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The Impact of Sales Growth on Financial Distress in Food and Beverage on the Indonesian Stock Exchange during the 2019-2020 Covid-19

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ABSTRACT

Purpose: The Covid-19 pandemic has led to corporate financial decline caused by reduced profits and sales. Additionally, the decline in corporate finances has also been attributed to a decrease in sales within companies. The purpose of this research is to investigate the impact of sales growth on the occurrence of financial distress in food and beverage companies listed on the Indonesian Stock Exchange.

Design/methodology/approach: The variable used in this study is sales growth, which is used to measure a company's ability to maintain its economic position in a growing economy, as well as in the industry or product market in which it operates, as a means of survival in the face of intense market competition.

Findings: This study utilises a qualitative approach, employing descriptive analysis techniques through a literature review (library research). The findings of this research indicate that sales growth has a significant impact on financial distress in food and beverage companies listed on the Indonesian Stock Exchange during the 2019-2020 periods.

Paper type: a Research Paper

Keywords: *Sales Growth, Financial Distress, Covid-19 Pandemic*

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I. INTRODUCTION

The current era of globalization has led to constant changes in the economic conditions, which greatly affect the operations and performance of companies. If a company fails to keep up with the competition, it may suffer losses, particularly in its financial condition, which can lead to bankruptcy (Riniwati, 2016).

Indonesia entered the free market or what is known as the ASEAN Economic Community (AEC) in 2015, which requires companies to improve their competitiveness to make their products better. The food and beverage sector continues to be the largest contributor to the national and international economy, by increasing the value added of domestic raw materials, employing local labor and earning foreign exchange from the export of large companies (Salean, 2015).

Towards the end of 2019, in December, the world was shaken by the coronavirus (Covid-19) outbreak that originated from Wuhan, China. On Wednesday, March 11, 2020, the World Health Organization (WHO) officially declared the Covid-19 outbreak as a global pandemic (Okrianesia et al., 2021). The pandemic showed rapid and increasing spread, including in Indonesia. The Indonesian government quickly issued policies to suppress the Covid-19 pandemic through social distancing, which was done to reduce and even break the chain of Covid-19 virus transmission. This situation directed individuals to maintain a safe distance of at least 2 meters from others and avoid direct contact with others. In addition, the government issued Government Regulation of the Republic of Indonesia Number 21 of 2020 concerning Large-Scale Social Restrictions in the Context of Accelerating the Handling of Corona Virus Disease 2019 (Covid-19), which is the government's strategy to prevent the spread of Covid-19 infection (Ministry of Health, 2020).

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The impact of the Covid-19 pandemic was quite felt by the food and beverage companies. The food and beverage business operates in the food and beverage industry, which is a sector that is essential to human survival. In their daily activities, humans cannot be separated from the food sector because it is a primary need (nutrition) in addition to clothing and shelter. The food and beverage industry is one of the sub-sectors of the consumer goods industry. The consumer goods industry is a business that produces basic necessities (Wahyuni & Banjarnahor, 2022).

Following the impact of the COVID-19 pandemic, the financial condition of the corporation deteriorated due to the decrease in its earnings. Furthermore, the decline in the financial condition of the company is also caused by the reduction in the company's sales. A food and beverage company that experienced a decline in earnings in 2020 due to the COVID-19 pandemic, PT Multi Bintang Indonesia Tbk (MLBI), recorded a decline in earnings of Rp63.09 billion in the second quarter of 2020, down 87.01% from the same period last year, which reached Rp485.76 trillion. In addition, PT Delta Jakarta Tbk (DLTA) also experienced a decline in earnings in the second quarter of 2020, which was recorded at Rp34.60 billion, down 75.54% from the same period last year, which reached Rp141.50 trillion. PT Campina Ice Cream Industry Tbk (CAMP), a company that recorded a decline in revenue in the second quarter of 2020, was recorded at Rp459.01 billion, down 8.83% compared to the same period last year which was Rp503.47 billion. In addition, PT Multi Bintang Indonesia Tbk, PT (MLBI) was recorded at Rp799.70 billion in the second quarter of 2020, down 48.64% compared to the same period last year, which reached Rp1.55 trillion (Okrianesia et al., 2021).

