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The Influence of Profitability, Liquidity, and Leverage on Financial Distress of Tourism Sector Companies

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Abstract *This study aims to determine the effect of profitability, liquidity, and leverage on financial distress of tourism sector companies listed on the Indonesia Stock Exchange for the period 2018-2023. The number of companies used as samples was 32 companies with certain criteria. The sampling technique used purposive sampling, so that the total analysis units in this study were 192. Multiple linear regression analysis was used in the analysis of this research data. The results of the study indicate that profitability, liquidity, and leverage have a positive effect on financial distress. Thus, it can be concluded that the overall results of this study are that profitability, liquidity, and leverage can influence financial distress.*

Keywords*: Financial Distress, Leverage, Liquidity, Profitability*

Abstrak. Penelitian ini bertujuan untuk mengetahui pengaruh profitabilitas, likuiditas, dan leverage terhadap financial distress perusahaan sektor pariwisata yang terdaftar di Bursa Efek Indonesia periode 2018-2023. Jumlah perusahaan yang dijadikan sampel berjumlah 32 perusahaan dengan kriteria tertentu. Teknik pengambilan sampel menggunakan purposive sampling, sehingga total unit analisis pada penelitian ini berjumlah 192. Analisis regresi linier berganda digunakan pada analisis data penelitian ini. Hasil penelitian menunjukkan bahwa profitabilitas, likuiditas, dan leverage berpengaruh positif terhadap financial distress. Dengan demikian, dapat disimpulkan secara keseluruhan hasil penelitian ini bahwa profitabilitas, likuiditas, dan leverage mampu memengaruhi financial distress.

Kata kunci: Financial Distress, Leverage, Likuiditas, Profitabilitas

1. INTRODUCTION

The tourism sector plays an important role in driving Indonesia's economic growth. In 2018, according to data (BPS, 2019), the number of foreign tourist visits to Indonesia in December 2018 increased by 22.54 percent compared to the number of visits in December 2017, from 1.15 million visits to 1.41 million visits. Likewise, when compared to November 2018, the number of foreign tourist visits in December 2018 increased by 21.43 percent. During 2018, the number of foreign tourist visits to Indonesia reached 15.81 million visits or increased by 12.58 percent compared to the number of foreign tourist visits in the same period in 2017 which amounted to 14.04 million visits.

This condition worsens the financial situation of companies in the tourism sector, which previously relied on daily cash flow for their operations. High dependence on debt increases the risk of bankruptcy, especially for companies that fail to adjust operating costs to declining revenues (Safitri et al., 2023). The phenomenon of financial distress in tourism companies

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reflects a condition where a company experiences significant financial difficulties, such as the inability to meet short-term obligations or balance cash flow. Causes of financial distress can include external factors, such as global economic conditions, as well as internal factors, including poor financial management and high dependence on debt. A company that relies too much on debt financing is at higher risk of financial distress when revenues decline.

In 2020, revenues in the tourism, hotel, and restaurant sectors fell by 92.47%, and many companies in this tourism sector are at risk of bankruptcy due to travel restrictions and declining tourism demand (Rahmawati & Prihastiwi, 2021). This can be seen from the decline in profits of tourism sector companies. The following is a table of profit data for two tourism companies listed on the Indonesia Stock Exchange:

Table 1. Tourism Sector Company Profits

No	Kode	Emiten	Tahun	Laba Bersih
1	NASA	PT Andalan Perkasa Abadi Tbk	2018	Rp 257.706.783
			2019	Rp (548.729.615)
			2020	Rp (6.527.051.485)
			2021	Rp (4.933.144.785)
			2022	Rp (279.278.890)
			2023	Rp 6.340.960.409
2	ARTA	PT Arthavest Tbk	2018	Rp 7.498.492.703
			2019	Rp 628.762.882
			2020	Rp (11.209.268.817)
			2021	Rp (12.520.742.110)
			2022	Rp (301.979.149)
			2023	Rp 2.362003.147
3	BUVA	PT Bukit Uluwatu Villa Tbk	2018	Rp 13.854.741.330
			2019	Rp (113.422.115.432)
			2020	Rp (1.189.598.412.341)
			2021	Rp (361.011.690.496)
			2022	Rp (198.801.015.252)
			2023	Rp 17.122.185.356

Source: (IDX, 2024) and processed by the author

Based on table 1. what happened was a significant decline in profit in 2018 to 2020. In 2018 it had a high profit, peaking in 2020 the company above experienced a very high decline in profit. but in 2021 to 2023 the company experienced an increase in profit.

