Research Horizon

ISSN: 2808-0696 (p), 2807-9531 (e)

Research Horizon
Volume: 05
Issue: 04
Year: 2025
Page: 1669-1682

Citation:
Masrifa, A., Y., A. & Lestari, M., A. (2025). The effect of financial ratios on financial distress in retail sub-sector companies listed on the Indonesia Stock Exchange. *Research Horizon*, *5*(4), 1669-1682.

Article History:
Received: July 26, 2025
Revised: August 25, 2025
Accepted: August 29, 2025
Online since: August 31, 2025

The Effect of Financial Ratios on Financial Distress in Retail Sub-Sector Companies Listed on the Indonesia Stock Exchange

Andyni Yulfanis Aulia Masrifa[1*], Mira Ayu Lestari[1]

[1] Institut Keuangan Perbankan dan Informatika Asia Perbanas, Jakarta, Indonesia

[*] *Corresponding author: Andyni Yulfanis Aulia Masrifa (andyniyulfanis.ikpia@gmail.com)*

Abstract

Financial distress refers to a condition in which a company experiences financial difficulties that hinder its ability to meet obligations. This issue is particularly relevant for retail companies, as they face intense competition, changing consumer behavior, and external economic pressures. Understanding the determinants of financial distress is important to provide early warnings for managers and stakeholders in maintaining company sustainability. This research aims to investigate the impact of financial ratios on financial distress among retail companies listed on the Indonesia Stock Exchange from 2019 to 2022. The financial ratios tested include the current ratio, debt to asset ratio, return on assets, total asset turnover, and sales growth. The study employs quantitative data and a purposive sampling method, selecting 15 retail companies, which yields a total of 60 samples. Logistic regression analysis was conducted using SPSS version 27 to test the relationships between independent variables and financial distress, as measured by the Altman Z-score. The findings reveal that none of the financial ratios, current ratio, debt to asset ratio, return on assets, total asset turnover, and sales growth, have a significant effect on financial distress. This suggests that other factors beyond traditional financial ratios may better explain financial distress.

Keywords

Current Ratio, Debt to Asset Ratio, Financial Distress, Financial Ratios, Return on Assets, Total Asset Turnover, Sales Growth.

1. Introduction

The retail sector plays a vital role in the economy as it connects producers directly with consumers and serves as a bridge for product distribution. Retail operates not only through traditional physical stores but also through rapidly growing online platforms, which allow businesses to reach broader markets and compete in the digital era (Hanggara, 2020). In Indonesia, the retail industry has expanded significantly, supported by companies listed on the Indonesia Stock Exchange, such as PT Erajaya Swasembada Tbk, PT Hero Supermarket Tbk, PT Ramayana Lestari Sentosa Tbk, PT Matahari Department Store Tbk, and PT Sumber Alfaria Trijaya Tbk. Access to larger capital enables these firms to diversify their product offerings and enhance their market presence. However, retail performance remains highly vulnerable to macroeconomic conditions. This was evident during the COVID-19 pandemic, when consumer purchasing power declined sharply, causing serious challenges to the growth and stability of Indonesia's retail sector (Agustini & Wirawati, 2019).

The COVID-19 pandemic significantly disrupted consumer behavior, forcing retailers to adapt their business models by strengthening digital platforms and adjusting product offerings. Bappenas estimated a decline in purchasing power of IDR 362 trillion, while global retail sales dropped by 9.6% (Widanastiti & Rahayu, 2020). In Indonesia, mobility restrictions reduced in-store transactions. At the same time, costs for salaries and health protocols remained, pushing major retailers such as PT Matahari Department Store Tbk, PT Hero Supermarket Tbk, and PT Ramayana Lestari Sentosa Tbk to close outlets in 2021. Hypermarkets were particularly affected, declining from 333 outlets in 2017 to 285 in 2021 (Anggita & Priyanto, 2022).

Despite these setbacks, signs of recovery emerged. Bank Indonesia's Retail Sales Survey projected 4.8% year-on-year growth in March 2023, with the Real Sales Index (RSI) at 215.2, supported by demand, discounts, and smoother distribution in the Ramadhan edition. By April 2023, RSI was expected to reach 241.6, the highest level since the COVID-19 pandemic, reflecting improved household consumption (Nurhayadi et al., 2021). These dynamics underscore the crucial importance of effective financial management in mitigating crises and minimizing bankruptcy risk. To prevent insolvency, firms must anticipate and manage financial distress, a condition that indicates a company's potential inability to meet its financial obligations. According to Arief et al. (2021), financial distress, if unmanaged, can lead to bankruptcy, resulting in losses for shareholders, employees, creditors, and the broader economy. Predicting financial distress is therefore essential for managers, investors, and policymakers, as it provides early warning signals and informs strategic interventions.

Financial ratio analysis is a crucial tool for evaluating a company's financial health. Buntu (2023) noted that financial performance is best reflected through ratios, while Azizah and Yunita (2022) emphasized their relevance in predicting financial distress. According to Pratiwi and Amanah (2020), five main ratios provide essential insights: liquidity (ability to meet short-term obligations), leverage (debt relative to assets, signaling risk), profitability (earnings capacity), activity (efficiency in asset use), and growth (long-term performance trends) (Rachmawati & Retnani, 2020; Hutauruk et al., 2021; Sariroh, 2021; Supriono, 2022). Together, these ratios offer a comprehensive view of a firm's condition.

