The Effect of Operating Cash Flow, Sales Growth, and Operating Capacity on Financial Distress

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Abstract: *This research seeks to examine the impact of operational cash flow, sales growth, and operating capacity on financial distress within consumer cyclicals firms in the apparel and luxury goods sub-sector, listed on the Indonesia Stock Exchange for the period 2022–2024. This research employs a quantitative methodology utilizing an associative causal framework and secondary data derived from companies' yearly financial statements. We used SPSS software to do multiple linear regression to analyze the data. The results indicate that operating cash flow, sales growth, and operating capacity significantly influence financial distress, suggesting that enhanced cash flow production, sales performance, and asset utilization correlate with a diminished likelihood of financial difficulty. These results show that making a business better at making operating cash flow, keeping sales growth going, and using its assets more efficiently will help improve its financial situation and lower its financial stress. Descriptive data indicate that, on average, enterprises exhibit positive operating cash flow, continuous revenue growth, and an operating capacity over one, signifying operational efficiency and reasonably stable financial conditions. This study underscores the significance of proficient financial and operational management in sustaining financial stability and mitigating the risk of financial hardship in consumer cyclicals companies, especially within the apparel and luxury goods sub-sector.*

Key Words*: Operating Cash Flow, Sales Growth, 0perating Capacity, Financial Distress, Consumer Cyclicals****.***

Introduction

The Indonesian economy started to get better following the epidemic in 2022–2024. Businesses changed their operational and financial plans, which led to steady economic growth of about 5% (Olivia, 2021). Because of this, the consumer cyclicals sector, and especially the clothes and luxury goods sub-sector, became one of the sectors that was most affected by changes in trends, public income, and the economy. This sector grew and exported more (Kompas, 2024) ; (Bisnis, 2023), but enterprises need to keep their financial and operational performance steady because of fierce competition and quick changes in what customers want. Inflation, rising interest rates, and the devaluation of the rupiah, on the other hand, can lower people's ability to buy things and hurt sales (Olivia, 2021).

Companies are continuing getting fewer orders and paying more to make things in 2022–2024, which is causing factories to close (Bisnis, 2024). Unstable economic situations can interfere with business operations, put more strain on finances, and make it harder for businesses to keep going (Wijaya & Suhendah, 2023); (Nurhadimah & Paramita, 2024). If not dealt with right away, this financial stress could lead to bankruptcy (Will, 2025).

PT Sepatu Bata Tbk is a clear example of this. The company lost money, had revenues drop, saw assets drop, and had a high debt-to-equity ratio. It stopped doing business in 2024. PT Sri Rejeki Isman Tbk (Sritex) went bankrupt for the same reason: sales were going down and they had a lot of debt (Setiawati, 2025). This pattern suggests that inadequate cash flow, sluggish sales growth, and suboptimal asset usage are significant contributors to a company's financial difficulties.

When a business has problems paying its bills, it is in financial trouble, which can be an early symptom of bankruptcy (Will, 2025); (Alfiani & Arsjah, 2025); (Pratiwi & Sasongko, 2023). Financial statement analysis can help find this issue because different ratios can give early warnings about how healthy a business is (Wijaya & Suhendah, 2023). It is the money made from daily business activities, and if it goes down, it can make financial trouble more likely (Alfiani & Arsjah, 2025); (Pratiwi & Sasongko, 2023). Sales growth means that sales are going up, and if they keep going down, it could mean that the company is doing worse (Rochendi & Nuryaman, 2022). Operating product reveals the company's production, assets, and capacity that are not being used to their maximum potential, which can make financial situations worse (Nurhadimah & Paramita, 2024); (Yusuf et al., 2024).

According to signaling theory, operational cash inflows, sales growth, and the ability to use assets are all signs to investors and the market about a company's health and future. If the company does well on these three measures, it is regarded healthy and able to do its job, which lowers the chance of financial trouble. On the other hand, if all three signs go down, it could mean that the company is having financial problems (Ross, 1977). Prior research indicate that operating cash flow yields a good consequence (Miswaty & Novitasari, 2023) Furthermore, sales growth positively influences the amount of financial distress (Rochendi & Nuryaman, 2022) whereas operating capacity considerably affects financial hardship. (Retnoningsih & Wulaningsih, 2023).

This study concentrates on the clothes and luxury goods sub-sector for the 2022–2024 period, which has been infrequently examined. This study also looks at three variables again because the results of earlier studies were not always the same. The study is backed up by real-world examples like PT Sepatu Bata Tbk and PT Sritex. This study examines the impact of operating cash flow, sales growth, and operating capacity on financial distress, grounded in the research context. The research hypotheses claim that these three variables exert a beneficial influence on financial distress. This research focuses on consumer cyclical companies within the apparel and luxury goods sub-sector listed on the Indonesia Stock Exchange (IDX) for the period of 2022 to 2024.

