



Financial Distress Analysis in Media and Entertainment Companies: The Role of Liquidity, Leverage, Profitability, and Firm Size

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The study aims to determine and assess the size, profitability, leverage, and liquidity of corporations in relation to the financial difficulties of media and entertainment firms listed on the Indonesia Stock Exchange, which saw a fall in earnings between 2021–2024. This study's population was 56 randomly selected samples of secondary data extracted from yearly financial reports. Multiple linear regression was used for the study. The analysis of the data shows that, partially, there is a positive effect of the liquidity variable (CR), a negative effect of the leverage variable (DER), a positive effect of the profitability variable (ROA), and a negative effect of the company size variable. At the same time, 31% of the variance in financial distress is attributable to factors outside the scope of this investigation, while 69% is attributable to the interplay between liquidity, leverage, profitability, and firm size.

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INTRODUCTION

The primary goal of any commercial entity established for the purpose of making a profit and ensuring the continuation of that entity's operations is to generate profit. An entity known as the Indonesia Stock Exchange lists a wide range of company kinds. Merging the BEJ with the BES, new entity known as the IDX was founded.

The media entertainment industry is a sector that focuses on the creation, production, distribution, and monetization of entertainment content such as films, television, music, games, and digital media, which is now increasingly dominant through streaming platforms and social media (Palete, 2024). The media entertainment industry in Indonesia is a large-scale sector with sustainable growth potential in providing entertainment and information to the public.

However, during the 2021-2024 period, the industry's performance showed significant dynamics, marked by a shift from a positive growth trend to a decline in performance at the end of the observation period. This state is indicative of the difficulties associated in

responding to changes in the corporate climate, the acceleration of digital transformation, and increasingly complex consumer demand dynamics, which require media and entertainment companies to strengthen innovation and develop more sustainable business models.

The performance of media and entertainment companies listed on the IDX during the 2021–2024 period shows a significant downward trend, reflected in the average revenue gradually decreasing from IDR 7,484.56 trillion in 2021 to IDR 6,419.59 trillion in 2022, then falling to IDR 5,094.49 trillion in 2023, and declining again to IDR 4,824.17 trillion in 2024.

This decline in performance was experienced by most issuers in the media and entertainment sub-sector, including ABBA, BMTR, DIGI, DOOH, FILM, IPTV, MARI, MNCN, MSKY, NETV, SCMA, and TMPO, which generally showed a weakening in revenue and profits. This condition reflects the structural pressures faced by the industry due to changes in consumer preferences, increased competition from digital platforms, and the declining

effectiveness of traditional advertising-based business models.

These sharp fluctuations in financial performance have the potential to be early indicators of financial distress, where companies face the risk of difficulty in meeting their financial obligations, thus emphasizing the urgency of academic analysis of the factors that influence financial distress and the importance of business model transformation in order to maintain corporate sustainability amid digital disruption.

[Curry & Banjarnahor \(2018\)](#) define financial distress as a condition of declining financial health of a company that occurs at a stage before the company experiences bankruptcy or liquidation. This condition reflects the weakening of the company's ability to maintain financial stability and an increased risk of inability to meet its financial obligations. Therefore, financial distress is considered an important part of a company's financial cycle since it may foretell when bankruptcy or liquidation may occur if managers don't take action quickly.

According to studies conducted by [Aprilani & Haningsih \(2025\)](#), the liquidity ratio indicates how well a corporation can pay its short-term bills. This research used the Current Ratio (CR) as a quantitative indicator of possible financial difficulty. This is because if a firm can't meet its short-term commitments, its value drops and investors lose faith in it.

Profitability refers to a company's ability to generate profit over a certain period ([Rataiczak et al., 2024](#)). In this study, Return on Assets (ROA) is used as a proxy for profitability in measuring financial distress. A higher level of profitability indicates a greater ability to generate earnings, which in turn reflects a more stable financial condition and a lower risk of financial distress.