Empirical studies, however, have produced inconsistent findings regarding the influence of these ratios on financial distress. For example, Agustini and Wirawati (2019) found that leverage has a positive effect on financial distress, while profitability and activity ratios have adverse effects; however, liquidity and growth ratios show no impact. In contrast, Hanggara (2020) reported that the current ratio

has a negative impact on financial distress, while leverage and activity ratios are insignificant. Cornely (2020) further suggested that profitability has a negative impact, while leverage has a positive one; however, liquidity, activity, and growth ratios are insignificant. These inconsistencies highlight the need for further investigation into the relationship between financial ratios and financial distress, particularly within Indonesia's retail sector. Considering the economic turbulence caused by the pandemic, the dynamic recovery of retail performance, and the inconsistent evidence in prior research, this study focuses on analyzing the effect of financial ratios, liquidity, leverage, profitability, activity, and growth on financial distress in Indonesian retail sub-sector companies listed on the Indonesia Stock Exchange during 2019–2022.

The purpose of this study is to examine the influence of key financial ratios on the potential occurrence of financial distress among retail sub-sector companies listed on the Indonesia Stock Exchange during the 2019–2022 period. Specifically, the study aims to analyze how liquidity ratios, leverage ratios, profitability ratios, activity ratios, and growth ratios affect the likelihood of financial distress. By examining these five dimensions of financial performance, the research aims to provide a comprehensive understanding of the financial factors that contribute to distress conditions within the retail industry in Indonesia, particularly in the context of economic uncertainty and the post-pandemic recovery.

2. Literature Review and Hypothesis Development

2.1. Theoretical Review of Financial Ratios

Liquidity represents a company's ability to meet short-term obligations or current liabilities. The current ratio, which compares current assets to current liabilities, is commonly used to evaluate this capacity. A low liquidity ratio signals potential financial distress, as the company may struggle to settle its debts on time. Therefore, maintaining sufficient current assets over current liabilities is crucial for sustaining financial stability (Damajanti et al., 2021). Beyond liquidity, leverage becomes another critical indicator of financial health. The leverage ratio, particularly the Debt-to-Asset Ratio (DAR), indicates the proportion of assets financed by debt. A higher DAR suggests heavier reliance on debt, raising the company's financial risk and its probability of being unable to meet obligations. This highlights the importance of diversifying financing sources to mitigate vulnerability to financial distress (Nurhayati, 2021).

Closely linked to debt and liquidity is profitability, which measures a company's ability to generate earnings. Return on Assets (ROA) is widely used to evaluate how productively assets contribute to profit. A lower ROA implies weak asset productivity and diminishes internal financing, which heightens the likelihood of financial distress. Conversely, higher ROA demonstrates efficient asset utilization and stronger profitability, offering resilience against financial pressures. In addition to profitability, activity ratios highlight efficiency in managing assets. The Total Asset Turnover Ratio (TATO) indicates how effectively assets generate sales. Greater efficiency typically improves profitability, reducing the risk of financial distress (Cahyani & Indah, 2021; Nisa et al., 2023). However, if sales stagnate despite efficient asset use, profitability declines, potentially leading to financial instability.

Finally, growth ratios, often measured by sales growth, capture a company's ability to expand revenue. Consistent sales growth reflects effective strategies, which boost profitability and reduce distress risk. Conversely, declining growth signals weaker competitiveness, lower income, and higher financial vulnerability. Thus, growth complements liquidity, leverage, profitability, and activity in providing a comprehensive picture of a company's financial stability.

2.2. The Determinant of Financial Distress

A previous study by Nurmasari and Nur'aidawati (2023) found that liquidity affects financial distress, using the current ratio (CR) as the measurement. Similar results were reported by Hanggara (2020). However, contrary evidence was presented by Pratama and Aisjah (2016), who concluded that liquidity does not affect financial distress. These differences suggest that the role of liquidity in predicting financial distress remains inconclusive. Regarding leverage, several studies also show mixed results. Agustini and Wirawati (2019) reported that leverage has a positive effect on financial distress, a finding also supported by Cornely (2020). In contrast, Wijayanti et al. (2021) argued that leverage measured by the debt-to-asset ratio (DAR) does not affect financial distress. Profitability, measured by return on assets (ROA), has likewise produced inconsistent findings. Rahman et al. (2021) found that ROA significantly affects financial distress, whereas Rahmayanti and Hadromi (2017) reported no significant effect. Similarly, Susanti and Takarini (2022) also concluded that ROA does not affect financial distress. These results suggest that the relationship between profitability and distress may depend on contextual or industry-specific factors.