Method

This study employs a quantitative research design utilizing secondary data derived from the yearly financial reports of companies listed on the Indonesia Stock Exchange (IDX). This study employs secondary data to analyze operating cash flow, sales growth, operating capacity, and financial distress in consumer cyclical companies within the apparel and luxury goods sub-sector listed on the IDX from 2022 to 2024. There are 23 companies in the population, and 18 of them were chosen using purposive sampling depending on how

complete and available the financial reports were (Sugiyono, 2019). As a result, we looked at 54 firm-year observations (18 companies over three years).

Variable	Definition	Formula	Scale
Financial Distress (Altman Z-Score) (Y)	Indicators of the risk of corporate financial distress	Z = 6,56X1 + 3,26X2 + 6,72X3 + 1,05 X4	Ratio
Operating Cash Flow (X1)	Cash from operations to pay liabilities	Operating Cash Flow $= \frac{\text{Operating cash flow}}{\text{Current liabilities}}$	Ratio
Sales Growth (X2)	Sales growth from period to period	Sales growth = $\frac{\text{sales this year} - \text{previous sales}}{\text{previous sales}}$	Ratio
Operating Capacity (X3)	Effectiveness of asset use for production	Total asset turn over = $\frac{(\text{Sales})}{(\text{Total Asset})}$	Ratio

Data: processed, 2025

These four factors are used to figure out how well a firm is doing financially and whether it is in good shape or in danger of going bankrupt. The research data were acquired through documentation by getting financial statements from the official website of the Indonesia Stock Exchange (IDX) and were analyzed using SPSS version 22.

Results and Discussion

Statistics that describe

Descriptive statistical tests demonstrate that companies, on average, have positive operational cash flow (X1 = 0.1350), low to moderate sales growth (X2 = 0.0410), and optimal use of operating capacity based on index values (X3 = 1). The results show that the organizations' operational performance is fairly stable and their financial situation is mostly under control (Y = 0.5116).

Classical Assumption Test

a. Test of Normality

Table 1. Test for Normality

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		54
Normal Parameters[a,b]	Average	.0000000
	Std. Difference	4.12075817
Most Extreme Differences	Absolute	.094
	Positive	.094
	Negative	-.086
Test Statistic		.094
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is the lowest level of importance.

The Kolmogorov–Smirnov normalcy test reveals an Asymp. Sig. The (2-tailed) value of 0.200 is higher than the 0.05 significance level, which means that the residuals are normally distributed.

b. Multicolliniearity Test

Table 2. Multicolliniearty Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-4.681	1.224		-3.825	.000		
	X1 OPERATING CASH FLOW	11.881	3.205	.411	3.706	.001	.995	1.005
	X2 SALES GROWTH	6.990	2.784	.295	2.510	.015	.887	1.128
	X3 OPERATING CAPACITY	2.462	1.088	.265	2.262	.028	.890	1.124

a. Dependent Variable: Y FINANCIAL DISTRESS

The results of the multicollinearity test demonstrate that none of the independent variables have any concerns with multicollinearity. All independent variables exhibit tolerance levels beyond 0.10 (X1 = 0.995; X2 = 0.887; X3 = 0.890) and VIF values below 10 (X1 = 1.005; X2 = 1.128; X3 = 1.124), signifying the absence of multicollinearity. So, the regression model meets the multicollinearity condition and may be utilized for analysis with confidence.

c. Heteroscedasticity Test

Table 3. Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2,490	,775		3,212	,002
	X1 OPERATING CASH FLOW	-,569	2,030	-,039	-,280	,781
	X2 SALES GROWTH	-1,770	1,764	-,148	-1,003	,320
	X3 OPERATING CAPACITY	,838	,689	,179	1,216	,230

a. Dependent Variable: ABS_RES_1

The Glejser method's heteroscedasticity test shows that the regression model does not have heteroscedasticity. The significance values for all of the independent variables are higher than 0.05 (X1 = 0.781; X2 = 0.320; X3 = 0.230), which means that the independent factors do not have a big effect on the residuals. So, the error variance is the same for all cases, and the model can be used for more analysis.

d. Autocorrelation Test

Table 4. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.623[a]	.388	.352	4.2425802	2.171

a. Predictors: (Constant), X3 OPERATING CAPACITY, X1 OPERATING CASH FLOW, X2 SALES GROWTH
b. Dependent Variable: Y FINANCIAL DISTRESS

The Durbin–Watson statistic shows that there is no autocorrelation in the regression model. The DW value of 2.171 is between 1.5 and 2.5, which is near to 2. This means that the residuals are random. So, the premise of no autocorrelation is met, and the model is good for looking at how operating cash flow, sales growth, and operating capacity affect financial distress.

