

TESTING INDICATORS DETERMINANTS OF FINANCIAL DISTRESS ON MANUFACTURING COMPANIES IN INDONESIA

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Abstract

The financial distress condition happen before bankruptcy. There is abundant researches describing prediction models of firm's bankruptcy, but only few researches have sought to predict firm's financial distress. Several researchers found the financial distress can be an indicator of the company would be insolvent. On the other side, some researchers also found that the company which have fulfilling their financial commitments does not always lead to bankruptcy.

The purpose of this research is to examine the factors that affect financial distress condition of a firm. The tested factors on this research are liquidity variable, activity variable, financing variable, profitability variable and ownership variable. The factors are adjusted by the ratio of relatively industry. Based on the selected indicators were then designed a model to predict the Financial Distress as Early Warning Tools bankruptcy. The sample of this research consist of manufacturing companies from 2005 through 2014. Moreover, it is chosen by purposive sampling. This research using discriminant analysis to find indicators which distinguishes financial distress condition and did not financial distress condition.

The results show that company policy in making investment over the assets and liquidity factor can be indicators the condition financial distress. When the factors are adjusted by the ratio of relatively industry, can be seen that funding policy, dividend policy and ownership can be determiner the condition of financial distress. This study also findings that the financial ratio of the company feature prediction financial distress more precise than relatively the financial industry.

Keywords : *financial distress, liquidity, activity, financing, profitability, dividend payout ratio, ownership, industry relatif ratio.*

Introduction

Financial problems faced by company, if it left may result in the occurrence of bankruptcy. Some of the companies that have problem financial trying to solve the problem by doing loans and merger business, or otherwise there is out of business. Investors and creditors before invest their fund in a company will always look financial condition the company. Hence, analysis and prediction financial condition of company is very important .

Since the middle of 1997, in Indonesia was occurring financial crisis go on to the economic crisis. The situation often considered the cause of the bad condition of financial company. Manager of a company should be able to overcome all of these on companies including economic crisis impacts. In the economic crisis, there are managers who get over economic crisis impacts of the company, but there are also managers who failed. High quality manager able to cope economic crisis which impacts to the company , and vice versa. Hence,