The activity ratio has been another area of focus in research. Agustini and Wirawati (2019) found that the activity ratio hurts financial distress, suggesting that higher efficiency reduces risk. Rahman et al. (2021) similarly reported that Total Asset Turnover (TATO) has a significant impact on financial distress. Conversely, Hanggara (2020) and Cornely (2020) argued that TATO has no effect, reinforcing the ambiguity across findings. Finally, sales growth has also been examined with varying conclusions. Williem and Ugut (2022) found that sales growth has a significant and positive effect on financial distress. However, Agusta (2019) reported no effect, a finding echoed by Rahmayanti and Hadromi (2017) and Aminah and Handayani (2023).

H1: Liquidity has a significant effect on financial distress.
H2: Leverage has a significant effect on financial distress.
H3: Profitability has a significant effect on financial distress.
H4: Activity has a significant effect on financial distress.
H5: Growth has a significant effect on financial distress.

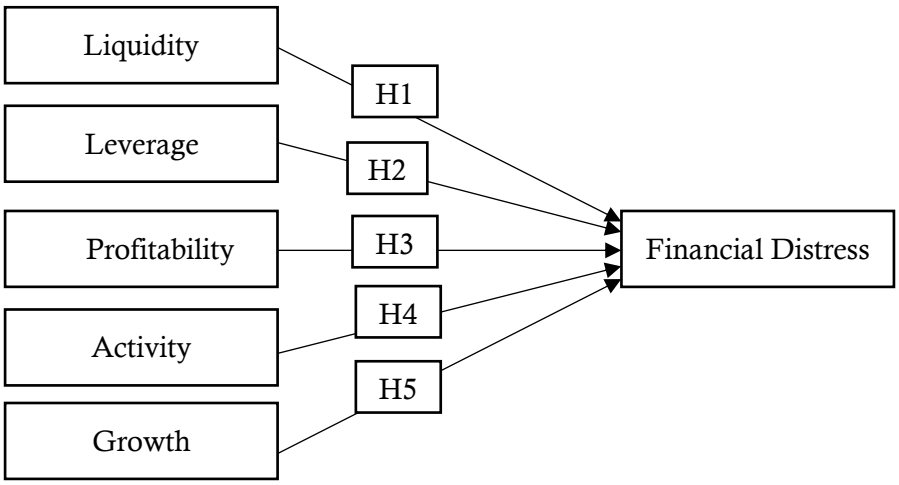

Figure 1. Conceptual Framework

Figure 1 illustrates a conceptual framework that shows the relationship between five independent variables and financial distress, which serves as the dependent

variable. The variables include liquidity (H1), leverage (H2), profitability (H3), activity (H4), and growth (H5), each represented as separate factors that potentially influence financial distress. The arrows indicate a direct effect from each of these financial performance indicators toward financial distress, suggesting that the hypotheses (H1–H5) test the significance of these relationships. This framework is commonly used in financial research to analyze how a company's internal financial ratios and performance measures contribute to the likelihood of experiencing financial distress.

3. Methods

This study employs a quantitative design to analyze the impact of financial ratios on financial distress among retail companies listed on the Indonesia Stock Exchange. Independent variables include liquidity (cash, quick, current ratios), leverage (Debt to Assets, Debt to Equity), profitability (ROA, ROE), activity (Total Asset Turnover), and growth (sales growth). Financial distress is the dependent variable, measured using the Altman Z-Score model. The research utilizes secondary data from audited financial reports for the years 2019–2022, supplemented with references from books, journals, and prior studies.

This study uses liquidity, leverage, profitability, activity, and growth as independent variables. Liquidity is measured through the cash, quick, and current ratios as indicators of a company's ability to meet short-term obligations. Leverage is measured using the Debt-to-Asset Ratio (DAR) and Debt-to-Equity Ratio (DER), which reflect the company's debt level. Profitability is measured through Return on Assets (ROA) and Return on Equity (ROE) to assess management effectiveness in generating profits. Activity is measured using Total Asset Turnover (TATO), which indicates the efficiency of asset utilization. Growth, measured by sales growth, is an indicator of the ability to maintain a market position. The dependent variable, financial distress, is measured using the Altman Z-Score, with a score >2.6 indicating a safe zone, 1.1–2.6 a gray zone, and <1.1 indicating distress.

The population is all retail companies listed on the Indonesia Stock Exchange 2020–2022. The sample objective includes 15 companies that meet the criteria of being listed, consistent financial reports, not changing sectors, and reporting in rupiah, including Sumber Alfaria Trijaya Tbk (AMRT), Hero Supermarket Tbk (HERO), Midi Utama Indonesia Tbk (MIDI), Matahari Putra Prima Tbk (MPPA), Supra Boga Lestari Tbk (RANC), Ace Hardware Indonesia Tbk (ACES), Catur Sentosa Adiprana Tbk (CSAP), Electronic City Indonesia Tbk (ECII), Erajaya Swasembada Tbk (ERAA), Matahari Department Store Tbk (LPPF), MAP Aktif Adiperkasa Tbk (MAPA), Mitra Adiperkasa Tbk (MAPI), Mitra Komunikasi Nusantara Tbk (MKNT), and Ramayana Lestari Sentosa Tbk (RALS).

