial distress. Hypothesis testing is performed using the F-test to assess the simultaneous effects, the t-test to evaluate partial effects, and the R square to evaluate the extent to which the independent variables elucidate the variability in the dependent variable (Sugiyono, 2020). The analytical model was adopted in the study is multiple linear regression, as equation 1.

$$Y = \alpha - \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e \dots\dots\dots (1)$$

Y is financial distress,  $\alpha$  is a constant,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ , and  $\beta_4$  are regression coefficient for each independent variable,  $X_1$  is liquidity,  $X_2$  is profitability,  $X_3$  is firm size, and e is error of estimation.

## RESULTS

The descriptive statistics of this study are presented in Table 4.

**Table 4.** Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Error	Std. Deviation
CR ( $X_1$ )	0.002	91.246	3.782	1.064	11.508
ROA ( $X_2$ )	-9.498	0.120	-0.278	0.111	1.199
Firm Size ( $X_3$ )	22.879	30.142	27.065	0.142	1.539
Financial Distress (Y)	-2928.448	404.956	-36.081	28.845	312.005

Source: Output SPSS 26 (2025)

Table 4 shows the maximum, minimum, means and standard deviation values of each variable. The model will be tested for classical assumptions, such as normality, heteroscedasticity, multicollinearity, and heteroscedasticity. The results of these classical assumption tests are presented in Tables 5 – 8.

**Table 5.** Normality Test Result

	Unstandardized Residual
N	117
Test Statistic	0.055
Asymp. Sig. (2-tailed)	0.200

Source: Output SPSS 26 (2025)

Table 5 demonstrates that the Kolmogorov-Smirnov test for the liquidity ( $CR/X_1$ ), profitability ( $ROA/X_2$ ), firm size ( $X_3$ ), and financial distress (Y) variables yielded an Asymp. Sig. (2-tailed) value of 0.200, which exceeds the 0.05 threshold. This implies that the residuals adhere to a normal distribution, thus validating that the regression model meets the normality assumption.

**Table 6.** Multicollinearity Test Result

Model	Collinearity Statistics	
	Tolerance	VIF
CR ( $X_1$ )	0.994	1.006
ROA ( $X_2$ )	0.797	1.255
Firm Size ( $X_3$ )	0.800	1.249

Source: Output SPSS 26 (2025)

Table 6 shows confirming that no multicollinearity exists among the independent variable liquidity (CR/X<sub>1</sub>), profitability (ROA/X<sub>2</sub>), and firm size (X<sub>3</sub>) with respect to financial distress. (Y). This is confirmed by the tolerance values for each independent variable, all of which exceed 0.1, specifically 0.994 for X<sub>1</sub>, 0.797 for X<sub>2</sub>, and 0.800 for X<sub>3</sub>. Furthermore, the Variance Inflation Factor (VIF) values are all below 10, with 1.006 for X<sub>1</sub>, 1.255 for X<sub>2</sub>, and 1.249 for X<sub>3</sub>. Hence, it can be ascertained that no trace of multicollinearity exists among the independent variables within the regression model.

**Table 7.** Autocorrelation Test Result

<b>Model Summary<sup>b</sup></b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.803a	.645	.635	.00005	<b>1.930</b>

a. Predictors: (Constant), Firm Size (X<sub>3</sub>), CR (X<sub>1</sub>), ROA (X<sub>2</sub>)

b. Dependent Variable: Financial Distress (Y)

Source: Output SPSS 26 (2025)

The Durbin-Watson (DW) statistic is compared to the critical values at a 5% significance level, with a sample size (N) of 117 and three independent variables (K = 3), yielding an upper bound (du) of 1.7512. As shown in Table 7, the DW value is 1.930. This value is greater than the upper bound (du) of 1.7512 but less than 4 – du = 2.248. Hence, it can be concluded that the DW value lies within the range of 1.7512 < 1.930 ≤ 2.248, indicating no signs of autocorrelation in the regression model.

**Table 8.** Heterocedasticity Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	9.910E-5	0.000		1.738	0.085
CR (X <sub>1</sub> )	-3.434E-7	0.000	-0.127	-1.369	0.174
ROA (X <sub>2</sub> )	-1.464E-6	0.000	-0.056	-0.545	0.587
Firm Size (X <sub>3</sub> )	-2.070E-6	0.000	-0.102	-0.990	0.324

Source: Output SPSS 26 (2025)

Table 8 shows that all independent variables have significance values greater than 0.05, namely liquidity/CR (X<sub>1</sub>) at 0.174, profitability/ROA (X<sub>2</sub>) at 0.587, and firm size (X<sub>3</sub>) at 0.324. This indicates that there is no heteroscedasticity in the relationship between liquidity (X<sub>1</sub>), profitability (X<sub>2</sub>), firm size (X<sub>3</sub>), and financial distress (Y). The model has passed the classical assumption test. The results of the classical assumption test are presented in Tables 5-8.

