

DO PROFITABILITY, LIQUIDITY, LEVERAGE, AND SALES GROWTH PREDICT FINANCIAL DISTRESS? EVIDENCE FROM CONSUMER GOODS FIRMS IN INDONESIA

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Abstract

The growing number of enterprises in Indonesia's main consumer products industry has resulted in more strong commercial rivalry. As a result, firms must maintain consistent and long-term financial success. However, not all major consumer products firms manage their finances efficiently, making them subject to financial crisis. Using a purposive selection strategy, this research will examine profitability, liquidity, leverage, and sales growth indicators as predictors of financial distress in major consumer products industries from 2021 to 2024. The study was driven by increased business rivalry and diminishing earnings in some firms, which have the potential to cause financial issues. This study's research sample was generated using a purposive sampling strategy, including eight firms and four years of observation. The data was analysed using panel data regression in the E-Views 13 programme. The findings of this research show that profitability and liquidity have an impact on financial distress, however leverage and sales growth have no influence.

Keywords: Financial Distress, Profitability, Liquidity, Leverage, Sales Growth.

1. Introduction

Companies in the primary consumer goods sector have experienced remarkable growth in line with rising public demand and stable purchasing power, leading to the emergence of highly attractive investment opportunities (Pajriah et al., 2023). Increasingly intense competition forces companies to boost their sales volume through expansion and external financing measures, which can ultimately result in higher operating costs and debt. The accelerating growth of companies in the primary consumer goods sector in Indonesia is driving increasingly fierce business competition, compelling companies to maintain stable and sustainable financial performance. However, in practice, not all companies in the primary consumer goods sector successfully manage their finances, resulting in declining profits that leave them vulnerable to financial distress (Rahayu, 2023).

Financial distress is a state in which a firm has financial problems, as shown by a deterioration in its capacity to satisfy its financial commitments. If this problem is not remedied soon, the corporation may face insolvency (Zatira et al., 2023). Financial distress is characterized by a reduction in a company's profitability, which has an influence not only on the company's sustainability but also on the confidence of investors, creditors, and other third parties. The situation is aggravated when the company's liquidity is poor, making it difficult to satisfy its short-term commitments. High leverage strains finances and heightens the danger of default. This is sometimes caused by negative or decreasing sales growth, resulting in revenue that cannot meet operating expenditures. To prevent insolvency, the corporation may reduce its personnel and discontinue dividend payments (Nisa, 2025).

Profitability is critical to the long-term viability of a firm. High profitability is associated with the availability of internal funds that can be used to meet financial obligations, thereby minimizing the potential for financial distress; conversely, as profitability declines, companies lose financial flexibility and become more vulnerable to extreme market fluctuations (Ningrum & Riharjo, 2025). In addition to profitability, liquidity refers to a company's capacity to satisfy all of its short-term financial commitments within a certain time period (Apriliana, 2022). Companies with inadequate liquidity will have difficulty funding their continuous company activities. This might lead to a loss of trust among creditors and suppliers, raising financial risk. Conversely, strong liquidity makes it easier to pay operating bills on schedule, boosting creditor and supplier trust. As a consequence, the corporation may escape financial difficulties (Apriliana, 2022).

Leverage is a measure of a company's ability to use resources or finance sources at a certain cost to maximize value for shareholders (Setiowati et al., 2023). When debt levels rise without being countered by enough profit growth, the firm becomes susceptible to financial distress; on the other hand, low leverage levels lower the risk of financial distress (Setiowati et al., 2023). Sales growth is an indication of changes in sales volume evaluated by fluctuations, which are then used to calculate the growth rate (Wulandari & Pratiwi, 2023). Consistently rising sales growth implies that the market continues to desire the company's goods or services, assuring the long-term viability of cash inflows from operating operations. In contrast, stagnant or decreasing sales are an early warning indicator of a diminishing market share, which might jeopardize long-term financial health (Wulandari & Pratiwi, 2023).

The urgency of this research is driven by several factors. First, the primary consumer goods sector in Indonesia is experiencing rapid growth accompanied by increasingly intense competition, requiring companies to maintain sustainable financial performance. Second, the phenomenon of financial distress in this sector has significant implications not only for company sustainability but also for investor confidence, creditor trust, and overall economic stability. Third, the ability to predict financial distress serves as an early warning system that enables management, investors, and creditors to take preventive measures before financial problems escalate into insolvency.

