# The Influence of Activity Ratio and Leverage Ratio Against Financial Distress (Survey Study in Sub Textile and Garment Sector Company Listed in Indonesia Stock Exchange 2011-2015)

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***ABSTRACT***

*This research was conducted in companies textile and garment sub sector listed on Indonesian Stock Exchange in the period 2011-2015. The phenomenon that occurs is in some companies textile and garment sub sector has experienced financial distress when the company has a activity ratio and leverage ratio are good. This research was purpose to find out how much influence activity ratio and leverage ratio effect to financial distress.*

*The method used in this research is descriptive method verification with quantitative approach. The sampling method in this study using nonprobability sampling with purposive sampling approach. The unit of analysis in this research is 45 the company's annual financial report taken in 2011 - 2015. The data were analyzed using multiple linear regression. Testing the hypothesis in this study using the statistical t-test statistic with SPSS 16.0 for Windows.*

*Results from this study showed that the activity ratio significantly influence to financial distress in companies textile and garment sub sector listed on Indonesian Stock Exchange. As well as the results of this study also showed that leverage ratio significantly influence financial distress in textile and garment sub sector listed on Indonesian Stock Exchange.*

***Keywords: activity ratio, leverage ratio, financial distress***.

## I. INTRODUCTION

### 1.1 Background to the Study

The company was established with the aim of earning profit, which will be used to maintain the survival of its business (Wahyuningsih and Suryanawa, 2012). A company will certainly avoid conditions that could lead to bankruptcy, the bankruptcy of the company will lead to various losses for both shareholders, employees and the national economy (Al-Khatib and Al-Horani, 2012). Financial problems faced by a company if allowed to drag on may result in bankruptcy (Wahyu Widarjo, 2011:75).

Financial distress is a condition in which the company's finances are in an unhealthy state or crisis (Wongsosudono and Chrissa, 2013). Financial distress occurs prior to bankruptcy in a company (Mas'ud and Reva, 2012). Financial distress can be started from liquidity difficulties (short term) as the lightest indication of financial distress, until bankruptcy is the most serious financial distress (Octita Earning Hanifah and Agus Purwanto, 2013). The predicted model of bankruptcy prediction is an anticipation and early warning system of financial distress because the model can be used as a means to identify and even improve conditions before it comes to crisis or bankruptcy (Evanny Indri Hapsari, 2012:102).

Financial ratios are useful in predicting business bankruptcy for a period of one to five years before the business is completely bankrupt (Evanny Indri & Hapsari, 2012: 103). Financial statement analysis can be one tool to predict financial difficulties, and financial statements can be used as a basis to measure the health of a company through financial ratios that describe the company's financial condition (Brahmana, 2012:170).

The activity ratio describes the activities the company performs in its operations both in sales activities, purchases, and other activities (Harahap, 2011: 308). One activity ratio can be calculated with total asset turnover, high asset turnover indicates the company's ability to manage assets to increase sales better, then increased sales will affect the increase in net profit obtained by the company, so the company's potential to experience financial distress is lower (Yep, 2012).

Next, the leverage ratio can be used as a predictor in predicting the company's financial distress (Ika Yuanita, 2011: 9). Debt to asset ratio is a ratio that measures the amount of debt financed assets (Andre, 2013). The results of leverage ratio analysis can be viewed as an early warning of possible bankruptcy or financial difficulties (Pangki Wijaya, 2011).

## 1.2 Problem Identification

Based on the above background, then the identification problem that can be concluded is as follows:

1. Italian motorcycle manufacturer, MV Agusta is experiencing financial problems despite the company's sales increase. This is because the company has a profit that is not big enough (Ghulam Muhammad Nayazri, 2016).
2. Textile company of PT. Batam Textile Tbk is experiencing financial distress due to failure to pay principal and interest payable so that the company is experiencing financial distress (Lawyer PT Batam Textile Tony Budidjadja, 2016)
3. Increase of activity ratio at PT. Polychem Indonesia Tbk and PT. Eratex Djaya Tbk but not followed by a healthy financial condition or a company experiencing financial distress.
4. Decrease leverage ratio at PT. Polychem Indonesia Tbk and PT. Eratex Djaya Tbk but not followed by a healthy financial condition or the company experiencing financial distress.

## 1.3 Research Question

From the identification of problems that have been defined above, then the elaboration of the problem formulation of this research as follows:

1. How much is the influence of activity ratio to financial distress.
2. How much is the influence of leverage ratio to financial distress.

## 1.4 Purpose and Objective

### 1.4.1 Purpose

The purpose of this study is to find the truth of the effect of the ratio of activity and leverage ratio to financial distress by using the data obtained and empirical test, in order to solve the problem.

### 1.4.2 Objective

The objectives to be achieved in this research are:

1. To find out how much influence the ratio of activity to financial distress.
2. To find out how much influence leverage ratio to financial distress.