The analysis that can be used to measure signs of financial distress in a company can use the profitability ratio. To measure the profitability ratio is to calculate Return on Assets (ROA). This ROA is used to calculate how effective the company is in generating net profit

from the total assets it owns. Companies with low ROA are often inefficient in using their assets, making it difficult to pay their obligations.

Liquidity Ratio or Current Ratio can also be used to detect signs of bankruptcy in a company. Current Ratio measures the company's ability to meet its short-term obligations using current assets. Signs of bankruptcy in a company can also be measured by the Debt to Equity Ratio (DER). Debt to Equity Ratio measures the company's leverage level, which is how much debt is used to fund assets compared to equity. A high DER indicates that the company is highly dependent on debt for its operations. A low DER indicates a more controlled use of debt, but too low may reflect the risk of low growth.

Based on agency theory (Scott 2015), the relationship between management and shareholders often presents a conflict of interest. In this context, low profitability, poor liquidity, and high leverage can be an indication of agency problems that increase the risk of financial distress. Meanwhile, signal theory (Brigham and Houston 2016) explains that companies can provide information to external parties, such as investors and creditors, through certain financial indicators. In the tourism sector, which relies heavily on large investments and uncertain revenue cycles, financial signals are important for stakeholders to assess the financial health of a company.

This is supported by previous studies, namely Hidayat et al (2021) in their research proved that the liquidity ratio and leverage ratio have a positive and significant effect on financial distress. Erayanti (2019) also stated that the liquidity ratio has a significant effect on the company's financial distress, while the profitability ratio does not affect the company's financial distress. In the study (Muannasa et al., 2023) stated that the Capital Adequacy Ratio (CAR) has a significant positive effect on financial distress, while NPF, ROA, and FDR do not have a significant effect on financial distress.

Based on the inconsistency of previous research results, the phenomena that occur, and the urgency of the research, namely that tourism sector companies require effective financial management strategies to reduce the risk of financial distress, the researcher is interested in conducting research related to financial distress in tourism sector companies in order to determine the effect of profitability, liquidity, and leverage on financial distress of tourism sector companies listed on the Indonesia Stock Exchange. The selection of the period chosen by the author in this study was carried out in 2018-2023 which also has strong reasons, namely this period includes significant fluctuations in Indonesian and global macroeconomic conditions, such as changes in monetary policy, inflation, exchange rates and other global economic conditions.

2. THEORETICAL STUDIES

Agency Theory

Agency theory according to Scott (2015) is an extension of the theory that studies a contract design where agents, namely management, work on behalf of the principal, namely investors. This theory contains a contractual relationship between agents and principals, where investors appoint agents as management who manage the company on behalf of the company owner. Agency theory states that each party is only motivated by their own interests, thus causing a conflict between the agent and the principal. With the difference in the amount of information owned and the difficulty of shareholders in monitoring the actions of managers, this can be used by managers to maximize their own interests.

Signalling Theory

According to Brigham and Houston (2016:184) signaling theory means a signal given by company management to investors as an indication of the company's prospects. Jogiyanto (2017) stated that investors will receive a signal from information disseminated to the public which is then used in making investment policies. Signaling theory can be interpreted as how important it is for investors to analyze and interpret the information they receive before making decisions. Signal theory emphasizes how important the information provided by the company to investors as an external party is because investors always need complete, relevant, accurate, and timely information to analyze during their decision-making process

Financial Distress

In the business world, a company's financial condition can be divided into two, namely, conditions that indicate profit (profitability) and financial distress conditions (Rahmadhani & Indriyani, 2019). Financial distress conditions mean that the financial management conditions of a company are starting to become chaotic or disorderly. This situation can occur due to the company's inability to carry out its business management, which then causes operational losses, net losses during the year, and/or cash flow from operating activities that are lower than its operating profit (Vestari & Farida, 2014). This means that the company cannot continue its operations because it has not been able to fulfill the obligations that should be fulfilled, such as generating profits (Ummah, 2019). Thus, stakeholders will refuse to collaborate with the company.

