CHAPTER 1

INTRODUCTION

1.1 Background of Study

Many of the businesses' financial performance are declining, shown through layoffs and rise of unemployment rate, because of several factors since the pandemic COVID-19. Business condition can fluctuate over the time. When a company faces downturn or financial distress, one of the effects is shown when a company conducting layoff (detikFinance, 2023). Layoff can be a sign of a company suffering in economy or cutting cost. Another condition that lead to financial distress is that the management is unable to organize the finance well. The external factors are coming from stronger competitors, especially from foreign countries like China (BBC News Indonesia, 2024). It should not be underestimated as the impact will be in declining of financial performance and the worst case is that the company may face bankruptcy or liquidation (Widarjo & Setiawan, 2012).

According to the study presented by Aprillia & Tarigan (2022), Indonesia was on the 72th rank out of 141 countries for infrastructure development in 2019 based on the World Economic Forum. Infrastructure project performance was still low back then in Indonesia because of quality inefficiency. It became a bigger challenge starting early 2020 where the country's focus more on the healthcare to recover from the pandemic COVID-19 (Kementrian Keuangan Badan Kebijakan Fiskal, 2021). Thereby, government had formed strategies to economy optimization and recovery. One of them is by boosting infrastructure building, including the new capital city of Indonesia called

IKN and all around Indonesia (Kementrian Koordinator Bidang Perekonomian Republik Indonesia, 2023). As a result, the country's economy gets better throughout the time which give positive impacts to the society in various aspects. Toll road has enhanced the accessibility and effectiveness between regions (Kementrian Sekretariat Negara Republik Indonesia, 2024).

The effect of pandemic COVID-19 has decreased the worldwide Gross Domestic Product as much as 2.07% in year 2020 (The World Bank, 2021). Due to recession, economic performance decreased and unemployment rate increased. These factors lead to financial distress in pandemic era. Even after the economic gets better after the pandemic era, yet the purchasing power still need to be fixed (Pratiwi, 2022). One of the concerning aspects is employees layoff that may increase the unemployment rate. Since the pandemic in 2020, unemployment rate has increased rapidly. In 2023, the unemployment rate has getting lower which is better in 5.32% as much as 7.86 million people (Badan Pusat Statistik, 2023) but still a little higher than the unemployment number before pandemic era which is 7.1 million people. However, it's reported that thousands of employees experienced layoff along year 2022 and 2023 since the companies went bankrupt due to financial distress, especially in manufacturing sector companies (CNBC Indonesia, 2024). Thereby, the research taken the three years before, three years after and during the pandemic era. In total is 7 years period of time from year 2017 to 2023.

In 2020, Indonesia has signed infrastructure contracts in amount of 183.77 trillion rupiah (Indonesia Corruption Watch, 2022). Meanwhile, the debt to GDP ratio has reached the highest point with 39.9% in year 2020 (Badan Keahlian DPR RI, 2024). Yet, the ratio number has been controlled and lowered until year 2024. It is a form of awareness to mitigate the long-term risk. In addition, there are six state-owned enterprises suffering financial distress in 2024. Half of them are from infrastructure companies. The causes are lack of management control and miss analyzing before investment (Rexy, 2024).

Factors which cause large companies to bankrupt are not only sales performance depletion, but also the inability to meet the debt obligations. It is said as the main factor of bankruptcy where companies will have to pay a large amount of interest expense while also struggling with the huge amount of money borrowed (detikFinance, 2024). A globally well-known kitchen utilities production brand called Tupperware just went bankrupt on September 2023 due to inabilities to meet the debt as much as $1.2 billion USD eventhough finally the brand were bought by 3rd party (CNBC Indonesia, 2024). For this reason, it's important for a company to keep in track its financial ratios to keep a good company's performance and mitigate financial distress.

Moreover, the commonly-used liquidity measurement is Current Ratio. Current Ratio is able to measure how capable a company in fulfilling its short-term obligations or liabilities (CNN Indonesia, 2023). Indonesia government has regulated the maximum debt of Infrastructure Funding Companies in Indonesia companies in the Minister of Finance Regulation *PMK* 010 *no* 100 Year 2009 Chapter 23, which is as much as 10 times from the company's equity (Menteri Keuangan Republik Indonesia, 2009). While According to *PMK* 010 Year 2015, the maximum creditable interest debt expenses for companies is when the Debt-to-Equity Ratio not exceeding 4. If the ratio is more than 4 over 1, the interest expenses are uncreditable. This regulation stimulate corporations to utilize the creditable expenses while also maintaining the leverage number not too high since the creditable amount is maximized up to 4 for DER.

According to Dirman (2020), if a company has larger amount of assets, it shows a higher ability of fulfilling the obligations, and hence can avoid financial distress. Amount of assets can indicate how large a company size is. Thereby, this research would like to use Firm Size as a moderating variable to test the influence to the research model.

A previous research conducted by Khaeria & Kristianti (2023) uses the same independent, moderating and dependent variable as this research. Whereas, Liquidity as the main independent variable, Financial Distress as the dependent variable, and Firm Size as the moderating variable. The data range are from 2017 to 2021 for 13 property companies. The result is that Liquidity and Corporate Governance have simultaneous significant impact on Financial Distress. Liquidity has no partial significant influence on Financial Distress. Firm size has no influence between Liquidity towards Financial Distress. A research conducted by Andaris & Dasman (2024) used the same independent variable, moderating variable, dependent variable, and even using infrastructure sector. However, the data range is only from 2020 to 2023 processed with . Thereby, The result of research is both Liquidity and Leverage have significant impact on financial distress. In addition, Firm Size has the ability to moderate the Liquidity and Leverage variables on influencing Financial Distress. The research having 41 samples chosen with purposive sampling method from infrastructure sector companies in four years from 2020-2023. While in this research, the period is added another 3 years before pandemic, starting from year 2017 up to 2023 where the pandemic COVID-19 started in 2020. Therefore, researcher plans on analyzing the financial distress by collecting the data three years before, during the year of and three years after the pandemic era. However, the previous research didn't use classical assumption tests since the regression is non-linear. Thereby, the technique and regression method are different between the previous research with this research. This research uses multiple linear regression with classical assumption tests.