## 1.5 Usefullness of Research

### 1.5.1 Pratical Use

The results of this study are expected to solve the problem of financial distress in general or that occurred in Sub-Sector Companies Textiles and Garment listed on the Indonesia Stock Exchange.

### 1.5.2 Academic Use

The results of this study is expected to be a contribution of thought in the development of science and become a reference material for the parties who will conduct research related to the ratio of activity, leverage ratio and financial distress.

## II. LITERATURE VIEW, FRAMEWORK OF THEORY, AND HYPOTHESES

### 2.1 Literature Review

### 2.1.1 Activity Ratio

#### 2.1.1.1 Activity Ratio Definition

According to Kashmir (2015: 172), the activity ratio is the ratio used to measure the effectiveness of a company in using its assets. This ratio is used to measure the level of efficiency (effectiveness) utilization of company resources ".

#### 2.1.1.2 Activity Ratio Indicators

Kasmir (2015:185) describes one way of measuring the magnitude of the activity ratio, which can be measured by total asset turnover, to see the extent to which assets to generate sales and increase profits are as follows:

$$Total\ Asset\ Turnover = \frac{Net\ Sales}{Total\ Assets}$$

Source: Suad & Enny (2015:77)

### 2.1.2 Leverage Ratio

#### 2.1.2.1 Leverage Ratio Definition

According to Irham Fahmi (2014:179) leverage ratio is a ratio that measures how much the company financed with debt.

#### 2.1.2.2 Leverage Ratio Indicators

Irham Fahmi (2014: 180) states that the size of the leverage ratio can be measured in various ways, one of them is the Debt to Asset Ratio (DAR). The ratio that looks at the ratio of debt to the company, which is obtained from the ratio of debt divided by total assets.

According to Irham Fahmi (2014: 180) the formula to find Debt to Asset Ratio is:

$$Debt\ to\ Asset\ Ratio\ (DAR) = \frac{\text{Total Kewajiban}}{\text{Total Aset}}$$

Source: Irham Fahmi (2014: 180)

### 2.1.3 Financial distress

#### 2.1.3.1 Financial distress Definition

Definition of financial distress according to Dewi Utari, et al (2014: 273), Financial distress is the inability of company property to fulfill its obligations. Financial difficulties have two aspects:

a. he company's current assets are insufficient to meet all obligations due, or illiquid.
b. All company assets are not sufficient to meet all obligations at the time of liquidity or called technical insolvency.

#### 2.1.3.2 Financial distress Indicators

According Jhon (2013: 171), the ratio of coverage or coverage ratio is one ratio that serves to measure the level of financial distress experienced by the company. Furthermore according to Ratna (2011: 112), companies experiencing financial distress is a company that has an Interest Coverage Ratio of less than 1 (one).

Rumus *Interest Coverage Ratio* adalah sebagai berikut:

$$\textit{Interest Coverage Ratio} = \frac{Earning\ Before\ Tax\ (EBT)}{Interest\ Expense}$$

Source: Irham Fahmi (2014:94)

## 2.2 Framework Of Theory

### *2.2.1* The Influence of Activity Ratio through Financial Distress

According to Harahap (2011: 310), states that:

"The activity ratio shows the total asset turnover as measured by the sales volume in other words how far the ability of all assets can create sales. If in a company can not increase sales, then the company will eventually experience a decrease in corporate profits, and eventually the company will experience financial distress. Because the company does not fulfill its obligations ".

The research conducted Muhammad Arif Hidayat and Wahyu Meiranto (2014) showed that the ratio of activity (total asset turnover ratio) has a positive influence on financial distress.

### *2.2.2* The Influence of Leverage Ratio through Financial Distress

According Surya (2012: 4):

"Leverage ratio is a long-term cash availability to meet commitments at maturity. The leverage ratio is the ratio used for the extent to which the company's assets are financed by debt. If a finance company uses more debt, it is risky that there will be difficulties in future payments due to the debt is greater than the assets owned. If this situation can not be overcome well, the potential for greater financial distress ".

The research conducted by Yuanita (2012) shows the ratio of leverage, ie the ratio of current liabilities to total assets that have a positive and significant impact on the company's financial distress.

## 2.3 Hypothesis

Based on the framework described above, the authors draw the hypothesis of this study, as follows:

H1: The Activity Ratio affects the financial distress.
H2: The Leverage Ratio affects the financial distress.

# III. RESEARCH METHOD

## 3.1 Used Research method

The research method used in this research is descriptive method and verifikatif method with quantitative approach, that is research result which then processed and analyzed to be taken conclusion, it means research done is research which emphasize its analysis on numerical data (number) by using research method This will reveal a significant relationship between the variables studied, resulting in a conclusion that will clarify the picture of the object under study.

In this research, the object of research is focus on activity ratio, leverage ratio and financial distress in Sub Textile and Garment Sub Sector listed in Indonesia Stock Exchange year 2011-2015. Then in this study which became the unit of analysis is the Indonesia Stock Exchange.

