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The effect of inflation, financial performance, and profit management on financial distress on property, real estate, and building construction companies listed on the Indonesia stock exchange

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ABSTRACT

The purpose of this study was to determine how significant the effect of inflation, financial performance, and earnings management on financial distress. The population in this study is the annual report of the Property, Real Estate, and Building Construction Sector Companies in Indonesia registered with Bank Indonesia during the period 2017-2021 as many as 45 companies. The analysis technique uses multiple linear regression. From the research that has been done and the discussion of the research results in the previous chapter, conclusions can be drawn from the research, namely: Inflation does not contribute to financial distress in property, real estate and building construction sector companies. Liquidity does not contribute to financial distress in property, real estate and building construction sector companies. Return On Equity contributes to Financial Distress in property, real estate and building construction sector companies. Return on Assets contributes to Financial Distress in property, real estate and building construction sector companies. Earnings management does not contribute to financial distress in property, real estate and building construction sector companies

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INTRODUCTION

Property, real estate and construction sector companies have a role in helping and advancing the economy in Indonesia. This sector provides a multiplier effect, backward linkage and forward linkage to other economic sectors (Ningsih, 2020). Property, real estate and construction sector companies listed on the Indonesia Stock Exchange (IDX) tend to increase every year. In 2015 the property, real estate and construction sector companies listed on the Indonesia Stock Exchange (IDX) amounted to 47 companies, then increased in 2016 to 49 companies. However, in 2017 it decreased to 47 companies due to delisting, in 2018 there were companies that merged so that it became 48 companies and in 2019 there were 54 companies listed on the Indonesia Stock Exchange (IDX) (www.bei.co.id).

The development of the property, real estate and construction sectors explains that the competition for companies in this sector will be increasingly fierce, forcing companies to maintain their existence for the survival of the company. Where the increasingly fierce competition between companies causes the costs to be incurred by the company to be higher, this will affect the company's performance. Companies that are not able to compete with others will certainly experience losses which in turn can make the company experience financial distress.

According to Platt and Platt (in Achyarsyah, 2016), financial distress is the stage of declining financial conditions that occurred before bankruptcy or liquidation. Financial distress can be started from liquidity difficulties (short term) which is the lightest indicator of financial distress, to a statement of bankruptcy where the financial distress indicator is the heaviest. Financial distress is seen as detrimental by stakeholders such as customers, suppliers, and employees, because it can interfere with the company's access to credit so that it can cause competitors to take advantage of these opportunities to gain market share, so that it can threaten the company's going concern.

This financial distress phenomenon was experienced by PT Ciputra Development Tbk, which experienced an issuer's profit of minus 2.3%, year to date, or the current year, CTRA shares minus 41% as experienced by the Composite Stock Price Index (JCI) which also corrected 26% (www. .cnbcindonesia.com) and PT Sentul City Tbk experienced a loss which can be seen from their financial performance there was a decrease in company income. Revenues earned as of September 2020 reached IDR 247.54 billion, a decrease of 54.23 percent compared to September 2019. In the third quarter of 2020, PT Sentul City experienced a decrease in liquidity which was marked by a decrease in current assets compared to current debt. (market.bisnis.com).

The financial condition of a company experiencing financial distress can be influenced by internal factors and external factors. In this study, to predict whether the company is in financial distress or not, the researcher uses inflation, financial performance, and earnings management variables. Inflation is one of the macroeconomic variables that can affect financial performance. Like the global crisis in 2008, the crisis started when the housing sector in the United States experienced a decline due to an increase in high-risk housing loans. In the end, many of these companies went bankrupt due to defaults that had matured (Sihono, 2008).

This global crisis also affected Indonesia because it is a country that is still very dependent on the flow of funds from foreign investors. This is evidenced by the movement of the JCI in 2021 which is described as follows:

Figure 1. Grafik Pergerakan IHSG Tahun 2020-2021

The Composite Stock Price Index (JCI) ended in the red zone in the last trade of 2021. Today's JCI movement will be influenced by domestic market sentiment affected by the world economic crisis. This global condition could have an impact on Indonesia, which has the potential to be hit by a large crisis. Therefore, Indonesia needs to be aware of the risk of a global economic recession in 2021. Global investment and trade flows are experiencing a slowdown due to the trade war. The global crisis causes inflation which affects the company's financial performance which leads to a state of financial distress. Utami (2015) explains that inflation has an influence on financial distress, a high inflation rate greatly affects the company's operational activities, because it will increase the costs that must be incurred by the company due to an increase in variable costs. For example, an increase

in production costs that can increase sales prices can influence decreasing sales and decreasing people's purchasing power, thus allowing the company to experience financial distress.

