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Factors Influencing Corporate Financial Difficulties Noted by Indonesia Stock Exchange

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Abstract:
The purpose of this research is to know the factors influencing corporate financial difficulties noted by Indonesia Stock Exchange. The analysis method used is the factor analysis. The research uses secondary data from the annual report of all companies listed in the Indonesia Stock Exchange for the period of 2006-2015 with the population of 475 companies and the total of 60 companies as samples using sampling purposive method. The result of the research shows that the factors influencing the financial difficulties are as follow: first factors are the current ratio, loan ratio, return on investment, and price earning ratio; the second factors are based on the inflation rate, and interest rate; third factors are total asset overturn, and net margin profit; and finally the fourth factors are time interest earned ratio and sales growth.

Keyword: *financial difficulties, financial performance, macroeconomic factor*

1. Introduction

The basic function of capital market serves two basic functions for the community each having different interests such as economic and financial functions. In connection to the two functions of capital market mentioned above, the main interest for investors or parties with surplus funds are to invest through capital market to get bigger profits compared to investing in other places. While for the companies or Emiten is to gain additional funds needed with relative cheap capital cost compared to other funding sources. This shows the higher the profit that the investors can obtain through the Indonesia Stock Exchange, the higher the interest for the investment on securities that are traded in the Indonesia Stock Exchange. However, the investors must also take into consideration the risks or unfortunate incidents which will be the burden to the investors. One of the risks is financial difficulties or company bankruptcy that are often experienced by the company where the investors invested in. According to Hill, Perry, and Andes (1996) financial difficulties experienced by the company are shown by its inability to fulfill the due date obligations which is shown with negative profits for three or more years consecutively.

Financial difficulties experienced by the companies listed in the Indonesian Stock Exchange until year 2015is closely related to the influence of changes in the Indonesian macro economic variables. This is due to the tendency that there is a strong connection of what is happening in the macro economic environment with the capital market performance. Since Indonesia experienced the economic crises ten years ago, the influence toward Indonesian Capital Market is still felt until recently. This is shown in the tendency of the increasing percentage of companies that are being delisted in the Indonesian Stock Exchange. Other than macro economic variables, financial performance variables are also important factors that caused financial difficulties and corporate bankruptcies. This is because corporate financial performance reflects whether corporate management is effective or not. Helfret (1996) states that the increase in corporate financial performance depends upon proper management of three general main decision making to all companies such as: (1) investment choice and operation based on economic and management analysis, (2) profitable corporate operational direction using effective resources, (3) doing careful payments using trade-off between expected rewards and risks because of external credit use. The success of economic trade-off reached according to the decision madeis the fundamental driving force from the additional value creation process of the companies.

One way of evaluating and knowing the corporate financial performance is to do the corporate financial report analysis. This is because the items in the financial report are the representations of resources or assets of an entity, claims toward resources, transaction influences, and other events and happenings that caused resource changes or claims toward resources mentioned. Tandelilin (2001) supported this. He states that financial reports are accounting information which portray the corporate's wealth, profits and what economic transactions the company has done, which will influence the company's wealth and income. The set of basic financial report such as balance sheet, profit and loss report, capital change report, cash flow report, will not give much information to the users before more analysis are done on it.

From many tools for analyzing the financial report financial ratios is the tool generally used. This is because financial ratio analysis covers the study about the relation between financial statements on a certain period of time and the tendency on the mentioned relations in a certain period of time, so that through the analysis ratio important relations can be uncovered and can be used as a basic comparison in finding the conditions and trends which are difficult to detect by only studying each components forming ratios. Green

