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Department of Sharia Management and Business,
Faculty of Economics and Islamic Business, Universitas Islam Negeri Madura

The Influence of Profitability, Liquidity and Sales Volume on Financial Distress in Retail Companies Listed on the IDX

Masruroh[1], Anni Muslimah Purnamawati[2]

[1,2]Faculty of Islamic Economics and Business, Universitas Islam Negeri Madura, Indonesia

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Corresponding author:
Masruroh
masruroh@iainmadura.ac.id

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Abstract

Purpose – This study aims to analyze the influence of profitability, liquidity, and sales volume on financial distress in retail companies listed on the Indonesia Stock Exchange (IDX).
Methodology – This study uses a quantitative approach with multiple linear regression analysis. Secondary data were obtained from the annual financial reports of retail companies listed on the Indonesia Stock Exchange. Data testing included classical assumption tests (normality, autocorrelation, heteroscedasticity, and multicollinearity) as well as partial tests (t-test) and simultaneous tests (F-test). The regression model was declared feasible because it met all classical assumptions.
Findings – The results of the study indicate that profitability has a negative and significant effect on financial distress. Conversely, liquidity and sales volume do not significantly influence financial distress. However, simultaneously, profitability, liquidity, and sales volume do not significantly influence financial distress.
Implications – Practically, the results of this study emphasize the importance of profitability as a key indicator in assessing bankruptcy risk in the retail sector. Management needs to focus strategies on improving asset efficiency and controlling costs to strengthen financial performance. For investors and creditors, profitability ratios can serve as a primary benchmark in assessing the financial health of retail companies.
Originality – The lack of involvement of sales volume variables in previous studies is one of the limitations that needs to be improved in research related to financial distress.

Introduction

The retail industry is a sector that significantly contributes to economic growth in various countries, including Indonesia. This sector plays a role as a driver of consumer consumption activity, reflecting national purchasing power. Globally, the retail industry is facing a major transformation driven by digitalization and shifting consumer behavior, leading to an increasing reliance on technology. These changes demonstrate that the dynamics of the retail sector are determined not only by operational efficiency but also by the ability to adapt to changing consumer preferences.

In Indonesia, the retail sector has long been the backbone of the national economy due to its extensive value chain and ability to absorb a large workforce. According to data from the Central Statistics Agency (2024), the wholesale and retail trade subsector contributed approximately 13.5% to the national Gross Domestic Product (GDP). This makes retail companies one of the highest

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contributors to the non-oil and gas sector. However, over the past five years, the growth of this retail sector has tended to fluctuate due to various factors, such as inflationary pressures, rising operational costs, and changes in people's lifestyles, which have shifted to online shopping. This phenomenon indicates that while the retail sector has significant potential, it also faces structural risks that could disrupt its financial stability.

The COVID-19 pandemic, which began in 2020, has been a major turning point for the retail industry in Indonesia. Restrictions on public mobility, shopping center closures, and shifts in consumption priorities have led to a significant decline in retail companies' operating income. Although the sector is beginning to show signs of recovery in 2022–2024, the structural impact on financial performance remains. In fact, many companies are still struggling to restore profitability and maintain liquidity to survive amidst economic uncertainty.

One of the most prominent post-pandemic phenomena is the shift in consumer behavior, with consumers now favoring online shopping over in-store visits. This shift in preference is undoubtedly driven by the ease of access, product variety, and time efficiency offered by digital platforms. However, for retail companies, this shift presents a significant challenge, as it can lead to a decline in in-store sales volume. One strategic step companies can take is to adapt to changing consumer behavior.

This shift in consumer behavior has also impacted the financial performance of retail companies in the Indonesian capital market. According to a Tempo report (2023), PT Matahari Department Store Tbk (LPPF) is known to have closed 13 of its stores in 2021. In 2021, PT HERO even posted a net loss of IDR 170 billion before closing several stores for operational efficiency (CNBC Indonesia, 2021). This indicates that pressures on profitability and liquidity could increase the potential for financial distress in the retail industry.

