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FACTORS AFFECTING FINANCIAL DISTRESS IN THE CONSUMER INDUSTRY SECTOR DURING THE COVID-19 PANDEMIC

Kathy Paulina Tumbelaka[1] , Elsa Imelda[2*], Juni Simina[3]

[1,2,3] Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia*
Email: elsai@fe.untar.ac.id

[*]Corresponding author

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ABSTRACT

The COVID-19 pandemic has led to changes in financial performance and a decline in global economic conditions. This study aims to obtain empirical evidence about the influence of Corporate Social Responsibility (CSR), firm size, and firm age on corporate financial distress in the cyclical and non-cyclical consumer sectors during the COVID-19 pandemic. The research design used in this study is descriptive research with quantitative methods. The research sample was selected using purposive sampling, which contains 80 companies as sample. Hypothesis testing is done using a regression analysis model of panel data. The data processing for this study using some application such as Microsoft Excel and EViews 10. The results revealed that Corporate Social Responsibility has no influence on financial distress, the size of a company has a significant positive influence over financial distresses, and the age of the company has significant negative influence upon financial distress. This means that both the size and age of the company are interrelated indicators that should be considered because they can affect the risk of financial distress.

Keywords: *Corporate Social Responsibility, Firm Size, Firm Age, Financial Distress*

1. INTRODUCTION

Since the first COVID-19 pandemic in Wuhan, China, various aspects of life around the world have undergone significant changes. The Indonesian government officially declared COVID-19 a national disaster in March 2020, which have a significant effect on the economy, public health, and lifestyle of the population. Some policies such as lockdown, social constraints, and work from home have led to a decline in consumption and investment, which indirectly affects the financial performance of companies in various sectors. According to Central Statistics Agency data for 2020, about 82.45% of companies have a decline in revenue, with only 58.95% of the companies being able to operate normally [1]. The COVID-19 pandemic has also caused global economic pressures and performance changes, especially in the cyclical and non-cyclical consumer sectors on the Indonesian Stock Exchange. Changes in company performance can lead to financial distress due to declining profits and can be a threat to the financial performance due to the economic uncertainty caused by the pandemic.

Financial distress, which is a condition in which a company is struggling to meet its financial obligations and their income is insufficient to cover operating costs, which can result in a significant decrease in the company's revenue and profits [2]. According to Alodia & Imelda, this condition can be caused by the lack of management experience and knowledge in managing the assets effectively, or external factors like inflation, taxes, legal system, and the depreciation of foreign currencies [3]. Financial distress is one of the condition that can cause an extreme reaction in a business. This condition is an early stage towards corporate bankruptcy and liquidation is financial distress. Especially in the cyclical and non-cyclical consumer sectors, which have a major impact on the economy, jobs, and public well-being, companies must deal with financial performance issues wisely to minimize the risk of financial distress. These conditions could threaten the survival of the company, its reputation, and the trust of stakeholders, so proper management strategies and policies are crucial to avoiding the risk of financial distress. Based on the signalling theory, the actions taken by the management of the company can provide a clue to investors about the company's prospects (Brigham & Houston, 2011) [4]. The condition of a company's financial statements can be used to assess financial health and predict the likelihood of financial distress.

The research was conducted to identify the factors that influence financial distress in cyclical and non cyclical consumer companies listed on the Indonesian Stock Exchange during 2020-2022. The variables used in this study are Corporate social responsibility (CSR), firm size, and firm age.

Corporate Social Responsibility (CSR) is the commitment of company to behave ethically, support sustainable economic development, and pay attention to the social and environmental impact of their business activities [5]. It involves building good relationships with stakeholders and ensuring operational sustainability without damaging the environment or threatening public safety. Based on the results of research Utami et al. (2021) revealed that CSR disclosure has a significant negative impact on financial distress [6]. However, this contradicts the opinion of Sari K. (2019) that the disclosures of CSR have no influence on the prediction of financial conditions [7].

The size of the company is reflected in its financial condition through the amount of assets it holds, including cash, property, equipment, investments, and other resources [8]. According to studies conducted by Syuhada et al. (2020) reveal that the size of a company has a negative and significant influence on financial distress [9]. Larger companies with larger assets tend to have higher revenue potential, easier access to capital markets, and better financial health. The greater the total value of the company's assets, the easier it is for them to meet future obligations and avoid financial problems. However, different opinions were expressed by Pamudji and Astuti (2015) where the size of a company had a significant positive influence on the possibility of financial distress [10].

