Asian Journal of Management Entrepreneurship and Social Science
ISSN: 2808 7399
https://ajmesc.com/index.php/ajmesc Volume 04 Issue 02

The Influence Of Financial Distress On Stock Prices With Earnings Per Share As A Moderating Variable

Putri Nadya Salsabillah[1], Silvia Ashha Fajriyyah[2], Widiya Septiani[3], Maiyaliza[4*]

[1,2,3,4] Departement of Management, Faculty of Economics and Business, Swadaya Gunung Jati University

*Coresponding author: maiyaliza@ugj.ac.id

Abstract

With Earnings Per Share (EPS) as a moderating variable, this study aims to determine whether financial distress affects stock prices. The Altman Z-Score model and construction companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022 are used to assess the financial distress variable. This study uses secondary data and a purposive sampling approach to determine a sample from a population of 22 companies. Ultimately, this study finds that: (1) Financial distress does not have a significant effect on stock prices in the construction sector. This result is based on the significance value of the financial distress variable of 0.840, which is greater than 0.05. Thus, statistically, financial distress does not have a significant effect on stock prices. (2) When testing the moderating variable between financial distress and stock prices in construction sector companies, it is found that the EPS variable does not have an effect. This is based on the regression test value with MRA, which is 0.418 (the significance level is greater than 0.05).

Keywords: Training, tax officer, knowledge management, tax administration, efficiency

1. INTRODUCTION

With the emergence of the Covid-19 pandemic, first detected in Wuhan, China, at the end of 2019, this global crisis swiftly spread worldwide, affecting various aspects of life and significantly influencing global economic activities, including those in countries like China, the United States, Japan, and Korea. Consequently, the world experienced considerable economic pressure, even reaching the level of recession. Stock prices plummeted sharply as a result, alongside other factors affecting financial markets. The Covid-19 pandemic led to an economic downturn in Indonesia at the beginning of 2020.

However, investment trends from 2018 to 2022 continued to show an upward trajectory due to the increasing awareness among the public of the benefits of investing in the capital market. With technological advancements providing easier access to various information, including investment-related information, one available investment option for investors is participating in the capital market, with stock investment being considered attractive among them. When investing in stocks, it is crucial for investors to observe stock price movements.

The construction sector has been quite volatile, even somewhat unstable, in recent years. Due to activity restrictions during COVID-19, issuers in the construction industry now become the most influential in this policy. There are claims that the debt of Indonesian construction issuers, particularly some construction businesses, is too high. Speculative investment in the construction industry has been hindered by increasing debt and deteriorating financial results. Due to current investor reluctance and suspicions that construction issuers may not adequately finance and execute all contracts they have obtained on time, the financial performance of the construction sector has declined.

A drastic fall in stock prices is a common indicator of financial distress, which may occur when a company's income does not match its expenditures (Wawo and Nirwana, 2020). Financial distress, known as financial distress, refers to a condition where a company faces an inability to pay its debts, ultimately leading to bankruptcy. Financial distress has serious implications for a company's reputation. Therefore, when a company's reputation is poor, it may make investors unwilling or hesitant to invest in a company experiencing financial distress.

According to Nurriqli and Sofyan (2018), Earnings Per Share (EPS) is a prime example of a fundamental financial metric that significantly influences the direction of a particular company's stock price movement. When a business generates profit, the amount that remains in the company and belongs to shareholders is referred to as earnings per share, or EPS. Therefore, EPS is often perceived as an important metric and used by investors to evaluate a company's profitability and as a basis for investment decisions.

According to data obtained from the Central Statistics Agency (BPS), 2020 remained a tough year for the construction industry. Construction saw a decline of 5.67 percent recorded over the last three months of the year. Meanwhile, the construction industry experienced a healthy growth of 5.79 percent in the last quarter of 2019. Imports and exports of raw materials, as well as the slowing purchase of cement in Indonesia, contributed to this economic downturn. Indonesia's economic aggregate growth rate contracted by 2.19% in the fourth quarter of 2020. This indicates that Indonesia's economy during that period remained in a recessionary phase. Factors such as the decline in construction sector

activities and the influence of the Covid-19 pandemic contributed to the deteriorating economic conditions.

