

How Liquidity, Leverage, and Business Growth Affected the Financial Crisis and Its Impact on Company Value?

Rini Palupi

Universitas Pamulang, Indonesia
amanamanahsatu@gmail.com

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ABSTRACT

The company's growth is highly expected by internal and external parties of the company, because good growth signals the development of the company. This study aims to determine the effect of Liquidity, Leverage and Firm Growth on Financial Distress and its Implications for Company Value in food and beverage companies listed on the Indonesia Stock Exchange in 2015-2021. This type of research uses associative quantitative methods. The population in this study amounted to 54 companies, the selection of sample techniques in this study used the purposive sampling method, then the samples used in this study were 11 companies. The data used in this study are secondary data. Panel data regression testing using chow test, hausman test and langrange multiplier test. Data processing techniques using the E-views 12 program, namely using descriptive statistical tests, selection of panel data regression models, classical assumption tests, panel data regression analysis, hypothesis tests, determination coefficient tests, path analysis and sobel tests. The results of this study show that, simultaneously, liquidity (current ratio), leverage (debt to equity ratio) and firm growth together have a significant effect on financial distress.

Keywords: Liquidity, Leverage, Company Growth, Financial Crisis, Company Value

INTRODUCTION

One of the important policies made by the company is the policy regarding capital structure. The company will be faced with making decisions to determine how much debt, preferred stock and common stock the company wants in its capital structure. The decision taken will affect the risk contained in the company's ordinary shares, this will affect the desired rate of return of shareholders on the company's ordinary shares and affect the company's stock price. The determination of capital structure is related to funding decisions made by the company. The company will be very careful in making funding decisions.

Errors in making funding decisions will have an impact on decreasing the value of the company. A decrease in the value of the company means a decrease in the prosperity

of the shareholders. Companies need to analyze a number of factors to identify the main factors that can influence a company's funding decisions. The current situation and development of the global economy requires companies to be able to maximize their management functions in order to achieve their goals. The main goal of a company is to maximize the value of the company by increasing the prosperity of the company's owners. This will help the company in establishing an optimal capital structure. Competition in the current era of globalization (Praditya, 2019).

A company has gone public, it does not rule out the possibility that the company can experience financial difficulties, this is because all companies only get additional capital from the initial offering of company shares. Meanwhile, if there is a sale or purchase of shares of the company, the funds paid by the buyer will be received by the previous owner of shares as a seller, not received by the company that issued the shares. The state of a company that is approaching bankruptcy is usually called financial distress. One indication of a company that has the potential to go bankrupt can be seen from the company's ability to pay interest charged to its company arising from debts charged to its company arising from debts taken by the Company (Liu, et, al., 2022).

A company is said to experience financial distress if the company cannot know its financial obligations, the first signal of financial difficulties is the violation of debt requirements accompanied by the elimination of receivables or the reduction of dividend payments. (Dewi & Sujana, 2019) Financial statements are used to determine the total amount of income received and the amount of expenses that have been incurred during a certain period, so that they can find out the results of the business that have been obtained and can be used to find out the steps taken in the future to prevent bankruptcy conditions.

Financial distress is caused by the occurrence of capital loss so that it reduces financial performance which has an impact on decreasing the value of the company. The results of the analysis show that capital structure cannot explain the indirect relationship of financial distress to company value. This happens because the use of the proportion of capital structure does not cause business risks that will cause financial distress so as not to cause movements in company value indicated by the value of stock prices. Bankruptcy can occur if the company fails to fulfill obligations to debtors because the company experiences insufficient funds to continue its business activities. Therefore,

companies need to conduct an analysis to predict the possibility of financial distress and bankruptcy as an effort to avoid companies from financial distress and bankruptcy. Companies that are unable to carry out their business activities will be closed or liquidated.