The age of a company can affects the financial performance by affecting capital, reputation, and profits. According to Valentina (2021) stated that the firm age has a negative and significant influence on the financial distress [11]. The longer a company runs its business, the less likely it is to suffer financial distress. New companies tend to experience difficulties in raising capital and achieving profits, making them vulnerable to financial distress. Older companies tend to have easier access to financial resources such as loans and capital investments. Experience can also improve management efficiency, improve performance, and reduce the risk of financial difficulties. However, this contradicts with the opinion of Pamudji Astuti (2015), who argue that the firm age has a positive and non significant influence on the financial distress[10]. This research is expected to be useful for companies affected by the economic crisis by knowing the factors that can reduce the risk of financial distress. Likewise for investors to use as a basis for making investment decisions in a company.

The signal theory explains that corporate management takes action that gives an indication to investors about how the company's prospects are seen by management [7]. This is driven by information asymmetry between the management of the company and external parties. Management gives a signal to investors through financial reporting information and the company's condition. A positive signal is considered good news, while a negative signal is regarded as bad news. Financial statements that show poor performance, such as declining income, low profits, or difficulties in paying off debts, can be an indication of financial distress or bankruptcy. Therefore, investors use this financial information to decide whether to invest or not.

Stakeholder theory arises from the awareness of corporate responsibility to the various parties that have an interest in the activities and existence of the company, both directly and indirectly [4]. Support from stakeholders has an important impact on the company's survival. This theory emphasizes the need for fair treatment of all stakeholders, because the success of companies depends on their support. Disclosure of social activity or CSR is also an important factor that investors consider in their investment decisions. Through CSR disclosure, companies demonstrate their commitment to sustainability and accountability to all stakeholders, illustrating that companies care not only for internal interests, but also for diverse external interests.

Social responsibility is the commitment of the organization to participate in the sustainable economic development to improve the quality of life and the environment that is beneficial to the individual, the community and the general public [12]. According to Utami et al. (2021) [6], corporate CSR disclosure has a negative and significant influence on financial distress. However, the different opinion expressed by Sari K. (2019) [7], that CSR has no influence over financial distresses. With transparent and comprehensive CSR disclosure, companies can provide relevant information to stakeholders about CSR activities and their social impact, strengthen relationships with them, and build trust and credibility. Moreover, implementing CSR can reduce reputational risks that could potentially harm a company, help avoid sanctions and legal claims, and support corporate capital growth through investment. Thus, more CSR disclosure can help reduce the level of corporate financial distress.
H_1 : Corporate Social Responsibility has a significant negative impact on financial distress (see **Figure 1**)

The size of an enterprise is a scale that can be classified as the size of a small enterprise which can be measured using the large total assets of the enterprise as an indicator of its measurement [13]. According to research carried out by Pamudji and Astuti (2015) [10] which proves that the size of a company has a significant positive influence on the possibility of financial distress. However, Syuhada et al. (2020) [9] revealed that corporate size has a negative and significant influence over financial distresses. Large companies with complex operations in various markets and sectors often face challenges in management and management supervision. They tend to rely more on debt to finance expansion, which if not properly managed can affect the liquidity and reputation of the company. Large corporations operating globally are also vulnerable to currency fluctuations, political instability, and economic problems across countries, which can affect financial performance and increase the risk of financial distress.
H_2 : Firm size has a significant positive influence on the financial distress (see **Figure 1**)

The age of a company refers to the length of the company's operations and its ability to survive in the business world. According to Storey, the longer a company stands, the less likely it is to fail [14]. Based on research carried out by Valentina (2021) [11] proved that the age of the company has a negative and significant influence on financial distress. However, Ramadhany and Syofyan (2021) [8], revealed that the company's age does not have an effect on the financial distresses. Companies that have been operating for a long time tend to have more experience and knowledge, so they tend to be more adaptable and have the ability to survive in difficult conditions. The increasing experience has made management systems more effective and efficient, thus reducing the risk of financial difficulties. In addition, long-established companies

tend to gain greater trust from investors, thus making it easier for established companies to obtain external funding from both investors and creditors. Smooth capital flows can help improve the corporate financial health and avoid the risk of financial distress.
H_3 : Firm age has a significant negative influence on the financial distress (see **Figure 1**)

