


**Financial distress determinants factors of retail companies with profitability as moderating
(Indonesia cases 2016-2021)**Minanari Minanari¹Nurhasanah Nurhasanah²Safira Safira³Lucky Nugroho⁴Eric Nugraha⁵**Abstract**


The existence of a business entity has a vital role in a country's economy, so the bankruptcy of a business entity is a concern for all stakeholders. Therefore, this research aims to determine the factors that contribute to financial distress in retail businesses in Indonesia in the 2016-2021 period. In addition, return on assets serves as a moderating variable. This study's independent variables are the current and debt-to-asset ratios. This study uses quantitative methods, statistical techniques, and moderated regression analysis (MRA) with 37 secondary data observations. The results of this study are: (i) Current ratio has a significant and positive effect on financial distress. (ii) Debt to asset ratio significantly and negatively affects financial distress. (iii) ROA as a moderating variable weakens the effect of the current ratio (CR) on financial distress. (iv) ROA as a moderating variable weakens the effect of debt-to-asset ratio (DAR) on financial distress. This research aims to provide information and references for stakeholders, academics, and practitioners interested in analyzing financial distress to support decision-making and further research. The originality of this research is related to the research period, namely 2016 to 2021, and the industrial sector, namely the retail sector, which has an essential role in a country's economy.

Keywords: Financial Distress, Current Ratio, Debt to Asset Ratio, Return on Asset**JEL Codes:** C44, M10, M13**1. Introduction**


An entity's bankruptcy can potentially set a bad precedent and negatively impact all parties involved in the business. According to some previous research (Fan & White, 2003; Nguyen et al., 2019; Salehi & Davoudi Pour, 2016; Van Auken et al., 2009), there are several negative impacts of bankruptcy, which include: (i) Bankruptcy has the potential to damage the business owner's reputation, especially if the financial failure is perceived as the result of poor management or lack of expertise in managing financial risks. (ii) Bankruptcy may reduce the confidence of investors, business partners, and potential customers in the company's future owners. (iii) Bankruptcy also has the effect of terminating employment, which may result in increased unemployment and financial hardship for affected employees. (iv) Corporate bankruptcy can have a broader impact on the local economy, especially if the company is large or essential to the community.


The existence of a business entity has a significant impact on the national economy and overall stability. According to previous research (Cheng et al., 2021; Liashenko et al., 2019; Nechaev & Antipina, 2016; Nugroho, 2021), the existence of a business entity can (i) Employ the local population, which is one of


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the crucial factors in reducing the unemployment rate and improving community welfare. (ii) The existence of business entities contributes tax revenue to the government, which is used to finance various public services such as education, health, infrastructure, and security. (iii) Business entities have the potential to become centers of innovation and development of new technologies. (iv) Healthy and sustainable businesses are essential for maintaining national financial stability.

Therefore, maintaining financial health and existence is paramount to the national economy. The government and other stakeholders need to collaborate to create an environment conducive to business growth and development, support efforts to prevent bankruptcies, and promote long-term economic sustainability.

Furthermore, the phenomenon of business existence in Indonesia also needs attention where there are well-known business people such as Gojek Tokopedia (GoTo) has confirmed that it will cut its employees by 1300 people (Setyowati, 2022) where previously there had also been a reduction in employees made by Grab amounting to 1000 people (Setyowati, 2023). In addition to GoTo and Grab, 15 startup companies also terminated their employees, which are shown in the table below:

Table 1. Some Startups in Indonesia that Reduce Employees

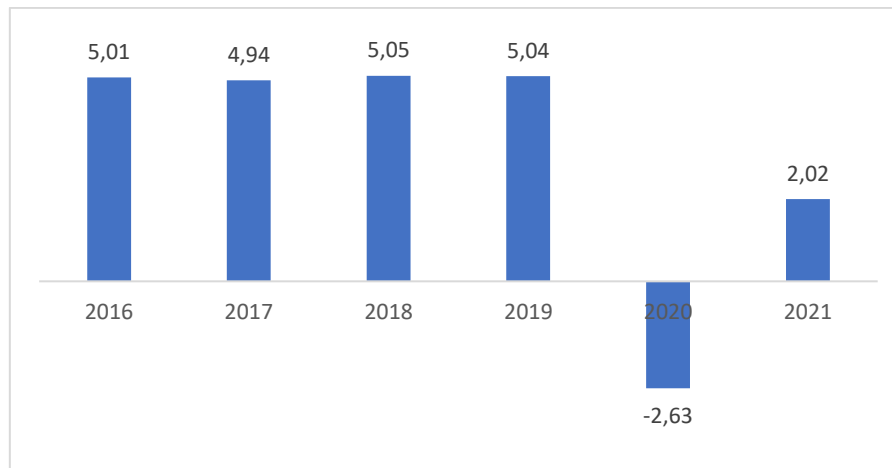
No	Company Name	No	Company Name	No	Company Name
1	Shopee	7	TanHub	13	LinkAja
2	Xendit	8	Zenius	14	SiCepat
3	Carsome	9	JD.ID	15	Bananas
4	Tokocrypto	10	Line		
5	MPL	11	Beres.id		
6	Lummo	12	Pahamify		

Source: Setyowati (2022)

Following Table 1 above, the decision of 15 startup companies to lay off their employees is a severe warning sign for the financial health and existence of these companies. Massive layoffs are often the course of action that companies take when they face significant financial stress or an inability to maintain their cost structure (Hillier et al., 2007; Kiranti & Nugroho, 2022; Marshall et al., 2012). Furthermore, to mitigate so that stakeholders can anticipate and mitigate their interests in companies that will experience financial pressure and potentially become bankrupt, there is an indicator of bankruptcy prediction, namely the Altman Z-Score model.