Multiple Linier Regression Analysis

From the multiple linear regression coefficients, the regression equation is derived as follows:

$$Y = -4{,}681 + 11{,}881X_1 + 6{,}990X_2 + 2{,}462X_3 + e$$

Keterangan :
Y = Financial Distress
X_1 = Operating Cash Flow
X_2 = Sales Growth
X_3 = Operating Capacity
e = Error

When all of the independent variables are zero, the constant –4.681 shows the base degree of Financial Distress. For every 1-unit rise in Operating Cash Flow (X1 = 11.881), Sales Growth (X2 = 6.990), and Operating Capacity (X3 = 2.462), Financial Distress rises. This means that if financial management isn't good, increasing cash flow, sales growth, or use of operating capacity doesn't always lower financial risk.

Hypothesis Testing

a. Partial Hypothesis Testing (T-Test)

The t-test (df = 50, t-table = 2.009) demonstrates that each independent variable has a big effect on financial distress. The t-values and significance levels that were found are: Operating Cash Flow (X1) t = 3.706, Sig. = 0.001; Sales Growth (X2) t = 2.510, Sig. = 0.015; Operating Capacity (X3) t = 2.262; = 0.028. All t-values are greater than the t-table and Sig. The research hypothesis for the three variables is accepted at a significance level of 0.05.

b. Test of the Coefficient of Determination (*Adjusted R Square*)

The Model Summary shows that an Adjusted R^2 of 0.352 means that Operating Cash Flow, Sales Growth, and Operating Capacity account for 35.2% of the changes in Financial Distress. The other 64.8% is affected by things that aren't in the model, such market conditions, cost structure, corporate policy, or other financial variables that weren't looked at.

The test findings show that Operating Cash Flow (X1) has a t-value of 3.706 and a significance of 0.001, which means that it has a positive and significant effect on Financial Distress (Y). This means that H1 is true. This means that the company's value goes up when its cash flow from operations goes up. This is because the company's financial situation gets better and the risk of financial trouble goes down. According to Ross's (1977) signaling theory,

operating cash flow can be a way for companies to let investors and creditors know how their finances are doing and what they might expect in the future. Empirical evidence corroborates this assertion, as research conducted by Miswaty & Novitasari (2023) indicates that variations in operating cash flow may serve as an early indicator of impending financial difficulty, particularly when cash flow management is suboptimal.

Additionally, with t = 2.510 and significance = 0.015, Sales Growth (X2) has a positive and substantial effect on Financial Distress (Y), hence H2 is accepted. These results show that steady and well-managed sales growth can boost a company's revenue, make it more liquid and profitable, and lower its level of financial hardship. According to Ross's (1977) signaling theory, sales growth is a sign to investors about how well the firm is doing. Good growth means that there is strong demand for the product and the company has the ability to make a lot of money. On the other hand, a drop in sales means that the company is having trouble performing. Empirical findings corroborate this assertion, as Rochendi & Nuryaman (2022) demonstrate that an increase in sales growth augments a company’s capacity to alleviate financial distress, thereby affirming alignment with previous studies and theoretical frameworks concerning the impact of sales growth on financial stress.

At the same time, Operating Capacity (X3) has a t-value of 2.262 and a significance level of 0.028, which means that it has a positive and significant effect on Financial Distress (Y). This means that H3 is accepted. This means that the better a company uses its fixed assets to make sales, the more efficient its operations will be, which will lower its financial stress or strain. According to Ross (1977) signaling theory, a company's operating capacity tells investors how efficient it is, and high capacity consumption shows that the company is managing its assets well. On the other hand, poor capacity utilization sends a bad signal that the company is not doing well and may be having money troubles. Retnoningsih and Wulaningsih (2023) report same results, indicating that operating capacity positively and strongly influences financial distress, suggesting that increased efficiency can reduce the probability of financial distress.

The company can make positive operational cash flow (X1 = 0.1350) and see sales growth that is low to moderate (X2 = 0.0410) based on the average value. The average value of operating capacity (X3), which is shown as an index, is 1. This means that assets are being used in the best and most stable way. The average financial distress (Z-Score) value of 0.5116 shows that the company is generally in a solid financial situation.

Conclusion

The analysis and discussion lead to the conclusion that Operating Cash Flow, Sales Growth, and Operating Capacity positively and significantly impact Financial Distress in consumer cyclical companies within the apparel and luxury goods sub-sector listed on the Indonesia Stock Exchange for the period 2022–2024. These results show that stronger operating cash flow, sales growth, and asset use mean better financial health and a lower chance of financial trouble. Descriptive data indicate that, on average, organizations may create positive operating cash flow, sustain consistent sales growth, and attain an operating capacity of one, signifying relatively rapid asset turnover and effective operational efficiency.

This means that most businesses are in a secure financial situation. So, the less likely the company is to have financial problems, the faster its operating capacity turnover and the better its operational performance. These results show how important it is to manage cash flow, come up with ways to boost sales, and make the most of assets to keep the company's finances stable in the long run.

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