Profitability

Profitability ratios are a way to assess a company's ability to generate profits. This ratio also provides a measure of how effectively a company manages its business. Companies can use profitability ratios by comparing the various sections of the financial statements, especially the balance sheet and income statement. Measurements can be made during different operating periods. If the profitability ratio is large, the profit generated is large and the company can carry out industrial activities well (Kalbuana et al., 2022).

Liquidity

The liquidity ratio is a ratio that describes the company's ability to meet short-term obligations (debts). If the company is able to pay off its short-term obligations before they are due, the company is considered liquid. If the company is unable to pay off its short-term obligations before they are due, the company is considered illiquid.

Leverage

The Leverage ratio is a ratio that is useful for calculating the extent to which a company's assets are financed by debt. Leverage shows the extent to which a company's operational activities are financed by debt (Giarto & Fachrurrozie, 2020). If a company uses long-term debt with fixed interest to finance its investment, leverage will arise. Companies with debt have the potential to have an impact on interest expenses, with higher interest rates resulting in a lower overall corporate tax burden (Faradilla & Bhilawa, 2022)

3. RESEARCH METHODS

The method used in this study is a quantitative method with secondary data sources. The data for this study comes from the publication of financial reports and annual reports of tourism sector companies that have been audited by the Indonesia Stock Exchange from 2018-2023. Financial report data was obtained from the official website of the Indonesia Stock Exchange, namely (www.idx.co.id) during 2018-2023. The population in this study was 50 tourism sector companies listed on the Indonesia Stock Exchange in the period 2018-2023. The purposive sampling method was used in this study to select samples based on certain criteria. In this study, the data collection technique was carried out using the documentation method. The data analysis used in this study is quantitative data analysis presented in the form of numbers or numerics. Multiple linear regression analysis is used in this study to measure the strength of the relationship between two or more variables, and can show the direction of the

relationship between the dependent variable and the independent variable. The formula for multiple linear regression is as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$$

Y indicates the meaning of Financial Distress, A means Constant, B means Coefficient Value, X1 indicates the meaning of Profitability (ROA), X2 means Liquidity (CR), X3 means Leverage (DER), and E means Residual Value (Standard Error).

4. RESULTS AND DISCUSSION

Data Analysis Result

1. Descriptive Statistical Test

In this study, the total sample obtained according to the criteria was 32 company samples during the 6-year research period. Thus, the total analysis units in this study were 192 from 2018-2023. The following are the results of the descriptive analysis test:

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	192	-1.132690	0.255039	-0.02908617	0.136622646
Liquidity	192	0.35838	16.204940	2.222031229	2.811089879
Leverage	192	-598.444628	94.049012	-1.41828589	44.006848355
Financial Distress	192	-23.42	10.21	0.9658	3.16482

Source: processed data, 2025

Based on the results of the descriptive statistical analysis research before the sample data was outlier, the average profitability value of tourism sector companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2023 observation period was -0.2908617 with a standard deviation of 0.136622646, a minimum profitability value of -1.132690, and a maximum profitability value of 0.255039, according to the results of the descriptive statistical analysis research before the outlier sample data. The average value of Liquidity in tourism sector companies listed on the Indonesia Stock Exchange in 2018-2023 during the observation period was 2.22031229 while the standard deviation was 2.811089879. The minimum Liquidity value is 0.035838. The maximum Liquidity value is 16.204940.

The average Leverage value in tourism sector companies listed on the Indonesia Stock Exchange in 2018-2023 during the observation period was -1.41828589 while the standard deviation was 44.006848355. The minimum Leverage value was -598.444628. The maximum Leverage value was 94.049012. The average Financial Distress value in tourism sector companies listed on the Indonesia Stock Exchange in 2018-2023 during the observation period was 0.9658 while the standard deviation was 3.16482. The minimum Financial Distress value was -23.42. The maximum Financial Distress value was 10.21.