### 3.2 Variable Operationalization

Andi Supangat (2010: 9) describes the operationalization of variables as follows:

"The operationalization of variables identifies the variables, how many variables are used in the planned study, uses any scale in each variable and includes the separation of which variable will be used as the dependent variable and which variable is used as the independent variable, if used more from one variable in the observation side ".

To analyze how the influence of activity ratio and leverage ratio to financial distress hence required operationalization of variable with purpose to understand the relation between each variable studied. Activity ratio (X1) is independent variable for financial distress (Y). The leverage ratio (X2) is the independent variable for financial distress (Y). So the variables of this study consist of:

- Activity Ratio ($X_1$)
- Leverage Ratio ($X_2$)
- *Financial distress* (Y).

#### 3.3.1 Data Source

In conducting this research, researchers used secondary data obtained indirectly or through intermediate media. The data is quantitative in the annual financial statements of the Textile and Garment Sub-Sector Companies registered in the Indonesia Stock Exchange for the period 2011-2015. Using secondary data the researcher obtained data or related information about activity ratio, leverage ratio, and financial distress. Such information is obtained from the Indonesia Stock Exchange.

#### 3.3.2 Data Collection Method

According Sugiyono (2012: 62) data collection techniques is the most strategic step in the study, because the main purpose of research is to get data.

The data collection techniques used in this study are:

1) Library Research (Library Research)
2) Field Study..

### 3.3 Population, Sample, Place and Date of Research

#### 3.4.1. Population

According to Andi Supangat (2010: 3) population is a collection of objects that will be used as research material (review) with characteristics have the same characteristics. Based on the above description, the population used by researchers is Textile and Garment Sub-Sector Companies listed on the Indonesia Stock Exchange (BEI) of 17 companies with annual financial reports published for 5 periods, namely from 2011-2015.

#### 3.4.2. Sampling Technique

Sugiyono (2012: 81) explains that the meaning of the sample is part of the number and characteristics possessed by the population.

The sampling technique used in this research is by using nonprobability sampling technique.

According Sugiyono (2012: 84) nonprobability sampling as follows:

"Nonprobability sampling is a sampling technique that does not provide the same opportunity / opportunity for every element or member of the population to be selected into a sample".

Nonprobability sampling technique used by researchers in this research is by using purposive sampling technique.

As for Sugiyono (2012: 85) explained that purpossive sampling as follows:

"Purposive sampling is a technique of determining samples with certain considerations".

The sample in this study is the Annual Financial Report of Textile and Garment Sub-Sector Companies listed in Indonesia Stock Exchange during the period of 5 years with the

period of 2011-2015 as many as 9 companies, so the number of samples is as much as 45 (5 x 9) annual financial statements . Sampling with the following criteria (Octita Earning Hanifah and Agus Purwanto, 2013):

1. Manufacturing Company of Textile and Garment Sub-Sector listed on Indonesia Stock Exchange period 2011-2015.
2. Manufacturing Company of Textile and Garment Sub-Sector listed on Indonesia Stock Exchange showing financial distress for at least 2 consecutive years from 2011-2015.

### 3.4.3. Place and Time of Research

For the research entitled "The Influence Activity Ratio and Leverage Ratio Against Financial Distress", where the data is financial report, the research location is in Indonesia Stock Exchange Bandung Regional Office on Jl. PH. H. Mustofa No.33, Neglasari, Cibeunying Kaler, Bandung City. The time of the research began in January 2017 until August 2017.

## 3.4 Data Testing Method

### 1. Classic Assumption Test

Danang Sunyoto (2013: 87) describes the classical assumption test as follows:

"To obtain more accurate results in multiple regression analysis then tested the classical assumption so that the results obtained is a regression equation that has properties Best Linear Unbiased Estimator (BLUE). Some of the classical assumptions of regression that must be met first before using multiple regression analysis (Multiple Linear Regression) as a tool to analyze the influence of the variables studied.

The following is the stages of the classical assumption test by Danang Sunyoto (2013, 87-98):

**1. Normality Test**

Normality test is used to test the free variable data (X) and the dependent variable data (Y) on the regression equation that produced normal distribution or abnormal distribution. The regression equation is said to be good if it has free variable data and the dependent variable data is near normal or normal distribution. In testing the independent variable data and the dependent variable data is normally distributed or not in this statistical way through the skewness (α3) or the curve (kurtotis = α4) value compared to the Z value of the table.

**2. Heteroscedastity Test**

In multiple regression equations need to be tested about the same or not variant of the residual from one observation with another observation. If the residual has the same variant called Homoscedasticity occurs and if its variant is not the same or different it is called heteroscedasticity. A good regression equation in the absence of heteroscedasticity.

**3. Multicolinearity Test**

The classical assumption test of this type is applied to multiple linear regression analysis consisting of two or more independent variables or independent variables which will be measured the closeness of the relationship between the independent variables through the correlation coefficient (r).