(1978) supported this. He states that financial ratio calculation results can be obtained by a set of financial reports that can determine the strengths and weaknesses of the corporate economy. Hanafi and Halim (2005), however, state that financial ratio calculation results obtained to determine the profitable and risk levels or health level of a company. The statement meansthat the mentioned financial ratios portray the relation among elements of the financial reports, but each financial ratio mentioned has unique meanings each in analyzing the financial conditions and situations of the company.
In the developing countries, the number of empirical researches to predict corporate financial difficulties is relatively few. Tirapat and Nittayagasewat (1999) did their research in Thailand using the macro economic information and monetary performance. Their research shows that inflation, interest rate, book value of stockholders equity to total assets, retained earnings to total assets, operating income to net sales, and net working capital to total asset are significant in predicting corporate financial difficulties. Sori (2006) in his research in Malaysia used the financial information. The result of his research shows that loan total ratio toward total assets, sale ratio toward total assets, supply ratio toward total assets, sale ratio toward supply, and cash ratio toward total assets are significant in predicting corporate bankruptcy or bankruptcy symptoms which can be predicted five years before it happens. Sandin and Porporato (2007) in their research in Argentina used the financial information and the result of their research shows that operative income to net sales and shareholder's equity (book value) to total assets are significant in predicting corporate bankruptcy and in sensing bankruptcy symptoms four years before it happens.
Based on the explanations above, the following conclusions are made: (1) corporate financial difficulties can be anticipated. This is because corporate financial difficulties can be detected three years beforehand. This proves that financial difficulties don't happen suddenly, (2) other than corporate financial performance, macro economic variables also influence the corporate financial difficulty to happen. Therefore, the same research should be done to get a model in detecting the early symptoms of financial difficulties and corporate bankruptcy. The model is needed in Indonesia. The existence of this model will help the people involved such as emiten, bapepam, investors, creditors, and other people involved with emiten performance, so that when the symptoms of corporate financial difficulties and factors influencing it are spotted, exact measures should be taken such as asset restructure and financial restructure so that the company do not experience bankruptcy. However, if the company has reached the condition of bankruptcy and technically is unable to be saved, the solution must be found such as to merge with other companies or to reorganize the company.
Thus, this research is done so that factors in influencing public corporate financial difficulties based on macro economic variables and corporate financial performance listed in the Indonesia Stock Exchange can be recognized. From the explanation above, the problem of the research is: what factors influence financial difficulties listed in the Indonesia Stock Exchange.

2. Theoretical Background

2.1. The Meaning of Financial Difficulties

Corporate management, investors and creditors hope that companies are operating (going concern) well so as to bring in profits according to their expectations, so that they are able to fulfill their responsibilities within the time limits and to pay return satisfactorily to the investors. In reality, however, many companies do not experience this when running their companies. In certain situations the companies face various difficulties such as light financial difficulties. But if this condition is not handled well and promptly, the financial difficulties will develop into a more serious level, which is bankruptcy.
Poston, Harmon,danGramlich (2004) and Laitinen (2005) state that bankruptcies in companies do not happen suddenly, but they happen through stages or through a process initialing in light financial difficulties until it reaches the bankruptcy stage which is the most serious stage of financial difficulties. Whitaker (1999), Hill, Pery, and Andes (1996) state that financial difficulties experienced by companies are marked by negative operational profits for three consecutive years or more. While bankruptcies are experienced by companies indicated with total obligations outweighing market value of corporate assets or negative equity (Dompos and Zopounidis, 1999; Laitinen, 2000; Brabazon et. al, 2002). In connection to the explanations above, financial difficulties do not happen suddenly, an early warning model can be formed to anticipate the possibility of a company to experience financial difficulties. Through the mentioned model, it is expected that the symptoms and factors influencing financial difficulties or bankruptcies of companies can be known, so that the management will have sufficient time to do improvement steps so that the companies will not experience financial difficulties.
To make the early warning model in the framework of predicting financial difficulties, a basic analysis must be made. The basic analysis mentioned is a method to know how the prospect or a corporate condition in analyzing factors that influenced either from outside of the company which is the macro economic variables and from inside the company which is the corporate financial performance (Bodie, Kane, and Marcus, 2006).

2.2. Macro Economic Variable

Every company in doing its operation is influenced to the external environment such as the macro economic environment. So in doing the prospect analysis of a company, it is logical to start from the macro economic environment. From there, the external environmental influence toward the industry where the company is operating can be made. Tandelilin (2001) states that the macro economic environment is the environment that influence the daily corporate operation, investors ability in understanding and predicting the future macro condition which will be very useful in making promising investment decisions. Thus, an investor is expected to take special attention to the influence of macro economic variable changes such as inflation and interest rate that will help in understanding and predicting financial difficulties and bankruptcies of a company.

