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FINANCIAL DIFFICULTIES MEDIATED BY LIQUIDITY AND MODERATED BY SALES GROWTH

(Empirical Study on Property and Real Estate Companies Listed on the Indonesia Stock Exchange from 2021 to 2023)

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Abstract
When companies are unable to meet their financial obligations, such as debt payments or operational costs, they often face financial difficulties. They usually occur due to low profitability, inadequate liquidity, and declining sales, all of which can lead to bankruptcy if not addressed promptly. With liquidity as a mediating variable and sales growth as a moderating variable, this study examines how profitability impacts financial distress. Using secondary data, this research aims to determine how profitability and liquidity affect financial distress and how sales growth either helps or worsens this relationship in property and real estate companies listed on the Indonesia Stock Exchange from 2021 to 2023. In this study, a purposive sampling method was used, and a total of 26 companies were sampled. Hypothesis testing, path analysis, and moderated regression analysis (MRA) were used as testing methods, and all of this was conducted with the assistance of SPSS 25 software. Research results indicate that profitability significantly affects liquidity, but does not significantly affect financial difficulties. Liquidity also does not significantly affect financial distress, and sales growth does not serve as a mediator between profitability and financial difficulties.

Key Word:
Profitability; Liquidity; Sales Growth; and Financial Difficulties.

INTRODUCTION

Financial difficulties are situations in which a company struggles to meet its financial obligations, both in the short term and the long term. Common phenomena related to this difficulty include several aspects. A decline in profitability often serves as an early sign, that the company is no longer able to generate profits that are sufficient to support operations and debt repayment. (Siegel, 2021).

In addition, when businesses cannot manage their cash flow properly, they face

liquidity problems and difficulties in meeting short-term obligations such as paying employees or settling with suppliers. The situation is also worsening due to the high debt ratio, especially if income is insufficient to cover the interest and principal of the loans. In addition to internal factors, unstable financial situations, such as recessions or changes in interest rates, also increase financial pressure. This economic cycle often affects the property and real estate sector; slow sales growth or declining prices can worsen business finances. (Uwonda & Okello, 2015).

The relationship between growth and the risk of facing financial difficulties is discussed in the concepts of growth and financial distress. This concept states that a slowdown or decline in growth can increase financial pressure, especially in cases where companies fail to adequately adjust their financial and operational methods. (Chen et al., 2023).

If sales do not continue to increase, the company may not be able to cover its operating costs and debts. A decline in growth can exacerbate liquidity issues for businesses in industries that are heavily influenced by economic fluctuations, particularly in the property and real estate sectors. (Potential et al., 2024).

On the other hand, companies that do not plan well and pursue progress too quickly are vulnerable to financial turbulence. Such growth is usually supported by significant debt financing, which increases the risk of default if cash flow is insufficient. As a result, this phenomenon often occurs. As a result, financial pressure can arise more quickly due to uncertain growth patterns and poor financial management. (Obłój & Voronovska, 2024).

Financial ratios, market-oriented indicators, and macroeconomic variables, such as GDP growth and inflation, influence financial pressure in the 2024 study on public entities in Egypt (Irhamni, M. R. 2023; Irhamni, M. R., et al. 2023). They emphasize the importance of corporate management systems, such as institutional ownership and board independence, to mitigate financial risks. (Abdelkader & Wahba, 2024).

Veronica Sonia Kinanti and Muhyarsyah Muhyarsyah conducted a financial ratio analysis in their 2023 research "Financial Ratio Analysis to Predict Financial Distress" to estimate issues in the property and real estate sector on the Indonesia Stock Exchange from 2016 to 2020. They differentiate important financial ratios that help predict difficulties by using multiple linear regression. (Intang et al., 2020).

The study titled "Financial Distress, Earnings Management, and Big 4 Auditors in Emerging Markets," written by Dante Baiardo C. Viana Jr., Isabel Lourenço, and Ervin L. Black (2022), investigates the relationship between earnings management strategies and financial distress in companies operating in twenty emerging market countries. This also discusses the role of Big 4 auditors in reducing this method. The results show that companies facing financial difficulties tend to increase earnings management. However, when audited by the Big 4, this tendency is less pronounced. (Melistiari et al., 2021).