High inflation causes the company's financial performance to be bad and affects the company's financial statements (Irwandi and Rahayu, 2019). This is evidenced by the research of Irwandi and Rahayu (2019) proving that inflation has a significant effect on financial distress. However, this contrasts with Ayu (2018)'s research which says that inflation has a negative effect on financial distress. Among them, the company's liquidity and the level of profitability achieved by the company. The general method of analysis used in analyzing financial statements is the ratio analysis of the company's financial statements. Sunyoto (2013: 60) explains that financial ratio analysis provides an overview to users of financial statements regarding the health or failure of the company's financial performance in one period.

Poor financial performance has an impact on going concern and corporate image. In addition to bringing the company into financial distress, investors who have invested in the company will withdraw their shares and leave the company. This situation is certainly not expected by the company's top brass and managers, thus making managers carry out earnings management. Earnings management is an act of company managers in manipulating financial statements by misleading the views of stakeholders (Sulistyanto, 2018: 32).

Sayidah et al (2020) research states that earnings management has no effect on financial distress. This contrasts with Saleh and Ahmed (in Gunawan et al., 2014) who state that earnings management is evidence that managers are very involved with declining earnings in earnings management during the crisis period. The purpose of this study was to determine how significant the effect of inflation, financial performance and earnings management on financial distress is by using multiple linear regression analysis.

RESEARCH METHOD

Research Types and Overview of the Population

This research is quantitative research, namely scientific research conducted by measuring variables in the form of numbers and data analysis using statistical data procedures in order to prove pre-existing theories by testing hypotheses (Sugiyono, 2019:17). This type of research is associative research where the research is conducted to determine the influence and relationship between two or more variables. To produce a theory that serves to explain, predict, and control a phenomenon. The test in this study uses secondary data in the form of financial statements and company annual reports. The population in this study is the annual report of the Property, Real Estate, and Building Construction Sector Companies in Indonesia registered with Bank Indonesia during the period 2017-2021.

Sampling technique

The sample selection in this study was conducted based on the purposive sampling method, namely by considering the appropriate criteria so as to obtain a representative sample. The criteria used to select the sample are as follows:

Table 1. The population of the companies studied

Criteria	Amount
Property, real estate, and building construction sector companies on the IDX 2017-2021	94
Companies that do not submit annual reports regularly for the 2017-2021 period	
Companies that meet the criteria	45
45*5	
Amount of sample that used	225

Variables and Variable Operational Definitions

A variable is an attribute or nature or value of an object that has variations set by researchers to be studied and then drawn conclusions (Sugiyono, 2019:67). Research variables are grouped into two, namely the independent variable (independent) and the dependent variable (dependent).

Independent Variables

a. Inflation (X_1)

Inflation is a condition that explains the tendency of a sharp increase in the prices of goods and services that lasts for a relatively long-time span. This variable is measured using Consumer Price Index (CPI) inflation data taken from the Central Statistics Agency (BPS) every month from January 2015 to December 2019. The inflation rate is measured using the consumer price index with the formula (Waluyo in Rohiman and Damayanti (2017)):

$$\text{LIt} = \frac{\text{IHKt} - \text{IHKt} - 1}{\text{IHKt} - 1} \quad 1)$$

Descroption:

LI_t = Inflation rate period t

IHK_t = Consumer price index period t

IHK_{t-1} = Consumer price index period t-1

b. Financial Performance

Financial performance can describe the financial condition of a company at a certain time period. With the financial performance, it can be seen whether the company's goals have been achieved, the extent of the company's growth, and the potential for future development. In this study, financial performance is used to predict financial distress, namely the liquidity and profitability of the company.