Inflation is the tendency of product price increase as a whole. So, inflation is a continuous process of the increase of product prices, which does not mean that the price increase of various products are experienced at the same percentage or are experienced at the same time. But most importantly the price increase happens in general, continuous, and in a certain period of time. The price increase in products will decrease the monetary buying power so that it will also decrease the real income level for the investors in their investments. Other than that, the increase of inflation will also increase capital cost, human resource cost, and material cost unexpectedly. The increase in capital cost is resulted from the increase in interest rate. Human resource cost is resulted in the salary adjustment. While the increase of material cost is the result of the price increase of raw materials and needed products for administration purposes. The result of price increase mentioned will also increase the production and operating cost. When the increase cost of the companies cannot be balanced by the increase in sale products to the consumers, the company will experience loss or will have negative profit. This is supported by Harianto and Sudomo (1998) who said that inflation increase income and cost of a company. If the production cost is higher than the price increase expected by the company, the company profit will decrease of vice versa. A number of empirical studies which test the influence of interest rate significantly influenced the corporate financial difficulties have been done. (Moore, 1990; Hill, Perry, and Andes, 1996; Tirapat and Nittayagasetwat, 1999; Cybinski, 2001; Lao and Zao, 2005; Hol, 2006; Munthe, 2008)

Interest rate is compensation for use of money. It is excess cash paid for collected beyond the money borrowed or loaned (Leopold, Breinstein, and Wild, 1998). So, those with surplus funds will get certain compensation to the funds placed. While those needing funds will pay a certain amount of fee on funds received as compensation or fee mentioned which is called interest. The increase of direct interest rate will increase capital cost which come from the creditors which must be supported by the company. Companies with high leverage power will experience big effect to the increase of interest rate mentioned. The increase in interest rate will increase the interest load of the company resulting in the decrease of corporate profit. Tandelilin (2001) states that very high interest rate will influence the current cash flow value so that chances for investments will not be of interest anymore. High level of interest rate also increases capital cost supported by the company. Some empirical studies states that interest rate significantly influence corporate financial difficulties (Tirapat and Nittayagasewat, 1999; Hol, 2006; Munthe, 2008).

2.3. Financial Performance

The success and sustainability of the company in the long run depends on the continuous decisions made by the management. Every decisions made will have an effect to the company's financial condition which can be better or vice versa. Basically, the corporate management process involving trade-off economic choice so that it will activate the movement offinancial resource supporting the company. Various corporate financial resource movements can be seen in the financial report of the company such as the balance sheet, profit and loss report and cash flow report.

The investors need a company's financial information to make decisions whether they want to invest in a certain company or to another company. Munawir (2004) states that investors are concerned of the company's financial statements in determining their decision in investing their capital, so that they know whether the company have good prospects or not.

In getting financial information in evaluating the corporate financial performance, will involve a series of techniques that can be used to identify the strengths or weaknesses of the company. Lesmana and Surjanto (2004) state that the financial performance analysis is basically done to make past performance evaluation using various technical analysis to obtain the real corporate financial position and to obtain future potential performances. And based on the evaluation made of past performances, predictions can be made toward company's performances for the future.

One of the techniques used to evaluate corporate financial performance is to do an analysis toward corporate financial situation reflected in the corporate financial ratios. Financial ratio is the percentage of the ratio result between a certain estimate in the financial report of the company such as the balance sheet, profit and loss report and cash flow information. Weston and Copeland (1997) state that according to the targeted aim in the monetary ratio is classified into six groups such as: liquidity ratio, activity ratio, solvability ratio, profitability ratio, market ratio and growth ratio. The six ratios mentioned can be used to determine the prospects and risks of the company in the future. This is supported by Lako (2006) who states that financial ratio information is the whole picture of the financial performance that can be used to determine the company's strengths or weaknesses in a certain period of time. The prospective factor of a ratio mentioned will influence the investor's hope toward the company's future.