Previous research has shown inconsistent findings regarding the determinants of financial distress. Some studies suggest that financial distress is influenced by profitability and liquidity (Septiani et al., 2021). However, other research has revealed that profitability and liquidity have no substantial impact on financial distress (Pratiwi & Sudiyatno, 2024). Furthermore, research by Antoniawati and Purwohandoko (2022) found that leverage had an influence on financial distress. Research by Rochendi and Nuryaman (2022) shows that sales growth increases financial distress, while another study found that sales growth had little influence on financial distress (Sari & Isbanah, 2024). These contradictory findings indicate that the influence of these variables on financial distress is contextual and requires further investigation.

Based on the background and research gap described above, this study aims to analyze the influence of profitability, liquidity, leverage, and sales growth on financial distress in primary consumer goods companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2024. This research is critical for identifying the determinants of financial distress, thereby functioning as an early warning system for possible financial concerns inside businesses. It is anticipated that firm management will take these study results into account when building more sustainable and effective financial management

strategies. Furthermore, by taking into account the risk of financial distress, this research offers a solid platform for investors and creditors to make investment and lending choices.

The contributions of this study are twofold. Academically, this study is likely to improve earlier empirical research in the disciplines of finance and accounting, notably in the forecasting of financial distress in primary consumer goods businesses listed on the IDX. Practically, the findings provide valuable insights for company management in designing financial strategies, for investors in making investment decisions, and for creditors in assessing lending risks.

2. Theoretical Background

2.1 Signaling Theory

Signaling Theory was first proposed by Michael Spence in 1973. This theory explains how corporations convey future prospects to investors, particularly those related to corporate financial management (Nabilah et al., 2023). In the context of financial distress, Signaling Theory states that management will send positive signals when the company's financial situation is stable and its prospects are favorable. This emphasizes the significance of clearly disclosing financial information such as profitability, liquidity, leverage, and sales growth. This information is essential for avoiding financial trouble and maintaining stakeholder confidence.

Signaling Theory provides the foundation for understanding how financial performance indicators serve as signals to external parties, including investors, creditors, and regulators. When a company demonstrates strong financial performance through high profitability, adequate liquidity, manageable leverage, and positive sales growth, it sends positive signals that reduce information asymmetry and enhance stakeholder trust. Conversely, weak financial performance signals potential financial distress and increases the risk of adverse stakeholder reactions.

2.2 Profitability

Profitability is defined as the capacity to generate profits from operational activities (Nirawati et al., 2022). These operational activities include product or service sales, cash inflows and outflows, and the utilization of capital or equity. Companies commonly use Return on Assets (ROA) to measure profitability. A high ROA indicates that the company's performance is considered solid, thereby reducing the risk of financial distress (Erawati, Shenurti, & Nur Kholifah, 2022).

In the context of Signaling Theory, profitability serves as a positive signal to external stakeholders. High profitability indicates that the company is efficiently utilizing its assets to generate returns, which enhances investor confidence and creditor trust. Companies with strong profitability are better positioned to meet their financial obligations and are perceived as having lower financial risk.

2.3 Liquidity

Liquidity is defined as the ability to fulfill short-term payment commitments within a certain time period (Alifian & Susilo, 2024). The Current Ratio is commonly used to assess a company's liquidity. A high Current Ratio reflects the company's success and reduces the risk of financial crisis (Ramaadhianti et al., 2023).

From the perspective of Signaling Theory, liquidity provides an important signal to investors, creditors, and other external parties regarding a company's financial soundness. High liquidity demonstrates the company's ability to manage short-term finances and

assets effectively, signaling financial stability. Conversely, low liquidity signals potential financial problems and may indicate an increased risk of financial distress.

2.4 Leverage

Leverage is utilized to fund assets necessary for a company's operations (Setiowati et al., 2023). The Debt to Asset Ratio (DAR) is commonly used to measure debt levels. A high DAR signals poor corporate performance and raises the risk of financial distress (Distian & Hermawan, 2023).

In Signaling Theory, leverage serves as a critical indicator of a company's financial health and stability. High leverage is perceived as a negative signal indicating excessive dependence on debt financing, which increases financial strain and the risk of payment difficulties. In contrast, a low debt-to-equity ratio implies a sound capital structure and signals that the firm is better able to meet its financial commitments.