2. Normality Test

The normality test is conducted to test whether the data in a regression model is normally distributed or not. There are two ways to detect whether the residual is normally distributed or not, namely by graphical analysis and statistical tests. To find out whether the residual is normally distributed or not in this study, the Kolmogorov-Smirnov statistical test is used by looking at its significance level. If the residual data significance value is greater than 0.05, it indicates that the data is normally distributed. The results of the data normality test in this study can be seen in the table below:

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		177
Normal Parameters[a,b]	Mean	.1119979
	Std. Deviation	1.13459996
Most Extreme Differences	Absolute	.049
	Positive	.037
	Negative	-.049
Test Statistic		.049
Asymp. Sig. (2-tailed)[c]		.200[d]

Source: processed data, 2025

Based on the non-parametric Kolmogorovv-Smirnov (K-S) statistical test in table 2 above, the Kolmogorov-Smirnov significance value is 0.200. These results were obtained after performing outliers. Data that appear as extreme values for a single variable or combination and are different from other data in the data set are called outliers. So it can be concluded that the residual data is normally distributed. This can be seen from the significance value which is greater than 0.05.

3. Multicollinearity Test

The multicollinearity test aims to determine whether there is a correlation between independent variables in the regression model. A good regression model should have no correlation. The occurrence of multicollinearity or not is explained based on the Variance Inflation Factor (VIF) value. The results of this study's multicollinearity are presented in table 4 below.

Table 4. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Profitability	0.954	1.048
	Liquidity	0.953	1.049
	Leverage	0.996	1.004

Source: processed data, 2025

The results of the multicollinearity test show that there is no multicollinearity among the independent variables. Because the independent variables have a tolerance value of more than 0.10 and a VIF value of less than 10. Therefore, this regression model is suitable for use in this study.

4. Heteroscedasticity Test

This test is conducted to determine whether the regression model has variance inequality from the residuals of one observation to another. A good regression model is a model that does not have heteroscedasticity. The results of the heteroscedasticity test in this study can be seen in table 5 :

Table 5. Heteroscedasticity Test Results

Model		Sig.
1	(Constant)	<0,001
	Profitability	0.884
	Liquidity	0.161
	Leverage	0.542

Source: processed data, 2025

Based on table 5, it can be seen that all the independent variables above have a significance value greater than 0.05, so it can be concluded that there are no symptoms of heteroscedasticity in the regression model.

5. Autocorellation Test

The purpose of this autocorrelation test is to determine whether there is a correlation between the nuisance error in period t and the nuisance error in period t-1 in the multiple linear regression model. The Durbin-Watson test also known as the DW test is used to determine whether or not there is autocorrelation in this study. The results of the autocorrelation test in this study can be seen in table 6 below:

Table 6. Autocorellation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.855[a]	0.731	0.726	0.88211	1.965

Source: processed data, 2025

The results of the autocorrelation test above show that the Durbin-Watson value is 1.965. When compared with the Durbin Watson table with the number of observations (n) = 177 and the number of variables 4 (k = 3) the table values are obtained dl (lower) = 1.7197 and du (upper) = 1.7886. From these results, the DW value is greater than dl = 1.7197 and smaller than the 4-DU value (4-1.7886 = 2.114). So it can be concluded that there is no autocorrelation. Therefore, this regression model is suitable for use in research.

6. Multiple Linear Regression Analysis

Multiple linear regression analysis is used in this study with the aim of proving the hypothesis regarding the effect of profitability, liquidity, and leverage on financial distress of tourism sector companies listed on the Indonesia Stock Exchange in 2018-2023. The results of the multiple linear regression analysis in this study are as follows:

Table 7. Multiple Linear Regression Analysis

Model		Unstandardized Coeficients B	Std.Error	Standardized Coeficients Beta	t	Sig.
1	(Constant)	0.692	0.116		5.952	<0,001
	Profitability	17.728	1.158	0.615	15.313	<0,001
	Liquidity	0.404	0.035	0.458	11.387	<0,001
	Leverage	0.006	0.002	0.119	3.019	0.003

Source: processed data, 2025

From the table above, it can be seen that all independent variables studied have a significant effect on the dependent. This can be seen from the value of each variable is greater than 0.05. Thus, the mathematical equation can be made as follows:

$$Y = 0.692 + 0.615X1 + 0.458X2 + 0.119X3 + e$$

Y indicates the meaning of Financial Distress, A means Constant, B means Coefficient Value, X1 indicates the meaning of Profitability (ROA), X2 means Liquidity (CR), X3 means Leverage (DER), and E means Residual Value (Standard Error).

