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OPERATING CASH FLOW ON FINANCIAL DISTRESS
(STUDY ON COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE (IDX) FOR THE PERIOD OF 2018-2021 IN THE TRANSPORTATION AND LOGISTICS SECTOR OF SERVICE COMPANIES)

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Abstract. The bankruptcy of a company begins with financial difficulties. Companies that cannot compete in the global economy are sure to experience financial difficulties and eventually go bankrupt, which will be reflected in the financial performance of the company. The purpose of this study is to determine the impact of profitability, operating cash flow, and revenue growth on financial distress. The subject of this study are service companies in the transportation and logistics industry listed on IDX during the period 2018-2021. This study used targeted sampling to collect samples. During the four-year study period, 19 samples were collected for a total of 76 samples. The method used in this study was logistic regression analysis, and was tested with Eviews 12. The findings of this study indicates that profitability, operating cash flow, and sales growth all have an impact on financial distress. To a certain extent, profitability and sales growth have no impact on financial distress, on the other hand, operating cash flow has a negative impact on the financial distress of service companies in the transportation and logistics industry listed on IDX during the period 2018-2021.

Keywords: financial distress; operating cash flow; profitability; sales growth

I. INTRODUCTION

Numerous businesses that were started and operated for a while were eventually forced to close their doors because they couldn't fulfill the demands and carry out the necessary business operations. This condition requires the company to conduct financial statement analysis with the aim of knowing the warning signs of financial problems that will occur before they become serious enough problems and result in bankruptcy. The signs of financial difficulties that are more quickly known by the company, the faster the decision making made by management by implementing the right strategy to improve financial position. It can be inferred that a company is in financial trouble when it lacks competitiveness and fails to generate a strong financial performance.

When a firm is in financial distress, it means that it lacks the resources to meet its obligations. This state usually manifests before the business declares bankruptcy **[1]**. Financial difficulties that occur in the company are caused by various things, including economic factors, mismanagement on the part of company managers, and unexpected natural disasters. There are several methods that can be used to measure financial distress, namely the Springate, Zmijwski, and Altman Z-score analysis methods. This study, examines service companies financial difficulties in the logistics and transportation industry utilizing the Altman Z-score approach. Hadi & Anggraeni (2008) in **[2]** this method is one of the best predictors among the three existing bankruptcy prediction methods, with an accuracy rate of up to 95% is very efficient in predicting bankruptcy in the last 4 or 5 years. The results of the Z-score are divided into three categories, with the first category of companies with a $Z > 2.99$ which indicates that the company has good finances and can even be said to be healthy. The second category, companies with a $Z < 1.91$ which indicates that the company will head towards potential distress and experience high financial difficulties. The third category, companies with a $1.81 < Z > 2.99$ which indicates that the company is indicated to be in a vulnerable or grey area that can't be determined whether the company's in potential financial distress or non-distress.

The COVID-19 pandemic's effects on Indonesia can be seen in the financial distress that different enterprises have endured, as measured by the Altman Z-score method. After COVID-19 broke out, the government finally implemented Large-Scale Social Restrictions (PSBB) in 2020 which adversely affected most companies, so that in that year most companies were in financial distress. The existence of this policy caused transportation and logistics sector service companies to experience considerable losses. Some entities that are in distress are PT Garuda Indonesia Tbk (GIAA), PT Express Transindo Utama Tbk (TAXI), and PT Sidomulyo Selaras Tbk (SDMU). Reporting from **[3]** GIAA suffered losses due to a reduction in scheduled flights, causing bankruptcy. PT Express Transindo Utama Tbk also experienced the same thing. This was reported by **[4]** which explained that the company suffered losses due to intense competition, especially with the existence of application-based transportation services. In addition, **[5]** explained that SDMU has continuously experienced financial difficulties due to delays in debt payments and the trade war between the

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United States and China which has driven losses in the company. In addition to companies that are in distress, there are also companies that actually experience grey area conditions, one of which is PT Blue Bird Tbk (BIRD). Reporting from **[6]** although BIRD is experiencing losses, the company continues to carry out various company strategies so that it can fulfill its principal debt obligations, therefore, the company's classified as operating in a grey zone sector because despite its losses, it's still able to meet its obligations.