Data collection employed the documentation method, involving the review of financial statements, literature, and reports from 2019 to 2022. Logistic regression with SPSS 27 was applied, as financial distress (1 = distressed, 0 = non-distressed) is a categorical variable. Analysis began with descriptive statistics to summarize variables, followed by model fit testing using log-likelihood comparison. The Hosmer and Lemeshow test ensured goodness of fit, while Nagelkerke R^2 assessed explanatory power. Classification tables measured predictive accuracy. Finally, logistic regression was performed to examine the influence of liquidity, leverage, profitability, activity, and growth on financial distress.

$$\frac{p}{1-p} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where p is the probability of financial distress, α is the constant, $\beta 1–\beta 5$ are regression coefficients, and e is the error term.

4. Results

Descriptive analysis provides an overview of the variables and characteristics of the data, including the minimum, maximum, mean, and standard deviation for each variable. The independent variables in this study are the Current Ratio (X1), Debt-to-Asset Ratio (X2), Return on Assets (X3), Total Asset Turnover (X4), and Sales Growth (X5), while the dependent variable is Financial Distress. The results show that the Current Ratio ranges from 0.56 to 8.01, with a mean of 1.86. The lowest CR was recorded by Matahari Putra Prima Tbk (MPPA) and Matahari Department Store Tbk (LPPF) in 2020, while the highest was Ace Hardware Indonesia Tbk (ACES) in 2022. The debt-to-asset ratio varies between 0.18 and 1.08, averaging 0.61. The lowest DAR was observed ACES in 2022, while the highest was Mitra Komunikasi Nusantara Tbk (MKNT) in 2022. Return on Assets ranges from -0.25 to 0.28, with an average of 0.0187. HERO in 2020 recorded the lowest ROA, and LPPF in 2019 the highest. Total Asset Turnover ranges from 0.48 to 6.89, with an average of 1.90. Sales Growth ranges from -0.71 to 1.00, averaging 0.034, with HERO in 2020 the lowest and DAYA in 2019 the highest. Financial distress, measured as a dummy variable, averages 0.32, indicating that around one-third of the sampled firms experienced distress.

Table 1. Descriptive statistical analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Current Ratio (X1)	60	0.56	8.01	1.8603	1.6385
Debt to Asset Ratio (X2)	60	0.18	1.08	0.6125	0.2431
Return on Asset (X3)	60	-0.25	0.28	0.0187	0.0983
Total Asset Turnover (X4)	60	0.48	6.89	1.8995	1.2580
Sales Growth (X5)	60	-0.71	1.00	0.0340	0.2602
Financial Distress (Y)	60	0.00	1.00	0.3200	0.4690

Table 1 presents the results of a descriptive analysis of research variables, including the current ratio, debt-to-asset ratio, return on assets, total asset turnover, sales growth, and financial distress, across 60 samples. In general, the data shows quite wide variations in liquidity, profitability, and company activity ratios, with a wide distribution of values. Furthermore, financial distress is also reflected in the binary data distribution, indicating that some companies are experiencing financial stress.

This study examines the effect of independent variables, current ratio, debt to asset ratio, return on asset, total asset turnover, and sales growth, on financial distress, measured using the Altman Z-Score. Data were obtained from annual reports of retail sub-sector companies listed on the Indonesia Stock Exchange for 2019–2022. Logistic regression analysis was applied, involving stages that included the Overall Fit Model test, Goodness of Fit test, determination coefficient, classification table, and hypothesis testing. The Overall Fit Model was assessed by comparing the -2 Log Likelihood values between the initial (block 0) and final (block 1) models to evaluate regression suitability.

Table 2. Iteration History – Step 0

Step	Iteration	-2 Log Likelihood	Coefficients (Constant)
0	1	74.936	-0.733
0	2	74.920	-0.769
0	3	74.920	-0.769

Table 2 illustrates the initial results of the logistic regression test during the iteration stage. The estimation process shows a slight change in the -2-log likelihood value, indicating improved model fit as the iterations progress. Meanwhile, the constant coefficients were adjusted until they reached a stable level in the final iteration. This indicates that the model is beginning to find more accurate parameter estimates to describe the relationship between independent and dependent variables.

Table 3. Likelihood Overall Testing Results

c	-2 Log likelihood	Constant	CR	DAR	ROA	TATO	SG
Step 1							
1	41.768	-1.519	-0.119	3.549	-7.587	-0.559	1.074
2	23.783	2.592	-1.999	2.814	-3.828	-0.304	2.065
3	13.926	8.295	-1.555	2.111	-1.289	0.006	2.996
4	8.792	11.098	-1.622	1.986	-0.858	0.294	3.653
5	5.793	12.625	-2.021	2.094	-0.517	0.657	3.556
6	3.906	13.742	-2.382	2.175	-0.575	1.072	3.354
7	1.746	16.107	-2.804	2.530	-0.412	1.252	4.099
8	0.436	16.647	-2.830	2.480	-0.395	1.317	4.138
9	0.275	17.943	-2.827	2.595	-0.317	1.478	4.403
10	0.129	19.462	-2.999	2.780	-0.273	1.626	4.836
11	0.073	22.445	-3.309	3.065	-0.273	1.843	5.651
12	0.029	31.372	-4.249	3.986	-0.395	2.436	8.423
13	0.004	44.447	-5.746	5.320	-0.493	3.545	12.667
14	0.001	51.917	-6.423	6.045	-0.513	4.036	14.766
15	0.001	54.197	-6.539	6.267	-0.491	4.217	15.428
16	0.001	59.013	-7.157	6.853	-0.497	4.608	17.181
17	0.001	64.008	-7.623	7.369	-0.483	4.937	18.825
18	0.000	70.538	-8.348	8.125	-0.494	5.445	21.286
19	0.000	78.748	-9.634	9.336	-0.691	6.159	25.488
20	0.000	78.774	-195.471	146.769	-846.615	12.397	16.114