The constant value is known to be positive at 0.692. This shows that without the profitability, liquidity, and leverage variables, the value of the financial distress variable is 0.692. It can be concluded that if the profitability, liquidity, and leverage variables are considered to be 0, there will be an increase in financial distress performance of 0.692. The results of the regression coefficient value of the profitability variable measured by the ROA (return on asset) ratio of 0.615 indicate a positive direction. In this case, if profitability increases by 1%, it will increase the financial distress value measured by the Altman Modification method (z-score) by 0.615. This shows that the greater the profitability, the higher the z-score level.

The results of the regression coefficient value of the liquidity variable measured using the current ratio (CR) of 0.458 indicate a positive direction. In this case, if liquidity increases by 1%, it will increase the financial distress value measured by the Altman Modification method (z-score) by 0.458. This shows that the greater the liquidity, the higher the z-score level. The results of the regression coefficient value of the leverage variable measured by the debt to equity ratio (DER) of 0.119. In this case, if leverage increases by 1%, it will increase the financial distress value measured by the Altman Modification method (z-score) by 0.119. This shows that the greater the leverage, the higher the z-score level will be.

7. F Test

The simultaneous influence test is used to test whether all independent variables entered into the model have a joint effect on the dependent variable. The results of the model feasibility test with the f test in this study can be seen in the following table:

Table 8. F Test Result

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	616.263	3	205.421	158.679	<0,001[b]
	Residual	223.961	173	1.295		
	Total	840.224	176			

Source: processed data, 2025

Based on table 8 shows the results of the F statistical test obtained an F-count value of 158.679 with a significance of 0.001 which is smaller than 0.05. So it can be concluded that the variables of profitability, liquidity, and leverage simultaneously or together have a significant effect on financial distress.

8. T Test

Partial test is used to determine the influence of each independent variable on the dependent variable. Whether or not there is an influence of each independent variable partially on the dependent variable can be seen at the level of significance. If the calculated t value is > from the t table, then the hypothesis is accepted, while the sig value < α (0.05) then the hypothesis is accepted significantly. The following are the results of partial testing in this study:

Table 9. T Test Results

Model		Unstandardized Coeficients		Standardized Coeficients		
		B	Std.Error	Beta	t	Sig.
1	(Constant)	0.692	0.116		5.952	<0,001
	Profitability	17.728	1.158	0.615	15.313	<0,001
	Liquidity	0.404	0.035	0.458	11.387	<0,001
	Leverage	0.006	0.002	0.119	3.019	0.003

Source: processed data, 2025

Based on table 9, it can be seen that the results of partial testing in this study are the first hypothesis states that profitability has an effect on financial distress. Based on the results of the t-test, the significance of profitability is 0.001 <0.05, so it can be proven that H1 is accepted and can be interpreted that profitability has an effect on financial distress. The second hypothesis states that liquidity has an effect on financial distress. Based on the results of the t-test, the significance of liquidity is 0.001 <0.05, so it can be proven that H2 is accepted and can be interpreted that liquidity has an effect on financial distress. The third hypothesis states that leverage has an effect on financial distress. Based on the results of the t-test, the significance of leverage is 0.003 <0.05, so it can be proven that H3 is accepted and can be interpreted that leverage has an effect on financial distress.

9. Coefficient of Determination

The Coefficient of Determination (R2) is used to measure how far the model's ability to explain the variation of independent variables. The results of the adjusted R-square value from the regression are used to determine whether financial distress is influenced by the independent variables as follows:

Table 10. Coefficient Determination Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.856[a]	0.733	0.729	1.13779

Source: processed data, 2025

Based on table 10, the coefficient of determination value indicated by adjusted R-square is 0.729. This result means that the variables of profitability, liquidity, and leverage are able to explain the dependent variables, namely financial distress, by 72.9 percent and the rest (100 percent - 72.9 percent = 27.1 percent) is explained by other causes outside the model. The standard error of the estimate (SEE) is 1.13779, the smaller the standard error of the estimate (SEE), the more accurate the regression model will be in predicting the dependent variable.