a) Liquidity

Corporate liquidity describes the company's ability to finance the company's operations and pay off the company's short-term obligations. In this study, the current ratio is used to measure the company's liquidity. The current ratio describes how liquid the company is in paying its short-term debt. This ratio can be seen by comparing the current assets owned by the company and its current liabilities. The higher this ratio in the industry average explains that the risk of the company failing to pay its short-term debt is lower. Conversely, the lower the given ratio explains the higher the risk of the company failing to pay its short-term debt. The current ratio is measured by the following formula (Sunyoto, 2013:88):

$$Current\ Ratio = \frac{\text{Aktiva Lancar}}{\text{Hutang Lancar}} \text{ x } 100\% \quad 2)$$

b) Profitability

Profitability describes the company's ability to profit from every rupiah of sales generated during a certain period of time. This study used return on equity (ROE) and return on assets (ROA) to measure the level of company profitability.

c. Return On Equity (X_3)

This ratio explains how much the company's ability to generate net profit by using its capital and available to investors. Where net income is obtained from before dividends are paid to common stockholders but have been paid to preferred stockholders, and interest to lenders. The higher the percentage of the ROE ratio explains the high value of the company and can attract investors to invest in the company. On the other hand, a low ROE percentage explains that the company's value is also low. Return on Equity is measured by the following formula (Sunyoto, 2013:119):

$$Return\ On\ Equity = \frac{Earning\ after\ tax}{Equity} x\ 100\% \quad 3)$$

d. Return On Asset (X_4)

The return on assets ratio explains the level of efficiency of the company in managing its assets in obtaining income. This ratio is shown as a percentage by comparing net income after tax and interest to the total assets owned by the company. The higher the percentage, it illustrates that the performance is good in managing assets so that it can generate optimal net income. Conversely, a low percentage illustrates that the company cannot manage its assets so that the net profit obtained is not optimal. Return on Assets is measured by the following formula (Sunyoto, 2013:116):

$$\text{Return On Asset} = \frac{\text{Earnings after interest and tax}}{\text{Total asset}} \text{ x } 100\% \quad 4)$$

e. Manajemen Laba (X_5)

In accounting practice, earnings management is the most popular method in manipulating the company's financial performance by playing with the level of profit earned by the company. Thus, profits can be increased so that the company's statement of financial position looks good and can attract investors, or profits can be lowered to minimize tax payments. Earnings management is measured by the value of discretionary accruals obtained by several steps. Earnings management is calculated using the modified Jones model formula and its steps (Dechow et al, 1995):

1) Calculate *Total Accruals*

$$TAC = NIit - CFOit \quad 5)$$

Description:

NI_{it} = The company's net profit in period t

CFO_{it} = Cash flow from operating activities in period t

2) Calculate the value of Total Accruals with the Ordinary Least Square regression equation

$$\frac{TAit}{Ait-1} = \beta1\left(\frac{1}{Ait-1}\right) + \beta2\left(\frac{\Delta Revit}{Ait-1}\right) + \beta3\left(\frac{PPEit}{Ait-1}\right) + \varepsilon \quad 6)$$

Description:

A_{it-1} = Total assets of the company in period t-1

Rev_{it} = Income period t – income period t-1

PPE_{it} = Total fixed assets period t

3) Calculating Total Nondiscretionary Accruals

$$NDA = \beta1\left(\frac{1}{Ait-1}\right) + \beta2\left(\frac{\Delta Revit}{Ait-1} - \frac{\Delta Recit}{Ait-1}\right) + \beta3\left(\frac{PPEit}{Ait-1}\right) \quad 7)$$

Description:

Rec_{it} = Receivables of period t – receivables of period t-1

4) Total *Discretionary Accruals*

$$DA = \frac{TAit}{Ait-1} - NDAit \quad 8)$$

Description:

TA_{it} = Total accrual period t

NDA_{it} = Total Nondiscretionary Accruals

A_{it-1} = Total assets of the company in period t-1

Dependent Variable

Financial Distress

According to Whitaker (1999) and Beaver (1966) financial distress is a condition in which a company has negative net income that occurs in successive periods due to the company's inability to pay its financial obligations as they fall due as a result of low cash flow conditions. Financial distress is measured using the Z Score model version for companies that have gone public (Altman et al, 2016):

$$Z = 0{,}012X1 + 0{,}014X2 + 0{,}033X3 + 0{,}006X4 + 0.999X5 \quad 9)$$

Description:
X1 = Working Capital to Total Assets
X2 = Retained Earnings to Total Assets
X3 = Earnings Before Interest and Tax on Total Assets
X4 = Book Value of Equity to Book Value of Total Debt
X5 = Sales to Total Assets

The criteria used to predict company bankruptcy with this model are (Rudianto in Nirmalasari, 2018):

a) if the Z index value < 1.81 then the company is predicted to go bankrupt, the issuer has the potential for bankruptcy.
b) If the Z index value > 2.99, the company is predicted not to go bankrupt, the issuer is predicted to be healthy.
c) If the index value is 1.81 < Z < 2.99, then it is included in the grey area, the issuer is predicted to experience financial problems and has the potential to go bankrupt.

Data Analysis Technique

Multiple linear regression is used if more than one independent variable is used. This test is to determine the effect of inflation, current ratio, return on assets, return on equity, and earnings management on financial distress with the formula:

$$Y = a + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \beta5X5 + \varepsilon \quad 10)$$

Description:
Y = Financial distress
a = Constant
X1 = Inflation
X2 = Current assets
X3 = Return on assets
X4 = Return on equity
X5 = Earnings management
1 – 5 = Regression coefficient
e = Error

T Test

testing is used to determine the ability of the independent variables individually in explaining the behavior of the dependent variable. This t test was performed using a significance level of 0.05 (α = 5%). The rejection and acceptance of the hypothesis is carried out on the following basis:

a. If the significance value of t is less than or equal to 0.05 then the hypothesis is accepted, meaning that there is a significant effect between one independent variable on the dependent variable.
b. If the significance value of t is more than 0.05 then the hypothesis is rejected, meaning that there is no significant effect between one independent variable and the dependent variable.

F Test

According to Ghozali (2011) the F test is a test that explains whether the independent variable has a simultaneous effect on the dependent variable. The feasibility test of the model was carried out using SPSS with a significance level of 0.05 (α = 5%). The provisions or basis for decision making are as follows:

a. If F has a value greater than 0.05 then the hypothesis is rejected, meaning that the regression model is not feasible. Simultaneously the independent variable has no significant effect on the dependent variable.
b. If F is less than 0.05 then the hypothesis is accepted, meaning that the regression model is feasible. Simultaneously the independent variable has a significant effect on the dependent variable.

RESULTS AND DISCUSSIONS

Multiple Linear Regression Analysis

This test is used to predict the effect of the independent variable on the dependent variable. The results of multiple linear regression analysis with the help of the SPSS version 22 computer application program are shown in the following table:

Tabel 2. Multiple Linear Regression Test

Model		Coefficients[a]			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.186	.077		2.410	.017
	Inflation	.789	2.072	.023	.381	.704
	Liquidity	-.003	.003	-.066	-1.054	.293
	Return On Equity	.022	.004	.753	6.018	.000
	Return On Asset	-.023	.006	-.489	-4.037	.000
	Profit Management	-.026	.049	-.032	-.532	.595

a. Dependent Variable: Financial Distress

Source: Data Sekunder Diolah, 2022

Based on table 2 above, it can be seen that the value of the constant = 0.186 and the coefficient of b1 = 0.789, b2 = -0.003, b3 = 0.022, b4 = -0.023, b5 = -0.026, so that multiple linear regression equations occur:

$$Y = \alpha + \beta X1 + \beta X2 + \beta X3 + \beta X4 + \beta X5 + e$$

$$Y = 0.186 + 0.789 - 0.003 + 0.022 - 0.023 - 0.026 + e$$

a. Constant(α)
The constant value obtained is 0.186, this means that if the independent variables (Inflation, Liquidity, Return On Equity, Return On Assets, Earnings Management) are zero, then the amount of financial distress that occurs is 0.186.