In addition to the variables mentioned above that influence the results of previous research, it is suspected that several additional variables may affect financial difficulties. These variables include liquidity, profitability, and the potential for sales growth. Furthermore, sales growth may be a moderating variable, which will be examined in this study.

Profitability refers to a company's capacity to generate financial profits over a specific period through its operational efforts. (Ratuela et al., 2022b). Profitability is a concept that describes how effectively a company generates profit; a low profitability level indicates that the company's assets are no longer effective in generating returns. Such a situation can hinder the company's ability to meet its financial obligations, which may lead to issues in maintaining liquidity. (Nirawati et al., 2022).

Liquidity indicates the company's ability to handle its short-term obligations quickly and efficiently. (Varirera, et al., 2021). A company can demonstrate its financial

health by making timely payments; conversely, if a company faces financial issues, it is likely to encounter greater fiscal challenges, which require caution as they can lead to bankruptcy and hinder sales growth. (Venisa & Widjaja, 2022).

By using a metric known as sales growth, companies can forecast upcoming expansion by utilizing the revenue generated from the sale of goods or services as well as the income earned from sales activities. (Agustin & Sapari, 2024). When a business thrives, sales may increase. This helps the business avoid financial problems.

LITERATURE REVIEW

Agency Theory

In agency theory, a principal will hire an agent to perform the routine tasks of the company, such as making financial decisions, even when the company is facing financial difficulties. For example, a manager in this situation may make decisions without considering long-term profitability or liquidity, which can lead to financial problems. (Jiwa et al., 2023). This theory helps explain how managers can safeguard their shareholders' interests and minimize the risk of financial issues.

Signaling Theory

It is expected that company executives can convey clear reports and signals to investors about the actual state of affairs, as they possess more complete and accurate information about the company's conditions, according to signaling theory. Profitability, liquidity, and sales growth can inform the market about its financial condition, aiding in the analysis of financial difficulties. (Amah et al., 2023).

Financial Difficulties

Financial difficulties occur when a company goes bankrupt because it cannot meet its obligations and has minimal profits. (Muslimin & Bahri, 2022). Financial difficulties refer to a situation where a company faces tough times financially, which may subsequently lead to bankruptcy. (Purwanti & Sya'adah, 2022).

Variabel kesulitan keuangan dalam penelitian ini diukur menggunakan metode The modified Altman Z-Score is: $Z = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$.
Description:
X1: Working capital/total assets
X2: Retained earnings/total assets
X3: Earnings before interest and taxes/total assets
X4: Book value of equity/total debt

Profitability

Profitability is a ratio that measures or assesses a company's ability to generate profit through various actions, such as sales, as indicated by return on assets (ROA). (Baghaskara & Retnani, 2023).

The profitability variable in this study is measured using the following formula:

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$$

If a higher asset ownership ratio (ROA) indicates that a company is using its assets more efficiently to generate profits, a lower ROA suggests that the company is unable to generate profits with its assets, leading to decreased profitability, which increases the likelihood of more serious financial problems. (Maronrong et al., 2022).

Likuiditas

Liquidity can be defined as the ability of an organization to meet its financial

obligations that are due immediately or the ability of an organization to fulfill its financial obligations when they are called upon. (Ratuela et al., 2022a).

The liquidity variable in this study is measured using the following formula:

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Financial problems are more likely to occur in businesses with low liquidity. This is due to the lack of assets that can be quickly converted into cash, such as accounts receivable, cash, and inventory needed to pay off maturing debts. When a company is unable to meet its obligations, such as paying debts to suppliers, paying employee salaries, or repaying bank loans, the company may find itself in a situation of financial distress. (Noviyana et al., 2024).

Sales Growth

The company's ability to increase its product sales by boosting volume and frequency is known as sales growth. (Prihati, 2023).

The variable for sales growth in this study is measured using the following formula:

$$SG = \frac{\text{Sales this year - Sales last year}}{\text{Last year's sales.}}$$

A high sales growth rate indicates that a business is more likely to sustain its operations and reduce financial issues. This is because the sales growth rate reflects how successful the business is in marketing and selling its products; thus, the greater the profit earned, the higher the likelihood that the business will maintain its operations. (Rochendi & Nuryaman, 2022).