2.5 Sales Growth

Sales growth is quantified using criteria that demonstrate a company's capacity to sustain success in the face of industry and economic change (Kasmir, 2021). High sales growth improves a company's operational efficiency and capacity, thereby reducing the risk of financial distress (Thaib & Laily, 2023).

Within the Signaling Theory framework, sales growth rates may be viewed as positive signals that a firm intentionally or unintentionally sends to investors, creditors, and other third parties. Sales growth reflects the company's capacity to increase market share and ensure corporate sustainability, signaling strong company prospects and a generally solid financial condition. This positive signal may boost external stakeholders' trust in the company's financial stability while lowering the chance of financial crisis.

2.6 Hypothesis Development

2.6.1 Profitability on Financial Distress

According to Signaling Theory, companies capable of generating significant profits provide a favorable signal that their financial situation is solid and strong, lowering the chance of financial distress. In contrast, a company's failure to optimize assets for profit may be perceived as a negative indicator of a deteriorating financial situation and increasing risk of financial crisis.

Previous research supports this relationship. Masrurah (2025) and Ananda et al. (2026a) found that profitability has a negative effect on financial distress, meaning that companies with higher profitability have a better ability to meet their financial obligations. Septiani et al. (2021) confirmed that profitability influences financial distress. However, Pratiwi and Sudiyatno (2024) found that profitability has no substantial impact on financial distress, indicating that the relationship may be context-dependent.

H1: Profitability has a negative effect on Financial Distress.

2.6.2 Liquidity on Financial Distress.

In Signaling Theory, a company's liquidity is an important source of information for investors, creditors, and other external parties when assessing its financial soundness. High liquidity demonstrates the company's ability to manage short-term finances and assets, while low liquidity signals potential financial problems.

Previous research indicates that liquidity generally has a negative effect on financial distress. Shavila and Purwanto (2025) and Kristorio et al. (2025) found that high liquidity reduces the risk of financial distress because companies have better ability to meet their short-term obligations. Septiani et al. (2021) also confirmed that liquidity influences financial distress. Idawati and Wardhana (2021) added that low liquidity levels can increase the risk of financial difficulties. However, Pratiwi and Sudiyatno (2024) found that liquidity has no substantial impact on financial distress.

H2: Liquidity has a negative effect on Financial Distress.

2.6.3 Leverage on Financial Distress.

According to Signaling Theory, a company's leverage is an important indicator for investors, creditors, and other external parties when assessing financial health and stability. High leverage is a negative signal indicating excessive dependence on debt financing, which increases financial strain and the danger of payment issues. In contrast, a low debt-to-equity ratio implies a sound capital structure and signals that the firm is better able to meet its financial commitments.

Previous research on leverage and financial distress has shown inconsistent results. Some studies have found positive effects, others negative, and some insignificant effects (Ananda et al., 2026b; Iswanto et al., 2024). Septiani et al. (2021) found that leverage affects financial distress. Rangga et al. (2025b) explained that high leverage can increase the risk of financial distress because companies face heavier financial burdens in unstable economic conditions. Antoniawati and Purwohandoko (2022) also found that leverage had an influence on financial distress.

H3: Leverage has a positive effect on Financial Distress.

2.6.4 Sales Growth on Financial Distress.

In Signaling Theory, sales growth rates may be viewed as positive signals that a firm sends to investors, creditors, and other third parties. Sales growth reflects the company's capacity to increase market share and ensure corporate sustainability, signaling strong company prospects and a generally solid financial condition. This positive signal may boost external stakeholders' trust in the company's financial stability while lowering the chance of financial crisis.

Previous research on sales growth and financial distress shows that high sales growth improves a company's operational efficiency and capacity, thereby reducing the risk of financial distress (Thaib & Laily, 2023). Rachmah and Susilawati (2024) explained that sales growth rates can be viewed as positive signals that enhance external stakeholders' trust in the company's financial stability. However, Rochendi and Nuryaman (2022) found that sales growth increases financial distress, while Sari and Isbanah (2024) found that sales growth had little influence on financial distress, indicating the need for further investigation.

H4: Sales Growth has a negative effect on Financial Distress.