The decline in earnings and sales is feared to affect the company's ability to meet its short-term obligations. The COVID-19 pandemic requires companies to strengthen their fundamentals so that their financial position remains stable and avoids financial distress.

Financial problems of a company can arise due to several reasons, including the company experiencing permanent losses caused by sales below the target, production failure caused by human error, or natural disasters that damage the company's assets. The Indonesia Stock Exchange (IDX) has delisted at least 20 company stocks listed on the IDX over the past five years due to poor performance and the stocks have not been traded for a certain period of time and have not been able to distribute dividends to shareholders (Siswanti et al., 2020).

Financial distress itself is a stage of declining financial condition of a company, when the company experiences a failure of financing both internally and externally. According to Brigham and Daves in Hidayat & Meiranto (2014), financial distress occurs as a result of a series of poor decision-making mistakes and weaknesses directly or indirectly related to management, as well as a lack of effort to monitor the financial situation, so that financial usage is not in accordance with the company's needs. The situation of financial distress can be identified by observing the results of the company's financial statements. Evaluating whether a company is performing well can be seen in the financial statements by analyzing the financial statements.

The variable in this study is sales growth, which in this study refers to the research topic Pratiwi et al. (2023) with indicators of sales growth and net profit margin. Furthermore, the variable of financial distress uses indicators of profit margin ratio, market value ratio, and profitability ratio. The sales growth variable is useful for measuring a company's ability to maintain its economic position in the face of economic growth in the industry or product market, where it plays a role in the company's survival in a highly competitive market. If high sales growth activities indicate that the company is also able to generate high revenue, the company must meet its obligations and reduce the possibility of financial distress.

In general, a company or organization can be defined as a comparison of the size of a company's business. Company size is divided into three categories: large companies, medium-sized companies, and small companies. Company size indicates how many total assets the company owns. Companies with large total assets send a positive signal to creditors because they can easily diversify and will be able to pay their obligations in the future, so the company can avoid financial distress.

Research on financial distress has been widely conducted. Based on the above explanation, the background of this study, the research problem formulated is whether sales growth affects the occurrence of financial distress in food and beverage companies listed on the Indonesia Stock Exchange (BEI). This study aims to measure the effect of sales growth on the occurrence of financial distress in food and beverage companies listed on the BEI during the period of 2019-2020, during the COVID-19 pandemic.

A. Literature Review

1. Sales Growth

The position of a company becomes attractive to its creditors if it is in a growth phase, and one of the indicators of a company's existence is sales growth. Kusuma (2009) defined sales growth as the increase in sales from year to year or over time, which signifies the operational success of the company in the past and can serve as a reference for the future. Meanwhile, Widarjo & Setiawan (2009) described sales growth as reflecting a company's ability to increase sales over time. The higher the sales growth rate of a company, the more successful it is in executing its marketing and sales strategies. This also implies an increase in the company's

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profit resulting from changes in financial statement components, such as the sales earning tax ratio, earnings per share, dividends per share, and price per share.

Sales growth is used to predict future business growth from the revenue generated by products and services, and sales revenue. This ratio also reflects the success of a company's past investment activities and can be used to predict its growth in the future. Sales growth ratio is calculated by subtracting the current period sales from the previous period sales, then dividing the result by the previous period sales.

2. Financial Distress

Financial distress is a condition in which a company experiences financial difficulties. The condition of a company is always a concern for many parties, not only from the internal parties such as the owners or management of the company, but also external parties including investors, creditors, and others. This means that the management of the company must always maintain the financial condition of the company to be good and stable.

Financial distress can be described between two extreme points, namely short-term liquidity difficulties (the mildest) and insolvency (the most severe). Short-term financial distress is usually temporary but can develop into a more serious condition. Mismanagement of short-term financial distress (the inability to pay obligations when they are due) can lead to bigger problems, namely insolvency (where the amount of debt is greater than the amount of assets) and eventually bankruptcy (Munawir, 2002: 291).

