CHAPTER V
CONCLUSION

5.1 CONCLUSION

This Research attempts to answer all the research objectives , which to know the impact of profitability and leverage analysis on financial distress in Consumer goods company that listed in Indonesian stock exchange from year 2015 -2017 . The sample in this research are 35 companies. The hypothesis testing in this research using multiple regression analysis with two independent variables Profitability proxy in (Return on assets) and leverage proxy in(Debt ratio).Based on data analysis results It can be concluded as follow :

1. Based on partial significant test (T test) , Profitability proxy in (Return on assets) partially has significant effect on financial distress in consumer goods company that listed on IDX from year 2015 – 2017. The results of regression coefficient values of Return on assets is 12,103 it means that profitability contributes 1210.3 % towards financial distress .
2. Based on partial significant test (T test) , Leverage proxy in (Debt ratio) partially has significant negative effect on financial distress in consumer goods company that listed on IDX from year 2015 – 2017. The results of regression coefficient values of Debt ratio is – 6,743 it means that leverage contributes (674.3%) on financial distress.

3. Based on simultaneous significant test it shows that Profitability proxy in (Return on assets) and leverage proxy in (Debt ratio) affects towards financial distress in consumer goods company that listed on IDX from year 2015 – 2017 .The coefficient determination is 0,749 or 74,9% . It means that Profitability (Return on assets) and leverage (Debt ratio) simultaneously affects on financial distress and the rest 25.1 % is influenced by another variable outside.

5.2 IMPLICATION

This research to know the impact of profitability proxy in (Return on assets) and leverage proxy in (Debt ratio) towards financial distress .The Theoretical contribution is to provide the ability of profitability and leverage towards financial distress .The results show that Profitability proxy in (Return on assets) has significant effect on financial distress and leverage proxy in (Debt ratio) partially has negative significant effect on financial distress.

The First practical implication is There is significant effect from Profitability (Return on assets) on financial distress explains that profitability proxy in (Return on assets) has most impact on financial distress , and more useful for investor to detect financial distress in company which means in this situation, manager of company should pay more attention on company profit, company information with profit used by external parties which is investor to detect company financial condition. This is line with agency theory as grand theory for example: company employs manager as agent to create higher profit and prepare the financial statement ,the information of financial statement used by investor to detect company financial condition.

If the profit that company obtained is higher then it might be small possibility that company will turn into financial distress condition

And the second practical implication is there is significant negative effect from leverage (Debt ratio) on financial distress , it indicates that leverage has an impact towards financial distress but in negative, means that leverage proxy in Debt ratio has less impact on financial distress rather than profitability which is manager of company needs to manage the liabilities that company obtained because if the leverage that company obtained is higher but the company profit cannot cover the liabilities This situation can turn company into financial distress condition. This is line with agency theory which is owner of company (principal) employ manager of company as agent to focus or manage the liabilities that company owned. From two practical implication This beneficial for company in order to know what mostly factors possibly impact to cause financial distress in a company, and help in making decision in a company. For company must be able to create a large profit because profitability (Return on assets) has most significant effect on financial distress if the profit that company obtained is higher means that the company can run their business well. Profit is also used to pay the debt that company has . But if the profit that company obtained is smaller, it can not use to pay the debt , it might be possible for company to turn into financial distress condition. For additional information In this research line with agency theory , means manager of company, as agent has more information about the company rather the owner of company as principal . Then the manager of company is required to be always transparent in every information about the company, so there might be smaller possibility about asymmetric information could occur in company which might effect on company performance.

5.3 RECOMMENDATION

Some recommendation that can be put forward in this study of the results of this research which are follow :

1. For company

   Company must be able to generate a large profit because if the company earn the higher profit means that the company can run its business operation well profit also uses to pay the debt that company has. But if the profit that company earns is smaller and cannot be used to pay the debt, it might be possible for company to experience financial distress condition in company ,so it is better for the company to keep continue to increase the profit. Profitability in this study is used to generate profit of the company to avoid the risk of bankruptcy due to the inability to pay debts . For company should be more careful to manage the amount of additional capital (debt) from outside because the risk that caused from high debt will cause company turn into financial distress condition.

2. For investor

   For investor , It can be consideration in making decision for investor before they invest their funds , especially in Consumer goods company , Which should consider the Profitability (Return on assets) and leverage (Debt ratio) because those variables simultaneously affect towards financial distress.

3. For other researcher

The writer aware that there are still many limitation in this research the writer only use 3 years as company data and for profitability only proxy in (Return on assets) and same with leverage. In this study leverage analysis only proxy in (Debt ratio) and for the dependent variable only use financial distress ,the writer only use Springate method as the financial distress measurement , The results of this research can be different so better to improving this research , other researcher need wider scope and use more variable and method as measurement.