3. Method

3.1 Research Design

This study employs a quantitative approach with a causal-explanatory research design. The quantitative approach was chosen because this study aims to examine the influence of independent variables (profitability, liquidity, leverage, and sales growth) on the dependent variable (financial distress) through statistical analysis. The causal-

explanatory design is appropriate for testing the hypothesized relationships between variables and determining the cause-and-effect relationships among them (Sugiyono, 2019).

3.2 Population and Sample

The population of this research is primary consumer goods companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The population in this study consists of all primary consumer goods companies listed on the IDX during the 2021–2024 period, totaling 90 companies.

The sampling technique used is purposive sampling, which is a technique of determining samples based on specific criteria adjusted to the research objectives (Sugiyono, 2019). The sample criteria in this study include:

- 1) Primary consumer goods companies listed on the IDX during the 2021–2024 period.
- 2) Companies that consistently published annual financial statements during the research period.
- 3) Companies that have complete data related to all research variables.

Based on these criteria, the number of samples obtained is presented in Table 1.

Table 1. Research Sample Data

Remarks	Quantity
Population: Primary consumer goods companies listed on the IDX for the period 2021–2024	90
Companies that do not present complete financial statements during the period 2021–2024	(36)
Companies that meet the sample criteria	54
Number of research observations (54 companies × 4 years)	216

Source: Processed Data (2026)

3.3 Data Collection Techniques

The data used in this study is secondary data obtained from the annual financial statements of companies listed on the Indonesia Stock Exchange (IDX) and the official website of each company. The data collection procedure involves the following stages:

- 1) Identifying primary consumer goods companies listed on the IDX during the 2021–2024 period.
- 2) Selecting companies that meet the purposive sampling criteria.
- 3) Collecting annual financial statement data from the IDX official website (www.idx.co.id) and company websites.
- 4) Compiling the data into a structured format for analysis.

3.4 Operational Definitions of Research Variables

The operational definitions of the variables used in this study are presented in Table 2.

Table 2. Operational Definitions of Research Variables

Variable	Type	Measurement	Formula	Scale
Profitability (X1)	Independent	Return on Assets (ROA)	$\text{Net Income} / \text{Total Assets} \times 100\%$	Ratio
Liquidity (X2)	Independent	Current Ratio (CR)	$\text{Current Assets} / \text{Current Liabilities}$	Ratio
Leverage (X3)	Independent	Debt to Asset Ratio (DAR)	$\text{Total Debt} / \text{Total Assets}$	Ratio

Variable	Type	Measurement	Formula	Scale
Sales Growth (X4)	Independent	Sales Growth	$(\text{Sales } t - \text{Sales } t-1) / \text{Sales } t-1$	Ratio
Financial Distress (Y)	Dependent	Altman Z-Score	$6.56(\text{WC}/\text{TA}) + 3.26(\text{RE}/\text{TA}) + 6.72(\text{EBIT}/\text{TA}) + 1.05(\text{BV}/\text{TL})$	Ratio

Source: Processed by the Researcher (2026)

3.5 Data Analysis Techniques

The data analysis techniques used in this study include descriptive statistical analysis, classical assumption tests, and multiple linear regression analysis.

Before conducting multiple linear regression, classical assumption tests are performed to ensure the model meets the required assumptions. The normality test using the Kolmogorov-Smirnov test determines whether the residuals are normally distributed, with a significance value greater than 0.05 indicating normal distribution (Ghozali, 2018). The multicollinearity test uses Tolerance and VIF values, where Tolerance > 0.10 and VIF < 10 indicate no multicollinearity. The heteroscedasticity test using the Glejser test detects inequality in residual variance, with a significance value greater than 0.05 indicating no heteroscedasticity (Ghozali, 2018). The autocorrelation test using the Durbin-Watson test detects correlation between residuals, with the criteria: if $du < d < 4 - du$, there is no autocorrelation (Sujarweni, 2016).

After the classical assumptions are met, multiple linear regression is conducted to examine the influence of profitability, liquidity, leverage, and sales growth on financial distress using the model:

$$FD = \alpha + \beta_1 ROA + \beta_2 CR + \beta_3 DAR + \beta_4 SG + \varepsilon.$$

Hypothesis testing is conducted through partial tests (t-test) and simultaneous tests (F-test), with the hypothesis accepted if the significance value is less than 0.05. The coefficient of determination (R^2) is used to measure the extent to which the independent variables explain the variation in the dependent variable (Ghozali, 2018).