The realization of negative economic growth in the fourth quarter continued the downward trend that began in the second quarter and persisted until this quarter, with declines of 5.32% and 3.49% respectively. Head of BPS Suhariyanto stated that Indonesia's economy contracted by 2.07 percent last year. He emphasized that during the Covid-19 pandemic, Indonesia recorded negative economic growth for the first time since 1998.

The decline in the performance of construction companies in 2020 is expected to continue. Financial conditions are indeed concerning, as in terms of generating net profit, issuers also have relatively low net profit margins due to high costs and debt payments, as well as low profit margins, making issuers less capable of generating maximum profits. The performance of construction company stocks is expected to continue moving sideways or remain in a stable market condition until the end of 2022 due to declining business efficiency and starting to become limited.

Findings from numerous studies examining how financial distress affects stock prices have been widely disseminated. For example, research by Dewi and Dewi (2022), argued that stock prices are significantly and negatively affected by severe financial distress. However, Rahma and Rinaldo (2023), found that stock prices are negatively impacted by financial distress, but this impact is not statistically significant. Additionally, Nurminawati (2021), claimed that financial distress significantly affects stock values.

Additional studies have examined the impact of EPS on stock prices. Similarly, research by Rahmadewi and Abundanti (2018), revealed that the impact of EPS on stock prices is negative, though not statistically significant. Therefore, there are several ways to examine the correlation between financial distress, EPS, and stock prices as a consequence of the findings of this research.

To address differences among other studies, this research examines the impact of financial distress on stock prices while controlling for EPS. Disagreements in analytical approaches and model requirements among researchers may lead to conflicting findings. Investors with broad insights into the construction industry are the target of this research, especially considering the infrastructure activities being enhanced by the government. Therefore, this research is expected to channel positive participation in understanding investment dynamics in the construction sector, which in turn can support national economic growth and equitable distribution.

2. LITERATURE REVIEW

2.1 Signalling Theory

According to Spence, as cited in Amanda et al., (2019), giving a signal represents the data owner's efforts to transmit data in a way that can be utilized by the data recipient. Upon receiving the signal, the recipient will adjust their actions based on what they gather from the signal. This signalling action can be seen as a corporate management step to direct investors towards the management perspective on the company's future potential.

2.2 Signalling Theory

Stock prices represent the realized value in the actual market. Because they reflect stock prices at that moment or in the closed market, actual market prices are very straightforward; in other words, these stock prices can be identified as closing prices (Rahma and Rinaldo, 2023). However, healthy long-term company products still show price levels over time. In reality, companies demonstrate business progress through earnings, and stock prices are the only manifestation of appreciation for company performance (Hogan, 2017).

According to Wawo and Nirwana (2020), investors must analyze stock prices to determine whether a company is worth investing in. Stock market data allows investors to conduct technical analysis, such as the number of stock sales and stock indices. On the other hand, investors have the ability to conduct fundamental analysis, such as a company's financial position. By using fundamental data, an investor can evaluate a company's stock price and determine whether the fundamentals, especially its performance and operations, have changed. In fact, investors look forward to the company's future.

2.3 Financial Distress

Financial distress is a condition in which a company is unable to pay its debts and is in a bad condition or facing problems or experiencing operational depression before experiencing financial losses or cessation. One factor that can lead to financial problems for a company is poor management of the company's fundamentals, which can result in declining performance. This condition can be one of the factors leading to bankruptcy.

There are several techniques or models that can be used in the Altman Z-score model is one way to assess the risk of bankruptcy for a company. This approach, popularized by Professor Edward Altman since its refinement in 1968, is used to estimate the likelihood of a company's bankruptcy in future years. The Altman Z-score model is used for this research. Z-score is the term for the score obtained to determine the level of financial distress. The score can then be interpreted in three conditions of financial distress levels: 1) Safe zone, if the Z-score value is above a certain threshold, the company is considered safe from the risk

of bankruptcy. This indicates a healthy financial condition; 2) Grey zone, a Z-score value between two specific thresholds can be considered ambiguous or doubtful (grey zone). Interpretation may require further assessment; and 3) Distress zone, if the Z-score value is below a certain threshold, the company is considered at high risk of bankruptcy, indicating significant financial distress, in other words, the higher the Z-score value, the lower the level of financial distress, and vice versa (Dewi and Dewi, 2022).