Furthermore, to mitigate a company's bankruptcy risk, it is necessary to have indicators to monitor to prevent bankruptcy or to detect it quickly. Financial distress is one of the early warnings that the company will experience bankruptcy (Artazcoz et al., 2004; Stepiani & Nugroho, 2023). This is because financial distress indicates that the company is facing significant financial difficulties and may face the risk of bankruptcy in the future (Nugroho et al., 2018), according to Ihwanudin et al. (2020), Platt & B.Platt (2006), there are several indicators that a business entity is experiencing financial distress, namely (i) poor liquidity, (ii) poor financial performance, (iii) high debt, and (iv) declining stock prices.

On the other hand, the phenomenon that has occurred recently is the decline in public consumption due to the impact of the Covid-19 pandemic, which has caused a decline in global economic growth (Hidayah et al., 2022; Nugroho et al., 2020, 2021). In addition, the COVID-19 pandemic has also impacted the decline in Indonesian consumption, as seen in the figure below:



Source: Kusnandar (2023)

Figure 1. Consumption level of the Indonesian population between 2016 and 2021

According to Figure 1 above, during the Covid-19 pandemic, which began at the end of 2019, and peaked in 2020, the consumption level decreased significantly. Public consumption decreased by 0.01, compared to 5.05 in 2018 and 5.04 in 2019. The decline in consumption continued; at the peak of the Covid-19 pandemic in 2020, it was minus 2.63, and in 2021, it began to improve to 2.02, although it was not as good as it was in 2018 and 2019. Furthermore, the decline in consumption levels may significantly impact business activities, particularly in the retail trade and consumer services sectors. According to Mightyn et al. (2022) and Nugroho & Ali (2020), there are several impacts of declining public consumption levels of business activities: (i) declining sales turnover, (ii) declining revenues and profits, (iii) employee redundancies, (iv) declining investor interest, and (v) unstable market conditions.

Consequently, in declining public consumption, retail businesses must be able to manage their commercial or business operations so that their businesses do not go bankrupt. One of the efforts to prevent financial difficulties in a commercial entity is to maintain optimum liquidity represented by the current ratio (CR). Referring to research conducted by Sudaryo et al. (2021), the optimal current ratio may lower the probability of financial distress. In addition, other factors can reduce the risk of financial distress, namely maintaining the number of liabilities on assets owned by the company, namely the debt-to-asset ratio (DAR). If a business entity can manage DAR properly, it will reduce the risk of financial distress (Marota et al., 2018).

Furthermore, profitability or return on assets (ROA) is one of the essential factors for financial distress. The risk of financial distress is higher if the company cannot generate revenue and profit (Silvia & Yulistina, 2022). As a result, the problem formulation in this study includes the following elements:

- Does the current ratio (CR) affect financial distress?
- Does the debt-to-asset ratio (DAR) affect financial distress?
- Does return on assets (ROA) moderate the impact of the current ratio (CR) on financial distress?
- Does return on assets (ROA) moderate the effect of debt-to-asset ratio (DAR) on financial distress?

In line with the formulation of the problem, this study aims to determine the determinant variables of financial distress based on the variables of current ratio, debt-to-asset ratio, and return on assets as moderating variables. Meanwhile, the implication of this research is to provide information and references for stakeholders, academics, and practitioners interested in analyzing financial distress to support decision-making and further research. The originality of this research is related to the research period, namely 2016 to 2021, and the industrial sector, namely the retail sector, which has a vital role in a country's economy.

2. Literature Review

The study's theoretical framework is agency theory because company sustainability is pertinent to this theory (Nugroho, Miglietta, et al., 2022; Sukarmi et al., 2022; Yusufa et al., 2022). Additionally, agency theory has implications for corporate sustainability due to the following concerns:

- Agency theory emphasizes the importance of appropriate supervision and incentives to encourage agents (managers) to act following the interests of the principal (owner). Through an effective supervisory structure, company owners can monitor managers' actions, encourage accountability, and ensure that managerial decisions are made with the long-term sustainability of the company in mind (Cuevas-Rodríguez et al., 2012).
- Agency theory also underlines the importance of the role of shareholders in overseeing and controlling the company's management. Shareholders act as principals and are interested in ensuring the company's sustainability and value. They can use board elections, voting, or dialogue with management to influence decisions and ensure effective management (Fayezi et al., 2012).
- The agency's theory points to clear contracts and agreements between managers and officers to govern their relationships. The contract includes work breakdown, performance objectives, incentives, and termination mechanisms. With a clear contract, the principal can ensure the agent has the appropriate incentives to act in the company's sustainable interests (Panda & Leepsa, 2017).