This phenomenon makes a number of variables, including profitability, operating cash flow, as well as sales growth, recognized to have an impact on financial distress. Profitability is the first factor that affects financial distress. Profitability is a useful metric to indicate a company's capability to produce earnings over a specific time period **[7]**. Of course, this ratio analysis can also be used by entity management to make decisions and determine strategies in achieving the estimated profit. The proxy used in this study is Return on Asset (ROA). The outcomes of these computations will demonstrate how successful the company is at turning a profit over time. According to **[8]** the likelihood of financial distress is reduced for a company with a high profitability value. This is in accordance with findings by Moch et al. **[9]** and Sutra & Mais **[10]**, while Bachtiar & Handayani **[11]** claimed that profitability hasn't influence on financial distress.

Operating cash flow also known as operating fund flow is the second factor that influences the occurrence of financial distress. Operating fund flow is the most important component of fund flow from the company's operational activity, according to Hery in **[12].** Comparing operating fund flow to current liabilities served as the study's proxy. One of the fund flows connected to the entity's operational activity over a specific time period is this operating fund flow. Creditors and investors will undoubtedly have faith in a company's fund flow **[13]**. The likelihood of a corporation entering financial difficulties increases if its operating cash flow consistently declines with a very sharp decline. This is consistent with studies by Saleh **[14]** and Amarilla et al. **[15]** , while Ayuningtyas & Suryono [**16]** claimed that operating cash flow hasn't bearing on financial distress.

The third factor that affects the likelihood of financial distress is sales growth. Sales growth is a metric that reveals how effectively a business is leveraging its investment performance prospects from one period to the next and may be used to forecast how the business will develop over the coming years **[17]**. In this case, the increase in sales of products produced will be carried out by the entity by increasing the frequency of sales or by increasing the number of product sales, therefore, sales growth will be used as a reference for increasing sales. The indicator used to calculate sales growth is growth. If the calculations' findings reveal a lower growth ratio for a corporation, that company may experience financial difficulties **[18]**. This is in agreement with studies by Putri **[19]**, Amanda & Tasman **[20]** and Setyowati & Sari **[21]**, while Giarto & Fachrurrozie **[22]** findings indicate that sales growth hasn't bearing on financial distress.

According to previously explained background and the inconsistent result of previous research, the research goals in this study are to ascertain the impact of profitability, operating cash flow, as well as sales growth concurrently and partially on financial distress in transportation and logistics sector businesses listed on IDX in 2018-2021. With this research, it can help various parties, especially investors, in determining the right company to invest in.

Agency theory is a theory developed in an effort to understand and overcome problems that occur when the contract between the principal (shareholders) and agent (management) isn't equipped with clear information **[23]**. Information asymmetry that occurs between the principal and the agent can certainly cause a big problem in the company. Information about the company related to poor financial conditions or negative information is often covered by the agent because the party certainly wants the principal to only know good financial conditions so that the principal feels that the strategy determined by the agent can be implemented properly in the company. The company will undoubtedly encounter financial hardship or challenges if the organization's strategy was incorrectly determined.

According to the Statement of Financial Accounting Standards (PSAK) No. 1 of 2020, financial statements are a methodical representation of an entity's financial situation and financial performance. All necessary information will be included in financial reports, and many interested parties will be able to communicate with the company about its financial performance **[24]**.

Financial distress, according to **[25]**, defined as a state in which a business is experiencing ongoing financial degradation, which, if left unchecked, will result in bankruptcy. One of the early signs that a firm is about to enter crisis is when it is unable to pay its debts, particularly short-term obligations. Companies that have the potential for bankruptcy do not necessarily experience bankruptcy, but they must be able to endure difficult situations by making the right decisions; consequently, they must conduct a financial distress analysis immediately **[26]**. The Altman Z-score measurement is employed in this investigation with 5 financial ratios **[27]**.