2.4 Earnings Per Share

Earnings per Share (EPS) is the total profit that shareholders can gain from each share owned by investors (Silalahi et al., 2023). The calculation of EPS is done by dividing a company's net profit in a certain period by the total outstanding shares. A low EPS ratio indicates that management has failed to meet shareholder expectations, while a high ratio indicates increased shareholder contentment. Because an increase in EPS value indicates company growth and positive development due to continuously increasing profits (Agusfianto et al., 2022).

2.5 Impact of Financial Distress on Stock Prices

Difficult financial conditions can indicate the financial situation faced by a company and can be an indicator of the company's bankruptcy. Investors use this as a parameter to assess a company. One parameter of a company's financial distress is the amount of debt it holds (Wawo and Nirwana, 2020).

2.6 The Moderating Role of EPS in the Relationship between Financial Distress and Stock Prices

If EPS is high, investors tend to see that the company has positive prospects for the future. This is due to investors' belief that a stock's value is based on the company's ability to create profits per share. When EPS meets investor expectations, investor interest in investing will increase, which can then lead to an increase in stock prices as demand for stocks increases (Yusdianto, 2022). The application of EPS as a moderating variable is used to detail whether there is a relationship between the dependent variable and the independent variable.

2.7 Conceptual Framework

This conceptual framework illustrates how interconnected concepts relate to each other, as shown in Figure 1.

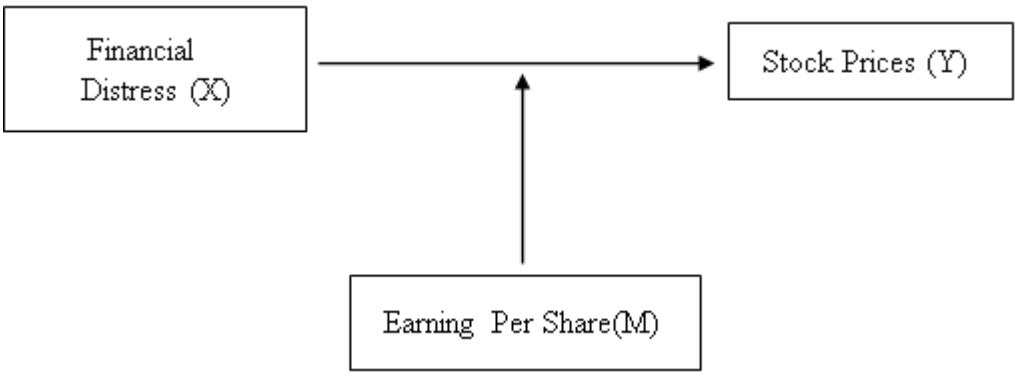

Figure 1 Framework

Ho_1: There is no significant effect of financial distress on stock prices.
Ha_1: There is a significant effect of financial distress on stock prices.
Ho_2: EPS cannot moderate the effect of financial distress on stock prices.
Ha_2: EPS can moderate the effect of financial distress on stock prices.

3 RESEARCH METHOD

3.1 Type of Research

This study adopts an associative causal research type, which aims to examine the relationship between two or more variables (Yusra and Asnur, 2022). This approach allows researchers to understand to what extent and how changes in one variable can affect changes in another variable. Thus, the focus of this research is on the analysis of cause-and-effect or causal relationships among the selected variables. Quantitative research methods collect and analyze data numerically, utilizing statistical computation techniques to identify trends, patterns, or correlations. Given that this data is secondary data, it is possible to examine and evaluate related factors without actually collecting data from these organizations. Reports submitted by construction-related companies trading on the Indonesia Stock Exchange (IDX) between 2018 and 2022 serve as the secondary source of information for this research.

3.2 Operational Variables

Research variables refer to characteristics or assessments by someone, objects, or specific activities involved by the researcher to be identified and constructed into a summary (Rinaldi and Oktavianti, 2023). The following are the operational variables applied in this research.