Liquidity ratio is the corporate ability measurement in fulfilling its short-term obligations by examining the current assets of the company relative to the current liabilities. Because of this, the higher the liquidity ratio, the lower the possibility of the company to experience financial difficulties. However, the very high liquidity ratio shows that the corporate performance is not productive and it will result in emergence of costs that will decrease company's profits that will have a positive influence toward financial difficulties and bankruptcy. A number of studies have examined liquidity ratio toward corporate financial difficulties of a company (Coast and Fant, 1992; Benli, Branch and Wang, 2002; Wu, 2004; Andrev, 2005; Bacerra, Galvao and Abou-Seada, 2005; Ugurlu and Aksoy, 2006; Munthe, 2008).

Activity ratio is also called as efficiency ratio because the ratio measures the efficiency level of the company in using its assets. Activity ratio examines some of the assets and then determines the level of asset activities in certain activities. Low activity on certain sale level will result in higher surplus funds invested in more productive assets and will make the company to have storage financing, insurance, taxes, obsolescence and physical damage. This is because the more efficient the company uses its assets the more capable the company is to make higher profits so that the possibility of experiencing financial difficulties and bankruptcies is lessen. Some empirical studies are made about the testing of activity ratio influence financial difficulties of a company (Benli, Branch and Wang, 2002; Wu, 2004; Andrev, 2005; Bacerra, Galvao and Abou-Seada, 2005; Ugurlu and Aksoy, 2006; Munthe, 2008).

Leverage ratio is used to measure company's responsibilities to fulfill its long-term obligations. The ratio measures how far the funds are available by the creditors in financing the companies. The ratio of the fund sources between the company owner and creditor has to be arranged so that financial stability and the guarantee of the survival of the company will be created. Laitinen and Laitinen (2000) state that the company having high level of loans will be more susceptible in experiencing financial difficulties and bankruptcies compared to the company with lower loans level. This is also supported by Manurung (2004)who states that a company with continually increasing loans will pay higher levels of interests and will increasingly lower net profit of the company which will lead to financial difficulties and will cause financial distress leading to bankruptcies and will eventually lead to bankruptcy cost. The importance of capital structure most importantly is due to the different characteristics of each capital source. The different characteristics of each kind of capital generally have effects and influences in two important aspects in the company's operation, thus: (1) in reference to the ability to produce profit, and (2) in reference to the ability to pay back obligations. Therefore, the balance and the mixing of the kinds of capital source to buy assets and relative total or composition from different groups of assets are important as an indicator to evaluate if there are financial stability and this will guarantee to the survival of the company. The explanations above determine the optimal loan level created trade-off choice between tax profit for the increase in loans and the eventual bankruptcy cost. Therefore, leverage ratio has a negative influence toward financial difficulties and bankruptcies to the optimal loan level. But if it is higher than the optimal level will influence positively toward financial difficulties and bankruptcies of companies. Some empirical studies are made testing the leverage level influencing financial difficulties of a company (Perry and Andes, 1996; Mossman et al 1988; Tripat and Nittayagaetwat, 1999; Dumpos and Zopounidis, 1999; McKee and Greenstein, 2000; Laitinen and Laitinen, 2000; Cybinski, 2001; Brabazon, 2002; Wu, 2004; Andreev, 2005; Smith and Graves, 2005; Sueyoshi, 2005; Bacerra, Galvao and Abou-Seada, 2005; Laitinen, 2005; Ugurlu and Aksoy, 2006; Munthe, 2008).

Profitability ratio measures the ability of the company to make profits on the sale level, assets, and certain capital stocks. Detailed analysis toward profits and various elements that make profits are important aspects because the company's survival and success depend so much on the company's ability to make profits. There are many evaluating criteria that can be used where the result of the company's operation is measured. The changes of the sale volume, gross profit level, and net profit among other criteria are used. However, the higher the ability for the company to make profits, the lower the chances for the company to experience financial difficulties and bankruptcies. Some empirical studies are made to test the profitability ratio influencing financial difficulties of a company (Dumpos and Zopounidis, 1999; Kahya and Theodossiou, 1999; McKee and Greenstein, 2000; Cybinski, 2001; Brabazon, 2002; Benli, Branch and Wang, 2002; Wu, 2004; Andreev, 2005; Bacerra, Galvao and Abou-Seada, 2005; Sueyoshi, 2005; Ugurlu and Aksoy, 2006; Munthe, 2008).