Financial distress is a condition in which a company is unable to meet its financial obligations within a specified timeframe (Platt & Platt, 2002). This condition often leads to bankruptcy if not promptly addressed with appropriate strategies. In the capital market context, financial distress can be identified through several indicators, such as declining profitability, unstable cash flow, and an increasing debt-to-equity ratio. Empirical research shows that companies experiencing financial distress tend to lose the trust of investors and creditors, which can ultimately lower their stock market value.

One of the main factors influencing the possibility of financial distress is profitability. Profitability reflects a company's ability to generate profits from its resources. Ratios such as Return on Assets (ROA) and Return on Equity (ROE) are often used to measure management's effectiveness in utilizing assets and capital to generate profits (Brigham & Houston, 2019). When profitability declines, a company's ability to cover its operational costs and financial obligations also weakens, so that it can increase the potential of financial distress. In the competitive retail industry, maintaining profitability is a challenge due to pricing pressures and changing consumer preferences.

Besides profitability, liquidity is also a crucial indicator in assessing a company's financial health. Liquidity reflects a company's ability to fulfill its short-term obligations using current assets (Kasmir, 2020). Ratios such as the current ratio and quick ratio are often used to measure a company's liquidity. According to the IDX's annual report (2024), during the 2020-2024 period, 9.7% of retail companies were found to have liquidity ratios below the ideal standard of 2.0, and 19.4% were in the "grey area." These conditions indicate potential problems in cash and working capital management, which could increase the risk of financial distress if not addressed promptly.

Another factor that can affect a retail company's financial condition is sales volume. Sales volume reflects the level of market demand for a company's products or services. In the retail business context, a decline in sales volume not only results in decreased revenue but also impacts profitability and the company's ability to maintain liquidity (Hery, 2015). Maintaining stable sales volume is key to maintaining financial performance amidst intense competition among retail companies.

Changes in consumer behavior can lead to a decline in sales volume at physical stores. This is due to the shift in transactions to digital platforms such as Tokopedia, Shopee, and Lazada.

Consequently, retail companies that fail to adapt to these changes experience cash flow pressures and a sustained decline in profitability. This phenomenon reinforces the importance of research into how financial variables such as profitability, liquidity, and sales volume influence the risk of financial distress in the retail sector.

Empirically, various previous studies have discussed the factors influencing financial distress, but most have focused on the manufacturing and property sectors. For example, research by (Natalia et al., 2025), showed that profitability had a negative and significant effect on financial distress in manufacturing companies listed on the Indonesia Stock Exchange. These results indicate that the higher a company's profit-generating ability, the lower its possibility of experiencing financial distress. However, these findings may not necessarily apply directly to the retail sector, which has different cash turnover and profit margin characteristics.

Another study by Natalia et al., (2025) found that liquidity significantly influenced financial distress in manufacturing companies listed on the Indonesia Stock Exchange (IDX). This finding suggests that the ability to maintain liquidity is a determining factor in maintaining financial stability. However, in contrast to this finding, Savitri & Nursiam (2024) found that liquidity had no significant effect on financial distress in manufacturing companies in the food and beverage subsector. This difference in results suggests that the relationship between financial variables can vary depending on the industry sector and the surrounding macroeconomic conditions.

Sales volume has also begun to receive attention in financial studies due to its perceived indirect relationship to distress. (Cahyono & Hidayanti, 2024) examined the effect of declining sales volume on financial distress in Property, Real Estate and Construction companies during the pandemic and found that a significant decline in sales can increase the risk of distress. However, this study was limited to the 2020–2021 period and therefore does not reflect the post-pandemic situation, which saw a relatively rapid economic recovery and digital adaptation. Therefore, new research with a longer timeframe is needed to obtain more comprehensive results.

Furthermore, most previous studies have used predictive modeling approaches such as the Altman Z-score without considering market behavioral factors that influence a company's financial condition. Changes in consumer behavior toward digitalization and online shopping preferences significantly impact the revenue structure of retail companies. The omission of sales volume variables in previous studies is a limitation that needs to be addressed in further research. This underscores the importance of more contextual empirical studies of the retail industry in Indonesia.