Therefore, by applying the principles of agency theory, companies can reduce conflicts of interest between principals and agents and encourage actions that support the company's long-term sustainability. In this case, good oversight, appropriate incentives, and effective communication between the grantor and the agent are essential keys to maintaining the sustainability and value of the business.

In addition, signaling theory relates to indicators of bankruptcy or financial distress in the context of providing information to stakeholders. Signaling theory states that actions or signals provided by companies can provide information to stakeholders about the company's condition and prospects. In the context of bankruptcy or financial distress, companies may give specific signals or signs that may indicate that they are facing financial problems or the risk of bankruptcy, such as (i) mass layoffs may signal that the company is facing significant financial difficulties or that they are undertaking internal restructuring to reduce costs. (ii) The company reduces or stops paying dividends to shareholders. This can signal that the company faces financial difficulties or wants to allocate resources more efficiently. (iii) A credit rating downgrade by a rating agency may signal that the company faces a higher risk of bankruptcy or that the rating agency believes the company is in financial distress.

In addition, the viability of the enterprise is closely related to financial distress because financial distress may become bankrupt or stop the continuity of the enterprise if it is not appropriately treated. Several causes of financial distress can lead to bankruptcy of the company:

- Financial distress is when a business faces financial hardship and cannot meet its financial obligations, such as paying debts or adequately managing cash flows. If financial distress is not addressed, it can increase the risk of bankruptcy (Lins et al., 2017).
- Financial distress is when a company faces financial difficulties and cannot fulfill its financial obligations, such as paying debts or managing cash flow properly. If financial distress is not addressed, it can increase the risk of bankruptcy (Almamy et al., 2016).
- Businesses in financial difficulty may have difficulty accessing funding sources to support their operations and growth. Financial institutions may be reluctant to provide loans or credit, and investors may be reluctant to inject capital into firms in financial difficulty (Widyanty and Oktasari, 2019).
- Severe financial difficulties can damage a company's reputation and affect the confidence of stakeholders, including employees, business partners, customers, and investors. Loss of trust can negatively impact business relationships, declining sales, and overall company performance (Kalra, 2010).

Altman Z-Score is a business indicator or tool for measuring financial distress (FD). Altman Z-Score is a model that predicts a company's potential insolvency status (Al-Manaseer & Al-Oshaibat, 2018). This model was developed by Edward Altman and designed to indicate the likelihood that the company may perish in a few years. There are several benefits of the Altman Z-Score, which include:

- The Altman Z-Score provides an early warning of a company's risk of bankruptcy. Using variables such as liquidity, profitability, solvency, efficiency, and market stability, the model can calculate a score indicating whether the company is in a financial condition vulnerable to bankruptcy.
- Investors or creditors can use Altman Z-Score to assist in making an investment or lending decisions. A low score indicates a higher risk of bankruptcy, while a high score indicates a more stable financial condition.
- Altman Z-Score can be useful for company management to identify and manage bankruptcy risk. By monitoring and accounting for changes in the components of the Z-Score, management can take appropriate action to improve the company's financial condition and avoid the risk of bankruptcy.
- The Altman Z-Score can compare a company's financial performance over time. By monitoring changes in the Z-Score score from period to period, management can identify trends or changes in the company's financial health and take appropriate action.

However, Altman Z-Score is not the only measurement tool in determining whether a company is in financial distress, so companies need to use other financial analysis methods. Companies must also consider other factors, such as industry trends, market conditions, and specific risks, to make effective and targeted decisions.

The current ratio (CR) is a ratio that measures a company's ability to pay its short-term, imminent liabilities. This ratio indicates a company's capacity to meet its short-term obligations with its current assets. Consequently, it is crucial for businesses to be aware of their current ratio to monitor and assess their ability to meet short-term obligations with current assets (Gul & Goodwin, 2010). However, the current ratio (CR) is one of the independent variables in this study; other independent variables include the debt-to-asset ratio (DAR). DAR is a ratio that indicates how much of a company's assets are financed by debt (Sunardi et al., 2020). This ratio is used to measure how much the company's ability to use debt to finance or finance the company's assets. According to Ancient et al. (2023) and Nasfi et al. (2022) stated if the results of the measurement of the debt-to-assets ratio indicate a high debt-to-assets ratio, the company will be unable to obtain new loans from creditors due to the possibility that it will be unable to pay its installments. In addition, the independent variable in this study is the ratio of return on assets (ROA) as a proxy for profitability. Profitability ratios include return on assets. ROA compares the company's profit level to the assets utilized to generate profits. The greater the return on assets, the greater the net income generated, thereby increasing the productivity of the company's assets (Badawi et al., 2023; Nugroho, Nugraha et al., 2022; Putri & Nugroho, 2023). The more productive a company's assets are, the greater its ability to maintain business continuity, acquire stakeholders' trust, and enhance its reputation.