Market ratio measures the company's relative value toward the book value. The ratio will give the management indication concerning the investors' thought concerning the corporate performance in the past and the prospect in the future and this is also important for the management. To the investors, the market ratio information is the most basic information to portray corporate earning prospect in the future. This is because the better the ratio is, the lower the possibility for the company to experience financial difficulties and bankruptcies. Some empirical studies have been made on testing the market ratio influencing the financial difficulties of a company (Chen et al, 2001; Munthe, 2008).

Growth ratio measures the size of the company's ability to maintain its position in the midst of economic situation as a whole and in its industrial sector. This ratio is an indicator to the investor, management, and creditor about the nominal growth the company has reached. Therefore, nominal growth from inflation should be made separate from real growth that reflects basic productivity from economic activities. The higher the real growth obtained by a company, the higher the possibility for the company to make profit and therefore the lower the possibility the company to experience financial difficulties and bankruptcies. From the explanations above, it is important to take in to considerations for the parties concerned with the company concerning a number of changes of the macro economic factor variables and corporate financial performance before making the right and profitable investment. Some empirical studies have been made to test the growth ratio toward financial difficulties of a company. (Abid and Zourai, 2002).

3. Research Methodology

3.1. Type of Research

This research is made to identify factors influencing financial difficulties that have been listed by the Indonesian Stock Exchange using macro economic variables and corporate financial performance.

3.2. Operational Variable

This research analyzes variables, inflation rate, interest rates and public corporate financial performance such as liquidity, activity ratio, leverage ratio, profitability ratio, market ratio and growth ratio as the independent variables.

1. Financial difficulties are companies experiencing negative net profit three years consecutively.
2. Independent Variable.

Variable used in this research is a number of macro economic variables and financial performances with the ratio scale such as:

a. The macro economic variable used in this research consist of: Inflation rate (X_1) Which is the average change of the consumer price index in Indonesia in a year with the measuring unit in percentage and interest rate level (X_2) which is the interest rate SBI 1 month for a year with the measuring unit in percentage.

b. The financial performance variable used in this research consists of:

1. Liquidity ratio, is used to measure the ability of the public company to fulfill its short-term obligation: Current Ratio (X_3), is the ratio between current assets and current liabilities with the measuring unit in multiplication
2. Activity ratio, is used to measure how effective the public company is in using their resources is: Total Assets Turnover (X_4), is the ratio between the sale and total assets with the measuring unit in multiplication.
3. Leverage ratio, is used to measure how far the public company is financed by loans is represented in: Debt Ratio (X_5), is the ratio between total loan and total current assets where the unit of measurement is in percentage and Time Interest Earned Ratio (X_6), the ratio between profit before interest and tax with interest expense with the unit of measurement in percentage.
4. Profitability ratio, is used to measure management effectiveness shown in the profit resulted toward sales and investments of public company consisting: Net Profit Margin (X_7), is the ratio between net profit and sale with the measuring unit in percentage and Return on Investment (X_8), the ratio between net profit and total investment with the measuring unit in percentage.
5. Market ratio, is used to measure the ability of the management in creating public corporate market value that exceeds investment cost expense is: Price Earning Ratio (X_9), is the ratio between the market price of each unit of stock with the measuring unit in percentage.
6. Growth ratio, is used to measure the ability of public company to maintain its economic position in the economic and industrial growth: Growth Sale (X_{10}), is the sale percentage change in t period with the period of t-1 with the measuring unit in percentage.

3.3. Research Population and Sample

The population of this research is the public companies which are included in eight sectors according to the JASICA classification except the financial sector which has been registered in the Indonesia Stock Exchange until year 2015 which consists of 453 companies. From the mentioned population, the sample research was done with the purposive technique sampling, based on a few specific levels and criteria. From the above criteria, 60 companies are selected as sample.