**4. Autocorrelation Test**

A good regression equation is one that does not have autocorrelation problem, if there is autocorrelation then the equation is not good or not feasible use prediction. One measure in determining whether or not there is an autocorrelation problem with the Durbin-Watson test (DW) with the following conditions:

- There is a positive autocorrelation, if the DW value is below -2 (DW <-2)
- No autocorrelation occurs, if the DW value is between -2 and +2 or -2 <DW <+2

## 3.5 Data Analysis Method

### 3.6.1 Analysis Design

The analysis that researchers use to the data that has been described by using descriptive analysis method (qualitative) and verifikatif (quantitative) with quantitative approach. The analytical

method uses Statistical Product Service Solutions (SPSS) Version 16 program with detailed analysis as follows:

**A. Multiple Linear Regression Analysis**

Multiple linear regression analysis used by researcher with intent to know how far relation of activity ratio and leverage ratio to financial distress. Then Sugiyono (2012: 261) explains that the form of equations of multiple linear regression is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Source: Sugiyono (2012:261)

Information :

Y = *Financial distress*
$X_1$ = Activity Ratio
$X_2$ = Leverage Ratio
α = Intersept Costants
$\beta_1$ = Correlation of Activity Ratio Variable
$\beta_2$ = Correlation of Leverage Ratio Variable
ε = Error Term

**B. Correlation Coefficent Analysis**

Andi Supangat (2010: 339) explains that the correlation coefficient is the level of relationship between two or more variables. Furthermore Umi Narimawati (2011: 49) explains that the correlation test is used to determine whether or not strong relationship between variables X and Y. The correlation coefficient analysis used is as follows:

**1. Partial Correlation Analysis**

The partial correlation used in this research is to know the relation of each variable of activity ratio, leverage ratio to financial distress. According to Jonathan Sarwono (2011: 89) the partial correlation formula is as follows:

$$rx_1y = \frac{rx_1y - rx_2yrx_1x_2}{\sqrt{[1 - rx_2y^2][1 - rx_1x_2^2]}}$$

$$rx_2y = \frac{rx_2y - rx_1yrx_1x_2}{\sqrt{[1 - rx_1y^2][1 - rx_1x_2^2]}}$$

Source: Jonathan Sarwono (2011:89)

Information :

r = Correlation coefficient
x = Independent Variable
y = Dependent Variable

**2. Multiple Correlation Analysis**

Multiple correlation analysis used in this research is to measure strong weakness of relationship between activity ratio variable and leverage ratio with financial distress. The formula of multiple correlation is:

$$RY.X_1X_2 = \frac{b_1 \Sigma X_1Y + b_2X_2Y}{\Sigma Y^2}$$

Source: Husein Umar (2011:233)

Information :

R = Multiple correlation coefficient

$X_1$ = Rasio Aktivitas
$X_2$ = Leverage Ratio
Y = *Financial Distress*

**C. Coefficient Determination Analysis**

According to Umi Narimawati (2010: 50) analysis of determination coefficient (KD) is used to see how big the independent variable (X) affect the dependent variable (Y) expressed in percentage. The magnitude of the coefficient of determination is calculated by using the following formula:

$$Kd = r^2 \times 100\%$$

Source: Umi Narimawati (2010:50)

Information :

Kd = Determination Coefficient
$r^2$ = Correlation coefficient

**3.6.2 Hypothesis Testing Method**

The hypothesis to be used in this study relates to the presence or absence of correlation and the influence of independent variables X1 and X2 significantly to the dependent variable (Y). According Sugiyono (2012: 159) hypothesis tested can be formulated as follows:

**1. Partial Testing**

To test whether there is a significant influence of the independent variables (X) on the dependent variable (Y), then the test is done by using statistical test t as follows:

a. The t test formula used is :
The results are compared with table t for n-k-1 degrees of freedom with a significance level of 5%.

b. Hypothesis
H01; P = 0, Activity Ratio has no significant effect on Financial Distress.
H11; P ≠ 0, Activity Ratio has significant effect to Financial Distress.
H02; ρ = 0, Leverage ratio has no significant effect on Financial Distress.
H12; P ≠ 0, Leverage Ratio has a significant effect on Financial Distress.

c. Determine the level of significance
Determined by 5% of degrees of freedom (dk) = (n-k-1), to determine ttable as the boundary of the acceptance and rejection of the hypothesis. The significant level used is 0.05 or 5% because it is considered sufficient to represent the relationship of the variables studied and is the level of significance commonly used in a study.

d. Determine the conclusions based on comparison t-count with ttable. H0 is rejected if t count <ttable (α = 0,05).
Criteria for withdrawal of test: if using error level (α = 0,01) to be tested by two parties, hence acceptance criterion or rejection of hypothesis that is as follows:
- If tcount ≥ ttable then H0 is in rejection area, means Ha accepted means between independent variables and dependent variables have to do.
- If thitung ≤ ttable then H0 is in the area of acceptance, means Ha rejected means between the independent variable and the dependent variable has nothing to do.