2.1. Conceptual Research Framework

This study's conceptual approach framework refers to formulating the problem and assessing the literature. Furthermore, the conceptual paradigm for research can be depicted as follows:

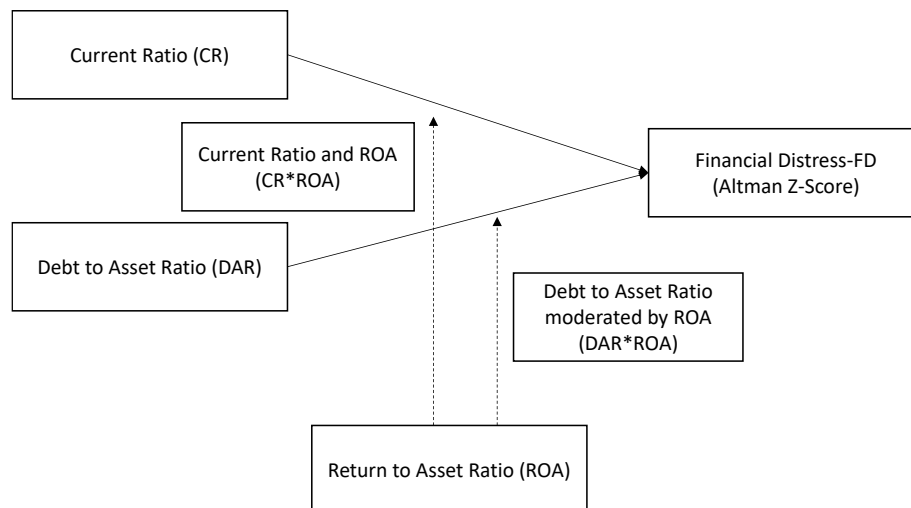


Figure 2. Conceptual Research Framework

2.2. Hypothesis Development

Following Figure 2, the establishment of hypotheses in this article consists of the following:

The current ratio (CR) affects financial distress.

The current ratio (CR) indicates the company's ability to meet its short-term obligations by using current assets. The higher the current ratio, the greater the company can pay off its short-term liabilities using its current assets (Pasaribu & Nugroho, 2023). Companies with high current ratios tend to be more resilient to sudden financial challenges, such as a drop in revenue or an unexpected increase in operating costs, giving companies more room to manage their liquidity needs without having to rely on expensive or risky external funding (Juniarti, 2013; Kazemian et al., 2017; Shabrina & Hadian, 2021). Therefore, the hypothesis in this study is:

H01: CR has no effect on financial distress.

Ha1: CR effect on financial distress.

Debt to asset ratio (DAR) affects financial distress.

Debt to Assets Ratio (DAR) is an essential financial ratio used to evaluate a company's capital structure. This ratio reflects the proportion of the company's total assets financed by debt or external funding. Further, companies with high DAR tend to have high levels of leverage, which means most of their assets are financed with debt, so in challenging economic conditions or when revenues fall, high levels of leverage can increase the risk of financial distress as the company may struggle to meet its debt repayment obligations. Therefore, the higher DAR will increase the company's risk due to the increase in the amount of liabilities that must be paid by the company (Andhani, 2019). However, the increase in liabilities paid will have an impact on high expenses, which will result in a decrease in the amount of revenue from the company (Dian Permata Sari et al., 2021). Thus, DAR has a significant influence on financial distress. Furthermore, therefore the hypotheses in this study area:

H02: DAR has no effect on financial distress.

Ha2: DAR effect on financial distress.

Return on assets (ROA) moderates the effect of CR on financial distress.

ROA reflects how effective a company is in generating profits from its assets. If ROA is high, the company has good financial management governance and efficiently uses assets to generate profits. Therefore, a high ROA can reduce the risk of financial distress caused by a low current ratio because the company can generate sufficient income to cover its financial obligations. Some previous studies

suggest that ROA can moderate the effect of current ratio (CR) on financial distress (Anistasya & Setyawan, 2022; Triliana & Sutrisno, 2023), so the hypothesis in this study is as follows:

H03: ROA has no moderation role in CR's relationship with financial distress.

Ha3: ROA has a moderation role in CR's relationship with financial distress.

Return on assets (ROA) moderates the effect of DAR on financial distress.

ROA measures how efficiently a company uses its total assets to generate profits. If the ROA is high, the company can generate greater profits from the assets owned. In this context, a high ROA can amplify the positive impact of DAR on a company's financial health, as the company can generate enough revenue to cover its debt obligations (Hanifah Martini & Setyawasih, 2022; Murni, 2018). Furthermore, the hypothesis of this study is:

H04: ROA has no moderation role in DAR's relationship with financial distress.

Ha4: ROA has a moderation role in DAR's relationship with financial distress.

3. Method

This form of research employs quantitative methodology. This study employs statistical methods to test hypotheses derived from established theories (Napitupulu et al., 2020; Oktris et al., 2022). The sampling mechanism in this study is shown in the table as follows:

Table 2. Research sample criteria

No	Criterion	Total
1	Listed retailers on the Indonesia Stock Exchange for the period 2016-2021	24
2	Retail trading company IPO in the research year period 2016-2021	(5)
	Number of Research Samples	19
	Year of Research	6
	The amount of research data used	114
	Company data categorized as healthy	(77)
	The amount of research data used	37

Furthermore, the statistical method used in this article to test the research hypothesis is moderating regression analysis. Therefore, the equations in this study include:

- The research's first equation modeling applies multiple regression analysis with the following equations:

$$FD = \alpha + \beta_1 CR + \beta_2 DAR + e \quad (1)$$

The description of the equation is:

FD: Financial distress (Altman Z-Score)