3.4. Data Types and Source

The types of data used in this research are the secondary data, which are the data that has been collected by the data collection institution and is publicized to the users in the community. The secondary data in the research is the corporate financial reports that have reported their stocks in the Indonesia Stock Exchange. The corporate financial reports are provided by the Indonesia Stock Exchange, then are analyzed using the financial ratio to get the corporate financial performance and the macro economic conditions which are obtained from the annual report of the Bank of Indonesia.

3.5. Analysis Methodology

Analysis methodology used in this research is the factor analysis. Factor analysis principally is used to reduce data, a process in which data is summarized to be fewer in number which is then called factor analysis. The purpose to do factor analysis is:

1. To choose variables which are feasible in the factor analysis. Factor analysis is the grouping of a number of variables, therefore a strong correlation among variables should exist so that there will be groupings. If the variables have weak correlations among other variables, the weak variables will be excluded from the factor analysis.
2. After a number of variables have been chosen, variable extraction is done so that there will be one or more factors. Some of the famous factor searches are Principal Component and Maximum Likelihood.
3. The factors formed, in many cases, do not portray the differences among existing factors. After being formed, the process will continue by naming the existing factors.

4. Analysis and Discussion

4.1. KMO Analysis and Barlletts's Test

From the result of processing the 10 variables the KMO (Measure of Sampling Adequacy) is 0,667, exceeding the number 0,50 and significant to alpha 0,00. Therefore, the whole variables of the research are feasible to be analyzed further. As seen in the Chi-Square number 168.02, the ten variables influence the financial difficulties of the manufacturing companies in the Indonesia Stock Exchange.

4.2. Anti Image Correlation

The Anti Image Correlation shows that the number formed a diagonal showing the size of Measure Sampling Adequacy (MSA) where each variable is above 0,50, meaning the whole variables can be predicted to be analyzed further. From the results of the test, all the variables have sufficiently high correlations with other variables so that feasibility analysis can be preceded following the ten variables that influence financial difficulties noted by the Indonesia Stock Market.

4.3. Communalities

Communalities are the total variants of one variable that can be explained by existing factors with the following terms that the bigger the communalities the closer the variables are related with the factors formed. The result of the research shows that the size of the variants in each variant can be explained by the factor formed is the same number as the number in column Extraction.

4.4. Total Variance Explained

From the ten variables (components) included in the factor analysis, if each variable have 1 variant, the total variant is 10*1=10. The ten variants will be summarized as one factor, thus it can be explained that one factor is 21,779 percent.

Components Influencing Financial Difficulties	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of variance	Cummulative %	Total	% of variance	Cummulative %
Inflation rate	2.178	21.779	21.779	2.178	21.779	21.779
Interest rate	1.415	14.145	35.924	1.415	14.145	35.924
Current ratio	1.072	10.722	46.647	1.072	10.722	46.647
Total Asset Turnover	1.032	10.317	56.964	1.032	10.317	56.964
Loan Ratio	.943	9.434	66.398			
TIER	.891	8.909	75.307			
Net Profit Margin	.856	8.563	83.869			
ROI	.823	8.232	92.101			
PER	.479	4.791	96.892			
Sales Growth	.311	3.108	100.000			

Table 1: Total Variance Explained
Source: Data processed 2017

Table 1 shows that when the variables are extracted into four factors, the following results are produced: The first variant factor is 21.779 percent, the second variant factor is 1.415:10*100%=14.415%, the third variant factor is 1.072:10*100%=10.72%, the fourth variant factor is 1.032:10*100%=10.32%, the fifth variant factor is 58.186 which means that the four factors above can be explained by 21.779% from the factors of the ten existing variables. Eigenvalues shows the relative importance of each factor in calculating the ten variables analyzed. The total number of eigenvalues for the second ten factors are =10. Eigenvalues is arranged from the biggest to the smallest value, with the eigenvalue number criteria is below 1 not used in calculating the total factors formed. From the ten factors there are 5 eigenvalue number factors formed. From the ten factors there are 5 eigenvalue numbers above number 1.