**Table 9.** Multiple Linear Regression Analysis Result

Model	Unstandardized Coefficients	
	B	Std. Error
(Constant)	0.548	0.000
CR (X <sub>1</sub> )	-4.393E-03	0.000
ROA (X <sub>2</sub> )	2.231E-02	0.000
Firm Size (X <sub>3</sub> )	-4.520E-02	0.000

Source: Output SPSS 26 (2025)

Based on table 9, the regression model is arranged as in equation 1.

$$FD = 0,548 - 4,393(CR) + 2,231(ROA) - 4,520(FS) + e \dots\dots\dots (1)$$

The regression equation shows a constant value of 0.548, indicating that if all independent variables (liquidity/CR, profitability/ROA, and firm size) are zero, the level of financial distress will be 0.548. A negative coefficient for liquidity/CR implies that a 1-unit increase in liquidity reduces financial distress by 4.393, assuming other variables remain constant. This suggests that higher liquidity ratios lower the likelihood of financial distress. A positive coefficient for profitability/ROA indicates that a 1-unit increase in profitability raises financial distress by 2.231, which may occur if high profitability is accompanied by poor cost or debt management. Meanwhile, the negative coefficient for firm size suggests that larger firms tend to experience lower financial distress, reflecting greater financial stability compared to smaller firms.

The research model must be tested for F, the coefficient of determination test, and the partial test (t-test). The results of F, the coefficient of determination test, and the partial test (t-test) are presented in Table 10.

**Table 10. t Test Result**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.548	0.000		5589.629	0.000
CR (X <sub>1</sub> )	-4.393E-03	0.000	-0.532	-10.188	0.000
ROA (X <sub>2</sub> )	2.231E-02	0.000	0.281	4.826	0.000
Firm Size (X <sub>3</sub> )	-4.520E-02	0.000	-0.731	-12.578	0.000
F	85.495 (sig. 0.000)				
RSquare	0.645				

Source: Output SPSS 26 (2025)

Table 10 indicates that liquidity/CR (X<sub>1</sub>) registers a t-value of -10.188, surpassing the t-table value of -1.98118, accompanied by a significance value of 0.000 (< 0.05). This infers that liquidity/CR (X<sub>1</sub>) exerts a pronounced adverse effect on financial distress (Y). The profitability/ROA (X<sub>2</sub>) records a t-value of 4.826, exceeding the t-table threshold of 1.98118, with a significance value of 0.000 (< 0.05), signifying a noteworthy positive influence on financial distress (Y). Firm size (X<sub>3</sub>) attains a t-value of -12.578, surpassing the t-table value of -1.98118, with a significance level of 0.000 (< 0.05), denoting a significant detrimental impact on financial distress (Y).

Based on the F<sub>-test</sub>, the F value is 85.495. With a 5% significance level, and degrees of freedom df<sub>1</sub> = (k-1) = 2 and df<sub>2</sub> = (n-k) = 114, the F<sub>-table</sub> value is 3.08. Since the calculated F-value (85.495) exceeds the F<sub>-table</sub> value (3.08), and the significance value is 0.000 (< 0.05), It is ascertainable that the independent determinants liquidity/CR (X<sub>1</sub>), profitability/ROA (X<sub>2</sub>), and firm size (X<sub>3</sub>) exert a statistically significant simultaneous collective influence on financial distress (Y).

The R<sup>2</sup> value for the association between Liquidity/CR (X<sub>1</sub>), Profitability/ROA (X<sub>2</sub>), and Firm Size (X<sub>3</sub>) with Financial Distress (Y) is 0.645. This implies that 64.5% of the variation in Financial Distress (Y) is accounted for by the independent variables, while the remaining 35.5% is ascribed to variables beyond the purview of this study.

## DISCUSSION

### The Effect of Liquidity on Financial Distress

Drawing upon the empirical evidence, liquidity demonstrates a negative relationship with financial distress among consumer cyclical firms listed on the IDX for the 2021–2023 period, thereby corroborating the first hypothesis (H<sub>1</sub>). This negative correlation suggests that the greater a company's liquidity the reduced propensity of the company encountering financial distress.

These findings align with signalling theory, which indicates that a company's financial information sends signals to stakeholders. High liquidity conveys an optimistic indication that the company maintains financial stability and can meet its obligations on time. This signal enhances the confidence of investors and creditors, broadens the company's access to funding, and strengthens its financial resilience. Conversely, low liquidity may create a negative perception regarding potential default, limit access to external funding, and increase the risk of undergoing financial distress. These outcomes are in concordance with the investigations carried out by Abdullah et al (2023), Isayas (2021), Candradewi & Rahyuda (2021), Arifuddin et al (2023), and Bukhori et al (2022), which indicate that liquidity has a negative impact on financial distress.