**IV. RESULT AND DISCUSSION**

**4.1 Researcg Result**

**4.1.1 Descriptive Analysis Result**

**4.1.1.1 Activity Ratio Description**

The highest activity ratio value is 1.65 obtained by PT Asia Pacific Fibers Tbk in 2015. While for the lowest Activity Ratio value of 0.91 obtained by PT Nusantara Inti Corpora Tbk in 2013. Then the average value of Activity Ratio of sub-sector companies Textiles and garments listed on

the Indonesia Stock Exchange in 2011 of 1.07, in 2012 of 0.92. The year 2013 is 0.91, the year 2014 is 0.93, and the year 2015 is 0.91.

#### 4.1.1.2 Leverage Ratio Description

The highest Leverage Ratio value is 4.98 obtained by PT Asia Pacific Fibers Tbk in 2015. As for the lowest Leverage Ratio of 0.09 obtained by PT Tifico Fiber Indonesia Tbk in 2015 Then the average value of Ratio of Leverage of textile sub-sector And garments listed on the Indonesia Stock Exchange during 2011 of 0.88, 2012 by 0.80, 2013 by 0.88, 2014 by 1.00, and 2015 by 1.08.

#### 4.1.1.3 Financial Distress Description

The highest ICR value is 6.17 obtained by PT Eratex Djaya Tbk in 2015. As for the lowest ICR value of -20.57 obtained by PT Polychem Indonesia Tbk in 2015. Then the average value of ICR sub-sector of textile and garment Listed on the Indonesia Stock Exchange during 2011 which amounted to 43.79, in 2012 of 6.18, in 2013 of -3.10, 2014 of -6.11, and 2015 of -4.46.

### 4.1.2 Result of Verificative Analysis

#### 4.1.2.1 Classic Assumption Test

Before hypothesis testing using multiple linear regression analysis, there are several assumptions that must be fulfilled so that the conclusion of the regression is not biased, such as normality test, multicolinearity test, heteroscedasticity test and autocorrelation test. To strengthen the result of regression obtained by testing the classical assumption of regression, where the results obtained are as follows:

**a. Normality Test Result**

From Z-Skewness calculation above we get Z-Skewness value 0,17 Because Z-Skewness value 0,17 is smaller than Ztable value is 1,96 at 5% significance (0,05), hence can be concluded distributed data normal. Then obtained Z-Kurtosis value of -0.87 smaller than the value of Ztabel is 1.96 at 5% significance (0.05), it can be concluded normal distributed data.

**b. Multicollinearity Test Result**

Based on the VIF value obtained shows no strong correlation between the free variables. This can be seen from the tolerance (α) and variance inflation factor (VIF) if using alpha / tolerance = 10% or 0.10 then VIF = 10. From the output VIF count of both variables that is equal to 1.252 is smaller than 10 and all tolerance of free variable has value equal to 0,798 = 79,8% bigger than 10%, hence can be concluded there is not multicollinearity between variable of activity ratio and leverage ratio.

**c. Heteroscedasticity Test Results**

In the scatterplot graph it is seen that the dots spread randomly and spread both above and below the number 0 on the Y axis. It can be concluded that there is no heteroskedasity in the regression model, so that the regression model is feasible to predict financial distress based on independent variables of activity And leverage ratio.

**d. Autocorrelation Test Results**

Obtained Durbin-Watson (DW) statistical value = 1.904 greater than -2. The DW value of the above statistical output of 1.904 is in Between -2 and +2, or -2 <1.904 <+2, it can be concluded that there is no autocorrelation in the regression equation.

#### 4.1.2.2 Multilinear Regression Analysis

The result of regression coefficient obtained can be written in the form of equation which depict the relationship of X and Y data used are as follows:

Y = -23,399 + 44,980 X1 - 12,990 X2

Where:

Y = Financial distress

X1 = Activity Ratio

X2 = Leverage ratio

#### 4.1.2.3 The Influence of Activity Ratio on Financial Distress

1. **Activity Ratio Correlation through Financial Distress**

   The relationship between the activity ratio to financial distress when the leverage ratio doesn't change is 0.490, meaning that the ratio of activity has a moderate relationship with financial distress. This can be seen from the correlation value is between 0.40 to 0.599 which belong to the category of being. Positive relationship means, every increase of Total Asset Turnover then it will increase Interest Coverage Ratio. When the value of Total Asset Turnover is higher then it will minimize the possibility of financial distress, because when Total Asset Turnover higher, Interest Coverage Ratio will also be higher and the possibility of financial distress will be smaller. The influence of the ratio of activity to financial distress when the leverage ratio doesn't change is (0,490) 2 x 100% = 24,01%, meaning 24,01% financial distress influenced by activity ratio, while the rest equal to 75,99% influenced by other factor Which was not investigated in this study.