Influence of Profitability on Liquidity (H1)

Profitability plays an important role in influencing a company's liquidity. According to (Firdaus, 2020), High profitability enhances the liquidity of the company. The ability of a company to meet its short-term obligations, such as paying current debts, salaries, and other operating expenses, is called liquidity. If a company generates sufficient profits, it can strengthen its liquidity by allocating its resources to current assets, such as cash or cash equivalents. In the long term, a stable profitability level indicates to creditors and investors that the business has sound finances, making it more likely to secure cheaper or larger financing.

On the contrary, businesses may struggle to maintain liquidity as profitability declines. The amount of cash available to meet short-term obligations is limited by low operating cash flow, which increases the risk of default and liquidity pressure that could lead to a financial crisis. (Mangku et al., 2024) Emphasizing that businesses with low profitability tend to struggle to maintain liquidity balance, which can lead to more expensive external financing or asset sales to meet obligations.

H1: It is suspected that profitability has a positive effect on liquidity.

Influence of Profitability on Financial Difficulties (H2)

Low profitability can increase the risk of financial difficulties for a company. When profitability declines, the revenue generated is insufficient to cover operational costs and financial obligations, such as debt or interest payments. This can lead to inadequate

cash flow, the possibility of default, and business failure. Conversely, companies with high profitability are better able to manage their financial obligations. (Kalash, 2023).
H2: It is suspected that profitability harms financial difficulties.

Influence of Liquidity on Financial Difficulties (H3)

Because a company may struggle to meet short-term obligations such as paying debts or operational costs, low liquidity increases the risk of financial distress. Conversely, high liquidity indicates that the company has enough current assets to meet immediate obligations, thereby reducing the risk of financial difficulties. Good liquidity enhances financial stability and the company's resilience to economic shocks. (Alhassan et al., 2021).
H3: It is suspected that liquidity negatively affects financial difficulties.

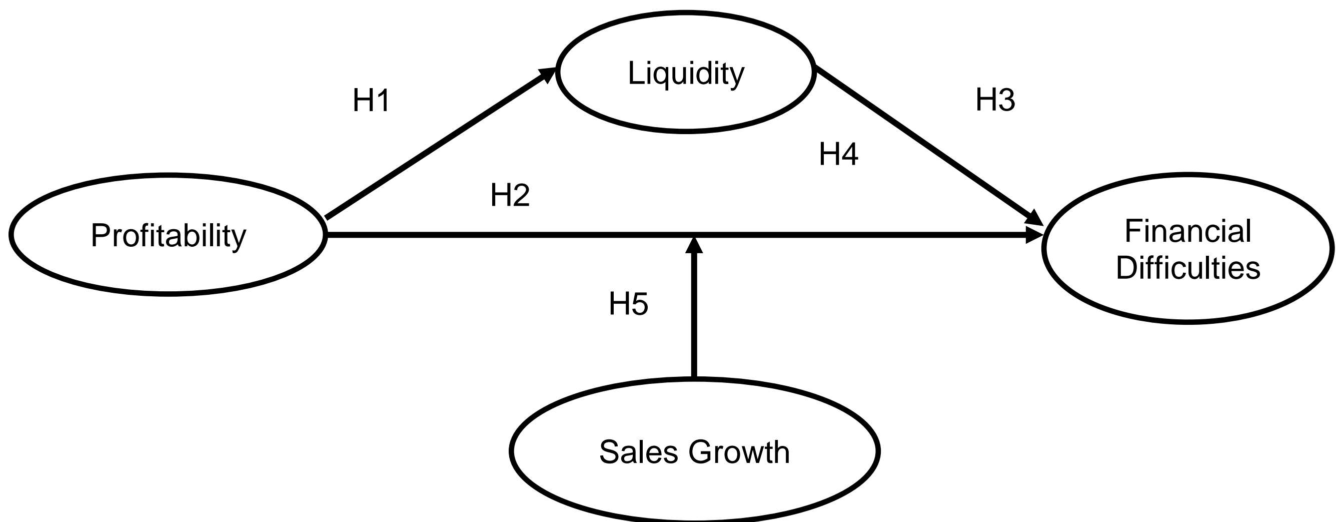
Influence of Profitability on Financial Difficulties Mediated by Liquidity (H4)