[Arhinful & Radmehr \(2023\)](#) found that the leverage ratio reveals how much debt a firm has in relation to its assets. One measure of financial hardship utilized in this research is the DER, which is a leverage indicator. Excessive use of debt has the potential to increase the risk of company sustainability, as it can place the company in a situation of extreme leverage, which is when the company faces such a high level of debt that it has difficulty managing and reducing its debt burden ([Ding et al., 2023](#)).

Company size is an important indicator in predicting the potential for financial crises or financial distress. This ratio reflects the amount of resources owned by the company, which is generally measured by total assets. [Diantimala et al. \(2021\)](#) define company size as the size of a business entity that can be measured by total assets or total net sales, where larger companies tend to have better financial stability and a higher ability to cope with financial pressures.

This background shows that media and entertainment companies listed on the Indonesia Stock Exchange experienced a continuous decline in profits during the 2021-2024 period. This study aims to reveal the financial condition of media and entertainment companies and analyze the industry's efforts in facing and managing financial distress risks.

THEORETICAL BASIS AND HYPOTHESIS DEVELOPMENT

Theoretical Framework

Signaling Theory

[Spence \(1973\)](#) first introduced the theory of signaling in the labor market, where people try to convey information about their potential productivity to others through visible attributes, such as education and training levels. The fields of finance and business economics then adopted and developed this concept, where companies are considered to be signal senders to investors, creditors, and other stakeholders. In finance, the signals sent by companies can take the form of financial reports, dividend policies, funding decisions, and financial ratios that indicate the company's internal condition and plans. The basis of this theory lies in the fact that there is information asymmetry between management as an internal party and external parties to the company; more comprehensive data on the state and performance of the firm is available to the former.

The significant contributions of [Ross \(1977\)](#), [Leland & Pyle \(1977\)](#), and [Bhattacharya \(1979\)](#), who integrated signal theory into corporate financial decision-making processes, have driven the development of signal theory in corporate finance. According to research, the market can capture capital structure, dividend policy, and investment decisions as signs of a company's quality and risk. In situations where there is information asymmetry, external parties are highly dependent on the signals conveyed by the company to assess its financial health and business sustainability prospects. Therefore, signaling theory provides a relevant theoretical basis for explaining how markets use financial information to make economic decisions.

[Ridhasyah et al. \(2024\)](#) state that the existence of information asymmetry encourages companies to actively convey information to external parties in order to influence investment decisions. [Wahyuni dan Gani \(2022\)](#) emphasize that signaling theory serves as an effective means of communication between management and the market. While [Brigham & Houston \(2019\)](#) view signaling as an effort by companies to convey information about their prospects and performance to investors. This justification leads one to believe that businesses should influence

public opinion by sending signals via their activities and internal data. Applying signaling theory to the media and entertainment firms listed on the Indonesia Stock Exchange from 2021 to 2024 helps shed light on how a company's financial situation might indicate to outside parties the possibility of financial trouble.

The signaling theory highlights the presence of information asymmetry between a company's management and external parties during a financial crisis ([Goh, 2023](#)). The former has access to more comprehensive knowledge about the company's status and prospects. Reducing dividends, modifying debt, changing the financing structure, or switching management are all examples of financial choices and management measures that companies might take when they are under financial strain. Creditors and investors evaluate the company's legitimacy, potential hazards, and investment opportunities based on these signals. When it comes to calming the markets during financial crises, nothing beats a company's integrity, reliability, and reputation.

HYPOTHESIS DEVELOPMENT

The Effect of Liquidity on Financial Distress

The liquidity ratio reflects a company's ability to meet its short-term obligations. Effective liquidity management enables firms to fulfill these obligations and enhance firm value ([Ambarwati & Vitaningrum, 2021](#)). To ensure timely payment of liabilities, a company must maintain sufficient liquid assets relative to its current liabilities ([Poerba et al., 2024](#)). Failure to meet short-term obligations can undermine a company's credibility with creditors and investors, leading to a more vulnerable financial position and increasing the risk of financial distress.