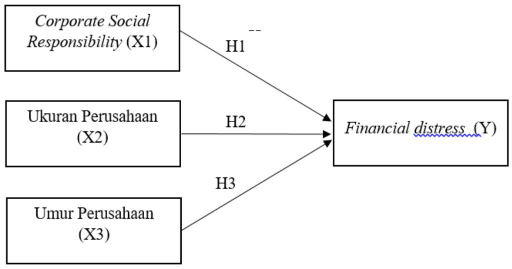

Figure 1. Research Framework

2. RESEARCH METHOD

The research design used is descriptive research using quantitative approaches. The total population employed is 269 companies, consisting of 147 consumer cyclical companies and 122 consumer noncyclical companies listed on the Indonesian Stock Exchange during the period 2020-2022. Data obtained from www.idx.co.id and processed using EViews version 10 and Microsoft Excel 2013. The sample selection method used is the purposive sampling, with the following criteria: 1) Listed in the Indonesian Stock Exchange in the research period 2) Disclosure of annual reports in succession during the research period 3) Disclosures of sustainability reports in sequence during the research period 4) Not in delisting status during the research period. The selected sample is 27 companies with a total of 80 data samples. Testing techniques consist of descriptive-statistics test, classical-assumption test, hypothesis test [Partial test (t-test) and Simultaneous test (F-test)], and coefficient-of-determination test (R2). The dependent variable used is financial distress. On the other hand, the independent variables used are Corporate Social Responsibility, firm size, and firm age which described in table 1 below:

Table 1. Operationalization of Research Variables

Variable	Proxy	Scale	References
Financial Distress	$Z = 1.2X_1 + 01.4X_2 + 3.3X_3 + 0.6X_4 + 0.99X_5$	Rasio	(Utami & Kartika, 2021) [6]
Corporate Social Responsibility	$CSR_j = \frac{\Sigma x_{ij}}{n_j}$	Rasio	(Nugrahanti, 2021) [15]
Firm Size	Firm Size = Ln (Total Assets)	Rasio	(Hartono, 2012:14) [16]
Firm Age	Firm Age =	Rasio	Agustia and Suryani (2018) [17]

3. RESULTS AND DISCUSSIONS

Here is the result descriptive statistical test of 80 samples of dependent and independent variable data used in research that can be seen in the following table.

Table 2. Descriptive Statistical Test Results

Variabel	Maximum	Minimum	Mean	Standard Deviation
FD	6.5316	-0.17992	2.1538	1.4516
CSR	0.8913	0.0602	0.3551	0.1538
SIZE	32.4527	19.3905	28.3245	3.6826
AGE	93	20	41.9875	16.8060

Based on the results of the descriptive statistical table, the average value obtained for the CSR variable is 0.3551, which means that the average company disclosure of information on corporate social responsibility in its continuity report is 35.51% of the total aspect of disclosures available. The average company size value acquired is 28.3245, which indicates that most companies have a fairly large corporate size. While the mean value obtaining for the corporate age variable was 41.9875 and is more inclined to the minimum, it means that some sample companies tend to be not long standing in the industry.

This research has passed the classical-assumption test and found no problems in the trial. After ensuring that there are no problems with the classic-assumptions test in the study, a number of other tests were carried out to determine the most accurate regression model. Based on the results of the Chow and Hausman tests, the most suitable regression model for this study is the Fixed Effect Model (FEM).

Table 3. The Result of Multiple Regression Analysis
Source: Data processing using Eviews 10

Dependent Variable: FINANCIAL_DISTRESS
Method: Panel Least Squares
Date: 08/27/23 Time: 19:27
Sample: 2020 2022
Periods included: 3
Cross-sections included: 27
Total panel (unbalanced) observations: 80

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	19.10837	3.059248	6.246101	0.0000
CSR	-0.286016	0.445965	-0.641342	0.5242
UKURAN_PERUSAHAAN	-0.925512	0.112259	-8.244467	0.0000
UMUR_PERUSAHAAN	0.222964	0.045728	4.875845	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.974544	Mean dependent var	2.153829
Adjusted R-squared	0.959779	S.D. dependent var	1.451565
S.E. of regression	0.291113	Akaike info criterion	0.649785
Sum squared resid	4.237336	Schwarz criterion	1.543045
Log likelihood	4.008592	Hannan-Quinn criter.	1.007919
F-statistic	66.00560	Durbin-Watson stat	2.115545
Prob(F-statistic)	0.000000		

The following is the regression equation model, which is based on the analysis table above:
FD = 19.10837 - 0.286016 CSR – 0.925512 SIZE + 0.222964 AGE + €
Notes:
FD = *Financial distress*
CSR = *Corporate Social Responsibility*
$SIZE$ = Firm Size
AGE = Firm Age
€ = error

Based on the regression analysis, corporate social responsibility has a negative influence with a coefficient of 0.286016 and a significance of 0.5242, which means that Corporate Social Responsibility does not have a significant influence on financial distress. The size of the company is in a negative direction with the value of the altman z-score of a company with a factor of 0.925512 and a significantity of 0.0000, which means the size of an enterprise has a positive and significant impact on financial Distress. To determine the magnitude of the correlation between independent and dependent variables, it can be seen from the adjusted R square value obtained on the regression model is 0.974544. This means that Corporate Social

Responsibility, corporate size, and age simultaneously have a significant influence on financial distress.