Table 1. Operational Research Variabel

Variabel Penelitian	Indicators	Scale
Stock Prices	Ln average *Closing price*	Ratio
Financial Distress	Z = 0,717 X1+ 0,847 X2+ 3,107 X3 +0,420 X4 + 0,998 X5	Ratio
Earning Per Share	$EPS = \frac{Net\ Profit}{Number\ of\ Shares\ Outstanding}$	Ratio

3.3 Sampling Technique

According to Amin et al., (2023), the population includes all aspects in the study, including objects and subjects with detailed characteristics. In this study, the population is taken from 22 companies listed on the Indonesia Stock Exchange operating in the construction sector. According to Garaika and Darmanah (2019), a sample belongs to a population both in terms of size and nature. Purposive sampling approach is used to determine the sample in this study. Based on Mardian and Sanusi (2017), purposive sampling is an approach aimed at selecting specific sample members based on correspondence with the research objectives and criteria set by the researcher. For this research, several factors are used to select the sample, including: 1) Companies listed on the IDX in the construction industry from 2018 to 2022; 2) Construction sector companies with complete financial report data for 2018-2022; 3) Construction sector companies that have experienced losses during the research period. Out of 22 companies, there are 7 companies that meet the criteria with a total of 35 observed data points.

3.4 Data Analysis Technique

Using the moderating variable of earnings per share (EPS), this research aims to test the relationship between stock prices and financial distress. The SPSS 26 software will be used to perform the data analysis procedures. Moderated Regression Analysis (MRA) and Classical Assumption Tests will be applied to the research variables.

4 RESULT

4.1 Classical Assumption Tests

4.1.1 Normality Test

Normality testing is a test of the distribution of residual variables in the regression model (Ghozali, 2018). The normality test known as Kolmogorov-Smirnov is used in this investigation. A sig value greater than 0.05 indicates that the data is normally distributed. It is clear from the data in the table that the Monte Carlo Sig value is greater than 0.05, specifically 0.146. This means that the data follows a normal distribution.

Table 2. Normality Test Results

			Unstandardized Residual
N			35
Normal Parameters[a,b]	Mean		,0000000
	Std. Deviation		75,82844356
Most Extreme Differences	Absolute		,190
	Positive		,190
	Negative		-,152
Test Statistic			,190
Asymp. Sig. (2-tailed)			,003[c]
Monte Carlo Sig. (2-tailed)	Sig.		,146[d]
	99% Confidence Interval	Lower Bound	,137
		Upper Bound	,155

4.1.2 Multicollinearity Test

Multicollinearity can be tested using the variance inflation factor (VIF) and tolerance values. It can be concluded that multicollinearity does not occur if the data has a VIF value of less than 10 and a tolerance value greater than 0.10.

Table 3. Multicollinearity Test Results

Model		Collinearity Statistics	
		Toleranceerance	VIF
1	Financial Distress	1,000	1,000
	EPS	1,000	1,000

4.1.3 Heteroskedasticity Test

According to Ghozali (2018), if the variation of residuals between data in a regression model is not the same, then the heteroskedasticity test will identify it. Heteroskedasticity occurs if its significance level is less than 0.05, and does not occur if its significance level is greater than 0.05.

Table 4. Heteroskedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	131,158	69,968		1,875	,070
	Financial Distress	-,051	,047	-,189	-1,088	,285
	EPS	,008	,028	,052	,298	,768

4.1.4 Autocorrelation Test

Specifically, the Durbin Watson test is used to check for autocorrelation in this study. Table 5 shows the results of the autocorrelation test, which gives a Durbin Watson value of 1.991. Using a significance threshold of 0.05 and a total of 35 data points, this test is conducted. Thus, the dU value is 1.5838. The lack of autocorrelation can be concluded from the fact that the value of dU < DW < (4-dU) is 1.5838 < 1.991 < (2.4162), indicating that the Durbin Watson value is acceptable.

Table 5. Autocorrelation Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,133[a]	,018	-,046	53,31350	1,991

4.2 Hypothesis Testing

4.2.1 Moderated Regression Analysis (MRA)

The significance value of the financial distress variable is known to be 0.840 (>0.05), indicating that the conclusion is that the financial distress variable does not have a significant effect on the stock price variable.

