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THESIS

The Impact of Profitability, Sales Growth, and Capital Structure on Financial Distress in Indonesia's Apparel and Luxury Goods Subsector: Firm Size as a Control Variable (2020–2025)

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ABSTRACT

Financial distress is a condition that may threaten a company's business continuity. This study examines the associations of profitability, sales growth, and capital structure with financial distress among Apparel and Luxury Goods subsector companies listed on the Indonesia Stock Exchange during 2020–2025, with firm size included as a control variable. Financial distress is measured using the Modified Altman Z″-Score, profitability using Return on Assets (ROA), sales growth using the annual change in revenue, capital structure using the Debt-to-Equity Ratio (DER), and firm size using the natural logarithm of total assets. The study applies a quantitative panel-data approach to 18 companies and 108 firm-year observations selected through purposive sampling. The final model is a Random Effects Model estimated with firm-clustered robust standard errors. The results indicate that profitability has a positive coefficient on the Z″-Score and is statistically significant at the 5% level ($\beta = 19.1166$; $p = 0.048$), implying that higher profitability is associated with lower financial-distress risk. However, this evidence is marginal and should be interpreted cautiously. Sales growth, capital structure, and firm size are not statistically significant. The three main independent variables are also not jointly significant ($\chi^2(3) = 5.58$; $p = 0.1337$). Accordingly, the study provides limited evidence that profitability is associated with financial-distress severity, while the overall model has low explanatory power.

Keywords: Altman Z″-Score, Apparel and Luxury Goods, Capital Structure, Financial Distress, Firm Size, Profitability, Sales Growth