In the capital market context, financial distress can also influence investor perceptions of retail companies. Declining financial performance is often followed by falling stock prices because investors perceive increased investment risks. A study by Toyibah & Ruhiyat (2023) showed that companies with low profitability ratios tend to experience significant declines in stock value over the long term. Therefore, an in-depth analysis of the relationship between profitability, liquidity, sales volume, and financial distress is highly relevant to understanding the stability of the retail sector in the Indonesian capital market.

To survive in an increasingly competitive environment, retail companies must also face the challenges of digital adaptation. The emergence of e-commerce platforms has fundamentally changed the way consumers interact with brands and products. Companies risk losing customers and revenue if they fail to integrate digital strategies into their operations. Given the significant role of the retail sector in the national economy and the high financial risks it faces, researchers believe it is crucial to empirically identify the key factors influencing financial distress. Profitability, liquidity, and sales volume are financial variables that can provide a comprehensive picture of a company's financial health. By understanding the influence of these three variables, management can design risk mitigation strategies to avoid distress conditions that could potentially lead to bankruptcy.

Based on the above description, this research is crucial to address the gap in empirical studies on the factors causing financial distress, particularly in the Indonesian retail sector. Using a quantitative approach using financial data from 2020–2024, this study will systematically examine how profitability, liquidity, and sales volume influence financial distress. The research findings are

expected to provide theoretical benefits for the development of financial science and practical benefits for retail companies in formulating more adaptive and sustainable financial strategies.

Literature Review

Theoretical analysis is an essential part of research, serving as a basis for explaining the relationships between the variables being studied. Through theory, researchers can provide scientific explanations of observed phenomena and bridge empirical findings with relevant conceptual frameworks (Sugiyono & Lestari, 2021). In this study, the theories used to underlie the relationship between profitability, liquidity, and sales volume with financial distress are Signaling Theory and Agency Theory. These two theories were chosen because they explain how financial information released by management serves as a signal to investors and how agency relationships can influence managerial decisions that impact a company's financial condition. Companies operating in the retail sector are dynamic, where changes in consumer behavior significantly impact sales performance and cash flow. Therefore, a theoretical understanding of the factors influencing financial distress is crucial because it can help management anticipate risks and maintain financial stability amidst rapid market changes.

Signaling Theory

Signaling Theory explains that company management (the signal sender) provides information to the market (the signal receiver) through financial reports to indicate the company's performance and prospects (Spence Michael, 1973). In a financial context, these signals can be manifested in the form of financial ratios such as profitability, liquidity, and sales volume, all of which can reflect a company's financial health (Brigham & Houston, 2019). This theory assumes that information asymmetry between management and investors can make it difficult for the market to assess the company's actual condition. Therefore, financial reports are a crucial communication medium for companies. If a company provides positive signals, such as increasing profits and the ability to meet its short-term obligations, the market will perceive the company as healthy. Conversely, a decrease in profitability or liquidity can be a negative signal for a company because it indicates potential financial distress (Ross et al., 2003). In this study, Signaling Theory explains that profitability, liquidity, and sales volume ratios are signals that can reflect the financial condition of retail companies in Indonesia. Negative changes in any of these ratios can be interpreted as an early indication of financial distress that needs to be anticipated by management and investors.

Agency Theory

Agency theory emphasizes the relationship between capital owners (principals) and managers (agents) (Jensen & Meckling, 1976). In practice, these two parties have conflicting interests, with managers not always acting in the best interests of the capital owners. This information imbalance and conflict of interest are known as the agency problem. In such situations, company managers may make decisions that further their own interests in the short term, such as delaying debt payments, increasing sales through significant discounts, or manipulating financial statements to appear stable. In the long term, these decisions can lead to risks such as decreased profitability, decreased liquidity, and ultimately triggering financial distress (Ross et al., 2003). Agency theory also explains that external oversight from investors and creditors is crucial to reduce opportunistic managerial behavior. Therefore, company financial variables that reflect efficiency and transparency, such as profitability and liquidity, can be used to assess whether a company is in distress or not.