Profitability is a key indicator in evaluating a company's financial performance, measured by ratios such as Return on Assets (ROA) and Return on Equity (ROE). This helps companies reduce risk and improve financial efficiency (Irhamni, M. R., & Astuti, W. B. 2024). Liquidity, as a key mediator between profitability and financial performance, can influence a company's ability to meet short-term financial goals. Good liquidity can mitigate the positive liquidity effects on financial stability, while poor liquidity can lead to negative liquidity effects. Liquidity serves as a tool for companies to manage financial performance, especially when profitability is not optimal.(Maianto et al., 2024).
H4. It is suspected that liquidity may mediate between profitability and financial difficulties.

Influence of Profitability on Financial Difficulties Moderated by Sales Growth (H5)

Low profitability increases the risk of financial difficulties, but sales growth can moderate the impact of financial distress. When sales growth is high, companies have the opportunity to increase revenue, which can improve profitability and enhance cash flow (Irhamni, M. R., Ayuningtyas, R. D., & Islamiyah, M. 2024). This helps the company cover financial obligations and reduce the risk of bankruptcy. Conversely, if sales growth is low, even if profitability increases, the company still faces the risk of financial difficulties because revenue is not growing enough to support operations. (Giarto & Fachrurrozie, 2020).
H5. It is suspected that sales growth may moderate the relationship between profitability and financial difficulties.

CONCEPTUAL FRAMEWORK



RESEARCH METHOD

The property and real estate companies listed on the Indonesia Stock Exchange for the period of 2021-2023 serve as the population in this study. There are 26 companies that meet the criteria out of 80 companies, resulting in a total sample of 78. (3 years x 26 companies). The data collection method using a documentation system involves obtaining data in the form of annual financial reports by downloading them from www.idx.co.id. Data processing analysis will utilize Path Analysis and Moderated Regression Analysis. (MRA). (Diana Nabella et al., 2023).

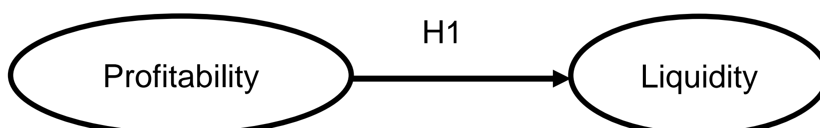
Regression models with moderating variables use interaction tests; the interaction test, or Moderated Regression Analysis (MRA), is an application of multiple linear regression where the equation includes the interaction (multiplication) of independent variables. (Taufik, 2017). Meanwhile, in path analysis, the criterion is that the variable can function as a mediator. (Suwarno, 2014), If it affects the relationship between the independent variable and the dependent variable, for the MRA test, the moderating variable (Sales Growth) can strengthen the relationship between Profitability and Financial Distress if the significance value is < 0.05. (Nugraheni & Muthohar, 2021).

In this study, the liquidity variable serves as a mediator to examine the direct and indirect effects of the relationship between profitability and financial distress. Stage 1: Testing the effect of Profitability on Liquidity, with the regression equation: $Y_1 = \alpha + \beta 1X1 + \varepsilon$

Where:

Y_1	: Dependent Variable-Liquidity
α	: Constant
β_1	: Square-Profitability Correlation Coefficient
X_1	: Square-Profitability Independent Variable
ε	: Residual

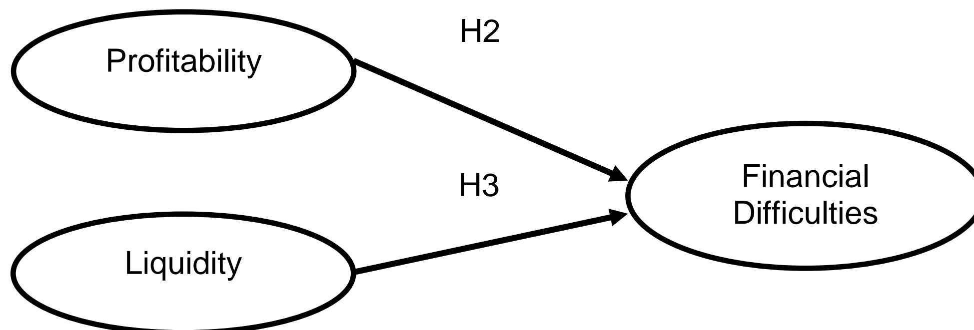
Figure 1
Stage 1 Regression Model:



Stage 2: Regressing variables (Profitability and Liquidity) against Financial Difficulties, with the regression equation: $Y2 = \alpha + \beta 1X1 + \beta 2X2 + \varepsilon$
Where:

Y_2	: Dependent Variable - Financial Difficulties
α	: Constant
$\beta 1, \beta 2$	: Coefficient of Determination - Profitability and Liquidity
X1, X2	: Independent Variables - Profitability and Liquidity
ε	: Residual

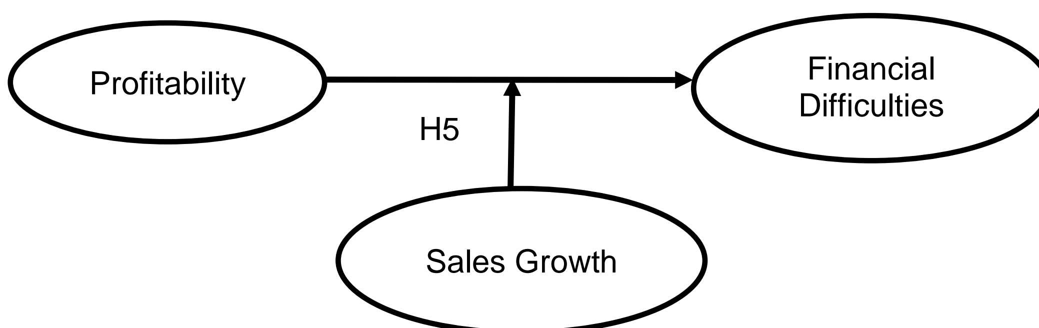
Figure 2
Stage 2 Regression Model:



The regression equation of the MRA test is: $Y = \alpha + \beta 1X1 + \beta 2(X1. X3) + e$
Where:

Y	: Financial difficulty
α	: Constant
$\beta 1$-$\beta 2$	: Regression coefficient X1 (Profitability)
e	: Error

Figure 3
Regression Model MRA:



RESULT AND DISCUSSION
RESULT

The results of the hypothesis test on the effect of profitability on liquidity, which is the first stage of path analysis, are as follows:

Table 1 - Stage 1 (First)
Coefficients

Model	Beta	t	Sig.
Constant	-	3.212	.004
Profitability	.268	2.362	.018

a. Dependent Variable: Liquidity

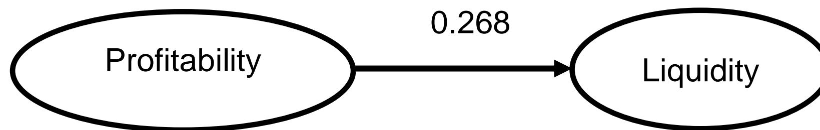
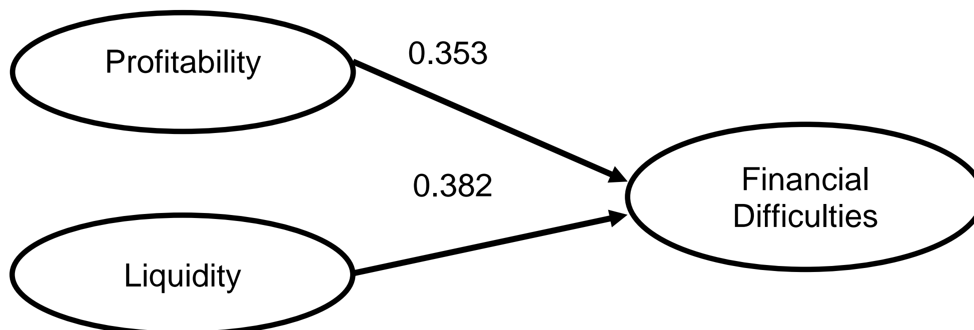