Table 3 presents the iterative process of logistic regression estimation for financial distress, showing the progressive adjustment of coefficients for liquidity, leverage, profitability, activity, and growth. Across the steps, the constant and independent variables experience significant changes, reflecting model refinement to achieve a better fit. The decreasing log likelihood values indicate continuous improvement in explanatory power. At the same time, the shifts in coefficient directions highlight how each financial ratio contributes differently to predicting the likelihood of financial distress in retail companies.

Table 4. Omnibus Tests of Model Coefficients

Step 1	Chi-square	df	Sig.
Step	74.920	5	<.001
Block	74.920	5	<.001
Model	74.920	5	<.001

Table 4 summarizes the goodness-of-fit test for the logistic regression model, showing the chi-square values for the step, block, and overall model. The results indicate that the inclusion of independent variables significantly improves the model compared to the baseline, as reflected by the highly significant significance level. This suggests that the set of financial ratios used in the analysis provides strong explanatory power, confirming the model's overall feasibility and appropriateness for predicting financial distress in retail companies.

Table 5. Hosmer and Lemeshow Goodness of Fit Test

Step	Test	Chi-square	df	Sig.
1	Hosmer and Lemeshow	0.000	7	1.000
Step	Model Fit Summary	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1		0.000[a]	0.713	1.000

Table 5 presents model fit results for the logistic regression analysis. The Hosmer and Lemeshow test indicate a perfect fit, suggesting no significant difference between the observed and predicted values. Meanwhile, the model fit summary demonstrates excellent explanatory power, as reflected by high values of the Cox & Snell R-squared and Nagelkerke R-squared. These outcomes suggest that the model is statistically reliable, with strong predictive accuracy in explaining the factors influencing financial distress among retail companies.

A 2x2 classification table is used to calculate correct and incorrect estimation values (Ghozali, 2016). The columns show the predicted dependent variable values: financial distress (1) and non-financial distress (0), while the rows show the actual observed values. In an ideal model, all cases fall on the diagonal, resulting in 100% prediction accuracy. Based on 60 samples, 41 companies were non-financially distressed, and 19 experienced financial distress. The model correctly predicted both categories with 100% accuracy. Thus, the logistic regression model achieved perfect classification accuracy, confirming its reliability and strong predictive performance.

Table 6. 2x2 Classification Test Results

Observed (Financial Distress Y)	Predicted Non-Financial Distress	Predicted Financial Distress	Percentage Correct (%)
Non-Financial Distress	41	0	100.0
Financial Distress	0	19	100.0
Overall Percentage			100.0

Table 6 shows the classification results of the logistic regression model in predicting financial distress. All companies categorized as non-financially distressed were correctly classified, and the same applies to those experiencing financial distress. This indicates that the model achieved perfect accuracy in distinguishing between the two conditions. The overall percentage demonstrates complete predictive reliability, highlighting that the selected financial ratios provide strong discriminatory power in identifying the financial status of retail companies with no observed misclassification.

The regression model in this study employed logistic regression to examine the probability of financial distress based on the following independent variables: Current Ratio (CR), Debt-to-Asset Ratio (DAR), Return on Assets (ROA), Total Asset Turnover (TATO), and Sales Growth (SG). The resulting equation is:

$$Y = 78.774 - 195.471CR + 146.769DAR - 846.615ROA + 12.397TATO + 16.114SG + 0.333.$$

The results show that liquidity (CR) and profitability (ROA) reduce the probability of financial distress, while leverage (DAR), activity (TATO), and growth (SG) increase the likelihood. This indicates that firm performance indicators strongly influence financial distress.

Table 7. Regression Coefficients

Variable	Coefficient (B)
Current Ratio	-195.471
Debt to Asset Ratio	146.769
Return on Asset	-846.615
Total Asset Turnover	12.397
Sales Growth	16.114
Constant	78.774
Std. Error of Estimate	0.333

Table 7 presents the logistic regression coefficients for the independent variables used to predict financial distress. Liquidity and profitability exhibit negative coefficients, suggesting that higher values reduce the likelihood of distress, whereas leverage, activity, and growth display positive coefficients, indicating that they increase the probability. The constant is relatively large, reflecting its baseline influence in the model. With a low standard error of estimate, the results suggest stable and reliable coefficient estimates in explaining financial distress among retail companies.