2. **Determination Analysis of Activity Ratio through Financial Distress**

   The coefficient of determination (Kd) shows how much cash flow affects the financial distress obtained by using the following formula:

   $Kd = (0,490)^2 \times 100\%$

   $= 24,01\%$

   Based on the above calculation, it can be seen that the influence of activity ratio to financial distress is 24.01%, while the rest of 75.99% is influenced by other factors not examined in this research such as efficiency ratio, cash flow ratio, profitability ratio, Growth ratio, market ratio and other factors beyond the financial ratios such as economic conditions (economic growth, unemployment rate, inflation and others).

3. **Partial Hypothesis Test (Test t) Activity Ratio through Financial Distress**

   From the output of SPSS in table 4.9 obtained tcount value for Activity Ratio (X1) of 3,638. With a significant level (α) of 5%, and degrees of freedom (df) = 42, then the value of ttable is 2.018. So it can be concluded tcount> ttable (3.638> 2.018) and it can be concluded that H0 is rejected and H1 accepted. This result also indicated by significance value of statistic test for Activity Ratio variable is 0.001, it means error to say there is influence to Financial Distress is only 0,1% or it means less than 5% acceptable error rate so it can be decided to reject H0 . In conclusion, Activity Ratio has significant effect to Financial Distress.

#### 4.1.2.4 The Influence of Leverage Ratio on Financial Distress

1. **Leverage Ratio Correlation through Financial Distress**

   The relationship between the leverage ratio with financial distress when the activity ratio doesn't change is -0.364, meaning that the leverage ratio has a low relationship with financial distress. This can be seen from the correlation value is between 0.20 to 0.399 which fall into low category. Negative relationship means, every increase of Debt to Asset Ratio then it will decrease Interest Coverage Ratio. When the leverage ratio is higher then the possibility of financial distress will be greater, because when Debt to Asset Ratio higher, Interest Coverage Ratio will be lower and the possibility of financial distress will be greater. The influence of leverage ratio to financial distress when the ratio of activity doesn't change is (-0,364) 2 x 100% = 13,24%, meaning 13,24% financial distress influenced by leverage ratio, while the rest equal to 86,76% influenced by factor Others not examined in this study.

2. **Determination Analysis of Leverage Ratio through Financial Distress**

   The coefficient of determination (Kd) shows how much cash flow affects the financial distress obtained by using the following formula:

   Koefisien determinasi (Kd) menunjukkan seberapa besar arus kas berpengaruh terhadap *financial distress* diperoleh dengan menggunakan rumus berikut:

   $Kd = (0,364)^2 \times 100\%$

   $= 13,24\%$

   Based on the above calculation, it can be seen that the effect of Leverage Ratio to Financial Distress ratio is 13.24%, while the rest is 86,76% influenced by other factors not examined

in this research like efficiency ratio, cash flow ratio, profitability ratio , Growth ratio, market ratio and other factors beyond the financial ratios such as economic conditions (economic growth, unemployment rate, inflation and others).

3. **Partial Hypothesis Test (Test t) Leverage Ratio through Financial Distress**
   From the output table 4.11 above obtained tcount for Leverage Ratio (X2) of -2.534. With a significant level (α) of 5%, and degrees of freedom (df) = 42, then the value -table value of 2.018. So it can be concluded the value -thount <-ttable (-2.534 <-2.018) and it can be concluded that H0 is rejected and H1 accepted. This result is also shown by significance value of statistic test for Leverage Ratio variable equal to 0,015, it means error to say there is influence to Financial Distress is only 1.5% or means less than 5% acceptable error rate so it can be decided to reject H0 . In conclusion, Leverage Ratio has a significant effect on Financial Distress.

## 4.2 Discussion

### 4.2.1 The Influence of Activity Ratio on Financial Distress

From the research that has been done got correlation value between activity ratio (as measured by Total Asset Turnover) to financial distress (as measured by Interest Coverage Ratio) that is equal to 0,490 which belong to medium category. Positive relationship means that every increase in Total Asset Turnover then it will increase Interest Coverage Ratio, meaning the higher total asset turnover then the possibility of financial distress will be lower, and vice versa. The percentage of influence of activity ratio to financial distress is 24,01%, 24,01% financial distress is influenced by activity ratio, while the rest equal to 75,99% influenced by other factor not examined in this research like efficiency ratio, ratio Cash flow, profitability ratios, growth ratios, market ratios and other factors beyond financial ratios such as economic conditions (economic growth, unemployment rate, inflation and others).

The above conclusions have responded to the phenomenon that occurs, where the phenomenon that occurs is in 2013-2015 PT Polychem Indonesia Tbk experiencing financial distress when the activity ratio has increased.

This study also provides empirical evidence of Activity Ratio to Financial Risk. This is in accordance with the results of research conducted by Muhammad Arif Hidayat and Wahyu Meiranto (2014), which shows significant Activity Ratio to Financial Distress. Then the results of this study is also supported by the theory that according to Harahap (2011:310), losses Activity Ratio of total asset turnover as measured from sales volume in other words the word far ability of all assets can create sales. If in a company can not increase sales, then the company will eventually experience a decrease in corporate profits, and eventually the company will experience financial distress. Because the company does not fulfill its obligations.