4.5. Matrix Component and Rotated Matrix Component

Factor loading is the correlation among each variable with factor 1, factor 2, factor 3, and factor 4. To determine the variation of each factor is made by comparing the scale of correlation of every line. The correlation below 0,05 indicates weak correlation while correlation above 0,5 indicates strong correlation. Matrix components is seen in the relation of each variable toward each factor, if the value of the correlation is more than 0,05, the variable will be included as a factor. Rotated component matrix will clarify the variables that will be included in each factor. Table 2 below will clarify the result of the rotated component matrix.

Factors Influencing Financial Difficulties	Component			
	1	2	3	4
Inflation rate	.128	.818	-.090	.110
Interest rate	-.224	.785	-.096	-.084
Current ratio	.538	.067	-.361	.127
Total Asset Turnover	-.031	-.036	.800	-.061
Loan Ratio	-.828	.212	-.078	-.044
TIER	.206	-.305	-.281	-.490
Net Profit Margin	.290	-.172	.440	.104
ROI	.728	-.136	.303	-0.28
PER	.480	.173	-.047	-.255
Sales Growth	.074	-.065	-.132	.845

Table 2: Rotated Matrix Component
Source: Data processed in 2017

It is portrayed in Table 2.the dominant factors in influencing the manufacturing companies' financial difficulties that are noted in the Indonesian Exchange Stock based on each factor. To prove the four components are formed precisely. Therefore, Table 6 below portrays that the existing numbers are formed diagonally between Component 1 with 1, Component 2 with 2, Component 3 with 3, and Component 4 is seen that all the five numbers are above 0,50, thus the five numbers have high correlations.

Component	1	2	3	4
1	.828	-.513	.222	-.014
2	.552	.683	-.461	.126
3	.006	.131	.443	.887
4	.093	.503	.736	-.443
5				
Extraction Method: Principle Component Analysis				
Rotation Method: Varimax with Kaiser Normalization				

Table 3: Transformation Matrix Components
Source: Data processed 2017

Table 3 shows that all variables included in each factor has positive correlations, meaning the variable loading increase concerned influence strongly financial difficulties in companies that has gone public in the Indonesia Stock Exchange. Dominant factors influence financial difficulties in companies which has gone public in the Indonesia Stock Exchange shown in Table 8 and Picture 5.1 as follow:

Correlation	Factor	Note
(1)	(2)	(3)
0.538	1	Current Ratio
-0.828	1	Loan Ratio
0.728	1	Return on Investment
0.480	1	Price Earning Ratio
0.818	2	Inflation Rate
0.785	2	Interest Rate
0.800	3	Total Asset Overturn
0.440	3	Net Profit Margin
0.490	4	Time Interest Earned Ratio
0.845	4	Sales Growth

Table 4: Dominant Factors Influencing Financial Difficulties in the companies which has gone public in Indonesian Stock Exchange
Source processed 2017

From the result of the analysis above, the ten variables influenced corporate financial difficulties can be grouped into four factors. The four factors have the ten variables having positive and negative correlations. The first factor is current ratio, loan ratio, return on investment, and price-earning ratio. The second factor is inflation rate, and interest rate. The third factor is total asset overturn, and net profit margin. Finally, the fourth factor is time interest earned ratio and sales growth.

5. Conclusions and Suggestions

5.1. Conclusions

Factors that influence financial difficulties are the first factors which are current ratio, loan ratio, return on investment, and price earning ratio; the second factors are inflation rate and interest rate; the third factors are total asset overturn, and net profit margin; lastly the fourth factors are time interest earned ratio and sales growth.

5.2. Suggestions

Creditors and investors can make use of the result of this research in their consideration whether or not to invest in the stock market. As for other researchers who are doing related researches, this can be a source of reference in relation to the factors that influence corporate financial difficulties as noted in Indonesia Stock Exchange. The Management and Bapepam can also use this research as a tool to supervise and monitor the performance of their company.

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