Financial Distress

Financial distress is a condition in which a company experiences financial difficulties characterized by an inability to fulfill its short-term and long-term obligations (Altman et al., 2019). This condition does not necessarily mean bankruptcy, but it is an early indication of insolvency if not addressed promptly. According to Platt & Platt (2002), distress can be identified through declining profits, increasing debt, negative cash flow, and consistently declining financial ratios. In the

context of retail companies, distress often arises from declining consumer purchasing power, changes in consumer behavior, and competitive pressures from e-commerce platforms. Data from the Indonesia Stock Exchange (IDX, 2024) shows that as many as 62% of retail companies experienced declining profits. Therefore, financial distress analysis is important to determine the extent to which internal factors such as profitability, liquidity, and sales volume can affect a company's financial stability.

Profitability

Profitability is defined as a company's ability to generate profits during a specific period (Brigham & Houston, 2019). This ratio can reflect management's efficiency in managing assets, capital, and other resources to generate profits. According to Hery (2020), ratios frequently used to measure profitability are Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The higher a company's profitability, the better its financial performance and the lower its likelihood of experiencing distress. According to Signaling Theory, high profitability is a positive signal to investors that the company has good prospects. Conversely, low profitability is a negative signal, indicating a potential decline in cash flow and an increased risk of distress (Ross et al., 2003). Within the context of Agency Theory, profitability also reflects the extent to which managers are successful in efficiently managing assets for the benefit of shareholders.

Liquidity

Liquidity is a company's ability to fulfill its short-term obligations using its current assets (Ross et al., 2003). Common ratios used to measure liquidity include the Current Ratio (CR) and the Quick Ratio (QR). A high ratio indicates a company's ability to maintain cash flow and minimize the risk of default. According to Signaling Theory (Jensen, 2001), liquidity signals a company's short-term financial strength to external parties. Companies with high liquidity are considered more resilient to market pressures. According to Agency Theory, liquidity also reflects managers' ability to efficiently manage current assets to protect shareholder interests (Jensen, 2001).

Sales Volume

Sales volume is the total number of products or services sold within a specific period (Hery, 2020). This indicator reflects a company's operational performance and the success of its marketing strategy. In the retail sector, sales volume is heavily influenced by consumer purchasing power, market trends, and the effectiveness of distribution strategies. Signaling Theory states that an increase in sales volume sends a positive signal to the market that a company's products are in high demand. Conversely, a decrease in sales volume can be a negative signal, indicating a decline in competitiveness or changes in consumer behavior (Ross et al., 2003). Agency Theory also reflects management's ability to implement efficient sales policies without harming the interests of shareholders.

The Relationship Between Profitability and Financial Distress

Profitability has a negative relationship with financial distress. Companies with high profitability tend to have positive cash flow that can be used to fulfill their financial obligations and make productive investments. Conversely, low profitability reduces a company's ability to cover interest expenses and operating costs, which can trigger distress (Altman et al., 2019). Research conducted by (Cahyono & Hidayanti, 2024; ElBannan, 2021; Fatimah & Sutanti, 2025; Marginingsih et al., 2024) shows that profitability has a significant negative effect on financial distress in companies. This condition proves that profitability is a key indicator of a company's financial health. Therefore, the higher a company's profitability, the lower the likelihood of experiencing financial distress because the resulting profit can act as a buffer against economic uncertainty and market changes.

Hypothesis 1 (H1): Profitability has a negative effect on financial distress in retail companies listed on the Indonesia Stock Exchange for the 2020–2024 period.