(Nisak & Yulianti, 2022) In addition to liquidity, the issue of leverage or solvency of the company is also important because the higher the solvency ratio, the higher the risk of loss faced, but there is also an opportunity to get a large profit. Conversely, if the company has a low solvency ratio, it certainly has a smaller risk of loss. Leverage can be measured using the debt to equity ratio (DER) which shows how much of the proportion of a company's capital comes from debt. Debt to equity ratio is one of the financial ratios classified as solvency ratio group. Debt to equity ratio is a ratio that uses debt and capital to measure the magnitude of the ratio. Debt to equity ratio is a ratio used to measure the level of debt use to the total shareholder's equity owned by the company. Debt to equity ratio shows the percentage of funds provided by shareholders to lenders. The higher the ratio, the lower the company's funding provided by shareholders.

Company growth is the company's ability to increase size. (Setiawati & Veronica, 2020) stated that the company's growth is the impact of the company's fund flow from operational changes caused by growth or increase in business volume. Sales growth can be measured using the company's growth ratio. This ratio is a ratio to measure the extent of a company's ability to increase its sales over time. The higher the sales growth rate of a company, the company is successful in carrying out its strategy in marketing and product sales

Growth in business is the impact of a company's cash flow from operational changes caused by growth or decrease in business volume. For this reason, the company's growth is highly expected by internal and external parties of the company, because good growth signals the development of the company. If a company with high growth, in conjunction with leverage, should use equity as a source of financing so that there are no agency costs between shareholders and company management, otherwise companies with low growth rates should use debt as a source of financing because the use of debt will require the company to pay interest regularly. The faster the growth, the greater the need for funds for expansion (Azizah & Widyawati, 2021). The greater the

need for future financing, the greater the company's desire to hold profits. So a growing company should not distribute profits as dividends but rather use it for expansion. This growth potential can be measured by the large cost of research and development. The greater the R&D cost, the greater the prospect of the company to grow.

THEORETICAL BASIS

Company Value

According to (Ramlawati, et, al., 2022) one of the things considered by investors in investing is the value of the company where the investor will invest. Based on the financial view, the value of the company is the present value of future earnings. The higher the value of the company, the greater the prosperity that the owner of the company will receive. For companies that issue shares in the capital market, the price of shares traded on the stock exchange is an indicator of company value.

Company value is very important because with high company value will be followed by high shareholder prosperity. The higher the stock price, the higher the value of the company. A high company value will make the market believe not only in the company's current performance, but also the company's future state. The high value of the company can be seen from the company's stock price. so that the high value of the company is one of the factors in the assessment of potential investors before investing in the company (Andriani & Rudianto, 2019).

Financial Distress

Financial difficulties can be interpreted as the company's inability to pay its financial obligations at maturity which causes the company's bankruptcy (D'amato, 2020). Financial stress is the stage of deterioration in financial condition experienced by a company, which occurs before bankruptcy or liquidation. This condition is usually characterized by shipping delays, decreased product quality, and delays in paying bills from banks. If this financial distress condition is known from the beginning, it is hoped that action can be taken to improve the situation so that the company will not enter a stage of more severe difficulties, such as bankruptcy.

Financial distress as a stage of decline in financial condition that occurs before bankruptcy or liquidation. Financial distress starts from the inability to fulfill obligations, especially short-term liabilities including liquidity obligations and including

liabilities in the solvency category. Financial distress is a condition that is illustrated by the company's inability to fulfill all its obligations to certain parties (Meliou, 2020).

Liquidity

According to (Andriani & Rudianto, 2019) states that liquidity describes a company's ability to settle its short-term obligations. Therefore, this ratio can be used to measure the level of security of short-term creditors, as well as to measure whether the company's operations will not be disrupted if these short-term obligations are immediately collected. Liquidity is very important in finance, as having adequate liquidity helps companies overcome unexpected financial challenges and maintain smooth business operations.

Liquidity refers to the ability of an asset, investment, or company to be converted into cash quickly without incurring a significant loss in value. It measures the extent to which an entity has available resources to meet its financial obligations or to deal with financial emergency situations without disrupting normal operations. Liquidity shortages or liquidity crises can cause a company to fail to meet its financial obligations, which in turn can disrupt operations, reputation, and long-term growth (Oktaviani & Dara, 2022).