Table 2 (second)
Coefficients

Model	Beta	t	Sig.
Constant	-	3.457	.002
Coefficients	.353	2.014	.056
Liquidity	.382	-2.178	.040

a. Dependent Variable: Financial Difficulties



ThThe results of the MRA test can be presented in Table 3 below:

Table 3 MRA Test
Coefficients

Model	Beta	t	Sig.
Constant	-	5.176	.000
Profitability	.489	2.619	.015
Interaksi (Profitability * Sales Growth)	-0.162	-0.867	.395

a. Dependent Variable: Financial Difficulties

DISCUSSION

Analysis of Profitability Affects Liquidity (H1)

Results of the H1 test show a significance value of 0.018 < 0.05, and the beta coefficient is positively signed. This can be concluded that profitability has a significant positive effect on liquidity. Profitability and liquidity represent two fundamental metrics in assessing a company's financial performance. Profitability enhances the organization's capacity to engage in profitable investments, while liquidity diminishes the organization's ability to meet operational obligations, including tax payments and

routine operational expenses. The interaction between these two metrics is often studied in financial assessments, and empirical evidence shows that profitability can significantly affect liquidity. (IZFS et al., 2022).

Companies that demonstrate a high level of profitability show greater stability and consistency in their cash flow. This phenomenon results in an increase in the availability of financial resources for investment, thereby enhancing the liquidity of the organization. In addition, organizations marked by high profitability often excel at managing their assets, including inventory, equity, and investments. Such skilled management culminates in increased operational efficiency, cost reduction, and improved liquidity prerequisites (S Vătavu, 2014; Irhamni, M. R., & Astuti, W. B. 2024).

However, the correlation between profitability and liquidity is not linear or uniform. Companies that largely rely on cash flow may not consistently maintain a high level of liquidity, especially when allocating resources to projects that restrict cash flow. Conversely, entities with substantial profitability may experience a decline in liquidity, which could potentially jeopardize the financial stability of the organization. (Czerwińska-Kayzer et al., 2021).

Analysis of the Influence of Profitability on Financial Distress (H2)

Results of the H2 test show a significance value of 0.056 > 0.05, and the beta coefficient indicates a positive value, meaning that profitability does not have a significant positive effect on financial distress. Profitability is often regarded as a key indicator of a company's financial health, but it does not always have a significant impact on financial performance. Financial management, which is often influenced by a company's ability to manage debt or cash flow, is a complex issue. (Ardi & Murwaningsari, 2018).

Profitability does not positively impact financial performance, including an unsustainable financial structure, unstable cash flows, and external factors such as macroeconomic changes, market fluctuations, and regulatory changes. Unsustainable cash flows can lead to financial instability, especially for profitable businesses. External factors like macroeconomic changes, market fluctuations, and regulatory changes can also cause financial issues, affecting the company's ability to maintain healthy liquidity. Inefficient financial management can lead to a financial crisis if management fails to manage risks or provide adequate cash flow. (Tuzcuoğlu, 2020).

Liquidity Analysis Affects Financial Difficulties (H3)

Results of the liquidity regression test indicate that liquidity affects financial difficulties, yielding a significance value of 0.040 < 0.05, and the coefficient value shows a negative correlation. It has been proven that liquidity has a significant negative impact on financial difficulties. Financial difficulties refer to a condition in which a company fails to pay short-term debts and meet other financial obligations. When a company's liquidity is low, it tends to struggle to raise enough funds to meet its obligations on time, leading to defaults or bankruptcy. Companies with low liquidity are in a more vulnerable position to financial pressures. Working capital management, short-term debt levels, and the financial structure of a company help the company maintain an adequate level of liquidity. (Lipi & Lipi, 2020).

Liquidity is also influenced by macroeconomic conditions, such as interest rates, inflation, and the stability of financial markets (Irhamni, M. R. 2023; Irhamni, M. R., et al. 2023). Prolonged liquidity difficulties can have serious impacts on a company's daily operations, such as the risk of bankruptcy, and the company may lose trust from suppliers, creditors, and customers. Companies facing liquidity issues are often forced to cut expenses, which may include workforce reductions or delays in important investment projects. (Alhassan et al., 2021).