H_1 : Corporate Social Responsibility has a significant negative impact on financial distress
The results of this study are consistent with Marzila (2022) [18], but contradict with a study conducted by Farooq & Noor (2021) [19], which revealed that CSR disclosure has a negative and significant influence on financial districts. CSR disclosure cannot guarantee that the company will have a good profit value and will be avoided from financial difficulties. The benefits of CSR practice do not give immediate visible financial impact, but appear in the long term. When the value of the company's revenue or profits is felt to decline, then they will re-examine its strategy and business activity. In the face of the COVID-19 pandemic, companies will be more focused on strategies to maintain the survival of their. The low presentations of CSR disclosure of 35.51% which is still below 50% indicates that well in 2020-2022 consumer sector companies cyclical and noncyclical do not implement all aspects of the CSR in accordance with the 2016 GRI Standard. So high CSR disclosure will not affect the value of the company's revenue or profits. Thus, it can be said that the influence of CSR disclosure does not have a significant effect on the financial distress conditions of companies on the conditions of the COVID-19 pandemic.

H_2 : Firm size has a significant positive influence on the financial
The results of this study are consistent with the Pamudji and Astuti study (2015) [10], but contradict with the results revealed by Syuhada et al. (2020) [9] which proves that the size of a company has a negative and significant influence on financial distress. The larger the amount and type of assets, the more difficult and complex the management of those assets. If the assets are not properly managed, the company may not be able to deliver the expected results or may even experience a decline in value. Although the company's total assets have increased, most of the assets may be in the form of inaccurate or difficult to liquidate assets, such as property, equipment, or supplies. If a company has an urgent funding need, it can lead to liquidity problems. Low liquidity can make it difficult for the company to meet its short-term obligations such as debt payments or employee salaries. Thus, an increase in the total assets of the company if it is not managed well will increase the likelihood that the company will suffer financial distress.

H_3 : Firm age has a significant negative influence on the financial distress
The results of this study are consistent with Valentina (2021) [11], but contradict with a study conducted by Ratih D. (2020) [20], which revealed that the age of a company has a significant positive influence on financial distress. Companies that have been operating for a long time tend to have good business sustainability where the business model applied is stable and can generate consistent revenue. They have had a lot of experience in dealing with various economic and business challenges. The old company already has a mature strategy and management team to deal with its past crises and mistakes. On the other hand, long-standing companies tend to have larger and more diverse portfolio values of assets, products or services, which can help reduce the company's dependence on a single source of income or a particular market. So in times of pandemic, the age of a company influences the business sustainability and financial conditions of the company. Thus, it can be said that the older the company is, the lower the risk of the company experiencing financial distress.

4. CONCLUSIONS AND SUGGESTIONS

Based on the results of the analysis carried out in this study, good financial management, increased asset volumes, and corporate sustainability reflected in the size and life of companies in the industry are key factors in tackling financial distress. The bigger the company means the larger the amount of assets, the more difficult it will be for management to manage the assets so the risk of financial distress will increase. Efficient and effective asset management is essential to ensure that assets remain valuable and provide maximum benefits to the company. Proper strategy and management will affect both the long-term goals and the viability of the company's future business. Increasing the age of a company can help prevent a company from going bankrupt. Thus, for investors, it would be safer and more profitable if they invested in companies that have been in place for a long time because of their stable financial conditions and high returns. A stable financial situation can help companies avoid financial distress. Thus, both the size and age of the company are interrelated indicators and should be taken into account as they can influence the risk of financial distress. The limitations in this study are: 1) The number of samples used is only 3 years; 2) It is limited to three independent variables, namely Corporate Social Responsibility, Firm Size, and Firm Age ; 3) The sample used is limited to companies in the consumer cyclical and non-cyclical consumer industry sectors listed on the Indonesian Stock Exchange. The suggestions for future research include increasing the period of research, increasing the number of samples, adding or using other variables that also influence financial distress, and using other methods of prediction of financial distresses other than Altman's Z Score. For the industry to be advised to improve good asset management and establish appropriate policies to maintain the sustainability of the company's business especially in the context of an economic crisis such as a pandemic, both of these factors can help the company reduce the risk of financial distress.

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