Table 8. Hypothesis Testing

Variable	B	S.E.	Sig.
Current Ratio	-195.471	6927.913	0.977
Debt to Asset Ratio	146.769	25970.046	0.995
Return on Asset	-846.615	77806.107	0.991
Total Asset Turnover	12.397	1545.624	0.994
Sales Growth	16.114	15678.603	0.999
Constant	78.774	20557.079	0.997

Based on Table 8, the first hypothesis suggests that liquidity has a significant influence on financial distress. The test results show a significance value of 0.977, which is greater than 0.05, leading to the rejection of H1. This means that liquidity, represented by the Current Ratio, does not significantly affect the probability of financial distress among the companies studied. The second hypothesis assumes that leverage influences financial distress. Results reveal a significance of 0.991, higher than 0.05, causing H2 to be rejected. Thus, leverage, measured by the Debt-to-Asset Ratio, has no significant impact on financial distress, suggesting that the debt proportion is not a determining factor in this context. The third hypothesis posits that profitability impacts financial distress. Testing shows a significance of 0.995, well above 0.05, rejecting H3. This indicates that profitability, as reflected by the Return on Asset, does not significantly affect financial distress, meaning profitability levels are not strong predictors of distress in these companies.

The fourth hypothesis suggests that the activity ratio influences financial distress. The results yield a significant value of 0.994, which is greater than 0.05, leading to the rejection of H4. This demonstrates that activity, as represented by the Total Asset Turnover, does not significantly influence financial distress, implying that the efficiency of asset use is not decisive in this case. The fifth hypothesis posits that company growth has a significant impact on financial distress. The test results show a significance level of 0.999, which exceeds the 0.05 threshold, so H5 is rejected. This result suggests that growth, as measured by Sales Growth, does not impact financial distress, indicating that the expansion rate is not a critical factor in financial vulnerability.

5. Discussion

Liquidity, measured using the current ratio (CR), was found not to affect financial distress. This means that a company's ability to cover short-term obligations with current assets cannot necessarily predict whether it will experience financial distress. The finding aligns with prior studies by Agustini and Wirawati (2019), Rahma (2020), Cornely (2020), and Anggita and Priyanto (2022), who similarly found liquidity to be insignificant. Although a higher current ratio generally indicates stronger short-term solvency, the low variation of CR among the sample companies explains why differences in liquidity did not distinguish between firms experiencing financial distress and those that did not. This suggests that even a low CR, often associated with increased short-term debt, does not automatically indicate financial difficulties, since other factors may offset the risk.

Leverage, represented by the debt-to-asset ratio (DAR), also demonstrated no significant influence on financial distress. The result supports studies by Wijayanti et al. (2021), who concluded that leverage is not a reliable predictor of financial difficulties. Leverage theoretically reflects the extent to which assets are financed through debt, with higher values implying greater risk of distress. However, this study reveals that even firms with low leverage are not guaranteed to be safe from financial distress if their assets financed by debt are not effectively utilized. Conversely, companies with higher leverage may still avoid distress if they can generate sufficient returns from their debt-financed assets. This indicates that debt levels alone are insufficient indicators of financial stability or vulnerability.

Profitability, measured by return on assets (ROA), also exhibited no significant effect on financial distress. Similar conclusions were drawn in previous works by Saraswati (2019), Hanggara (2020), and Rahma (2020). ROA is often viewed as an indicator of efficiency in utilizing assets to generate profits; however, the study suggests that profitability alone is not a definitive determinant of financial distress. For instance, PT Midi Utama Indonesia Tbk (MIDI) maintained positive profitability between 2019 and 2022 but was still categorized as financially distressed. Conversely, PT Electronic City Indonesia Tbk (ECII) and PT Ramayana Lestari Sentosa Tbk (RALS) reported negative profitability in 2020; however, they were considered financially stable. This highlights that financial distress arises not solely from declining profitability, but may also involve other dimensions, such as high expenses, operational inefficiencies, or cash flow challenges.

Similarly, activity, measured by total asset turnover (TATO), did not significantly affect financial distress. This finding supports research by Hanggara (2020) and Cornely (2020), who also reported no link between activity and distress. TATO measures how effectively a company utilizes its assets to generate sales. Despite the intuitive assumption that higher efficiency in asset utilization reduces the likelihood of distress, the study found that most companies had TATO values above one, suggesting relatively stable asset turnover. Hence, variations in activity levels were not significant enough to differentiate financially distressed firms from those in stable conditions. Additionally, financial distress may be influenced by other pressures such as liquidity shortages, high obligations, or insufficient capital, rather than asset turnover itself.

Lastly, growth, measured through sales growth (SG), was found to have no significant effect on financial distress. This result supports earlier findings by Cornely (2020) and Rahman et al. (2021). Growth ratios are often linked to a company's ability to maintain competitiveness and adapt to economic changes (Widanastiti & Rahayu, 2020). Higher sales growth is commonly associated with stronger profitability and resilience; however, this study demonstrates that sales performance alone does not guarantee the prevention of distress (Nurhayadi, 2021). Declines in sales growth do not automatically reflect weak cash flow operations, nor do they always indicate impending bankruptcy. Instead, such declines may only

result in reduced profitability, without necessarily pushing a firm into financial distress. Distress is shaped by a broader set of factors, including cash flow adequacy, profitability, leverage, and business cycle conditions.