b. The value of the inflation coefficient is 0.789 and shows a negative sign. This shows that inflation has the opposite relationship with financial distress. This shows that for every 1% increase in inflation, the Financial Distress (Y) variable will increase with a value of -0.153 with the assumption that the other independent variables of the regression model are fixed.

c. Liquidity coefficient value is –0.003 and shows a negative sign. This shows that liquidity has the opposite relationship with financial distress. This shows that for every 1% increase in liquidity, the financial distress variable (Y) will increase by a value of -0.023 with the assumption that the other independent variables of the regression model are fixed.

d. The value of the ROE variable is 0.022 and shows a positive sign. This shows that for every 1% increase in ROE, the financial distress variable (Y) will increase with a value of 0.265 with the assumption that the other independent variables of the regression model are constant.

e. The coefficient value of Return on Asset is -0.023 and shows a negative sign. This shows that Return on Assets has the opposite relationship with Financial Distress. This shows that every 1% increase in Return on Assets, the financial distress variable (Y) will increase with a value of -0.023 with the assumption that the other independent variables of the regression model are fixed.

f. The value of X5 variable earnings management is -0.026 and shows a negative sign. This shows that for every 1% increase in earnings management, the financial distress variable (Y) will decrease by a value of 0.026 with the assumption that the other independent variables of the regression model are fixed.

Model Feasibility Test (F Test)

The F test is used to explain whether the independent variables in the conceptual model have a joint effect on the dependent variable (Ghozali, 2013). If the value of Fcount is less than 0.05 then the regression model can be used to predict the dependent variable.

Tabel 3. Uji Kelayakan Model (Uji F)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.080	5	.616	10.959	.000[b]
	Residual	12.872	229	.056		
	Total	15.953	234			

a. Dependent Variable: Financial Distress

b. Predictors: (Constant), Manj. Profit, Inflation, Liquidity, Return On Assets, Return On Equity

Source: Secondary Data Processed, 2022

From the ANOVA or ftest test, obtained fcount of 10,959 with a significance level of 0.000, because the significance of the study has a value greater than 0.05 (0.000 <0.05). It can be concluded that Inflation, Liquidity, Return On Equity, Return On Assets , earnings management simultaneously affects Financial Distress

Hypothesis Testing (T Test)

The t-statistical test basically explains how far the influence of one explanatory/independent variable individually in explaining the variation of the dependent variable (Ghozali, 2013). Statistical t test was used to find the most dominant influence between each independent variable to explain the variation of the dependent variable with a significance level of 5% and 10%. Based on the results of processing SPSS version 22, the following results are obtained:

Table 4. Statisic Test t (T Test)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.186	.077		2.410	.017
	Inflation	.789	2.072	.023	.381	.704
	Liquidity	-.003	.003	-.066	-1.054	.293
	Return On Equity	.022	.004	.753	6.018	.000
	Return On Asset	-.023	.006	-.489	-4.037	.000
	Profit Management	-.026	.049	-.032	-.532	.595

a. Dependent Variable: Financial Distress

Source: Secondary Data, Reprocessed, 2022

Based on the results of the individual parameter test (t statistical test) above, it is known that of the five independent variables included in the regression model, the inflation variable (X1) is 0.704; Liquidity (X2) is 0.293; Earnings Management (X5) of 0.595 has no effect on Financial Distress because the three independent variables have a value greater than 0.05. While the Return On Equity (X3) variable is 0.000; Return On Assets (X4) of 0.000; effect on Financial Distress because the three independent variables are smaller than 0.05.

From this it can be concluded that the variables of Inflation, Liquidity, earnings management partially have no effect on Financial Distress. While Return On Equity, Return On Assets, partially affect Financial Distress.

The Effect of Inflation on Financial Distress

The results of the study explain that the inflation variable has no effect on financial distress. Changes in annual inflation can be said to be unchanged, so it does not affect financial distress. Inflation is a common occurrence that causes prices to rise due to disturbances on both the supply and demand sides. Initially inflation was caused by an increase in the money supply which led to an increase in prices, but in its development, inflation is generally a trend of rising prices for goods and services. If persistent inflation affects the company's expenses, it will increase, leading to higher selling prices, which will reduce consumer purchasing power and worsen the overall economic condition of a country. (Suseno, 2009:17).