4. Results and Discussion

4.1 Results

4.1.1 Descriptive Statistical Analysis

The purpose of this research is to examine the characteristics of profitability, liquidity, leverage, and sales growth in forecasting financial distress among IDX-listed businesses in the main consumer goods industry between 2021 and 2024. The data was analyzed using panel data regression with E-Views 13 software. Before hypothesis testing, descriptive statistical analysis, panel data regression model selection, and classical assumption tests were conducted to confirm the research model was adequate for usage.

Table 3. Results of Descriptive Statistical Analysis

Statistics	Profitability	Liquidity	Leverage	Sales Growth	Financial Distress
Mean	-3.432049	0.865518	0.627629	-0.085914	-1.718749
Median	-4.629850	0.625620	0.584545	-0.060775	-0.814440
Maximum	94.35689	2.736780	1.044210	0.710860	3.021460
Minimum	-56.15028	0.177870	0.377270	-0.832430	-11.33948
Std. Dev.	26.51204	0.589690	0.176688	0.286451	3.602182
Skewness	1.291109	1.322502	0.562273	0.033957	-0.878072
Kurtosis	7.398491	4.566111	2.394700	4.344640	3.387621

Statistics	Profitability	Liquidity	Leverage	Sales Growth	Financial Distress
Jarque-Bera	34.68610	12.59833	2.174656	2.416892	4.312384
Probability	0.000000	0.001838	0.337116	0.298661	0.115765
Observations	32	32	32	32	32

Source: Researcher, data processed using EViews 13 (2026)

Table 4 provides a summary of the descriptive statistics from 32 samples. Profitability has a mean of -3.432049, a maximum of 94.35689, a minimum of -56.15028, and a standard deviation of 26.51204. Liquidity has a mean of 0.865518, a maximum of 2.736780, a minimum of 0.177870, and a standard deviation of 0.589690. Leverage has a mean of 0.627629, a maximum of 1.044210, a minimum of 0.377270, and a standard deviation of 0.176688. Sales growth has a mean of -0.085914, a maximum of 0.710860, a minimum of -0.832430, and a standard deviation of 0.286451. Financial distress has a mean of -1.718749, a maximum of 3.021460, a minimum of -11.33948, and a standard deviation of 3.602182.

4.1.2 Panel Data Regression Model Selection

To determine the most appropriate panel data regression model, three selection tests were conducted: the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. The results of these tests are summarized in Table 5.

Table 4. Panel Data Regression Model Selection Results

Test	Test Statistic	Prob.	Decision	Selected Model
Chow Test	Cross-section Chi-square: 15.891342	0.0039	Prob < 0.05 → Reject H0	FEM
Hausman Test	Cross-section Chi-square: 3.089070	0.5422	Prob > 0.05 → Accept H0	REM
Lagrange Multiplier (LM) Test	Breusch-Pagan: 2.144129	0.1784	Prob > 0.05 → Accept H0	CEM

Source: Researcher, data processed using EViews 13 (2026)

Based on the Chow test results (which rejected CEM in favor of FEM) and the Hausman test results (which rejected FEM in favor of REM), the Random Effects Model (REM) was selected as the most appropriate modeling approach for this study.

4.1.3 Classical Assumption Tests

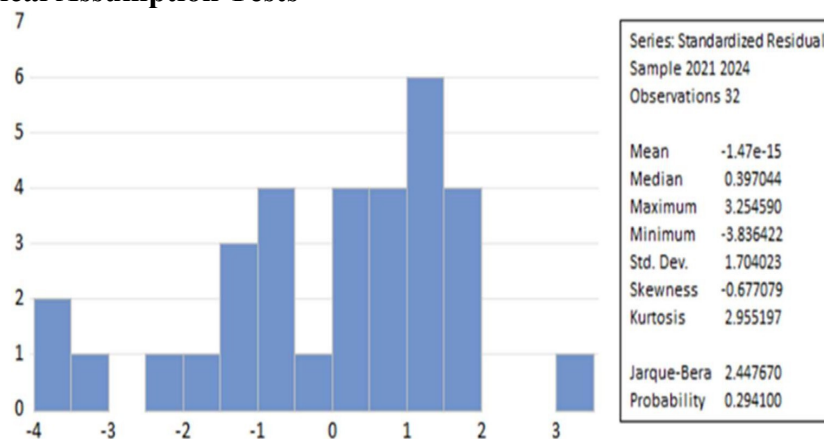


Figure 1. Results of the Normality Test

Source: EViews 13 Data Analysis Results (2026)

Based figure 1. the Jarque-Bera probability value of 0.294100 (>0.05) indicates that the residuals are normally distributed, implying that the normality assumption is fulfilled.

