CHAPTER V

CONCLUSIONS AND IMPLICATIONS

A. Conclusions

This study seeks to ascertain the impact of operating cash flow (X_1), leverage (X_2), and liquidity (X_3) on financial distress (Y) in corporation that are publicly traded on the Indonesia Stock Exchange (IDX) between the years 2018 and 2022. The conclusions of hypothesis testing using multiple linear regression analysis are as follows:

1. Operating cash flow has a positive effect on Financial Distress. A decline in the operating cash flow ratio increases the company's vulnerability to financial distress as measured by the Z"-Score. Otherwise, if the cash flow ratio incline, the company's financial condition will actually improve so that it can avoid financial distress
2. Leverage has a negative effect on financial distress. The leverage ratio value lowers, which indicates that the company is becoming more secure from financial distress as measured by the Z"-Score. However, if the leverage ratio increases, there is a chance that the company will default, resulting in financial distress.
3. Liquidity has a positive effect on financial distress. As the liquidity ratio value advances, it indicates that the organization is becoming more secure from financial distress as measured by the Z"-Score. However, if the

liquidity ratio decreases, the amount of cash available may not be sufficient to pay current liabilities, so the company may experience financial distress.

B. Implications

1. In 2020, the infrastructure budget of the Indonesian National Budget (APBN) experienced a decline due to the impact of the Covid-19 epidemic. Consequently, numerous infrastructure projects were postponed or terminated, resulting in a fall in the net income of multiple sectors within the infrastructure industry. The decline in net income led to a reduction in operating cash flow, while current liabilities such as accounts payable, employee salaries, and dividend payments either remained the same or grew. As a result, the company is not generating enough cash from its core business operations, so the operational cash flow ratio has decreased as well.

   The decreasing operational cash flow ratio can be a strong predictor of financial distress because it indicates that the company may have difficulty covering operating expenses and other short-term obligations without relying on external financing or liquidating assets. In order to enhance the operating cash flow, managers must enlarge their net income through methods of growing sales. Alternatively, the managers can decrease its existing obligations by managing operational expenses through the reduction of overhead expenditures, enhancing operational effectiveness, and maximizing resource utilization.

2. The leverage ratio in this study is calculated using the debt to asset ratio, which 59 percent or half of the company's assets are financed by debt. This means that companies need to be carefull, as the average leverage ratio exceeds half of the company's assets. To reduce leverage, managers can increase company assets by increasing the amount of income by conducting promotions to increase the amount of sales, cash flow improvement in the form of Increasing cash flow from operations to reduce dependence on debt, asset optimization in the form of selling unproductive assets to reduce debt and increase liquidity, and debt restructuring in the form of renegotiating debt terms to get lower interest rates or extending maturity.

3. A current ratio of 1.1 indicates that the company has slightly more current assets than current liabilities, indicating that the company has enough liquidity to cover its short-term obligations. Even if the current ratio is above one, it is small, indicating that the company does not have a significant buffer to deal with financial distress. Companies must maintain or slightly increase their liquidity ratios to ensure sustainable financial health. This can be done by increasing current assets or reducing current liabilities. Strategies that can be implemented include optimizing inventory management and accelerating receivables collection. Companies must monitor cash flow regularly to ensure that they can cover short-term obligations. This includes careful planning and forecasting to avoid liquidity shortages.

C. Limitation and Future Research Agenda

The researcher has recognized some limitations and suggestions in this study, which include:

1. The researcher intended to carry out 26 companies on infrastructure sector. However, the researcher found that 5 companies had abnormal data and 2 companies whose data were missing or incomplete, it needed to be removed. The sample size for this study consisted of only 19 infrastructure companies, observed over a period of 5 years. The sample obtained for this study may be insufficient, and it would be advisable to collect more samples in future research by include other corporate sectors or extending the fiscal period to obtain a larger sample size.
2. Suggestions for further researchers are expected add observation periods to provide better research results and use different sectors, because infrastructure sector companies need large initial capital to start their projects, they need to use debt and result in large leverage, so further researchers try to research other sectors such as technology or consumer cyclicals to find out other perspectives from sectors that have lower average debt. Then further researchers are expected to add independent or moderating variables such as profitability, managerial ownership, and company size. So further research can examine other than debt factors.