Leverage

The solvency ratio or leverage is a ratio to assess the company's ability to pay off all its obligations both short and long term with collateral of assets or wealth owned by the company until the company closes or is liquidated (Haryono, 2022). The solvency ratio is a ratio that measures the extent to which spending is made by debt compared to capital, and the ability to pay interest and other fixed expenses. So the leverage ratio is a ratio used to measure a company's debt financing.

(Ratuela, et, al., 2022) Leverage is a term that refers to the use of lent assets or funds to increase the potential return or return of an investment. This ratio measures the proportion of funds a company obtains through debt compared to funds raised from shareholders' equity. Financial leverage can have a significant impact on a company's capital structure and financial risk. Financial leverage can magnify potential profits, but it also increases risk, as companies have to pay interest and repay debt.

Firm Growth

(Yusmaniarti, et, al., 2021) stated that the company's growth is the impact of the company's fund flow from operational changes caused by growth or increase in business volume. Sales growth can be measured using the company's growth ratio. This ratio is a ratio to measure the extent of a company's ability to increase its sales over time. The higher the sales growth rate of a company, the company is successful in carrying out its strategy in marketing and product sales.

Firm growth is a growth ratio or ratio that measures how much a company is able to maintain its position in the industry and in general economic development. Firm growth is a ratio that describes the company's ability to maintain its economic position amid economic growth and its business sector (Sari, 2022). Firm growth is a growth ratio describing the percentage growth of company items from year to year.

METHOD

This research method is associative quantitative research. Quantitative methods focus on collecting measurable data in the form of numbers and statistics. This study uses an objective and structured approach to collect numerical data which is then analyzed statistically. This allows researchers to measure and identify patterns or relationships in data more formally. The associative approach in this study suggests that the main goal is to identify a relationship or association between two or more variables. This means that the study will look for whether there is a correlation or linkage between the variables studied.

The population in this study is all food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) totaling 54 companies, during 7 years of observation from the 2015-2021 period. The selection of sample techniques in this study used the purposive sampling method, so the samples used in this study were 11 companies. Data analysis techniques use descriptive statistical tests, panel data regression model selection, classical assumption tests, panel data regression analysis, hypothesis tests, determination coefficient tests, path analysis and sobel tests.

RESULT

Effect of Liquidity (CR) on Financial Distress

The test results of the panel data regression analysis in the table above explain that the liquidity, obtaining t-count results is (-1.220095) while t-table is 1.99300. So t-count < t-table value ($-1.220095 < 1.99300$), it is also mentioned with a probability value greater than significance or ($0.2264 > 0.05$) which means H_0 is accepted and H_1 is rejected. Based on the comparison of t-count and t-table as well as a probability value greater than the level of significance, it is concluded that partial liquidity (CR) does not have a significant effect on financial distress in food and beverage companies listed on the Indonesia Stock Exchange (IDX) in the 2015-2021 period.

Basically, every company has a different way and time in converting accounts receivable and inventory into cash that will be used to pay off debts in the company. That way how much liquidity is obtained by the company will not be affected by the profitability of financial distress. Current Ratio is a comparison between current assets divided by current liabilities. The CR ratio (Current Ratio) shows how much current liabilities are financed by current assets. The results showed that liquidity did not have a significant effect on financial distress. This is because in 11 sample companies, companies have the ability to fund company operations in meeting short-term obligations (debt) with their current debt. The company manages current debt with its assets well so that financial distress does not occur

Effects of Leverage on Financial Distress

The test results of the panel data regression analysis above explain that the leverage, obtaining the t-count result is (-2.734861) while the t-table is 1.99300. So that t-count > t-table value ($-2.734861 > 1.99300$), it is also mentioned with a probability value smaller than significance or ($0.0079 < 0.05$) which means H_0 is rejected and H_2 is accepted. Based on the comparison of t-count and t-table as well as probability values smaller than the level of significance, it is concluded that partial leverage (DER) has a negative and significant influence on financial distress in food and beverage companies listed on the Indonesia Stock Exchange in the 2015-2021 period.

The emergence of leverage comes from the use of company funds in the form of debt from third parties. If the company's leverage ratio is high, the chances of the company's financial difficulties will be higher. If the company's obligation to pay debts is getting bigger, then the company will face the possibility of financial distress. Another thing that contributes to the financial situation is the failure of the company to

pay interest and principal, so the higher the leverage of the company, the more likely the company will experience financial difficulties. Companies that experience financial distress generally have a debt that is almost as large as total assets and have negative equity.