Table 5. Results of the Multicollinearity Test

Variable	Profitability	Liquidity	Leverage	Sales Growth
Profitability	1.000000	-0.10	0.03	-0.06
Liquidity	-0.10	1.000000	-0.25	0.19
Leverage	0.03	-0.25	1.000000	-0.16
Sales Growth	-0.06	0.19	-0.16	1.000000

Source: Researcher, data processed using EViews 13 (2026)

The multicollinearity test results show that all correlation coefficients between independent variables are less than 0.90, indicating no multicollinearity problems in the regression model.

Table 6. Results of the Heteroscedasticity Test

Variable	Probability
Profitability	0.4590
Liquidity	0.4279
Leverage	0.7659
Sales Growth	0.0968

Source: Researcher, data processed using EViews 13 (2026)

The heteroscedasticity test results show that all variables have probability values greater than 0.05, indicating no heteroscedasticity problems in the regression model.

Table 7. Results of the Autocorrelation Test (Before Transformation)

Model	Durbin-Watson
1	0.9928

Source: Researcher, data processed using EViews 13 (2026)

The Durbin-Watson value of 0.9928 is below the du value of 1.7323, indicating the presence of autocorrelation. To address this issue, the financial distress variable was transformed.

Table 8. Results of the Autocorrelation Test (After Transformation)

Model	Durbin-Watson
1	1.826288

Source: Researcher, data processed using EViews 13 (2026)

After transformation, the Durbin-Watson value is 1.826288, which satisfies the condition $du < d < 4 - du$ ($1.7323 < 1.826288 < 2.2677$), indicating that the autocorrelation problem has been resolved.

4.1.4 Panel Data Regression Analysis

The panel data regression equation is as follows:

$$\text{Financial_Distress} = -2.858 + 0.085 * \text{Profitability} + 3.622 * \text{Liquidity} - 2.409 * \text{Leverage} + 2.221 * \text{Sales_Growth}$$

The constant of -2.858 indicates that financial distress would decrease by 285.81% in the absence of the independent variables. The profitability coefficient of 0.085 indicates that a 1% increase in profitability increases financial distress by 8.53%. The liquidity coefficient of 3.622 indicates that a 1% increase in liquidity increases financial distress

by 362.24%. The leverage coefficient of -2.409 indicates that a 1% increase in leverage decreases financial distress by 240.9%. The sales growth coefficient of 2.221 indicates that a 1% increase in sales growth increases financial distress by 222.07%.

4.1.5 Hypothesis Testing

Table 9. Results of the t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.858150	0.488214	-5.853205	0.0000
Profitability	0.085350	0.010647	8.016227	0.0000
Liquidity	3.622446	0.338911	10.688645	0.0000
Leverage	-2.409351	1.535564	-1.568924	0.2224
Sales Growth	2.220662	1.105934	2.008449	0.0695

Source: Researcher, data processed using EViews 13 (2026)

Based on Table 10, profitability has a probability value of 0.0000 (<0.05), indicating a significant effect on financial distress. Liquidity has a probability value of 0.0000 (<0.05), indicating a significant effect on financial distress. Leverage has a probability value of 0.2224 (>0.05), indicating no significant effect on financial distress. Sales growth has a probability value of 0.0695 (>0.05), indicating no significant effect on financial distress.

Table 10. Results of the Coefficient of Determination (R-Square) Test

R-Squared	Adjusted R-Squared
0.743068	0.725288

Source: Researcher, data processed using EViews 13 (2026)

The Adjusted R-Squared value of 0.743068 indicates that profitability, liquidity, leverage, and sales growth explain 74.31% of the variation in financial distress, while other factors account for the remaining 25.69%.

