UNIVERSITAS ANDALAS

THESIS

THE IMPACT OF PROFITABILITY, LIQUIDITY, LEVERAGE, AND ECONOMIC GROWTH ON FINANCIAL DISTRESS

(Case Study of Indonesian Non-Financial State Owned Enterprises Listed on Indonesian Stock Exchange in 2020-2025)

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ABSTRACT

This study examines the impact of profitability, liquidity, leverage, and economic growth on financial distress among Indonesian non-financial State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange during 2020–2025. Financial distress is proxied by the Modified Altman Z-Score, where a higher Z-Score represents a healthier financial condition and a lower level of financial distress. The study uses a balanced panel of 21 firms and 126 firm-year observations. Profitability is measured by Return on Assets (ROA), liquidity by the Current Ratio (CR), leverage by Total Debt to Total Assets (LEV), and economic growth by the annual real GDP growth rate (GDPG). Firm-level financial data were obtained from company annual report, while annual Indonesian real GDP growth data were obtained from official Badan Pusat Statistik reports. The data were analyzed using STATA MP 17. Panel model selection through the Chow/F-test, Hausman test, and Breusch-Pagan Lagrange Multiplier test identifies the Fixed Effects Model as the appropriate specification. Diagnostic testing indicates groupwise heteroskedasticity and first-order autocorrelation, while the Pesaran test does not indicate cross-sectional dependence. Therefore, statistical inference is based on the Fixed Effects Model with firm-clustered robust standard errors. The results show that profitability has a positive but insignificant effect on financial distress, liquidity has a negative but insignificant effect on financial distress , leverage has a positive and significant effect on financial distress, and economic growth has a positive insignificant effect on financial distress. Simultaneously, profitability, liquidity, leverage, and economic growth significantly affect financial distress. The within R-squared of 0.4531 indicates that the model explains 45.31% of within-firm variation in the Modified Altman Z-Score over the observation period.

Keywords: Economic Growth, Financial Distress, Leverage, Liquidity, Modified Altman Z-Score, Profitability, State-Owned Enterprise

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