CR: Current ratio

DAR: Debt-to-asset ratio

- This research's second equation model applies multiple regression analysis techniques with the following equations:

$$FD = \alpha + \beta_1 CRROA + \beta_2 DARROA + e \quad (2)$$

The description of the equation is:

FD: Financial Distress

CRROA: Current ratio * Return on asset

DARROA: Debt-to-asset ratio * Return on asset

In addition, the operational variables in this study consist of:

- This research uses the Altman Z-score model. This prediction model is used to measure a company's financial distress (FD) condition. The Altman Z-score model used is as follows:

$$Z = 1,2 X_1 + 1,4 X_2 + 3,3 X_3 + 0,6 X_4 + 0,999 X_5$$

Remark:

X1 = working capital divided by total assets

X2 = retained earnings divided by total asset

X3 = earnings before interest and taxes divided by total assets

X4 = book value of equity divided by book value of total debt

X5 = net sales divided by total assets

- The current ratio (CR) is a ratio to measure the company's ability to meet its short-term debt using its current assets. The CR formula used is as follows:

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

- The debt-to-asset ratio (DAR) shows how much of the company's assets are funded by debt from creditors. The DAR formula used is as follows:

$$\frac{\text{Total Liabilities}}{\text{Total Assets}}$$

- Return on Assets (ROA) is a ratio used in analyzing the company's ability to manage its assets to generate profits. The ROA formula used is as follows:

$$\frac{\text{Net income}}{\text{Total Assets}}$$

4. Results and Discussions

4.1. Results

4.1.1. Descriptive Statistical Analysis

Descriptive statistical analysis is used to determine the description of data seen from the maximum, minimum, mean, and standard deviation values. In this study, the variables used in descriptive statistical calculations are Current Ratio (X1), Debt to Asset Ratio (X2), Return on Asset (Z), and Financial Distress (Y). Based on descriptive statistical analysis, the following sample picture is obtained:

Table 3. Descriptive Statistics Based on Variables

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
CR	37	.02	1.58	.5435	.40849
DAR	37	.58	60.99	10.6789	15.90483
ROA	37	-17.89	.16	-2.0049	4.33596
FD	37	-53.51	2.95	-11.1186	19.10250
Valid N (listwise)	37				

Source: processed data

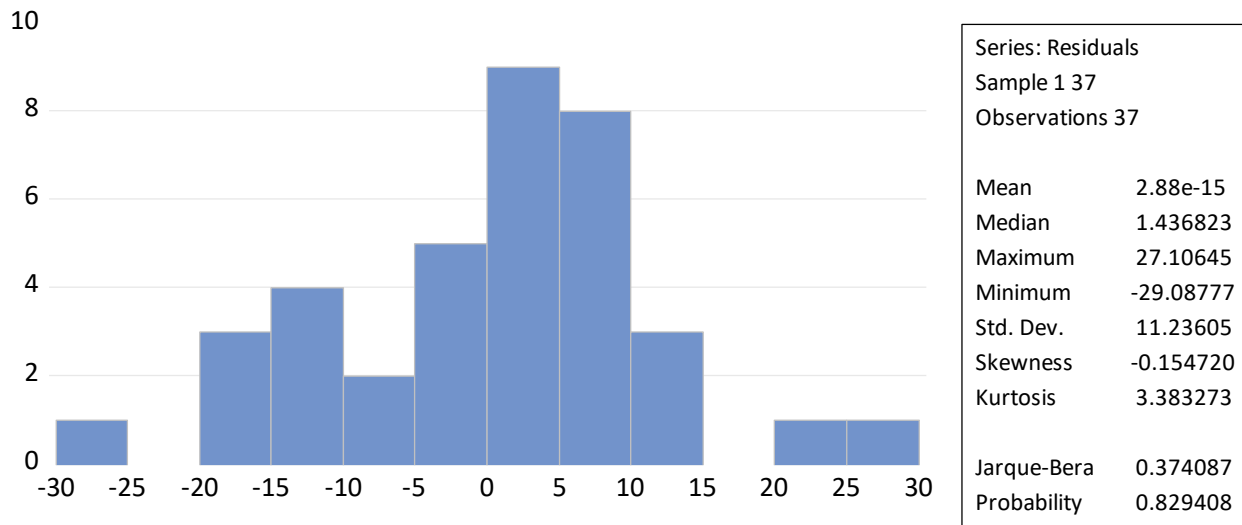
Based on Table 3 above, the average Current Ratio (X1) value during the study period was 0.5435, with the highest value of 1.58 and the lowest value of 0.02, while the standard deviation value was 0.40849. The average value of Debt to Asset Ratio (X2) during the study period was 10.6789, with the highest value of 60.99 and the lowest value of 0.58, while the standard deviation value was 15.90483. The average Return on Assets (Z) during the study period was -2.0049, with the highest value of 0.16 and the lowest value of -17.89, while the standard deviation value was 4.33596. The average Financial Distress (Y) during the study period was -11.11862, with the highest value of 2.95 and the lowest value of -53.51, while the standard deviation value was 19.10250.