Table 6. Results of Simple Linear Regression Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	106,106	105,879		1,002	,324
	Financial Distress	-,014	,071	-,035	-,203	,840

The Moderated Regression Analysis (MRA) test, which multiplies the financial distress and EPS variables, results in a significance value of 0.418, higher than the significance level of 0.05. Therefore, earnings per share (EPS) cannot act as a moderator between financial distress and stock value.

Table 7. Results of Moderated Regression Analysis (MRA) Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	108,184	106,435		1,016	,317
	Financial Distress	-,015	,071	-,037	-,214	,832
	FD X EPS	2,437E-5	,000	,144	,821	,418

5 DISCUSSION

Based on the hypothesis testing results, the significance value (sig) of the financial distress variable is 0.840. Statistical analysis of companies listed on the Indonesia Stock Exchange (IDX) in the construction industry shows that financial distress does not have a significant impact on stock prices. Because the significance value is greater than 0.05, hypothesis Ho1 can be accepted. This result strengthens previous research by Rosyidi (2020), indicating that stock prices tend to decrease when financial turmoil rises and rise again when financial turmoil decreases. Therefore, statistical research does not indicate that financial distress has a significant negative impact on stock values. Additionally, this result provides confidence for further research, as indicated by Ahszhaffat and Suyono (2022), where stock prices are not affected by changes in estimated financial distress values from the Altman Z-score.

Financial distress in the stock prices of construction sector companies listed on the IDX cannot be moderated by the EPS variable, based on the moderation test findings. This finding is obtained from the regression test value obtained from MRA, which is 0.418 obtained by multiplying the financial distress variable by EPS. If the significance value is greater than 0.05, then EPS cannot moderate financial distress with the stock prices of construction sector companies listed on the IDX. According to Rosyidi (2020), stock prices are not heavily influenced by financial distress when EPS is higher and are more affected when EPS is lower. Therefore, this finding is consistent with the researcher's findings, indicating that EPS weakens the impact of financial distress on stock prices and is not a statistically significant factor.

6 CONCLUSION

The results of this study indicate that financial distress does not significantly affect stock prices. Therefore, stock prices will decrease as financial turmoil rises and will rise again when financial turmoil decreases. Stock prices are positively correlated with financial distress, but the EPS variable cannot moderate it. Therefore, a decrease in earnings per share (EPS) will have a greater impact on stock prices during financial distress, but an increase in EPS will reduce this impact.

Future research is expected to add other variables that may affect stock prices and use other variables as moderators that are strongly suspected to affect stock prices. Additionally, it is hoped that future research will leverage companies outside the construction sector, such as service companies or banking, and utilize various different methods to produce better research.

REFERENCES

Agusfianto, N. P., Herawati, N., Farianti, E., Khotmi, H., Maqsudi, A., Murjana, I. M., Jusmarni, Anwar, Rachmawati, T., Hariyanti, Nuryati, Andayani, S. U., & Nursansiwi, D. A. (2022). Dasar-Dasar Manajemen Keuangan (A. Bairizki, Ed.; Pertama). Seval Literindo Kreasi.

Ahszhaffat, D., & Suyono, N. A. (2022). Analisis Prediksi Financial Distress Menggunakan Model Altman Z- Score Dan Pengaruhnya Terhadap Harga Saham Pada Perusahaan Sektor Transportasi Dan Logistik Yang Listing Di Bei Periode 2017 Sampai 2019. Jamasy: Jurnal Akuntansi, Manajemen & Perbankan Syariah, 2(1).

Amanda, A. L., Efrianti, D., & Marpaung, B. S. (2019). Analisis Pengaruh Kandungan Informasi Komponen Laba Dan Rugi Terhadap Koefisien Respon Laba (Erc) Studi Empiris Pada Perusahaan Manufaktur Sektor Industri Dasar Dan Kimia Yang Terdaftar Di Bursa

Efek Indonesia (Bei). Jimkes: Jurnal Ilmiah Akuntansi Kesatuan, 7(1), 187–199. Www.Idx.Co.Id

Amin, N. F., Garancang, S., & Abunawas, K. (2023). Konsep Umum Populasi Dan Sampel Dalam Penelitian. Jurnal Pilar: Jurnal Kajian Islam Kontemporer, 14(1), 15–31.