Financial distress is a condition that occurs before a company goes bankrupt and is marked by a decline in financial performance and a deteriorating condition. According to Simanjuntak et al. (2017), financial distress is a stage where the financial condition of the company worsens, starting from the company's inability to fulfill its obligations, especially the payment of short-term debt, including liquidity obligations, and also including solvency obligations.

3. Signal Theory

The signal theory relates to the understanding of how a signal can be valuable and useful for external parties, such as investors, to invest in a company. This means that the chosen signal must contain powerful information that can alter the external evaluation of the company. The signal theory is a means of communication that is carried out by the company to external parties, particularly investors.

(Jogiyanto, 2014: 392) provides the understanding that information released by the company as an announcement will give a signal to investors in making investment decisions. This encourages shareholders to invest in the company, which will increase the company's value in the future. In summary, the signal theory discusses how signals of management success and failure should be communicated to the company's owners.

II. METHOD

This is a qualitative research study utilizing a descriptive analysis method through a literature review, where the study aims to depict existing phenomena that are currently happening or have occurred in the past. The research explores the impact of sales growth on financial distress in food and beverage companies listed on the Indonesia Stock Exchange during the 2019-2020 period amid the COVID-19 pandemic.

III. RESULTS AND DISCUSSIONS

A. The Influence of Sales Growth on Financial Distress in Food and Beverage Companies Listed on the Indonesian Stock Exchange During the 2019-2020 Covid-19 Pandemic

There is a strong positive relationship between strong sales growth and the increase in a company's revenue from sales during a specific business period. This is considered a signal for investors and creditors, as a strong sales growth of a company will affect its assets and profits, thus attracting investment and loan offers. On the other hand, low sales growth can lead to financial difficulties for a company, as it can result in reduced revenue compared to the previous period, thus impacting the company's assets, profits, and business obligations.

Numerous studies have analyzed the impact of sales growth on financial distress, including:

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Table 1. Research of analyzed the impact of sales growth on financial distress

Researcher	*Title*	*Year*	*Method*	*Results*
Marfadha Okrisnesia, Indrian Supheni and Bambang Suroso	*The effect of profitability, liquidity and sales growth on financial distress during the Covid-19 pandemic on food and beverages companies listed on the Indonesia Stock Exchange*	*2021*	*Quantitative*	*The research findings indicate that profitability, liquidity, and sales growth have an effect on financial distress. An increase in profitability reduces the risk of the company experiencing financial distress. Higher liquidity further reduces the chances of the company being indicated as being in financial distress. A higher level of sales growth indicates the success of the company in executing its marketing and sales strategies. The higher the risk of the company, the greater the likelihood of it experiencing financial distress.*
Naufal Akrom	*The effect of liquidity, leverage, sales growth, and company size on financial distress (case study on a food and beverage sub-sector company listed on the Indonesia Stock Exchange for the period 2015-2018)*	*2020*	*Quantitative*	*The research findings indicate that liquidity has a significant negative effect on financial distress, while sales growth has a significant positive effect on financial distress. On the other hand, leverage and firm size do not have a significant effect on financial distress.*
Tina Novianti Sitanggang	*Factors Affecting Financial distress in Manufacturing Companies in the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange in 2016–2020*	*2021*	*Quantitative*	*The research findings indicate that sales growth and working capital turnover have a significant effect on financial distress when analyzed separately. However, ownership institutionalization and debt to equity ratio do not have a significant impact on financial difficulties. All variables have a significant effect on financial distress when analyzed together.*
Dina Anggraeni Susesti, Endah Tri Wahyuningtyas	*Financial distress Determination Factors In Food And Beverages Companies In Indonesia Stock Exchanges*	*2020*	*Quantitative*	*The research results conclude that leverage, measured by debt to asset ratio, liquidity, measured by current ratio, and company growth, measured by sales growth, do not have a significant impact on financial distress. On the other hand, profitability, measured by return on assets, and activity, measured by total turnover, have a negative impact on financial distress of food and beverage companies. Keywords: Leverage, liquidity, profitability, activity, company growth, financial distress.*
Dina Octavia Pratiwi, Tri Ratnawati, Achmad Maqsudi (2023)	*The effect of asset growth, sales growth and capital structure on financial distress and company value with GCG as moderation in the food and beverage sub-sector on the IDX*	*2023*	*Quantitative*	*The results show that asset growth has a non-significant effect on firm value, while sales growth has either a non-significant or significant effect on firm value. Capital structure has a significant effect on firm value. Asset growth has a non-significant effect on financial distress, while sales growth has a significant effect on financial distress. Capital structure has a significant effect on financial distress. Financial distress has a non-significant effect on firm value, and the relationship between financial distress and firm value is not significantly moderated by good corporate governance.*