The Relationship between Liquidity and Financial Distress

Liquidity is also negatively related to financial distress. High liquidity allows a company to pay its obligations on time and avoid the risk of default. Conversely, low liquidity makes it difficult for a company to fulfill its financial obligations, which can then trigger distress (Beaver et al., 2020). Research conducted by (Fatimah & Sutanti, 2025) showed that a decline in the current ratio significantly increased the risk of distress in Retail Subsector companies in Indonesia before the COVID-19 pandemic. These results are supported by the findings of (Marginingsih et al., 2024), who emphasized that liquidity serves as a primary safeguard against corporate bankruptcy. Agency theory suggests that managers responsible for healthy cash flow will be able to maintain company stability and mitigate potential conflicts with capital owners. Therefore, maintaining liquidity is a crucial strategy to avoid distress, especially in sectors vulnerable to changes in consumer behavior, such as the retail industry..

Hypothesis 2 (H2): Liquidity has a negative effect on financial distress in retail companies listed on the Indonesia Stock Exchange for the 2020–2024 period.

Relationship between Sales Volume and Financial Distress

Sales volume has a negative relationship with financial distress. When sales increase, a company will generate sufficient revenue to cover operating costs and increase profits, thereby reducing the risk of distress. Conversely, a decrease in sales volume will depress revenue and reduce the company's ability to fulfill its financial obligations (Saputra et al., 2025). The phenomenon of changing consumer behavior toward online shopping strengthens the relationship between sales volume and financial distress. Indonesian consumers now prefer online shopping to visiting physical stores. Retail companies that fail to adapt to this shift in consumer behavior are likely to experience a decline in sales volume, which directly impacts profitability and the risk of distress. Research conducted by Cahyono & Hidayanti (2024), also found that a significant decline in sales volume can increase the risk of distress. This condition reflects the importance of digital innovation and adaptive marketing strategies in maintaining financial stability. Therefore, sales volume can be used as a key indicator in predicting the possibility of financial distress, particularly in the retail sector.

Hypothesis 3 (H3): Sales volume has a negative effect on financial distress in retail companies listed on the Indonesia Stock Exchange for the 2020–2024 period.

Research Methods

This study uses a quantitative approach to analyze the influence of profitability, liquidity, and sales volume on financial distress in retail companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. This approach was chosen because it is considered capable of objectively measuring the relationship between variables through numerical data analyzed using statistical techniques (Sugiyono & Lestari, 2021). The study population includes all retail sector companies consistently listed on the IDX. The sampling technique used purposive sampling with the criteria of companies that published complete financial reports and were not delisted during the study period. The type of data used is secondary data obtained from annual financial reports and downloaded from the official IDX website (www.idx.co.id).

The variables in this study consist of one dependent variable, namely financial distress (Y), and three independent variables, namely profitability (X_1), liquidity (X_2), and sales volume (X_3). Financial distress is measured using the Altman Z-Score, profitability is measured by Return on Assets (ROA), liquidity is measured by the Current Ratio (CR), and sales volume is measured by the sales growth ratio between periods, which reflects the level of increase or decrease in sales from the previous year. This ratio is considered important because it can illustrate the impact of changes in consumer behavior, which now prefer online shopping, on company revenue.

The data collection technique used documentation, namely collecting and recording financial data from the company's annual report. The collected data was then processed using statistical software such as SPSS. Before conducting the regression analysis, the data was tested using the classical assumption test to ensure the model met the BLUE (Best Linear Unbiased

Estimator) criteria. The classical assumption test included a normality test to ensure the residual data were normally distributed, a multicollinearity test to see the relationship between independent variables (VIF <10), a heteroscedasticity test to ensure there was no non-constant residual variance, and an autocorrelation test using the Durbin-Watson (DW) value.

The analysis model used is multiple linear regression, which is formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

with Y = *Financial Distress*
X_1 = Profitability
X_2 = Liquidity
X_3 = Sales Volume
a = Constant
e = Error
β = Regression Coefficient

Regression analysis was conducted to determine the effect of independent variables on the dependent variable, both partially and simultaneously. The t-test (partial) was used to determine the effect of each independent variable on financial distress, while the F-test (simultaneous) was used to examine the effect of all three independent variables simultaneously. If the significance value is <0.05, the effect is considered significant.