Dewi, N. D. P. D. A., & Dewi, S. K. S. (2022). Analisis Tingkat Financial Distress Dengan Model Altman Z-Score Dan Pengaruhnya Terhadap Harga Saham (Studi Pada Perusahaan Asuransi Di Bursa Efek Indonesia). E-Jurnal Manajemen, 11(2), 338–357. Https://Doi.Org/10.24843/Ejmunud.2022.V11.I02.P07

Garaika, & Darmanah. (2019). Metodologi Penelitian. Hira Tech.

Ghozali, I. (2018). Aplikasi Analisis Multivariate Dengan Program Ibm Spss 25 (9th Ed.). Universitas Diponegoro.

Hogan, N. (2017). Yuk Nabung Saham. Alex Media Komputindo.

Mardian, A. F., & Sanusi, F. (2017). Pengaruh Likuiditas Terhadap Harga Saham Dengan Profitabilitas Sebagai Variabel Intervening Pada Perusahaan Manufaktur Sektor Aneka Industri Yang Terdaftar Di Bei Periode 2013-2016. Tirtayasa Ekonomika, 12(2), 196–211.

Nurminawati, R. D. (2021). Prediksi Kebangkrutan Terhadap Harga Saham Dengan Model Altman Z-Score, Zmijewski Dan G-Score. Bisnis Dan Ekonomi Kreatif, 1(1), 40–59. Https://Journal2.Upgris.Ac.Id/

Nurriqli, A., & Sofyan, S. (2018). Pengaruh Faktor-Faktor Fundamental Terhadap Harga Saham (Studi Pada Perusahaan Sub Sektor Pertambangan Batubara Yang Terdaftar Di Bursa Efek Indonesia Periode 2012-2015). Jurnal Kindai: Kumpulan Informasi Dan Artikel Ilmiah Manajemen Dan Akuntansi , 14(1), 1–11.

Rahma, N. A., & Rinaldo. (2023). Analisis Pengaruh Financial Distress, Kebijakan Dividen, Dan Kebijakan Hutang Terhadap Harga Saham Dengan Ukuran Perusahaan Sebagai Variabel Kontrol (Studi Empiris Pada Perusahaan Asuransi Yang Terdaftar Di Bursa Efekindonesia Periode 2018-2021). Konferensi Ilmiah Akuntansi X.

Rahmadewi, P. W., & Abundanti, N. (2018). Pengaruh Eps, Per, Cr, Dan Roe Terhadap Harga Saham Di Bursa Efek Indonesia. E-Jurnal Manajemen Unud, 7(4), 2106–2133. Https://Doi.Org/10.24843/Ejmunud.2018.V7.I04.P14

Rinaldi, & Oktavianti, N. (2023). Pengaruh Total Aset Turnover, Debt To Asset Ratio Dan Return On Asset Terhadap Nilai Perusahaan Pada Perusahaan Sub Sektor Farmasi Yang Terdaftar Di Bursa Efek Indonesia (Bei) Tahun 2016-2020. Jurnal Ikraith-Ekonomika, 6(2).

Rosyidi, A. H. (2020). Benarkah Financial Distress Memoderasi Pengaruh Dari Kinerja Keuangan Dan Resiko Sistematik Terhadap Harga Saham Pada Perusahaan Bidang

Konstruksi Yang Terdaftar Bursa Efek Indonesia. Prosiding Seminar Nasional Pakar Ke 3.

Silalahi, D., Tarigan, M. I. B., & Silalahi, E. (2023). Manajemen Investasi Dan Pasar Modal (P. B. N. Simangunsong, Ed.). Cattieya Darmaya Fortuna.

Wawo, A., & Nirwana. (2020). Pengaruh Financial Distress Terhadap Harga Saham. Jurnal Ilmiah Akuntansi Peradaban, 6(1), 17–34.

Yusdianto. (2022). Pengaruh Earning Per Share (Eps) Dan Dividend Per Share (Dps) Terhadap Harga Saham Pada Perusahaan Sektor Konsumsi Yang Terdaftar Di Bei Periode 2015 – 2020. Ikraith-Ekonomika, 1(5).

Yusra, A., & Asnur, L. (2022). Pengaruh Service Quality Terhadap Repurchase Intention Konsumen Di Cafe Kedai Kebun Dharmasraya. Jurnal Pendidikan Tambusai, 6(2).