6. Conclusion

The main findings of this study indicate that all financial ratios examined, including liquidity, leverage, profitability, activity, and growth, do not have a significant influence on financial distress among retail sub-sector companies listed on the Indonesia Stock Exchange during 2019–2022. Liquidity, leverage, profitability, activity, and growth, measured respectively by the current ratio, debt-to-asset ratio, return on assets, total asset turnover, and sales growth, all produced insignificant results, leading to the rejection of hypotheses H1 through H5. These results suggest that financial distress in retail companies may be more strongly influenced by external factors, such as macroeconomic conditions, shifts in consumer behavior, or industry-specific challenges, rather than relying solely on conventional financial indicators.

From a practical perspective, the findings suggest that managers, investors, and regulators should not rely solely on traditional financial ratios to anticipate financial distress. Instead, a broader assessment that includes external dynamics and market conditions should be considered when formulating strategies to enhance corporate resilience. Theoretically, this study enriches the financial distress literature by demonstrating that ratio-based analysis may have limited predictive power in times of external shocks, such as the COVID-19 pandemic, and therefore requires complementary approaches.

This research, however, is limited by its focus on a single sub-sector and a relatively short four-year observation period. To address this, future studies should expand to other sectors, such as manufacturing, finance, infrastructure, telecommunications, and transportation, to provide more generalizable insights. Moreover, extending the timeframe would help capture the impact of longer economic cycles and global crises. Finally, the inclusion of alternative financial indicators, such as net profit margin, alongside non-financial factors like company size, corporate governance, and competition intensity, is recommended to deepen the understanding of financial distress determinants.

References

Agusta, D. T. (2019). Pengaruh debt to equity ratio (DER), return on equity (ROE) dan inflasi terhadap financial distress pada perusahaan industri food and beverages yang terdaftar di Bursa Efek Indonesia periode 2015–2017. *Institut Keuangan Perbankan dan Informatika Asia*, *4*(2), 1–14.

Agustini, N. W., & Wirawati, N. G. P. (2019). Pengaruh rasio keuangan pada financial distress perusahaan ritel yang terdaftar di Bursa Efek Indonesia (BEI). *E-Jurnal Akuntansi*, *26*(1), 251–276.

Aminah, S., & Handayani, S. (2023). Pengaruh rasio keuangan terhadap financial distress pada masa pandemi Covid-19 tahun 2018–2021. *Jurnal Manajemen, Ekonomi, Hukum, Kewirausahaan, Kesehatan, Pendidikan dan Informatika (Manekin)*, *1*(4), 240–248.

Anggita, D., & Priyanto, S. (2022). Pengaruh profitabilitas, likuiditas, struktur aktiva dan growth opportunity terhadap struktur modal. *Jurnal akuntansi, ekonomi dan manajemen bisnis*, *2*(3), 387-393.

Arief, H., Fauzi, F., Saratian, E. T. P., Ashshidiqy, N., & Kolis, D. N. (2021). Pengaruh Kinerja Keuangan Likuiditas, Leverage dan Profitabilitas terhadap Financial Distress. *Jurnal Doktor Manajemen*, *4*(1), 53-68.

Azizah, R. N., & Yunita, I. (2022). Pengaruh Rasio Likuiditas, Leverage, Aktivitas Dan Profitabilitas Terhadap Kondisi Financial Distress Menggunakan Model Altman Z-Score. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (Mea)*, *6*(1), 756-773.

Buntu, B. (2023). Analisis Rasio Likuiditas, Rasio Leverage dan Profitabilitas Pada PT Telkom Indonesia (Persero) Tbk. *Jurnal Ekonomi Dan Bisnis*, *15*(1), 1-14.

Cahyani, J. D., & Indah, N. P. (2021). Implikasi rasio keuangan terhadap financial distress pada perusahaan subsektor telekomunikasi. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (Mea)*, *5*(2), 2005-2023.

Cornely, C. (2020). Pengaruh rasio keuangan dalam memprediksi kondisi financial distress. *National Conference of Applied Sciences, Engineering, Business and Information Technology, Politeknik Negeri Padang*, 121–128.

Damajanti, A., Wulandari, H., & Rosyati, R. (2021). Pengaruh Rasio Keuangan Terhadap Financial Distress Pada Perusahaan Sektor Perdagangan Eceran Di Bursa Efek Indonesia Tahun 2015-2018. *Solusi*, *19*(1), 29-44.

Farida, L., Singgih, M., Hazim, A. Z., Mawardi, A. A. K., Saleh, C., Indraningrat, K., Priyono, A., & Krishnabudi, N. G. (2022). Analisis potensi financial distress sebelum dan selama pandemi Covid-19 pada perusahaan retail yang terdaftar di BEI periode 2018–2021. *VALUE: Journal of Business Studies*, *1*(2), 180–197.

Hanggara, B. (2020). Pengaruh rasio keuangan terhadap financial distress pada perusahaan ritel yang terdaftar di Bursa Efek Indonesia. *Jurnal Mahasiswa Manajemen*, *1*(1), 46–55.