Next, a coefficient of determination (R^2) test was conducted to determine how much variation in financial distress can be explained by the variables of profitability, liquidity, and sales volume. A high R^2 value indicates a stronger model's ability to explain the phenomenon. Based on this research model, it is assumed that profitability, liquidity, and sales volume have a negative relationship with financial distress, meaning that increasing these three variables will reduce the risk of financial distress. Therefore, the results of this study are expected to provide empirical evidence for the development of financial science and provide practical considerations for retail companies in maintaining their financial stability amid changing consumer spending trends and modern business competition.

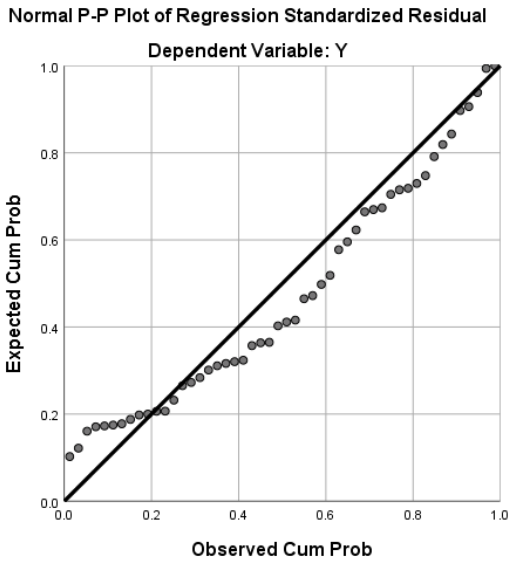
Results and Discussion

Results

The results of the classical assumption test are presented as follows:

(1) The normality test for residual data shows that the data is normally distributed because the Asymp. Sig. (2-tailed) value is greater than 0.05. This is also supported by the histogram graph and Normal P-P Plot which show the data distribution follows a diagonal line, indicating no significant deviation from the normal distribution. (see Figure 1);

Figure 1. Normality Test

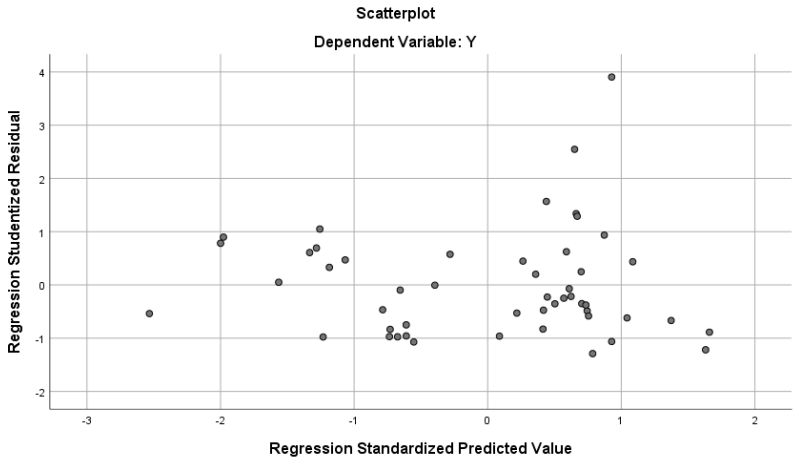


Sumber:SPSS (data diolah)

(2) The Durbin-Watson (DW) value is 1.716, with dL = 1.624 and dU = 1.741, so it can be concluded that there is no positive or negative autocorrelation;

(3) The results of the Scatterplot and P–P Plot graphs in the SPSS output show that the residual points are spread randomly around the horizontal line (Y axis = 0) and do not form a particular pattern. This distribution pattern indicates that the residual variance is constant (homoscedastic). Thus, it can be concluded that there are no symptoms of heteroscedasticity in the regression model. (see Figure 2);

Figure 2. Heteroscedasticity Test



Source:SPSS (data processed)

(4) The VIF value is less than 10, so the regression model is declared free from multicollinearity (see Table 1).

Table 1. Homoscedasticity and Multicollinearity Test Results

Variabel	Sig.	VIF
ROA	0.996	1.004
CR	0.996	1.004
VP	0.999	1. 001

Overall, the regression model used is considered good and fulfill the ideal criteria.