Research by Irwandi and Rahayu (2019) argues that inflation has no effect on financial distress. Utami's research (2015) explains that high inflation affects the company's business activities because it increases variable costs (increase in production costs), which in turn increases the selling price, which in turn affects sales decline and lowers people's purchasing power, putting the company in financial difficulty.

The Effect of Inflation on Financial Distress

From the results of regression testing in this study, liquidity has no effect on financial distress. Current Ratio explains the company's ability to pay its current debts using its current assets. Current Ratio is sometimes able to satisfy a company, but the amount of working capital and the amount of the ratio depends on several factors, where a standard or general ratio cannot be used for the whole company. If the company has a high percentage of CR then the company will be far from financial distress and vice versa if the company has a low percentage of CR then the company can be said to be in a state of financial distress.

When a company's liquidity level is low, then at maturity the company does not have sufficient funds to meet its short-term obligations so it takes some time to disburse other assets, such as collection of receivables, selling securities, selling inventory or other assets. If you do not have other assets to sell, this can cause the company to enter into a state of financial distress.

So it can be concluded that liquidity has no effect on financial distress. This is reinforced by the results of research conducted by Mas'ud (2011) which states that the CR ratio has no effect on financial distress.

The Effect of Return on Equity on Financial Distress

From the results of the regression test of this study, ROE has a significant positive effect on financial distress. If the ROE percentage is high, it means that the company is far from financial distress. The higher the profit earned, the greater the possibility of idle funds or company funds that are not used on time, and if not fulfilled, the company will definitely go bankrupt before experiencing financial difficulties.

The amount of profit shows that the company can allocate the company's assets fairly to earn a profit, of course this can minimize the possibility of financial distress, because it can attract investors to invest their funds in the company, so that the company has sufficient funds. On the other hand, low profitability will allow the company is experiencing financial distress where the target profit is not achieved due to the inability of management to use total assets and net assets. This is in line with the research of Nurhidayah and Rizqiyah (2017) which states that profitability has an effect on financial distress. Similarly, the research conducted by Haq (2013) which states that the ROE ratio has a significant positive effect on financial distress.

The Effect of Return on Assets on Financial Distress

The results of the study explain that the Return On Asset variable has an effect on financial distress. Based on the existing signal theory, the company provides encouragement in providing information for decision making about financial statements to internal and external parties. The tendency of encouragement given by the company occurs due to imbalanced information between internal parties and external parties where internal parties have more complete information about

the company's finances so that it is easier to predict financial distress than external parties who predict from the results of published financial statements that have been published. allows the real situation is not the same as the results of the financial statements. This is a signal for the company to prevent possible financial difficulties through monitoring the amount of ROA in each period to predict the expected financial situation. Companies need to consider efforts to overcome the possibility of financial distress when there is an increase or decrease in the company's ROA to be able to anticipate company risks in terms of decisions to sell or maintain company assets in accordance with the real results of financial statements. This study supports previous studies that have been carried out by Saleh and Sudiyatno (2013) and Marwati (2012)

The Effect of Earnings Management on Financial Distress

The results of the study explain that earnings management has no effect on financial distress, so the fifth hypothesis is rejected. The results of this data processing explain that earnings management is an effort by company managers to intervene or influence information in financial statements. Earnings management will appear when managers use certain decisions in financial statements and change some transactions to trick stakeholders who want to know the company's financial performance.

Earnings management is the behavior of management in playing with the size of profits in the financial statements. Earnings management has goals including, encouraging managers to optimize their interests and personal welfare, to maintaining the company's reputation (Scott, 2009:413) This is in line with the research of Sayidah et al (2020) which states that earnings management has no effect on financial distress.

CONCLUSION

From the research that has been done and the discussion of the research results in the previous chapter, conclusions can be drawn from the research, namely Inflation does not contribute to the financial distress of property, real estate and building construction companies. Liquidity does not contribute to the financial distress of property, real estate and building construction companies. Return On Equity contributes to the financial distress of property, real estate and building construction companies. Return on Assets contributes to the financial distress of property, real estate and building construction companies. Earnings management does not contribute to the financial distress of property, real estate and building construction companies

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