The Effect of Firm Growth on Financial Distress

The results of the panel data regression analysis test above explain that firm growth obtained t-count results of (-3.407663). While the t-table is (1.99300). So t-count > t-table value (-3.407663 > 1.99300) it is also mentioned with a probabicity value greater than significance or ($0.0011 < 0.05$) which means H_0 is rejected and H_3 is accepted. Based on the comparison of t-count and t-table as well as a probability value smaller than the level of significance, it is concluded that partially firm growth has a negative and significant influence on financial distress in food and beverage companies listed on the Indonesia Stock Exchange in the 2015-2021 period.

A company with positive sales growth has a tendency to be able to maintain business continuity and reduce the potential for financial distress. Conversely, negative sales growth reflects financial distress in a company. But if the company's growth seen from sales growth cannot be the main reference to measure the company's financial distress. A decrease in indirect sales growth gives an indication that the company will go bankrupt, will only reduce profits and as long as the decline in sales does not go beyond the limit then it is not so problematic.

The Effect of Liquidity, Leverage and Firm Growth Simultaneously on Financial Distress

Explained that liquidity, leverage and firm growth on financial distress and its impact on company value obtained an adjusted R-Squared (R^2) determination coefficient value of 0.299201. This shows that the percentage of independent variables and dependent variables is 26.0267%. While the remaining 73.9733% was influenced by other variables that were not studied. So it can be concluded that simultaneously the variables of liquidity, leverage and firm growth together have a significant effect on financial distress in food and beverage companies listed on the Indonesia Stock Exchange for the 2015-2021 period.

This indicates that combining the effects of these three variables, liquidity, leverage, and overall company growth, the effect of which significantly affects the

likelihood of financial distress in a company. In other words, the interaction between liquidity (ability to pay short-term liabilities), leverage (debt ratio), and company growth has a collective impact on financial distress. This information can be invaluable to companies and decision makers in planning financial and operational strategies to manage financial risk and maintain the financial health of the company.

The Financial Distress variable is an Intervening for Each Independent Variable (Current Ratio, Leverage and Firm Growth)

The value of the direct effect of CR on the value of the company is 0.195268. It shows the direct influence of the Current Ratio (CR) variable on the value of the company, in the absence of an intermediary variable. The value of indirect effect of CR through financial distress on company value is 0.076488. This means that immediate changes in the Current Ratio have a greater influence on changes in a company's value than the influence that flows through Financial Distress. From the comparison of the value of direct effect and indirect effect value, it is concluded that the direct influence of Current Ratio (CR) on company value has a greater impact than the influence that passes through the financial distress channel.

In addition, financial distress does not act as an intervening variable between leverage and company value. That is, the effect of leverage on company value is not through the influence of financial distress. Overall, these results provide a deeper understanding of how the relationship between Current Ratio, Financial Distress, Leverage, and company value is. It found that the Current Ratio has a significant direct impact on the value of the company, and Financial Distress does not act as an intermediary on the relationship between Leverage and the value of the company.

CONCLUSION

The conclusion in this study is seen from statistical significance tests to determine whether the influence is just a coincidence or indeed has a significant meaning. Using a probability value (p-value) smaller than the significance level of 0.05, which indicates that the influence does not occur randomly. The adjusted R-Squared (R²) value obtained from the results of the study is 0.260267 or around 26.0267%. This indicates that around 26.0267% variation in financial distress in food and beverage companies

listed on the Indonesia Stock Exchange (IDX) can be explained by the variables studied, namely liquidity, leverage, and firm growth.

Based on the results of the study, it can be concluded that liquidity (current ratio), leverage (debt to equity ratio), and firm growth together have a significant effect on financial distress in food and beverage companies listed on the Indonesia Stock Exchange in the 2015-2021 period, with an explainable percentage of variation of 26.0267%. However, keep in mind that other factors not included in the study can also influence financial distress, so 73.9733% variability is not explained in this model.

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