Based on the results of the regression test using the SPSS program, the R value was obtained at 0.243, R Square at 0.059, Adjusted R Square at 0.031, F at 2.119 with a significance of 0.102. The R value indicates a weak relationship between the independent variables and the dependent variable, while the low R Square value indicates that only a small portion of the variation in financial distress can be explained by the three independent variables. The remainder is influenced by other factors not examined such as leverage, asset growth, and macroeconomic conditions.

The Adjusted R Square value of 0.031 indicates that this regression model is only able to explain 3.1% of the variation in financial distress that occurs in retail companies. In other words, approximately 96.9% of the variation in distress conditions is caused by factors other than profitability, liquidity, and sales volume. This condition is commonly found in research in the retail sector, given the industry's characteristics, which are heavily influenced by consumer behavior, changing market trends, and economic dynamics. These results indicate that these three financial variables only contribute limitedly to explaining the potential for financial distress. Nevertheless, this finding remains important academically because it illustrates that classic financial indicators such as ROA and Current Ratio are not always sufficient to explain the financial health of the retail sector.

Based on the ANOVA test, the calculated F value was 2.119 with a significance level of 0.102 > 0.05. This means that the three independent variables simultaneously did not significantly influence financial distress. This result indicates that the regression model cannot explain variations in financial distress together. However, this does not mean that these variables are irrelevant, but rather indicates that the distress conditions in retail companies are more complex and involve many other factors beyond profitability, liquidity, and sales growth. This also demonstrates the importance of considering non-financial variables such as brand reputation, supply chain efficiency, and adaptation to digitalization, which increasingly determine the resilience of retail companies in the modern era.

Table 2. *Moderate Regression Results*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	176.163	65.752		2.679	.009
X_1	-1.230	.495	-.240	-2.483	.015
X_2	.079	.136	.056	.581	.563
X_3	.001	.008	.008	.083	.934

Source: SPSS (data processed)

Table 2 shows that profitability (ROA) has a coefficient value of -1.230 with a t-value of -2.483 and a Sig. of 0.015 <0.05, indicating that profitability has a negative and significant effect on financial distress. The negative trend indicates that the higher the ROA, the less likely the company is to experience financial distress. This aligns with Altman's theory, which stated that profitability is one of the main indicators in measuring bankruptcy risk. Companies with a high ability to generate profits from their total assets will be better able to meet their financial obligations and survive amidst economic pressures. The results of this study also align with research by (Cahyono & Hidayanti, 2024; ElBannan, 2021; Fatimah & Sutanti, 2025; Marginingsih et al., 2024), which showed that profitability negatively affects financial distress. Therefore, it can be concluded that increasing efficiency and profitability is an important strategy for retail companies to avoid the risk of distress.

In contrast to profitability, the analysis results show that liquidity (Current Ratio) has a coefficient of 0.079 with t = 0.581 and Sig. = 0.563 > 0.05. This means that liquidity does not significantly influence financial distress. This means that a company's ability to fulfill its short-term obligations is not a major factor in determining whether a company will experience financial

difficulties or not. These results support the findings of Cahyono & Hidayanti (2024), who stated that liquidity does not significantly influence financial distress. This is because a high ratio does not always indicate efficient cash management. Excessive liquidity can indicate an accumulation of unproductive cash or uncollectible receivables, which can actually hinder a company's financial performance. In the context of the retail sector, this condition is even more relevant because retail companies often maintain large quantities of inventory to meet fluctuating consumer demand, so a high Current Ratio does not necessarily reflect a healthy financial condition.

Meanwhile, the test results on sales volume showed a coefficient value of 0.001, t = 0.083, and Sig. = 0.934 > 0.05, meaning that sales growth did not have a significant effect on financial distress. This finding suggests that year-on-year sales increases do not always have a direct impact on improving a company's financial condition. In the retail industry, increases in sales volume are often offset by increases in promotional costs, discounts, and distribution costs, resulting in low profit margins. This is in line with research by Saputra et al., (2025), which showed that sales volume is not the primary determinant in preventing distress, especially in the retail sector, which has seasonal sales dynamics and is influenced by consumer purchasing power.