Hutauruk, M. R., Mansyur, M., Rinaldi, M., & Situru, Y. R. (2021). Financial distress pada perusahaan yang terdaftar di Bursa Efek Indonesia. *Jurnal Perbankan Syariah (Jps)*, *2*(2), 237–246.

Kasmir. (2015). *Analisis laporan keuangan*. Depok: PT Raja Grafindo Persada.

Nisa, N. A., Musa, C. I., & Nurman, N. N. (2023). Analisis financial distress dengan metode Z-Score untuk memprediksi kebangkrutan pada perusahaan ritel yang terdaftar di Bursa Efek Indonesia. *Jurnal Pabean*, *5*(1), 38–47.

Nurhayadi, W., Sulistiana, I., Nurkhalishah, S., Salam, A. F., & Abdurrohman, A. (2021). Pengaruh Ukuran Perusahaan, Pertumbuhan Penjualan dan Risiko Bisnis Terhadap Struktur Modal. *Tirtayasa Ekonomika*, *16*(1), 97-117.

Nurhayati, D., Dewi, R. R., & Fajri, R. N. (2021). Pengaruh rasio keuangan terhadap financial distress pada industri food and beverage di bursa efek indonesia periode 2017-2019. *Ekonomis: Journal of Economics and Business*, *5*(1), 59-64.

Nurmasari, I., & Nur'aidawati, S. (2023). Analisis rasio likuiditas dan profitabilitas untuk menilai kinerja perusahaan ritel sebelum dan saat pandemi Covid-19. *Jurnal SEKURITAS (Saham, Ekonomi, Keuangan dan Investasi)*, *7*(1), 48–60.

Pratama, B. Y., & Aisjah, S. (2016). Prediksi financial distress menggunakan analisis rasio keuangan dan Zmijewski (studi pada perusahaan ritel yang terdaftar di Bursa Efek Indonesia). *Jurnal Ilmiah Mahasiswa FEB*, *9*(2), 1–16.

Pratiwi, K. K., & Amanah, L. (2020). Pengaruh Profitabilitas, Likuiditas, dan Leverage terhadap Financial Distress. *Jurnal Ilmu dan Riset Akuntansi*, *9*(12), 93-112.

Rachmawati, L., & Retnani, E. D. (2020). Pengaruh Kinerja Keuangan Dan Kepemilikan Manajerial Terhadap Financial Distress. *Jurnal Ilmu dan Riset Akuntansi*, *9*(3), 119-128.

Rahma, A. (2020). Analisis pengaruh profitabilitas, leverage dan likuiditas terhadap financial distress. *Jurnal Akuntansi Berkelanjutan Indonesia (Jabi)*, *3*(3), 253–266.

Rahman, B. N., Artinah, B., Alfian, M., & Hasan Basry, J. H. (2021). Faktor-faktor yang memengaruhi financial distress (studi empiris pada perusahaan retail yang terdaftar di Bursa Efek Indonesia periode 2016–2018). *Jurnal Manajemen*, *22*(1), 14411–14464.

Rahmayanti, S., & Hadromi, U. (2017). Analisis financial distress pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. *Jurnal Akuntansi dan ekonomika*, *7*(1), 53-63.

Sariroh, H. (2021). Pengaruh Likuiditas, Leverage, Profitabilitas, dan Ukuran Perusahaan terhadap Financial Distress di Sektor Trade, Service, and Invesment. *Jurnal Ilmu Manajemen*, *9*(3), 1227-1240.

Supriono, S. (2022). Analysis of the effect of return on equity, debt-to-equity, net profit margin on price-to-earnings Ratio. *Economic and Business Horizon*, *1*(1), 9-23.

Susanti, W., & Takarini, N. (2022). Pengaruh likuiditas, profitabilitas, leverage, dan aktivitas dalam memprediksi financial distress pada perusahaan subsektor retail trade yang terdaftar di BEI. *Ekonomis: Journal of Economics and Business*, *6*(2), 488–497.

Widanastiti, S. A., & Rahayu, P. (2020). Pengaruh Struktur Modal, Struktur Aset Dan Struktur Kepemilikan Terhadap Risiko Keuangan Pada Perusahaan Property Dan Real Estate Yang Terdaftar Di Bei Periode 2015-2017. *Jca (Jurnal Cendekia Akuntansi)*, *1*(1), 9-17.

Wijayanti, P. H., Miftah, M., & Siswantini, T. (2021). Visionida. *Jurnal Visionida*, *7*(2), 110–123.

Williem, N., & Ugut, G. S. (2022). Analisis rasio keuangan terhadap financial distress pada perusahaan ritel yang terdaftar di BEI periode 2013–2019. *Progress: Jurnal Pendidikan, Akuntansi dan Keuangan*, *5*(1), 37–52.

Acknowledgment
We gratefully acknowledge the contributions of individuals who supported the completion of this article.

Funding Information
This research did not receive any funding.

Conflict of Interest Statement
The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement
Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement
The data that support the findings of this study are available from the corresponding author upon reasonable request.