### 4.2.2 The Influence of Leverage Ratio on Financial Distress

From research that has been done got correlation value between leverage ratio to financial distress equal to -0,364, it means leverage ratio have low relation with financial distress. This can be seen from the correlation value is between 0.20 to 0.399 which fall into low category. Negative relationship means, every increase of Debt to Asset Ratio then it will decrease Interest Coverage Ratio. When the leverage ratio is higher then the likelihood of the occurrence of financial distress will be greater, because when Debt to Asset Ratio higher, Interest Coverage Ratio will be lower and the possibility of financial distress will be greater. The big influence of leverage ratio to financial distress is 13,24%, meaning 13,24% of financial distress influenced by leverage ratio, while the rest equal to 86,76% influenced by other factor which will more influence financial distress than leverage ratio, , Cash flow ratio, profitability ratio, growth ratio, market ratio and other factors beyond the financial ratios such as economic conditions (economic growth, unemployment rate, inflation and others).

The above conclusions can and have answered the phenomenon that occurs, where the phenomenon that occurs is in 2013 - 2015 PT Polychem Indonesia Tbk and PT Eratex Djaya Tbk in 2011 - 2015 experienced financial distress when leverage ratio as measured by Debt to Asset Ratio decreased.

The result of this research is supported by previous research done by Yuanita (2012) which shows Leverage Ratio significantly influence to Financial Distress. Then the result of this research also supported by theory which explained by Surya (2012: 4), that if a company financing more Using debt, this is risky will occur difficulty payment in the future due to debts greater than assets owned. If this situation can not be overcome well, the potential for financial distress is greater.

## V. CONCLUSION AND ADVICE

### 5.1. Conclusion

Based on background, phenomenon, framework, research result and discussion about Activity Ratio and Leverage Ratio to Financial Distress, then at the end of this research the author draws the following conclusion:

1. Activity Ratio affects Financial Distress. There is a positive and positive relationship, each increase in Activity Ratio then it will increase Interest Coverage Ratio, meaning that the higher the Activity Ratio the possibility of the occurrence of Financial Distress will be lower, and vice versa.
2. Leverage Ratio affects the Financial Distress. There is a low and negative relationship which means any increase in Leverage Ratio then it will lower the Interest Coverage Ratio, meaning that the higher Leverage Ratio then the company is likely to experience Financial Distress, and vice versa.

### 5.2. Advice

Based on the above conclusions, the authors provide some suggestions as follows:

**1. Practical Advice**

For the Textile & Garment Sub-Sector Companies listed in the Indonesia Stock Exchange should the company optimize the acquisition of sales by using assets owned by the company. The company can perform operational efficiency efficiencies so that the company can obtain optimal profit, with optimal earnings expected the company can avoid the condition of Financial Distress. The Textile & Garment Sub-Sector Companies listed on the Indonesia Stock Exchange should also be more careful considering the company's ability to repay the debt, by avoiding excessive debt, as well as maintaining debt repayment and extending the maturity of debt payments so that the company can Maintaining a stable leverage ratio and avoid extreme debt conditions have a high default risk. The Textile & Garment Sub-Sector Companies listed on the Indonesia Stock Exchange may then increase their profit before tax by performing interest cost efficiency. The efficiency of interest expense can be done by avoiding debt / loan with high interest. With the efficiency of interest expense expected profit before taxes company can cover the interest expense and company avoid from condition of Financial Distress.

As for investors who are investing or who are just going to start investing in Sub Textile & Garment Companies listed in Indonesia Stock Exchange, is expected to be more careful in making investment decisions. Investors need to consider the Activity Ratio and Company Leverage Ratio in order to make no mistake in investing their capital into a company that has the potential to generate no optimal profit.

**2. Academic Advice**

For the next researcher and the development of accounting science is expected to add or use other financial variables that can predict the Financial Distress in this study which is considered to provide more accurate research results again, such as efficiency ratio, liquidity ratio, cash flow ratio, activity ratio, growth ratio , Market ratios and other financial ratios as well as factors beyond financial ratios such as economic conditions (economic growth, unemployment rate, inflation and others). In addition, for further research is expected to sample data taken not only from the textile & garment sub-sector company, but expanded to other companies in the sector.