Discussion

The finding that profitability was the only significant variable reinforces the view that profit-generating ability is the most crucial indicator in assessing a company's financial health. According to Brigham and Houston (2019), profitability is a key measure reflecting management's effectiveness in using assets to generate revenue. The higher the profit generated, the greater the company's ability to maintain positive cash flow and avoid financial distress. This also supports classical finance theory that profit serves as a buffer against the risk of loss and asset impairment. Therefore, in unstable economic conditions, companies with high profitability tend to be more resilient in the face of financial stress.

Meanwhile, the insignificance of liquidity and sales volume indicates that retail companies in Indonesia tend to face financial distress, which is more influenced by internal efficiency and operational management factors than simple financial indicators. For example, companies with unstable cash flow due to loose credit policies or slow inventory turnover can experience difficulties even with a high current ratio. Similarly, increasing sales volume without a corresponding increase in profit margins can actually worsen a company's financial condition. Therefore, more complex indicators such as the cash conversion cycle, debt service coverage ratio, and operating profit margin may provide a more accurate picture of the risk of distress in this sector.

The results of this study show that the low Adjusted R^2 value (0.031) indicates that many other variables can explain the phenomenon of financial distress in the retail sector. Factors such as leverage, operational cost efficiency, company size, and asset growth likely have a greater influence on a company's financial condition. This finding provides room for future researchers to develop a more comprehensive distress prediction model by adding these variables. Furthermore, a multivariate approach or the use of logistic regression can be considered to produce a more accurate prediction model for detecting potential bankruptcy.

Practically, this research has important implications for management and investors. For management, these results confirm that profitability improvement strategies must be a primary focus to maintain a company's financial stability. Efforts to increase sales must be accompanied by cost control and increased asset efficiency to directly impact net income. For investors and creditors, these results suggest that profitability ratios, particularly ROA, can be used as a key indicator in assessing the bankruptcy risk of retail companies. ROA analysis provides a clearer picture of a company's ability to manage its resources to generate sustainable profits.

Thus, it can be concluded that profitability is the dominant factor influencing financial distress in retail companies listed on the Indonesia Stock Exchange, while liquidity and sales volume have not been shown to have a significant impact. These results emphasize the importance of efficiency and productive asset management as key to a company's financial success. Furthermore, this study also suggests that classical financial ratio-based analysis models need to be adapted to the unique characteristics of the more dynamic and competitive retail sector. Therefore, further

research is expected to combine a financial approach with operational and managerial indicators to provide a more comprehensive picture of the causes and prevention of financial distress in the Indonesian retail sector.

Conclusion

The results of this study conclude that profitability is the primary indicator determining the financial resilience of retail companies, while liquidity and sales volume have not been shown to significantly influence financial distress. Therefore, companies need to focus on improving asset efficiency, controlling costs, and strengthening profit strategies to maintain financial stability. For investors, profitability ratios such as ROA can be an important tool in assessing the financial health and bankruptcy risk of a retail company.

Overall, this study strengthens empirical evidence that profitability ratios are more relevant than liquidity ratios or sales growth in predicting the risk of financial distress in retail companies in Indonesia. Future research is recommended to incorporate non-financial variables such as ownership structure, supply chain efficiency, and digital adaptability to provide a more comprehensive understanding of the determinants of financial distress in the era of digital economic transformation.

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Author Contributions

Conceptualization: Masruroh
Data curation: Masruroh
Formal analysis: Masruroh
Investigation: Masruroh
Methodology: Masruroh, Anni Muslimah Purnamawati
Project administration: Masruroh, Anni Muslimah Purnamawati
Supervision: Masruroh, Anni Muslimah Purnamawati
Validation: Masruroh, Anni Muslimah Purnamawati
Visualization: Masruroh, Anni Muslimah Purnamawati
Writing – original draft: Masruroh, Anni Muslimah Purnamawati
Writing – review & editing: Masruroh, Anni Muslimah Purnamawati

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