To satisfy their short-term financial commitments including debt payments, interest, wages, taxes, and raw material purchases, businesses should have assets that can be quickly turned into cash on hand, according to the liquidity hypothesis. Finding the sweet spot between sufficient liquidity and optimizing investment profitability is essential for organizations. Having too much cash on hand is wasteful since it yields poor returns. Problems with cash flow, interruptions to business operations, and a loss of trust from creditors and investors may all result from poor liquidity management. Companies may face financial difficulties or perhaps insolvency as a result of these situations in the long run. Since insufficient cash on hand is often a precursor to more serious financial problems, liquidity theory stresses the need of a healthy liquidity balance for both financial stability and business survival.

The current ratio (CR) is a key measure of liquidity that media and entertainment firms listed

on the Indonesia Stock Exchange use to evaluate their capacity to pay their short-term bills. When a business is in financial distress, it means it is struggling to meet its financial obligations. This can be seen in a number of ways, including a decrease in sustainable profits, negative operating cash flow, higher interest expenses, and the possibility of default. If the current ratio goes up, it means that the firm is doing a better job of managing its cash and current assets, which means that it can better pay its short-term commitments and is less likely to be in financial trouble. Research from [Rojulmubin & Sulistvani \(2024\)](#), [Handayani & Yusran \(2024\)](#), and [Damavanti & Kurnia \(2024\)](#) lends credence to the idea that a company's vulnerability to financial distress is inversely proportional to its current ratio.

H1: Liquidity (Current Ratio) is suspected to have an effect on financial distress.

The Effect of Leverage on Financial Distress

The leverage ratio indicates the extent to which a company's assets are financed by its liabilities. This ratio reflects a firm's ability to meet both its short-term and long-term obligations, particularly in the event of liquidation. In a corporate context, leverage refers to the use of debt to finance assets in order to enhance potential returns. However, a higher level of leverage increases the risk that a company may be unable to meet its financial obligations when they fall due ([Azalia & Rahayu, 2019](#)). Consequently, the likelihood of financial distress becomes higher.

According to leverage theory, taking on more debt might boost a company's bottom line, but it also comes with more financial risk, so it has to be handled with caution. There is a strong correlation between leverage and financial hardship; when the Debt to Equity Ratio (DER) rises, a firm becomes more exposed to interest payments and other fixed costs, and its profitability and cash flow are more affected by market changes. Because relying on debt-based financing raises the danger of a firm not being able to satisfy its financial commitments, this situation heightens the likelihood of financial hardship, particularly for enterprises with unstable cash flows or poor financial performance.

The Debt to Equity Ratio (DER) is a leverage measure that compares a company's total debt to its equity. A firm's ability to sustain a certain level of DER depends on the characteristics and stability of its cash flow. Companies with more stable cash flows tend to maintain higher DER levels. However, a high DER increases borrowing costs and makes firms more vulnerable to declines in earnings and cash flow, which may lead to financial distress,

particularly in uncertain economic conditions ([Agustini & Siregar, 2020](#)). Research from credible sources backs up this claim. Studies have shown that financial hardship is positively and significantly impacted by leverage as assessed by DER ([Oktaviani & Lisiantara, 2022](#); [Yoganata & Fitria, 2024](#)).

H2: Leverage (Debt to Equity Ratio) is suspected to have an effect on financial distress.

The Effect of Profitability on Financial Distress

According to [Kasmir \(2017\)](#), profitability ratios reveal how well a business is able to turn its capital into profit. This makes them a useful tool for anyone looking at financial statements, but especially for equity investors, whose investments are highly sensitive to changes in the value of underlying assets. If a firm is very profitable, it may avoid going bankrupt even if times are tough financially since it can pay its bills and keep running without outside help ([Altman et al., 2017](#)). In contrast, a precipitous fall in profits, particularly when coupled with cash flow issues, might foretell impending liquidity crises and the company's failure to satisfy its financial commitments ([Platt & Platt, 2002](#)).