4.1.2. Model I Test

4.1.2.1. Normality Test

This study's hypothesis testing model consists of two models: the normality test for model I against residuals using the Jarque-Bera test (J-B). In this study, the significance level used $\alpha=0.05$. The basis for decision-making is to look at the probability numbers from the J-B statistic, with the following conditions: (i) If the probability value $p \geq 0.05$, then the normality assumption is met. (ii). If the

probability < 0.05, then the normality assumption is not satisfied. The normality test results are shown in the figure below:



Source: Eviews 13 software processing results

Figure 3. Normality Test with Jarque-Fallow Test

Based on Figure 3, it is known that the probability value of the J-B statistic is 0.374, with a probability value of 0.829, which is more significant than the significance level of 0.05. It can be concluded that the normality assumption is fulfilled.

4.1.2.2 Multicollinearity Test

In this study, the symptoms of multicollinearity can be seen from the VIF value. Nugroho et al. (2023) state that if the VIF value > 10, this indicates multicollinearity. The results of the multicollinearity test are presented in Table 4 below:

Table 4. Multicollinearity Test

Variance Inflation Factors
Date: 01/28/24 Time: 11:20
Samples: 1 37
Included observations: 37

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	31.75576	8.789687	NA
CR	47.81161	6.057963	2.148610
DAR	0.031539	3.144138	2.148610

Source: Eviews 13 software processing results

According to Table 4 of the results of multicollinearity testing, it can be concluded that there are no symptoms of multicollinearity between independent variables because the value of Centered VIF is not more than 10.

4.1.2.3. Autocorrelation Test

Assumptions regarding independence from residuals (non-autocorrelation) can be tested using the Durbin-Watson test. The statistical values of the Durbin-Watson test range between 0 and 4. Statistical values of Durbin-Watson tests that are smaller than one or greater than 3 indicate autocorrelation, shown in the table below:

Table 5. Autocorrelation Test with Durbin-Watson Test

Log likelihood	-141.5016	Hannan-Quinn criter.	7.856943
F-statistic	32.13624	Durbin-Watson stat	1.092935
Prob(F-statistic)	0.000000		

Source: *Eviews 13* software processing results

Based on Table 5, the value of the Durbin-Watson statistic is, because the value of the Durbin-Watson statistic lies between 1 and 3, namely $1 < 1.09 < 3$, the non-autocorrelation assumption is fulfilled so that there are no symptoms of high autocorrelation in residuals.

4.1.2.4. Heteroscedasticity Test

The Breusch-Pagan test can be used to test whether heteroscedasticity occurs. Table 6 presents the results of heteroscedasticity testing using the Breusch-Pagan test below:

Table 6. Heteroscedasticity Test with Glacier Test

Test Equation:

Dependent Variable: ARESID

Method: Least Squares

Samples: 1 37

Included observations: 37

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.576463	2.851587	3.358292	0.0019
CR	-4.295726	3.498985	-1.227706	0.2280
DAR	0.145627	0.089867	1.620478	0.1144

Source: *Eviews 13* software processing results

Based on the results of the Glejser test in Table 6, it is known that the value of Prob. for CR and DAR variables > 0.05 , which means no heteroscedasticity occurs

4.1.2.5. Model I Hypothesis Test

A coefficient of determination analysis and partial influence testing (t-test) will be carried out to test the hypothesis of model I. The statistical values of the coefficient of determination, the F test, and the t-test are presented in the table below

Table 7. Statistical values of the Coefficient of Determination and the t-test

Dependent Variable: FD

Method: Least Squares

Date: 01/28/24 Time: 11:17 AM

Samples: 1 37

Included observations: 37

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-20.21502	5.635225	-3.587260	0.0010
CR	24.70516	6.914594	3.572901	0.0011
DAR	-0.405586	0.177592	-2.283805	0.0288

R-squared	0.654023	Mean dependent var	-11.11865
Adjusted R-squared	0.633672	S.D. dependent var	19.10250
S.E. of regression	11.56180	Akaike info criterion	7.810895
Sum squared resid	4544.957	Schwarz criterion	7.941510
Log likelihood	-141.5016	Hannan-Quinn criter.	7.856943
F-statistic	32.13624	Durbin-Watson stat	1.092935
Prob(F-statistic)	0.000000		

Source: *Eviews 13* software processing results

Following Table 7 above, it can be described as follows:

- The multiple linear regression equation in the model I is:

$$FD = -20.21 + 24.70CR - 0.40DAR + e \tag{3}$$
- The coefficient of determination is known to be Adjusted R²=0.63367. This value can be interpreted as the Current Ratio (X1) and Debt-to-asset-ratio (X2) simultaneously having a significant effect on the Financial Distress (Y) variable of 63.37%, and other factors influence the remaining 36.63%.
- In addition, referring to Table 7 above, the hypothesis test results of each independent variable versus the dependent variable, a partial hypothesis or t-test, are presented as the summary result of testing the hypothesis partially with the decision criteria that H0 is rejected if the value of sig. less than 0.05:

Table 8. Partial Hypothesis Test (Model I)