According to Kasmir in **[9]**, profitability is used to evaluate a firm's capacity to generate earning from the operational activities that the company engages in. Due to the entity's high level of profitability, there is little chance that it will experience financial hardship. Of course, this can demonstrate that a corporation is successful in running its operations as seen by the acquisition of large earnings **[8]**. It can be concluded that a company that can get a high return on investment and its sales are also effective shows that there is good asset management from the company. An entity that obtains a high ROA value illustrates that the entity has a high rate of return from investment activities on assets. That condition is what supports the company not to experience bankruptcy. As a result, a company's risk of bankruptcy might be decreased by a higher profitability value. The likelihood of the company going bankrupt is quite high if the profitability it achieves is low.

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H_1 : Profitability has a negative impact on financial distress

Cash flow from operations, also known as operating fund flow. According to **[28]** the use of the fund flow ratio will provide information related to the company's power when using its net flow to pay the entity's current obligations. The existence of operating fund flow can certainly show users of financial statements in knowing the company's performance in generating entity cash to pay off its debts. A company's operating fund flow can quickly indicate whether it is in good shape or even on the verge of financial crisis. If a company's ratio of operating fund flow to current liabilities is less than 1, it suggests that there is not enough operating fund flow to cover current obligations **[29]**. The value of operating fund flow to current liabilities below 1 in an entity will illustrate that the operating fund flow owned by the entity is not sufficient to pay its current liabilities. That is, that condition is what causes the entity to experience bankruptcy. However, if the company obtains a fund flow ratio that is > 1 or high, it becomes increasingly unlikely that the company will experience bankruptcy.

H_2 : Operating cash flow has a negative impact on financial distress

The most crucial factor in assessing a company's performance that takes into account how much sales growth it has produced is the rate of growth in sales. Sales growth, in accordance with **[30]** can be used as a benchmark to gauge sales growth during a specific time period as an indicator of the company's management effectiveness. If the sales growth ratio figure is lower, the company's experiencing low sales growth which could result in a financial distress. On the other hand, the company's significant increase in sales growth value, shows that its finances are sound and that it surely avoids financial difficulties **[31]** because sales growth consistently each year. The growth rate decreases as the growth ratio number increases, putting the company in trouble. On the other hand, if the entity has rapid expansion, the entity is more vulnerable to distress.

H3 : Sales growth has a negative effect on financial distress

II. RESEARCH METHODS

Because this research makes use of numerical data and statistical analysis, researchers employ quantitative research methodologies. The goal of this research is to create and apply ideas and hypotheses regarding the phenomenon under study. The IDX website, IDX Go-Public, annual reports and financial reports from transportation and logistics sector listed on the IDX in the years 2018 through 2021, as well as prior studies, served as the secondary sources of information. The following criteria were used in the purposive sampling process to choose the research cohort for this study: (1) During the year of 2018-2021, companies in the transport and logistics sector that are listed on IDX; and (2) During the period between 2018 and 2021, companies in the transport and logistics sector didn't publish consistent the financial reports on the IDX. Based on these criteria, the authors gathered a total representative sample of 19 companies and 76 observations. This study employed E-Views 12 to assess the logistic regression analysis and descriptive statistics.

Financial distress was measured in this study's dependent variable using the Altman Z-score method. The equation used to predict bankruptcy with the Altman Z-score approach **[27]**:

$$\mathbf{Z = 1{,}2X1 + 1{,}42X2 + 3{,}3X3 + 0{,}64X4 + 0{,}99X5}$$

Notes:
Z = *Bankruptcy index*
X1 = *Net Working Capital to Total Assets*
X2 = *Retained Earnings to Total Assets*
X3 = *Earnings Before Interest and Tax to Total Assets*
X4 = *Market Value of Equity to Book Value of Debt*
X5 = *Sales to Total Assets*