Profitability Analysis Affects Financial Difficulties with Liquidity as a Mediating Variable (H4)

This analysis test uses path analysis to examine direct and indirect effects, as well as the total effect.

Table 4
Values of Direct Influence Regression Stage 1

Regresi			Beta	Sig	Direct Effect	Indirect Effect	Total Effect
Profitability	=>	Liquidity	0.268	0.018	0.268	-	0.268

Table 5
Values of Direct Influence Regression Stage 2

Regresi			Beta	Sig	Direct Effect	Indirect Effect	Total Effect
Liquidity	=>	Financial Difficulties	0.382	0.040	0.382	-	0.382
Profitability	=>	Financial Difficulties	0.353	0.056	0.353	-	0.353

Table 6
Values of Direct and Indirect Influence

Regresi			Beta	Sig	Direct Effect	Indirect Effect	Total Effect
Profitability	=>	Liquidity	0,268	0.018	0,268	-	0,268
Profitability	=>	Financial Difficulties	0,353	0.056	0,353	-	0,353
Liquidity	=>	Financial Difficulties	0,382	0.040	0,382	-	0,382
Profitability	=>	Financial Difficulties	0,353	0.056	0,353	0.353 x 0.268 = 0.094	0.353 + 0.094 = 0.447

The T-test for the profitability variable regressed with financial distress shows a significant probability value of 0.056 > 0.05, indicating that profitability does not have a positive and significant effect on financial distress. The positive coefficient indicates that if profitability increases, financial difficulties will decrease, with a direct influence value of 0.353 and an indirect influence through liquidity of 0.094, while the total influence is 0.447. It can be assumed that if profitability is supported, it will increase liquidity, and increased liquidity will reduce financial difficulties by 0.268. Conversely, if profitability does not support, it will also decrease liquidity, and if liquidity decreases, it will further add to the financial difficulties of Property and Real Estate Companies listed on the Indonesia Stock Exchange from 2021 to 2023 by 0.268.

Profitability is an important metric in evaluating a company's financial performance, especially in the context of financial performance. Low profitability can be

an indicator of potential financial complexity, as the organization is unable to fully leverage its operational capabilities. This can affect the company's liquidity position and its ability to meet debt obligations. A high liquidity position can increase the risk of financial instability. Conversely, a low liquidity position can lead the organization to reduce external debt, resulting in a negative financial gap. Effective management must balance the relationship between profitability and liquidity to ensure that the organization can operate effectively and avoid financial crises. (Khan, 2016).

Influence of Profitability on Financial Difficulties with Sales Growth as a Moderating Variable (H5)

The significance value of the interaction between profitability and sales growth is 0.395 > 0.05, which means that sales growth cannot moderate the relationship between profitability and financial distress. Profitability is an important factor that can influence a company's financial difficulties; generally, the higher the profitability, the less likely a company is to experience financial problems. This is because high profitability indicates that the company is generating enough profit to cover operational costs and debt obligations. Thus, profitability enhances the company's financial stability and reduces the risk of default. (MA & Padli, 2019).

However, if sales growth is used as a regulator, the results may not be significant in regulating the relationship between profitability and financial distress. This is due to several reasons. First, an increase in revenue does not always mean an increase in profitability. An increase in profit is not directly influenced by an increase in sales, as rising operational, production, or distribution costs can accompany an increase in sales. (Udin et al., 2017).

If these costs are not managed well, the company may still face financial pressure even if sales increase. Secondly, in some situations, companies experiencing high sales growth may need to make significant investments to maintain or increase production capacity, which can raise debt burdens and short-term liabilities. If this happens, the company's profitability may worsen in the face of financial difficulties, especially if those costs are not managed properly. (Setyowati et al., 2018).

CONCLUSION

The conclusion of this research is as follows: Profitability has a significant positive effect on Liquidity, and Profitability does not have a significant positive effect on financial difficulties. Liquidity has a significant negative effect on financial difficulties, Liquidity does not maximally mediate the relationship between profitability and financial difficulties, and Sales Growth does not strengthen (act as a mediator) the relationship between profitability and financial difficulties.

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