ABSTRACT

Financial distress refers to a condition in which a company experiences difficulties in meeting its financial obligations and faces an increased risk of business failure. This study examines the effects of liquidity, leverage, and profitability on financial distress, with working capital turnover (WCTO) as a mediating variable, among manufacturing companies listed on the Indonesia Stock Exchange during 2020–2024. Purposive sampling produced 194 companies and 970 firm-year observations. Financial distress is proxied by the Altman Z-Score, while liquidity, leverage, and profitability are proxied by the current ratio (CR), debt-to-equity ratio (DER), and return on assets (ROA). The data were analyzed using panel-data regression in Stata. Model-selection tests indicate that the Altman Z-Score equation is appropriately estimated using the Fixed Effect Model (FEM), whereas the WCTO equation is appropriately estimated using the Random Effect Model (REM). The final FEM results show that CR and ROA have positive and significant effects on the Altman Z-Score, while DER has a negative and significant effect. WCTO has a positive coefficient but is not significant at the 5% level (p = 0.087). The final REM with firm-clustered robust standard errors shows that CR has a negative and significant effect on WCTO ($p < 0.001$), whereas DER and ROA are not significant. A 1,000-replication cluster bootstrap using the REM mediator specification shows that the indirect effects of CR, DER, and ROA through WCTO are not statistically significant because their 95% confidence intervals include zero. Therefore, WCTO does not mediate the effects of liquidity, leverage, or profitability on financial distress in the final model.

Keywords: Financial Distress, Liquidity, Leverage, Profitability, Working Capital Turnover, Altman Z-Score, Panel Data, Manufacturing Companies.