The first independent variable used is profitability using the Return on Assets (ROA) indicator **[32]**. The calculation is performed by comparing net income after taxes and total assets, the calculation is completed by multiplying the result by 100%. The second independent variable used is cash flow from operating, with the following formula **[12]**. Cash flow from operations is compared to current liabilities for the calculation. The third independent variable used is sales growth that using growth indicators **[30]**. The calculation is performed by subtracting sales from the prior year and dividing by sales from the prior year. The result will indicate the company's sales growth. The logistic regression analysis model according to **[33]** used is:

$$\mathbf{Ln\frac{FD}{1-FD} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Notes:

$Ln\frac{FD}{1-FD}$	=	Probability of the company experiencing distress or non-distress
β_0	=	Constanta
$\beta_1 X_1$	=	Regression coefficient of profitability
$\beta_2 X_2$	=	Regression coefficient of operating cash flow
$\beta_3 X_3$	=	Regression coefficient of sales growth
ε	=	Error

III. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1 represents that financial distress, which is a dummy variable quantified using the Altman Z-score proxy, has a maximum value of 1, which is a number code for companies experiencing distress, while the minimum value is 0, which is a number code for non-distressed companies. The financial variable having a mean value of 0.802632 and a standard deviation of 0.400657, indicating that the data are homogeneous and doesn't vary. Profitability obtained a maximum of 2.071800 and a minimum of -0.659400 using the

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ROA method. In addition, profitability had an averaged -0.32212 and a standard deviation of 0.296187, indicating substantial data heterogeneity and variation.

Table 1. Result of Descriptive Statistics

	Financial Distress	Profitability	Operating Cash Flow	Sales Growth
Mean	0.802632	-0.032212	0.400520	0.036196
Median	1.000000	-0.002250	0.149600	0.060100
Maximum	1.000000	2.071800	4.060100	1.231000
Minimum	0.000000	-0.659400	-1.535700	-0.900000
Std. Dev.	0.400657	0.296187	0.874806	0.415745
Observations	76	76	76	76

Source: Output Eviews 12 (2023)

Operating cash flow has a maximum value is 4.060100 dan a minimum value of -1.535700. In addition, the variable's average is 0.400520 and its standard deviation is 0.874806, indicating that the data is heterogeneous and has high data variation. Growth as a measure of sales growth can range from -0.900000 to 1.231000 at its highest value. Additionally, the variable's average value of 0.036196 and standard deviation value of 0.415745 indicate that the data are heterogeneous and have a high degree of variance.

Regression Feasibility Testing
Testing the Appropriateness of the Regression Model (Hosmer and Lemeshow's of Fit)

Table 2. Result of Hosmer and Lemeshow's Goodness of Fit

H-L Statistic	12.5452	Prob. Chi-Sq(8)	0.1285
Andrews Statistic	38.9686	Prob. Chi-Sq(10)	0.0000

Source: Output Eviews 12 (2023)

Table 2 shows the results of Hosmer and Lemeshow's test which is used to evaluate the practicability of the regression model as measured by the probability value of the Chi-Square. The Chi-Square probability score is 0.1285 > 0.05, indicating that the data in this study may be utilized for further analysis since this research model can be utilized to interpret the data. This refers to the criteria **[34]** which states that if Hosmer and Lemeshow's score is > 0.05, that indicates the model may estimate the score of observations.

Overall Model Fit

Table 3. Result of Overall Model Fit

McFadden R-squared	0.326450	Mean dependent var	0.802632
S.D. dependent var	0.400657	S.E. of regression	0.314150
Akaike info criterion	0.774411	Sum squared resid	7.105675
Schwarz criterion	0.897082	Log likelihood	-25.42763
Hannan-Quinn criter.	0.823436	Deviance	50.85527
Restr. deviance	75.50335	Restr. log likelihood	-37.75168
LR statistic	24.64808	Avg. log likelihood	-0.334574
Prob(LR statistic)	0.000018		

Table 3 shows the value obtained from the LR statistic or Chi-Square count of 24.6808 while the Chi-Square table value is 12.592. This means that the LR statistic value > Chi-Square table value, so that in this study the hypothesized model value is fit with the data.