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**LAMPIRAN**

**Tabel 3. 1**
**Variable Operationalization**

| No | Variabel | Konsep Variabel | Indikator | Skala |
|---|---|---|---|---|
| 1. | Activity Ratio (variable $X_1$) | The activity ratio describes the activities the company performs in its operations both in sales, purchases, and other activities.<br><br>Harahap (2011:308) | One way to measure the magnitude of the activity ratio is by:<br><br>*Total Asset Turnover* = $\frac{Net\ Sales}{Total\ Assets}$<br><br>Harahap (2011:309) | Rasio |
| 2. | Leverage Ratio (varaible $X_2$) | The leverage ratio is a ratio that measures how much a company is financed with debt.<br><br>Irham Fahmi (2014:179) | The size of the leverage ratio can be measured by:<br><br>*Debt to Asset Ratio* = $\frac{Total\ Debt}{Total\ Assets}$<br><br>Irham Fahmi (2014:180) | Rasio |
| 3. | Financial distress (variable Y) | Financial distress is the stage of decline in financial conditions that occur prior to the occurrence of bankruptcy or liquidation.<br><br>Irham Fahmi (2014:93) | Interest Coverage Ratio (ICR) can be used to classify companies with financial distress.<br><br>*Interest Coverage Ratio* = $\frac{Earning\ Before\ Tax\ (EBT)}{Interest\ Expense}$<br><br>Irham Fahmi (2014:94) | Rasio |

**Tabel 3.5**
**Guidelines for Interpretation of Correlation Coefficients**

| Interval Koefisien | Tingkat Hubungan |
|---|---|
| 0,00 – 0,199 | Very Low |
| 0,20 – 0,399 | Low |
| 0,40 – 0,599 | Medium |
| 0,60 – 0,799 | Strong |
| 0,80 – 1,000 | Very Strong |

(Source: Sugiyono, 2012:184)

**Tabel 4.4**

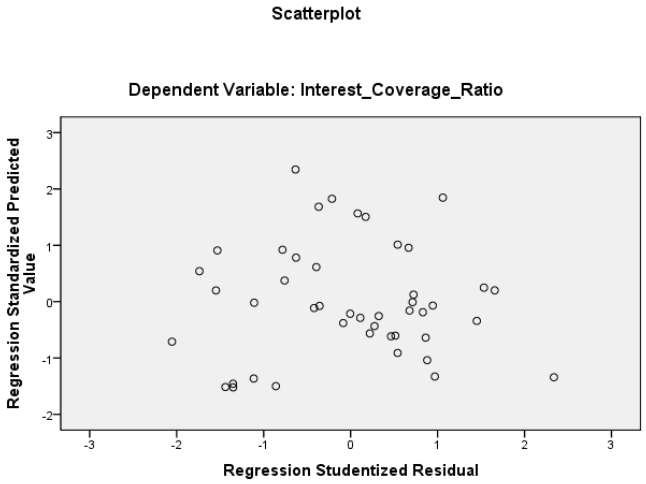
**Result of Assumption Normality**
**Slope of the Curve (Skewnes) and Curve Tightness (Kurtosis)**
**After Deletion of Data Not Distributed Normal**

**Descriptive Statistics**

| | N | Skewness | | Kurtosis | |
|---|---|---|---|---|---|
| | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| Unstandardized Residual | 45 | .063 | .491 | -.640 | .953 |
| Valid N (listwise) | 45 | | | | |

**Tabel 4.5**
**Result of Multicollinearity Assumption**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | (Constant) | | |
| Total Asset Turnover | | .798 | 1.252 |
| Debt to Asset Ratio | | .798 | 1.252 |




**Picture 4.5**
**Scatterplot chart**

**Tabel 4.6**

**Results of Autocorrelation Assumptions**
**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .503[a] | .253 | .218 | 32.69368 | 1.904 |

a. Predictors: (Constant), Debt_to_Asset_Ratio, Total_Asset_Turnover

b. Dependent Variable: Interest_Coverage_Ratio

**Tabel 4.7**
**Results of Multiple Linear Regression Analysis**
**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -23.399 | 11.581 | | -2.020 | .050 |
| | Total_Asset_Turnover | 44.980 | 12.364 | .543 | 3.638 | .001 |
| | Debt_to_Asset_Ratio | -12.990 | 5.127 | -.378 | -2.534 | .015 |

a. Dependent Variable: Interest_Coverage_Ratio

**Tabel 4.8**
**Partial Correlation Result of Activity Ratio with Financial Distress**
**Correlations**

| Control Variables | | | Total_Asset_Turnover | Interest_Coverage_Ratio |
|---|---|---|---|---|
| Debt_to_Asset_Ratio | Total_Asset_Turnover | Correlation | 1.000 | .490 |
| | | Significance (2-tailed) | . | .001 |
| | | Df | 0 | 42 |
| | Interest_Coverage_Ratio | Correlation | .490 | 1.000 |
| | | Significance (2-tailed) | .001 | . |
| | | Df | 42 | 0 |

**Tabel 4.10**
**Partial Correlation Result of Leverage Ratio with Financial Distress**
**Correlations**

| Control Variables | | | Debt_to_Asset_Ratio | Interest_Coverage_Ratio |
|---|---|---|---|---|
| Total_Asset_Turnover | Debt_to_Asset_Ratio | Correlation | 1.000 | -.364 |
| | | Significance (2-tailed) | . | .015 |
| | | Df | 0 | 42 |
| | Interest_Coverage_Ratio | Correlation | -.364 | 1.000 |
| | | Significance (2-tailed) | .015 | . |
| | | Df | 42 | 0 |