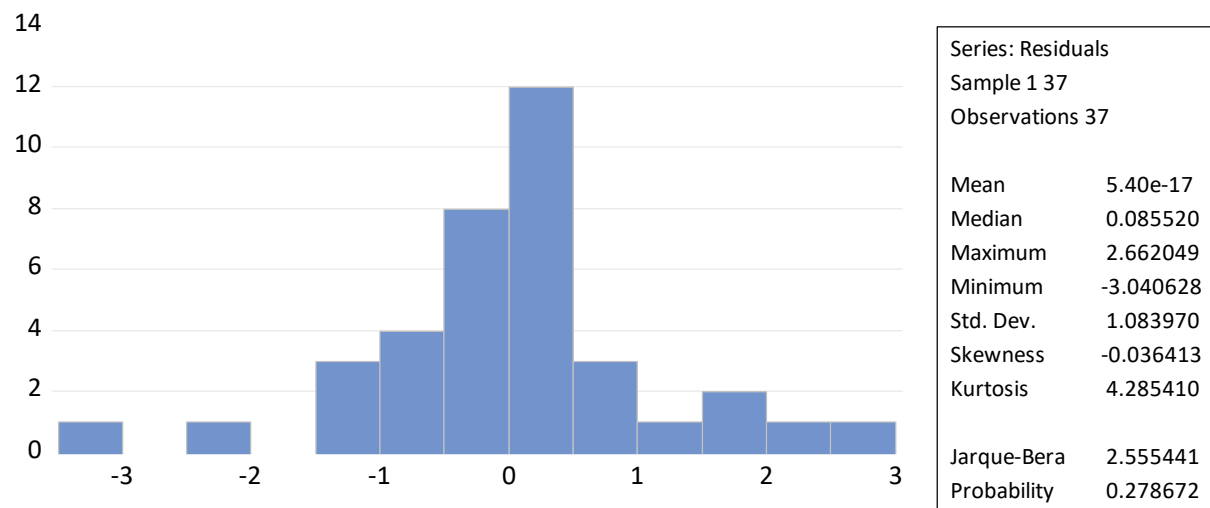
Hypothesis	Sig.	Decision
CR → FD	0.0011	Reject H01
DAR → FD	0.0288	Reject H02

Under the statistical results in Tables 7 and 8, the current ratio (CR) can potentially positively and significantly affect financial distress. Furthermore, debt to asset ratio (DAR) has the potential to have a negative and significant effect on financial distress.

4.1.3. Model II Test

4.1.3.1. Normality Test

Classical Assumption Test testing in Model II only uses the Normality Test, and this is because Model two uses Moderated Regression Analysis (MRA) data analysis techniques. In this study, the hypothesis testing model consists of two models. The normality test for model II against residuals uses the Jarque-Bera test (J-B). In this study, the significance level used $\alpha=0.05$. The basis for decision-making is to look at the probability numbers from the J-B statistic, with the following conditions: (i) If the probability value $p \geq 0.05$, then the normality assumption is met. (ii) If the probability < 0.05 , then the normality assumption is not satisfied. The normality test in model II is shown in the figure below:



Source: *Eviews 13* software processing results

Figure 4. Normality Test with Jarque-Fallow Test

Under Figure 4, it is known that the probability value of the J-B statistic is 2.555 with a probability value of 0.278, more significant than the significance level of 0.05, so it can be concluded that the assumption of normality is fulfilled.

4.1.3.2. Model II Hypothesis Test

In testing hypothesis model II using Moderated Regression Analysis (MRA), the interaction is tested by multiplying the independent variable by the moderating variable, the stages to be carried out, the coefficient of determination analysis, and partial influence testing (t-test). The statistical values of the coefficient of determination and the t-test are presented in Table 9 below:

Table 9. Statistical values of the Coefficient of Determination and the t-test

Dependent Variable: FD
Method: Least Squares
Samples: 1 37
Included observations: 37

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.888912	0.218497	4.068299	0.0003
CAR*ROA	-1.537660	0.385989	-3.983694	0.0003
DAR*ROA	-0.008332	0.001886	-4.418295	0.0001
R-squared	0.508913	Mean dependent var		1.582783
Adjusted R-squared	0.480026	S.D. dependent var		1.546815
S.E. of regression	1.115396	Akaike info criterion		3.133901
Sum squared resid	42.29969	Schwarz criterion		3.264516
Log likelihood	-54.97717	Hannan-Quinn criter.		3.179949
F-statistic	17.61712	Durbin-Watson stat		1.088217
Prob(F-statistic)	0.000006			

Source: *Eviews 13* software processing results

Following Table 9 above, it can be described as follows:

- The multiple linear regression equation in model II is:

$$FD = 0.888 - 1.537CRROA - 0.008DARROA + e \quad (4)$$
- Based on Table 9, it is known that the value of the coefficient of determination is Adjusted $R^2 = 0.4800$. This value can be interpreted as the interaction of Current Ratio (X1) and Debt to Asset Ratio (X2) with Return on Asset (Z) simultaneously has a significant effect on the Financial Distress (Y) variable of 48%, other factors influence the remaining 52%.
- In addition, in Table 9 above, the hypothesis test results of each independent variable versus the dependent variable, a partial hypothesis or t-test, are presented as the summary result of testing the hypothesis partially with the decision criteria that H_0 is rejected if the value of sig. less than 0.05:

Table 10. Partial Hypothesis Test (Model I)

Hypothesis	Sig.	Decision
CRROA → FD	0.0003	Reject H03
DARROA → FD	0.0001	Reject H04

Following the statistical results in Tables 9 and 10, the return on assets (ROA) has the potential to moderate the current ratio (CR) relationship, which can potentially have a negative and significant effect on financial distress. Furthermore, return on assets also moderates the debt-to-asset ratio (DAR) relationship, which can potentially have a negative and significant effect on financial distress.