Coefficient of Determination (McFadden R-Square)

Table 4. Result of McFadden R-Square

McFadden R-squared	0.326450	Mean dependent var	0.802632
S.D. dependent var	0.400657	S.E. of regression	0.314150
Akaike info criterion	0.774411	Sum squared resid	7.105675
Schwarz criterion	0.897082	Log likelihood	-25.42763
Hannan-Quinn criter.	0.823436	Deviance	50.85527
Restr. deviance	75.50335	Restr. log likelihood	-37.75168
LR statistic	24.64808	Avg. log likelihood	-0.334574
Prob(LR statistic)	0.000018		

Source: Output Eviews 12 (2023)

Table 4 displays a McFadden R-Square value of 0.326450, which suggests that the independent variables examined in this research - profitability, operating cash flow, and sales growth are capable of impacting financial distress by 32.65%. Other variables not taken into consideration in the present study's independent variable analysis are responsible for 67.36% of the variation.

Logistic Regression Analysis

Table 5. Logistic Regression Results

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	2.575067	0.513662	5.013152	0.0000
Profitability	-1.321651	1.188703	-1.111843	0.2662
Operating Cash Flow	-2.139215	0.726286	-2.945416	0.0032
Sales Growth	-0.714984	0.905789	-0.789349	0.4299

McFadden R-squared	0.326450	Mean dependent var	0.802632
S.D. dependent var	0.400657	S.E. of regression	0.314150
Akaike info criterion	0.774411	Sum squared resid	7.105675
Schwarz criterion	0.897082	Log likelihood	-25.42763
Hannan-Quinn criter.	0.823436	Deviance	50.85527
Restr. deviance	75.50335	Restr. log likelihood	-37.75168
LR statistic	24.64808	Avg. log likelihood	-0.334574
Prob(LR statistic)	0.000018		
Obs with Dep=0	15	Total obs	76
Obs with Dep=1	61		

Source: Output Eviews 12 (2023)

Table 5 displays the outcomes of the logistic regression analysis, and the resulting regression equation is as follows:

$$\mathbf{Ln\frac{FD}{1-FD} = 2.57 - 1.32\,X1 - 2.13\,X2 - 0.71\,X3 + \varepsilon}$$

Notes:

$\text{Ln}\frac{\text{FD}}{1-\text{FD}}$	=	Probability of the company experiencing distress or non-distress
β_0	=	Constanta
$\beta_1 X_1$	=	Regression coefficient of profitability
$\beta_2 X_2$	=	Regression coefficient of operating cash flow
$\beta_3 X_3$	=	Regression coefficient of sales growth
ε	=	Error

An explanation of the results of the logistic regression equation is as follows:

1. According to the equation's results, the dependent variable financial hardship has a constant value of 2.575067, if the value of the independent variable in the regression, which is profitability, operating cash flow and sales growth is 0 (zero).
2. The profitability variable's coefficient amount is -1.321651, which implies that if the profitability variable increases by 1 (one) unit, the value of financial distress drops by 1.321651, provided the other variables are 0 or constant.
3. The operating cash flow variable's coefficient amount is -2.139215, which implies that if the operating cash flow variable increases by 1 (one) unit, the value of financial distress drops by 2.139215, provided the other variables are 0 or constant.
4. The sales growth variable's coefficient amount is -0.714984, which implies that if the sales growth variable increases by 1 (one) unit, the value of financial distress drops by 0.714984, provided the other variables are 0 or constant.

Simultaneous Test (F Test)

Table 6. Result of Simultaneous Test

McFadden R-squared	0.326450	Mean dependent var	0.802632
S.D. dependent var	0.400657	S.E. of regression	0.314150
Akaike info criterion	0.774411	Sum squared resid	7.105675
Schwarz criterion	0.897082	Log likelihood	-25.42763
Hannan-Quinn criter.	0.823436	Deviance	50.85527
Restr. deviance	75.50335	Restr. log likelihood	-37.75168
LR statistic	24.64808	Avg. log likelihood	-0.334574
Prob(LR statistic)	0.000018		

Source: Output Eviews 12 (2023)

Table 6 displays the results obtained from the simultaneous test (F test) which is indicated by the probability value (LR Statistic) of 0.000018. This means that the probability value (LR Statistic) < 0.05. It comes to the conclusion that H_0 is rejected, meaning that profitability, operating cash flow, and sales growth simultaneously affect financial distress.