With that, the previous researchers of these two previous studies recommended to enlarge the number of samples, add the research period and add the variables for the future research. With a wider range of data, this research is conducted to know the impact of liquidity toward financial distress by using multiple linear regression analysis. This paper will deepen this topic research with more samples, research period, and variables added.

Liquidity has negative and significant influence on Financial Distress (Arohmawati & Pertiwi, 2021) . Compared to the research done by Putri & Nur (2023), Liquidity has a little impact on Financial Distress. However, the based on the data obtained from infrastructure companies, show that as the liquidity that can be calculated by using Current Ratio. But the increasing in Current Ratio doesn't always mean that the financial distress get more significant where a higher number of Altman Z-Score show a better financial performance. The result of research done by Andaris & Dasman (2024) and Arohmawati & Pertiwi (2021) compared to the empirical evidence as in the table below.

Table 1.1 The Phenomena of Liquidity and Financial Distress in Infrastructure Companies listed in Indonesia Stock Exchange in the period of 2019 and 2020

Company	Year	Current Ratio	Altman Z-Score
PT Bali Towerindo Sentra Tbk (BALI)	2019	0.326	1.321
	2020	0.625	1.290
PT Indonesia Kendaraan Terminal Tbk (IPCC)	2019	3.289	5.245
	2020	4.449	1.333
PT Jasa Armada Indonesia Tbk (IPCM)	2019	3.813	4.430
	2020	2.805	5.085

The data above shows the Current Ratio and Altman Z-Score calculation of companies in infrastructure companies in year 2019 and 2020, the data are obtained from the formula stated in variable measurements. Data are collected from three samples of infrastructure company, with code of company BALI, IPCC, and IPCM. BALI data shows increasing in number of the Current Ratio from 0.326 to 0.625 while the Altman

Z-Score decreases from 1.321 to 1.290. Based on the research and theory mentioned previously, the Current Ratio and Altman Z-Score should have aligned since the larger a company's assets, it has better capabilities of fulfilling the obligations, so less likely to suffer financial distress. Data from IPCC also shows the increasing of Current Ratio followed with the decreasing of Altman Z-Score from 2019 to 2020. While IPCM data shows the contrary case where the Current Ratio decreased, followed by increasing of Z-score which indicating a better financial performance. It means that the higher Current Ratio not always lead to better financial performance since the Z-Score should be higher while Current Ratio increases. These 2 years period of 2019 and 2020 are chosen since it shows a larger gap in financial performance due to pandemic COVID-19.

By having some researchers gap and taking the recommendations of previous researches, the writer would like to conduct further analysis and interpretation through this research titled "THE IMPACT OF LIQUIDITY TOWARDS FINANCIAL DISTRESS (WITH FIRM SIZE AS THE MODERATING VARIABLE)".

1.2 Problem Limitation

With purpose to enhance the research focus and efficiency, this paper does not include all of the variables that affect financial distress. This study has one main independent variables and one dependent variable, with one moderating variable. Additionally, four control variables were added in the data analysis. The main independent variable is Liquidity with Leverage, Dividend Policy, Sales Growth and Efficiency as the control variables. While Financial Distress is the dependent variable and Firm Size as the moderating variable. Furthermore, the research is conducted specifically to companies from infrastructure sector which are listed in the Indonesia Stock Exchange for the year 2017-2023, which are from 7 years respectively and will be sorted using purposive sampling method. This research will use multiple linear regression as the analyzing tool after passing the classical assumption tests.

1.3 Problem Formulations

The problem of formulations for this study are as follow:

1. Does liquidity have significant impact toward financial distress?
2. Does the moderating variable of firm size have significant impact towards liquidity on financial distress?

1.4 Objectives of The Research

The objectives of the research are as follow:

1. To analyze the significant impact of liquidity towards financial distress.
2. To analyze the significant impact of moderating variable of firm size towards liquidity on financial distress.

1.5 Benefits of The Research

1.5.1 Theoretical Benefit

By conducting this research, it's expected that readers can have deeper understanding and wider knowledge on financial distress and the factors influencing it. Besides, this research can provide further comprehension of the impact of liquidity to financial distress which may help mitigate risk of bankruptcy caused by performance declining, especially in infrastructure sector companies.

1.5.2 Practical Benefit

1. Benefits for stakeholders

   This research may help in decision-making by understanding the factors that may cause financial distress.

2. Benefits for infrastructure sector companies

   As insights and reference to maximize the efficiency and resources planning in daily operating activities and problem-solving.

3. Benefits for government

   If company face financial distress, the tax revenue and consumer's ability may drop as well. Through this research, government can have reference of the factors influencing financial distress. The variables can also be taken into consideration in decision-making for the country, especially in infrastructure sector companies which are currently be the focus to be developed.

4. Benefits for future researchers

   This study can be a reference for future research in different period and various sectors besides infrastructure sectors. There may be room for improvement from this research to be compatible with the most current situation development. Future researchers can also add another variables beside the variables used in this research, can be a main, control, moderating, mediating or intervening variables as an addition.