### **The Effect of Profitability on Financial Distress**

As inferred from the analytical results of this study, profitability has been substantiated as having a positive effect on financial distress in consumer cyclicals companies listed on the IDX during the period 2021-2023, thus supporting the second hypothesis (H<sub>2</sub>). This positive association indicates that higher profitability in a company is associated with an increased probability of encountering financial distress.

These results align with signaling theory, which implies that firms utilize financial data to convey signals to investors about their condition and business prospects. High profitability is generally considered a positive signal reflecting good financial performance; however, it can have different interpretations in the market. Companies that focus on increasing profitability through expansive means, such as purchasing assets on credit, may incur significant debt, which ultimately elevates the risk of financial distress. Rahmayani & Ayem (2022) show that high profitability should reduce the susceptibility to financial distress, but if the company fails to manage its capital and debt effectively, the signals sent to the market can turn negative. These results echo the studies of Abdullah et al (2023), Isayas (2021), Arifuddin et al (2023), Safitri & Yuliana (2021), and Cahyani & Indah (2021), which state that profitability affects financial distress.

### **The Effect of Firm Size on Financial Distress**

The results, firm size has been proven to have a negative effect on financial distress in consumer cyclicals companies listed on the IDX during the period 2021-2023, thus supporting the third hypothesis (H<sub>3</sub>). This negative relationship indicates that the larger the firm size, the lesser the probability of the company encountering financial distress. Companies with larger assets tend to have higher resilience against economic pressures, making them demonstrate a reduced vulnerability to financial distress. Firms of greater scale exhibit broader access to external funding sources. Financial institutions are generally more confident in companies with large assets due to their solid track record, making it easier for them to obtain credit and enabling them to meet their financial obligations.

These findings align with agency theory, where large companies tend to have better oversight. This occurs because agents in large companies, who are more closely monitored, are more cautious in managing assets, making these companies more capable of facing financial crises. The results exhibit concordance with previous scholarly inquiries undertaken by Isayas (2021), Nilasari & Ismunawan (2021), Syuhada et al (2020), Desiana & Diem (2021), and Ramadhany & Syofyan (2021), which state that firm size induces a negative influence on financial distress.

### **The Effect of Liquidity, Profitability, and Firm Size on Financial Distress**

Based on the results of the study, liquidity, profitability, and firm size have been shown to have a significant effect on financial distress in consumer cyclicals companies listed on the IDX during the period 2021-2023, thus supporting the fourth hypothesis (H<sub>4</sub>). This suggests that the size of liquidity, activity, profitability, and firm size reflects the level of financial distress.

Signalling theory explains that a high liquidity level indicates healthy financial conditions and increases the confidence of investors and creditors. Conversely, low liquidity serves as a warning signal that may trigger financial instability due to difficulties in maintaining cash flow. Signalling theory also emphasizes that stable and increasing profits create a positive market perception, while low profitability indicates weaknesses in the business model and increases concerns about the inability to cover operational costs. Agency theory explains that large companies have better governance structures and tighter supervision, reducing the likelihood of managerial errors in financial management. The ability of large companies to diversify their business also strengthens income stability, consequently lowering the firm's susceptibility to financial distress. These findings are consistent with the studies of Dini et al (2021), Nilasari & Ismunawan (2021), Safitri & Yuliana (2021), which state that liquidity, profitability, and firm size have a simultaneous effect on financial distress.

## CONCLUSION

The findings derived from the analysis of consumer cyclical sector companies on the IDX for the 2021–2023 period reveal that liquidity, assessed through the Current Ratio, exerts a significant negative impact on financial distress, thereby supporting and aligning with Hypothesis 1 (H1), suggesting that higher liquidity curtails the chances of encountering financial distress. Similarly, firm size, measured by the Ln total assets, also exhibits a significant negative effect on financial distress, supporting Hypothesis 3 (H3), which posits that larger firms tend to be less predisposed to experience financial distress due to better access to capital and diversified operations. In contrast, profitability, measured by Return on Assets, shows a significant positive effect on financial distress, confirming Hypothesis 2 (H2), which indicates that higher profitability is associated with a magnified threat of financial distress occurrence, potentially due to pressure to maintain profitability or heavy investments in growth. Furthermore, these three financial indicators liquidity, firm size, and profitability collectively influence the extent of financial distress encountered by the companies, supporting Hypothesis 4 (H4), which suggests that these financial factors together offer a comprehensive explanation for financial distress.

These outcomes underscore the theoretical salience of signaling and agency constructs in contextualizing financial distress. Enterprises are advised to refine liquidity stewardship and risk protocols, investors to scrutinize fiscal viability pre-investment, and regulators to advance transparency in corporate disclosures. This study's scope limited to the consumer cyclicals sector, specific financial variables, and the 2021–2023 period may reduce the generalizability of its findings. To elucidate the underpinnings of financial adversity with greater precision, ensuing inquiries may contemplate an expanded industrial purview alongside the integration of macro-level indicators and less conventional predictive apparatuses.

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