Discussion

1. The Influence of Profitability on Financial Distress

Based on the results of the t-test, the significance of profitability is 0.001 <0.05, so it can be proven that H1 is accepted and can be interpreted that profitability has an effect on financial distress. The results of the regression coefficient value of the profitability variable measured by the return on asset (ROA) ratio of 0.615 indicate a positive direction so that profitability will have a positive effect on financial distress as measured by the Modified Altman method (z-score). This shows that the greater the profitability, the higher the z-score level or in other words the potential for the company to experience financial distress is lower.

In the tourism industry, when profitability is high, it often encourages companies to improve operations, such as paying employees higher salaries, updating facilities, or carrying out major renovations. This increase is sometimes done without careful planning. If revenues decline seasonally or due to changes in tourism trends, companies will have difficulty meeting their financial needs.

High profitability also attracts the attention of investors or creditors, which then puts pressure on management to expand their business or increase returns. To meet these expectations, companies can take on additional debt or make large, risky investments. If the results are not in line with projections, the company may face financial distress.

Although high profitability is considered an indicator of financial health in the tourism sector, it can also trigger financial distress through over-expansion, inefficient cost management, dependence on seasonal income, and competitive pressures. Therefore, tourism companies need to manage their profitability carefully, ensuring that the profits earned are invested wisely and risk mitigation strategies are implemented to maintain long-term stability.

This is in line with agency theory according to Scott (2015) if high profitability reduces the conflict between shareholders and managers, because the profits generated provide incentives for managers to act in the interests of the owners. This creates synergy in decision making so that the company can reduce the risk of financial distress. Similar to the signal theory according to Brigham and Houston (2016:184) high profitability provides a positive signal to investors and creditors that the company has a healthy financial condition. This increases market confidence in the company, thereby reducing the risk of bankruptcy. The results of this study are in line with research conducted by (Aslamiah et al., 2023) which states that profitability has a significant positive effect on financial distress.

2. The Influence of Liquidity on Financial Distress

Based on the results of the t-test, the significance of liquidity is 0.001 <0.05, so it can be proven that H2 is accepted and can be interpreted that liquidity has a significant positive effect on financial distress. The results of the coefficient value of the liquidity variable measured by the current ratio (CR) state that the greater the liquidity, the higher the level of financial distress measured by the Modified Altman method (z-score) or in other words, the potential for the company to experience financial distress will be lower. Companies with high liquidity have a better ability to meet short-term obligations and maintain operational stability.

The tourism industry requires a stable cash flow to pay for daily operating costs, such as employee salaries, raw materials, or asset maintenance. When liquidity is low, companies have difficulty meeting these needs, increasing the risk of financial distress. Many tourism companies have current assets that are not very liquid, such as receivables from travel agents or other service providers. If these assets are not immediately liquidated, the company may have difficulty meeting short-term obligations, increasing the risk of financial distress.

In the tourism sector, low liquidity has a positive effect on financial distress due to the nature of the business that relies on cash flow for daily operations and income that tends to be unstable. Companies that fail to maintain adequate liquidity levels are more vulnerable to financial stress, especially in unfavorable market conditions. A good liquidity management strategy is essential to reduce the risk of financial distress.

In agency theory according to Scott (2015) high liquidity reduces the conflict between managers and creditors because the company has sufficient current assets to pay short-term debt. This indicates good management of current assets by management, so that the risk of financial distress decreases. Similarly, the signal theory according to Brigham and Houston (2016:184) in signal theory an adequate level of liquidity provides a positive signal that the company has the ability to meet short-term obligations, thereby increasing the trust of creditors and other stakeholders. The results of this study are in line with research conducted by Agoestina Mappadang, Syauqi Ilmi, Wuri Sepri Handayani, Amir Indrabudiman (2019) which states that liquidity has a significant positive effect on financial distress.

3. The Influence of Leverage on Financial Distress

Based on the results of the t-test, the significance of profitability is 0.003 <0.05, so it can be proven that H3 is accepted and it can be interpreted that leverage has an effect on financial distress. The results of the regression coefficient value of the profitability variable measured by the debt to equity ratio (DER) of 0.119 indicate a positive direction so that leverage will have a positive effect on financial distress as measured by the Modified Altman method (z-score).