Table 11. Hypothesis Test Results

Hypothesis	Description	Result
H1	Profitability affects financial distress	Accepted
H2	Liquidity affects financial distress	Accepted
H3	Leverage affects financial distress	Rejected
H4	Sales growth affects financial distress	Rejected

Source: Researcher, data processed using EViews 13 (2026)

4.2 Discussion

4.2.1 The Effect of Profitability on Financial Distress

The first hypothesis of this study is that profitability influences financial distress. The t-test produced a probability value of 0.0000, which is less than 0.05, so the hypothesis is accepted. This indicates that the likelihood of financial distress decreases as a company's profitability increases. Companies with higher profitability have better internal funding capabilities to meet their financial obligations. This finding is consistent with Septiani et al. (2021), who found that profitability influences financial distress, and is supported by Anthoni et al. (2025).

4.2.2 The Effect of Liquidity on Financial Distress

The second hypothesis is that liquidity influences financial distress. The t-test produced a probability value of 0.0000, which is less than 0.05, so the hypothesis is

accepted. This suggests that the likelihood of financial distress decreases as a company's liquidity level rises. Companies with adequate liquidity can meet their short-term obligations more effectively. This finding is consistent with Septiani et al. (2021), Sari and Isbanah (2024), and Antoniawati and Purwohandoko (2022), who found that liquidity affects financial distress.

4.2.3 The Effect of Leverage on Financial Distress

The third hypothesis is that leverage influences financial distress. The t-test produced a probability value of 0.2224, which is greater than 0.05, so the hypothesis is rejected. This indicates that leverage has no significant effect on financial distress in the context of primary consumer goods companies. This finding is consistent with Septiani et al. (2021), who found no relationship between leverage and financial distress, and is supported by Oktaviani and Lisiantara (2022).

4.2.4 The Effect of Sales Growth on Financial Distress

The fourth hypothesis is that sales growth influences financial distress. The t-test produced a probability value of 0.0695, which is greater than 0.05, so the hypothesis is rejected. This indicates that sales growth has no significant effect on financial distress in the context of primary consumer goods companies. This finding is consistent with Oktaviani and Lisiantara (2022), who found no correlation between sales growth and financial distress, and is supported by Sari and Isbanah (2024).

4.2.5 The Simultaneous Effect of Independent Variables on Financial Distress

The F-test results show that profitability, liquidity, leverage, and sales growth simultaneously have a significant effect on financial distress, as indicated by the probability value of 0.0000 (<0.05). This demonstrates that the combination of these financial variables provides a more comprehensive understanding of financial distress conditions. The Adjusted R-Squared value of 0.743068 indicates that 74.31% of the variation in financial distress is explained by the independent variables, while 25.69% is influenced by other factors outside the research model.

5. Conclusion

Based on the results of research and discussions on primary consumer goods companies listed on the Indonesia Stock Exchange for the 2021–2024 period, several conclusions can be drawn. First, profitability has a significant effect on financial distress. Companies with higher profitability have better internal funding capabilities to meet their financial obligations, thereby reducing the likelihood of financial distress. Second, liquidity has a significant effect on financial distress. Companies with adequate liquidity can meet their short-term obligations more effectively, which lowers the risk of financial distress.

Third, leverage does not have a significant effect on financial distress. This indicates that the level of debt in primary consumer goods companies does not necessarily increase financial distress risk, possibly due to the industry characteristics that allow for effective debt management. Fourth, sales growth does not have a significant effect on financial distress. This suggests that sales growth alone is not a reliable predictor of financial distress in the primary consumer goods sector.

Simultaneously, profitability, liquidity, leverage, and sales growth have a significant effect on financial distress. The Adjusted R-Squared value of 0.743 indicates that these

four variables explain 74.31% of the variation in financial distress, while the remaining 25.69% is influenced by other factors outside the research model.

The theoretical implication of this study is that Signaling Theory remains relevant in explaining how financial performance indicators serve as signals to external parties in assessing financial distress risk. The practical implication is that company management should prioritize profitability and liquidity management to minimize financial distress risk. Investors and creditors should focus on profitability and liquidity indicators when assessing investment and lending decisions.

This study has several limitations. First, the sample is limited to primary consumer goods companies listed on the IDX, so the findings may not generalize to other sectors. Second, the research period of 2021–2024 may not capture long-term patterns of financial distress. Third, the study only examined four financial variables, while other factors such as corporate governance, macroeconomic conditions, and operational efficiency may also influence financial distress.

Future research is recommended to expand the sample to include other industry sectors, extend the research period, incorporate additional variables such as corporate governance and macroeconomic factors, and use alternative financial distress measurement methods such as the Springate or Zmijewski models to obtain more comprehensive results.

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