

THE EFFECT OF LIQUIDITY, PROFITABILITY, LEVERAGE, AND COMPANY AGE ON FINANCIAL DISTRESS

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Abstract

This study aims to examine the effect of liquidity, profitability, leverage, and company age on financial distress in textile and garment companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. This study used a quantitative approach with a purposive sampling technique, resulting in 10 companies as research objects. The collected data were analyzed using multiple linear regression accompanied by the classical assumption test, t-test, and F-test. The results showed that liquidity and profitability had a significant negative effect on financial distress, while leverage had a significant positive effect. Company age did not show a significant effect on financial distress. Together, these four variables significantly influenced financial distress. These findings emphasize the importance of good financial management, especially in maintaining profitability and managing leverage, to reduce the risk of financial distress.

Keywords: *financial distress, liquidity, profitability, leverage, firm age*

A. INTRODUCTION

The textile and garment industry is a strategic sector in Indonesia due to its crucial role in job creation and non-oil and gas exports. However, over the past five years, this sector has faced serious challenges, both from external factors such as the COVID-19 pandemic, trade wars, and fluctuating raw material prices, as well as internal factors such as high debt burdens and low production efficiency. These conditions increase the risk of financial distress, which is financial difficulties that can lead to bankruptcy if not promptly addressed.

An example of a textile company experiencing financial distress is PT Sri Rejeki Isman (Sritex). Several factors contributed to the decline in revenue at PT Sritex, including the COVID-19 pandemic, which also reduced performance and stability, and intense competition in the global

textile industry. Furthermore, geopolitical conflicts such as the wars between Russia and Ukraine and Israel and Palestine have disrupted supply chains and reduced exports due to changing consumer priorities in Europe and the United States.

The purpose of this study is to provide empirical evidence on the influence of liquidity, profitability, leverage, and company age on financial distress, both partially and simultaneously. The research results are expected to be theoretically useful for developing financial literature and practically as considerations for management, investors, and regulators.

The proposed hypotheses are:

H1: Liquidity has a negative effect on financial distress.

H2: Profitability has a negative effect on financial distress.

H3: Leverage has a positive effect on financial distress.

H4: Firm age has a negative effect on financial distress.

H5: Liquidity, profitability, leverage, and firm age have a simultaneous effect on financial distress.

B. METODE

This study employs a causal design and a quantitative methodology. All textile and apparel companies that were listed on the Indonesia Stock Exchange between 2019 and 2023 made up the study population. A sample of ten organizations was obtained by applying certain criteria to purposeful sampling. Liquidity as determined by the Current Ratio (CR), profitability as determined by Return on Assets (ROA), leverage as determined by the Debt to Asset Ratio (DAR), and company age (AGE) were the independent variables that were employed. Financial distress, as determined by the Altman Z-Score model, was the dependent variable. Annual financial reports from the official Indonesia Stock Exchange website served as the secondary source of the data. Multiple linear regression was used to analyze the data using SPSS, along with the traditional assumption tests (autocorrelation, heteroscedasticity, multicollinearity, and normality), t-tests, F-tests and the coefficient of determination (R^2).

According to Sugiyono (2020), a dependent variable, or commonly referred to as a dependent variable, is a variable influenced by changes in an independent variable. The dependent

variable used in this study is financial distress (Y). Financial distress is a condition in which a company experiences financial difficulties that can lead to failure to meet short-term and long-term obligations. Financial distress can be calculated using the Altman Z-score method. If the calculated Z-score is <1.81 , it can be categorized as experiencing financial distress. However, if the calculated Z-score is >2.99 , the company is not experiencing financial distress. The following is the equation used to calculate the Altman Z-score:

$$\text{Z-score} = 1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

Where:

X_1 = Distribution of working capital by total assets

X_2 = Distribution of retained earnings / total assets

X_3 = operating profit / total assets

X_4 = Distribution off market value of equity / total debt

X_5 = Distribution of sales / total assets

A variable that is affected by the factors causing changes in the dependent variable is known as an independent variable, or free variable. The study's independent variables are the company's age, debt level, profitability, and liquidity. The ability of a business to satisfy short-term financial obligations with its current assets is measured by liquidity. The liquidity variable for textile and apparel companies listed on the Indonesia Stock Exchange (IDX) is determined in this study using the current ratio. The following formula can be used to determine the current ratio:

$$\text{CR} = \frac{\text{current assets}}{\text{current liabilities}}$$

The ability of a business to turn a profit while making the best use of its assets is known as profitability. The ability of a business to turn a profit using its equity-based assets is known as profitability. Return on Assets (ROA), which is calculated by dividing net profit by total assets, can be used to calculate the profitability ratio. The more effectively a business manages its assets to turn a profit, the higher the ROA. The ROA ratio can be calculated using the formula below:

$$\text{ROA} = \frac{\text{net profit}}{\text{total assets}}$$

Leverage is the proportion of debt a company holds to finance all its assets. The level of risk a company potentially faces is reflected in the leverage ratio, which describes the proportion of assets financed using borrowed funds. Leverage can be measured using the Debt-to-Asset Ratio (DAR). The higher the DAR, the greater the proportion of debt in the company's funding structure, and the greater the risk borne in the event of a decline in revenue. The following is the formula for the DAR ratio:

$$\text{DAR} = \frac{\text{total liabilities}}{\text{total assets}}$$

Company age is defined as the length of time a company has been operating, calculated from the official date of incorporation to the period under study. The length of time a company has been in existence can influence its financial stability. Companies that have been established for a long time tend to have a high level of experience and a more trusted reputation. Conversely, new companies are more susceptible to difficulties, both financially and in terms of performance, due to their inexperience and limited resources. The following is the calculation of the company age variable:

$$\text{Age} = \frac{\text{year of research}}{\text{year of company founding}}$$

C. RESULTS AND DISCUSSION

The population in this study was 10 Textile and Garment companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. This means the total number of observations is 50.

Descriptive Test Results

Utilizing the average (mean), maximum, minimum, and standard deviation values, descriptive tests are used to characterize the data. Table 1 displays the results of the descriptive test as follows:

Table 1. Descriptive Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Likuiditas	50	.05	5.50	1.2470	1.20285
Profitabilitas	50	-.66	.12	-.0552	.16331
Leverage	50	.00	15.69	1.7468	3.75659
Umur Perusahaan	50	40	57	47.74	4.285
Financial Distress	50	-6.81	4.33	.8490	2.68665
Valid N (listwise)	50				

Source: Secondary Data processed (2025)

Normality Test Results

Tabl3 2: Normality Test Results

One-Sample Kolmogorov-Smirnov Test			
		Unstandardized Residual	
N		50	
Normal Parameters ^{a,b}	Mean	.0000000	
	Std. Deviation	2.09708769	
Most Extreme Differences	Absolute	.072	
	Positive	.060	
	Negative	-.072	
Test Statistic		.072	
Asymp. Sig. (2-tailed) ^c		.200 ^d	
Monte Carlo Sig. (2-tailed) ^e	Sig.	.739	
	99% Confidence Interval	Lower Bound	.727
		Upper Bound	.750

Source: Secondary Data processed (2025)

A residual value from the regression model between the independent and dependent variables was obtained through data testing using the Kolmogorov-Smirnov test, as indicated in Table 2. The findings yielded a significance level of 0.200. It is possible to conclude that the residual data is normally distributed because the significance value is higher than 0.05 (>0.05)

Heteroscedasticity Test Results

Table 3: Heteroscedasticity Test Results

		Coefficients ^a	
Model		Collinearity Statistics	
		Tolerance	VIF
1	Likuiditas	.922	1.085
	Profitabilitas	.316	3.161
	Leverage	.320	3.122
	Umur Perusahaan	.935	1.070

a. Dependent Variable: Financial Distress

Source: Secondary Data processed (2025)

Based on Table 3, the Glejser test results show that all independent variables have significance values above 0.05, indicating that the regression model is free from heteroscedasticity. Therefore, the residual variance is constant, and the regression analysis can proceed to the next stage.

Multicollinearity Test Results

Table 4: Multicollinearity Test Results

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.872	2.160		2.718	.009
Likuiditas	-.188	.157	-.168	-1.196	.238
Profitabilitas	-3.429	1.977	-.416	-1.734	.090
Leverage	-.101	.085	-.281	-1.178	.245
Umur Perusahaan	-.085	.044	-.271	-1.939	.059

Dependent Variable: ABS_RES

Source: Secondary Data processed (2025)

The multicollinearity test results, as shown in Table 4., show no indication of multicollinearity in the regression model, as indicated by the Tolerance values for each variable. Furthermore, the VIF values for each variable are 1.085 for Liquidity, 3.161 for Profitability, 3.122 for Leverage, and 1.070 for Company Age. Therefore, all variables in this regression model meet the classic assumptions of multicollinearity, and the model is suitable for further analysis.