Partial Test (Z Test)

Table 7. Result of Partial Test

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	2.575067	0.513662	5.013152	0.0000
Profitability	-1.321651	1.188703	-1.111843	0.2662
Operating Cash Flow	-2.139215	0.726286	-2.945416	0.0032
Sales Growth	-0.714984	0.905789	-0.789349	0.4299

Table 7 can explain the partial effect of profitability, operating cash flow, as well as sales growth variables on financial distress by looking at the coefficient value and probability. The outcomes of each independent variable's Z-statistic test on the dependent variable are as follows:

1. The probability of profitability (ROA) score of 0.2662 is more than 0.05. In the other hand, ROA's regression coefficient value, which has a negative sign is -1.321651. This implies that profitability hasn't affected financial distress.
2. The operating cash flow variable (operating cash flow to current liabilities) has a probability value of 0.0032 < 0.05. In addition, the regression coefficient value of operating cash flow of -2.139215 is negative. It's mean that partially this operating cash flow variable has a negative affected to financial distress.
3. The sales growth variable (Growth) has a probability value of 0.4299 > 0.05. In addition, the regression coefficient value of sales growth (Growth) of -0.714984 is negative. This implies that sales growth partially hasn't affected on financial distress.

The Effect of Profitability on Financial Distress

Profitability (ROA) has a coefficient value of -1.321651 with a calculated Z value of -1.111843, while the Z table value with α 0.05 is -1.64 or an absolute value of 1.64. Based on the probability value of 0.2662 ≥ α 0.05, its shows this profitability partially has not had any impact on financial distress. This illustrates that financial hardship in the transport and logistics companies listed on the IDX for years 2018 through 2021 cannot be predicted using profitability. This implies that a company's large profit margin isn't a guarantee that it won't experience financial distress in the future **[7]**. According to studies by **[35]**, which found that profitability had no bearing on financial difficulty, the findings of this study are in accord with and compatible with those findings.

The Effect of Operating Cash flow on Financial Distress

The operating fund flow in this study is replaced by the operating fund flow of current liabilities with a coefficient value of -2.139215 and a probability level of 0.0032 < α 0.05, which indicates that the operating fund flow variable has a partially negative impact for transportation and logistics companies listed on the Indonesian stock exchange during 2018-2021 on financial emergencies. This implies that a lesser likelihood of financial hardship is indicated by a higher operating money flow ratio. Consequently, a smaller operational fund flow ratio suggests a greater chance of financial distress. Therefore, the likelihood that a company will face financial distress is inversely related to the value of its operating fund flow ratio. According studies by **[19]**, negative operating fund flow can affect financial problems and the results of this study are consistent with previous findings.

The Effect of Sales Growth on Financial Distress

In this study, growth with a coefficient value of -0.714984 and a calculated Z value of -0.789349 is used as a

proxy for sales growth, whereas the Z table value with a significance level of 0.05 is -1.64 or equal to absolute 1.64. According to the probability level of 0.4299 ≥ α 0.05, the financial distress variable hasn't been significantly impacted by sales growth in transportation and logistics businesses registered on the IDX for the years 2018 through 2021. Accordingly, a company's capacity to occasionally boost sales will be reflected in its sales growth. The higher a company's sales growth, the more successfully it is executing its plan **[18]**. The results of the present study concur with those of research by **[36]**, which discovered that a rise in sales has no effect on financial distress.

IV. CONCLUSION

The findings and discussion lead to the conclusion that profitability, operating cash flow, as well as sales growth all have simultaneous impact on financial distress. However, financial distress isn't much impacted by either increased sales or profitability. Additionally, financial distress is partially impacted negatively by operating cash flow. Before investing in a company, investors should always consider the availability of operating cash flow, as shown by this study.

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