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According to the study by Okrianesia et al. (2021), Sales Growth has a positive and significant impact on financial distress. Sales growth reflects the success of a company's investment in the previous period and can be used as a forecast of the company's growth in the future period. The higher the level of sales growth, the more successful the company is in implementing its marketing and sales strategies. The greater the risk for the company, the higher the likelihood of experiencing financial distress.

Similar research was conducted by Akrom (2021), which showed that sales growth has a positive and significant impact on financial distress. Sales growth is a measure of a company's sales growth and reflects the company's ability over time. The higher the level of sales growth, the more successful the company is in implementing its strategies and reflects an increase in the company's revenue. The company's sales growth rate will affect its ability to maintain profits while identifying future opportunities. Sales growth is used to predict the future growth of the company based on the revenue generated from products and services and the revenue generated from sales. A high sales growth rate reflects a significant increase in profit. Therefore, if a company has a high sales growth rate, it indicates a good financial condition and is far from financial distress, as evidenced by the continuous growth in sales. However, if sales growth decreases from year to year, the company is likely to experience declining financial conditions.

Several studies, including Sitanggang et al. (2021), have supported the positive relationship between sales growth and financial distress. Similarly, Susesti (2021) study found a positive relationship between sales growth and financial distress. Growth firms are characterized by their ability to maintain their economic position in the face of economic and sectoral growth. Companies with strong marketing or sales strategies can compete and generate significant profits. Company growth is determined by the sales growth rate, which reflects the company's ability to increase product sales by increasing sales frequency and volume, as noted by Rahmy (2015). According to Pratiwi et al. (2023), the influence of sales growth on financial distress is significantly positive. The research results indicate that higher sales growth rates prevent financial distress.

According to Brigham & Houston (2016:189), the higher the company's growth rate, the greater its use of debt, and the slower its growth rate. Rapidly growing companies have increased funding needs. The faster a company grows, the more positive signals it gives to internal and external parties because the company's performance is considered good. The signaling theory explains how information about a company's growth can affect its financial performance. High sales growth can increase a company's revenue from sales that occur within a particular period. Investors tend to invest in companies with high sales growth to expand their business, which can keep the company's finances stable. Thus, the company's condition will remain stable, sufficiently good, and the possibility of experiencing financial difficulties will decrease (Setyowati & Sari, 2019). Based on the findings and analysis of Akrom (2021); Okrianesia et al. (2021); Pratiwi et al. (2023); Sitanggang et al. (2021), it can be concluded that sales growth affects financial distress in the food and beverage companies listed on the BEI during the 2019-2020 period.

IV. CONCLUSION

Based on the results and analysis, it can be concluded that, according to the studies by Akrom (2021); Okrianesia et al. (2021); Pratiwi et al. (2023); Sitanggang et al. (2021), sales growth has an effect on financial distress in food and beverage companies listed in the Indonesian Stock Exchange (BEI) during the period of 2019-2020. The higher the level of sales growth in a company, the more successful it is in implementing its strategies and reflecting an increase in the company's revenue. The level of sales growth in a company will affect its ability to maintain profits while identifying future opportunities, thus avoiding financial distress.

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