4.2. Discussion

4.2.1. Current ratio (CR) affects financial distress.

Based on statistical results, it is known that in this study, the current ratio (CR) in retail companies from 2016 to 2021 has the potential to affect financial distress (FD) positively and significantly. This shows that the higher the CR value, the higher the likelihood of financial distress. Therefore, managers of companies in the retail sector need to pay close attention to their CR levels and understand that having a high CR does not always guarantee the company's financial health. There are several possibilities why a high CR has a positive and significant impact on FD because (i) Relatively high current assets can have a negative impact on the company if these assets are unproductive or cannot be converted into cash flow quickly so that a high current ratio is not practical in protecting the company from financial stress or payment of obligations in the short term, For example, if most current assets are tied up in unsold inventory or uncollectible receivables quickly. (ii) High CR levels may also be due to a high reliance on short-term credit, which increases financial risk when creditors demand payment. This is in line with previous research conducted by Septyanto et al. (2022)

4.2.2. Debt to asset ratio (DAR) affects financial distress.

In addition, from the data processing results in this study, it is known that the debt-to-asset ratio (DAR) has the potential to positively and significantly affect financial distress (FD) in retail companies from 2016 to 2021. There are several reasons why DAR has a negative and significant impact on FD: (i) The findings suggest that the retail firms in the study can manage their debt well. This could include choosing suitable funding sources, efficient debt management, and disciplined repayment policies. Thus, despite relatively high debt levels, the companies could maintain a good balance between using debt for growth and the ability to repay the debt. (ii) In addition, the results of this study show that the retail firms managed to generate enough revenue to cover their debt installment payments, which reflects success in business strategy, sales improvement, inventory management, and other risk management furthermore, the results of this study are also in line with previous research conducted by Ayoush et al. (2021), and Öhman (2015) which states that good debt management can improve company performance so that it has the potential to reduce the potential for corporate bankruptcy and debt financing increases the pressure on managers, encouraging them to perform more efficiently, which can contribute to improved company performance and reduced financial distress

4.2.3. Return on assets (ROA) moderates the effect of CR on financial distress.

Following the results of data processing in research on retail companies for the period 2016 to 2021, it is known that the variable return on assets (ROA) as a moderation variable can weaken the influence of the current ratio (CR) on financial distress (FD) where in model I it is known that CR has a positive and significant effect on FD where in model II with ROA as a moderation variable, the influence of CR on FD becomes negative and significant. A high ROA indicates that the company efficiently uses its assets to generate profits. Thus, when ROA is high, the positive influence of CR on FD can be negatively moderated by high ROA, as the company can generate greater profits from its assets even with low levels of liquidity. In addition, a high ROA also reflects the company's ability to generate sufficient cash flow to repay its debts. In contrast, a high ROA can strengthen the company's ability to cope with potential financial stress due to high CR levels.

4.2.4. Return on assets (ROA) moderates the effect of DAR on financial distress.

The results of research on retail companies in Indonesia in the period 2016 to 2021 show that return on assets (ROA) as a moderation variable weakens the effect of debt to asset ratio (DAR) on financial stress (FD) negatively and significantly. This shows that a high ROA reflects the company's efficiency in using its assets to generate profits. In contrast, companies with a high ROA are better able to generate enough revenue to cover their financial obligations to reduce the negative impact of high debt levels (DAR) on the risk of financial distress.

5. Conclusion

Based on the formulation of the problem, the results, and discussion of the research, it can be concluded as follows:

- The current ratio has a significant and positive impact on financial distress.
- Debt to asset ratio has a significant and negative impact on financial distress.
- ROA, as a moderating variable, weakens the effect of the current ratio (CR) on financial distress.
- ROA as a moderating variable weakens the effect of debt-to-asset ratio (DAR) on financial distress.

Therefore, suggestions that can be given based on the findings in this study are:

- Company management needs to pay attention and keep the current ratio high because this ratio positively influences the reduction of the risk of financial distress.
- Management also needs to pay attention to the debt-to-asset ratio to keep it low because this ratio negatively influences financial distress.
- In managing the risk of financial distress, management should consider ROA as a moderating variable. This means that ROA can moderate the effect of the current ratio and debt-to-asset ratio on financial distress, so understanding the impact of ROA is very important in making financial decisions.

In addition, for future research, besides internal company variables, future research can consider the influence of external factors such as government regulations, fiscal policy, or overall market conditions on the level of financial distress.

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ETİK VE BİLİMSEL İLKELER SORUMLULUK BEYANI

Bu çalışmanın tüm hazırlanma süreçlerinde etik kurallara ve bilimsel atıf gösterme ilkelerine riayet edildiğini yazar beyan eder. Bu çalışma etik kurul izni gerektiren çalışma grubunda yer almamaktadır.

ARAŞTIRMACILARIN MAKALEYE KATKI ORANI BEYANI

1. Yazar Katkı Oranı : %50

2. Yazar Katkı Oranı : %25

3. Yazar Katkı Oranı : %25