The tourism sector such as hotels, airlines, and tour operators require large initial capital for the construction of facilities or the acquisition of fixed assets. Many companies rely on debt to finance this expansion. When revenue from tourists does not meet projections, large debts can become a burden and increase the risk of financial distress.

Leverage has a positive effect on financial distress in the tourism sector because the characteristics of this sector tend to be high risk, depend on fluctuating income and are greatly influenced by external factors such as fluctuations in currency exchange rates, inflation rates, and interest rates. Poor debt management in the tourism industry can increase the likelihood of financial distress, especially in unstable economic conditions. Efforts to diversify revenue, manage cash flow carefully, and plan appropriate leverage are key to reducing the risk of financial distress.

In accordance with the signal theory according to Brigham and Houston (2016:184), controlled leverage can provide a positive signal that the company is able to manage debt well to support growth. In Scott's agency theory (2015), leverage can be a disciplinary tool for managers. With the obligation to pay interest regularly, managers are encouraged to be more efficient in managing company resources. This study is in line with research conducted by Rizka Vidya Dwi Giarto, Fachrurrozie (2020) which states that leverage has a significant positive effect on financial distress.

5. CONCLUSION AND SUGGESTIONS

Based on research conducted on tourism sector companies listed on the Indonesia Stock Exchange in the 2018-2023 period, it can be concluded that the variables of profitability, liquidity, and leverage have a positive effect on financial distress, which means that changes in each variable are significantly related to an increase or decrease in the level of difficulty experienced by the company.

Profitability shows a positive and significant effect on financial distress. This means that the higher the profitability indicated by the ratio of net profit to total assets (ROA), the less likely the company is to experience financial distress. This can be explained by the ability of companies to earn sufficient profits to cover operational costs and financial obligations, as well as create financial reserves to deal with unexpected conditions.

Liquidity also shows a positive and significant effect on financial distress in tourism sector companies. Increasing liquidity is actually correlated with an increase in the likelihood of a company experiencing financial distress. Although in theory high liquidity is considered an indicator of financial health, in the context of the tourism sector and the 2018–2023 analysis period, there are several factors that can explain this relationship. In the tourism sector, the company's cash flow is highly dependent on the season and external conditions, such as economic stability, social conditions, and government policies. During the crisis period, many tourism companies experienced a drastic decline in revenue.

To anticipate this uncertainty, companies tend to hold large amounts of cash and current assets, which causes the liquidity ratio to increase. In other words, high liquidity in this case reflects excess unproductive assets, not financial efficiency. High liquidity does not always reflect good financial performance. In a crisis or uncertainty situation, high liquidity can actually be an indicator that the company is facing operational pressure, business stagnation, or even losing access to external financing. Therefore, liquidity analysis in the tourism sector

must be carried out carefully, and cannot be separated from other contextual variables such as profitability, leverage, and industry dynamics.

The leverage variable also shows a significant and positive influence. This means that the higher the debt ratio (debt to equity ratio/DER), the greater the possibility of the company experiencing financial distress. High dependence on external financing through debt causes an increase in interest expenses and repayment obligations which can become a financial burden, especially if the company's income decreases. An overly aggressive capital structure can increase the risk of default, especially in unstable economic conditions. Therefore, tourism sector companies are advised to improve operational efficiency to drive profitability, maintain liquidity at a healthy level, and manage debt structures carefully so as not to burden the company's overall financial condition.

The limitations of this study are the limited number of samples because not all tourism sector companies on the Indonesia Stock Exchange actively report complete financials during the study period. The results of this study are only relevant to the tourism sector and cannot be generalized. And the inconsistency of company performance because the 2018-2023 time period covers the period before, during, and after the pandemic, so there are extreme performance fluctuations.

Thus, it is recommended that further research can increase the number of variables, because based on this study, 27.1% of financial distress is influenced by other variables outside this study. So for further research, it is recommended to add other variables that may affect financial distress, such as company size. And it is also recommended that companies can increase profitability by means of operational efficiency, product or service diversification, and competitive pricing to overcome financial distress conditions.

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