F Test Results

Tabel 5: F Test Results (ANOVA)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	138.196	4	34.549	7.215	.000 ^b
	Residual	215.491	45	4.789		
	Total	353.687	49			

a. Dependent Variable: Financial Distress

b. Predictors: (Constant), Umur Perusahaan, Likuiditas, Leverage, Profitabilitas

Source: Secondary Data processed (2025)

To find out if the independent variables have a significant impact on the dependent variable at the same time, the F test is utilized. With a Sig. level of 0.000, the ANOVA test results in Table 4.5 display an F-count of 7.215. At a significance level of 0.05, the F-count > F-table of 2.579 (with degrees of freedom for the numerator = 4 and the denominator = 45). It is possible to conclude that the variables Liquidity (X_1), Profitability (X_2), Leverage (X_3), and Company Age (X_4) all significantly affect the Financial Distress variable (Y) at the same time because the F-count is greater than the F-table and the significance value is less than 0.05.

T Test Results

Table 6: T Test Results

Model	Coefficients ^a			
	Unstandardized Coefficients		Standardized Coefficients	t
	B	Std. Error	Beta	
(Constant)	-13.199	3.718		-3.550
Likuiditas	.663	.271	.297	2.449
Profitabilitas	8.871	3.404	.539	2.606
Leverage	.311	.147	.435	2.115
Umur Perusahaan	.276	.075	.440	3.655

a. Dependent Variable: Financial Distress

Source: Secondary Data processed (2025)

The multiple regression equation derived from Table 6 in the Coefficients table is as follows:
 Financial distress = -13.199 + 0.663 Liquidity + 8.871 Profitability + 0.311 Leverage + 0.311

Company Age. Based on the results of the partial T test, it is known that the four independent variables in this study have a significant effect on financial distress.

Results of the Coefficient of Determination

Table 7: Results of the Coefficients of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.625 ^a	.391	.337	2.18831

a. Predictors: (Constant), Umur Perusahaan, Likuiditas, Leverage, Profitabilitas

Source: Secondary Data processed (2025)

The correlation (R) was 0.625 based on the Model Summary results in Table 7. This number indicates that the variables of liquidity (X_1), profitability (X_2), leverage (X_3), and company age (X_4) have a comparatively strong positive relationship. In the meantime, the combined effect of the four independent variables accounts for about 39.1% of the variation in the financial distress variable (Y), according to the R Square value of 0.391. It is estimated that other factors outside the purview of the model in this study account for the remaining 60.9%.

D. CONCLUSION

A significance value of 0.018, below the 0.05 level, is found for the liquidity variable based on data analysis from multiple sample testing stages. This suggests that the degree of financial distress is positively and significantly impacted by liquidity. According to the regression coefficient of 0.663, if all other variables stay the same, an increase will result from every unit increase in the liquidity variable. As a result, the study's first hypothesis is accepted.

A regression coefficient of 8.871 and a significance value of 0.012 (<0.05) show that profitability significantly improves financial distress. In other words, financial distress will rise by 8.871 units for every unit increase in profitability. As a result, the study's second hypothesis is partially accepted. This suggests that businesses are still susceptible to financial distress despite their capacity to turn a profit.

The leverage variable is proven to have a significant and positive effect on financial distress, as indicated by a significance value of 0.040, which is below the 0.05 threshold. A coefficient value of 0.311 indicates that every one-unit increase in leverage increases financial distress. Therefore, hypothesis 3 (three) in the study is accepted. This means that a high leverage ratio indicates a large debt burden, which directly increases a company's vulnerability to financial distress.

The company age variable shows a positive and significant effect on financial distress, with a significance value of 0.001 and a regression coefficient of 0.276. This finding indicates that the longer a company has been established, the greater the likelihood of experiencing financial distress. This result contradicts the common view that companies with longer operating ages tend to have better financial stability and a lower risk of failure. Recommendations Future researchers are recommended to expand the research object to other sectors beyond the textile and garment industry and add other variables, such as company size, cash flow, or corporate governance, to provide a more comprehensive picture of the determinants of financial distress.

E. SUGGESTION

For further researchers, it is recommended to expand the research object to other sectors outside the textile and garment industry and add other variables, such as company size, cash flow, or corporate governance, in order to provide a more comprehensive picture of the determinants of financial distress.

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