Profit according to the notion of profitability is a measure of a company's success and a protection against its possible demise. For businesses to be financially resilient in the face of economic pressures and market volatility, they need to be able to consistently and high-profitability develop cash reserves, fortify their capital structure, and win over creditors, investors, and other stakeholders. Profitability, according to [Oktaviani & Lisiantara \(2022\)](#), shows how well management uses assets to make money. A reduced danger of financial hardship and improved financial circumstances are indicated by more profitability. If, on the other hand, a company's profitability continues to fall, it might mean that it is struggling to pay its bills. This could manifest in a number of ways, including falling earnings, negative operational cash flow, rising interest expenditures, and even default. Both [Hadi et al. \(2024\)](#) and [Azis et al. \(2024\)](#) found that financial hardship is significantly impacted by profitability as evaluated by Return on Assets (ROA).

H3: Profitability (Return on Assets) is suspected to have an effect on financial distress.

The Effect of Firm Size on Financial Distress

One of the key factors that affects financial performance, risk, and the likelihood of financial trouble is the size of the company. According to Bakarich et al. (2019), total assets, total revenue, or market capitalization are all ways to assess a company's size. Organizational economics theory posits that, in comparison to smaller businesses, larger ones have benefits in areas such as diversification, access to capital, and economies

of scale ([Coad et al., 2014](#)). Companies benefit from these circumstances because they lessen the likelihood of financial difficulty and boost trust among investors and creditors, who are more likely to commit capital and offer credit. Furthermore, external parties are more confident in a company's financial stability and investment prospects when it has a substantial asset holding ([Muslimin & Bahri, 2023](#)).

According to [Herv \(2016\)](#), there are a number of metrics that may be used to gauge the magnitude of an organization. Among them, you may find the following: market capitalization, number of workers, total assets, revenue, and the logarithm of total assets. Researchers often use the logarithm of total assets to standardize data distribution and enhance the precision of statistical analysis. These metrics show how many operations a firm has and how well it can handle long-term commitments. When it comes to money, firm size is a good indicator of how a company's scale impacts its financial resilience. Bigger organizations tend to be more financially stable, have more financing options, and can diversify their risks better. That is why big businesses seldom go bankrupt compared to their smaller counterparts.

Due to their larger asset bases, superior capacity to diversify operations and risks, and quicker and comparatively cheaper access to external finance, firm size matters in this regard. Companies may better weather operational shocks, stay stable, and lessen the likelihood of financial difficulty with the support of liquidity buffers and financial flexibility. The chance of a financial crisis is positively correlated with business size, according to [Nababan & Hartikavanti \(2025\)](#) and [Safitri & Retnani \(2024\)](#), suggesting that bigger organizations are more prone to financial crises. These findings provide credence to the idea that larger firms do not always have better financial health, particularly when asset development is not accompanied by sufficient risk management and operational efficiency.

H4: Firm size is hypothesized to have an effect on financial distress.

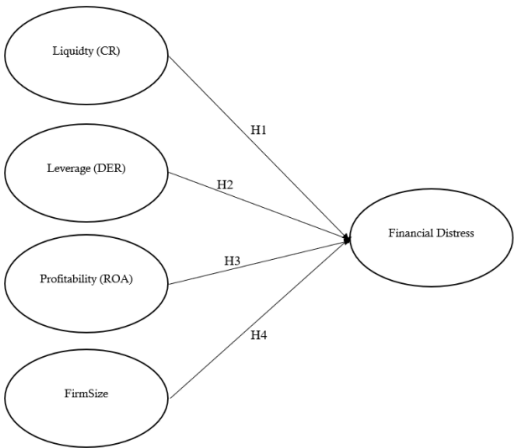


Figure 1. Research Model

METHOD

Population and sample

This study aims to fill the gap in the literature by analyzing media and entertainment firms listed on the IDX from 2021 to 2024. Financial and annual reports of media and entertainment firms listed on the IDX throughout the observation period are utilized as the analytical unit. These reports are gathered from issuer data sources and official publications of the Indonesia Stock Exchange. All media and entertainment companies listed on the IDX are considered part of the research population. Researchers used purposive sampling to select a sample of companies that met three criteria: (i) they were part of the media and entertainment sub-sector and listed on the IDX from 2021 to 2024; (ii) they published full financial reports during the observation period; and (iii) the data they provided was consistent with the research variables. Panel data integrating the time dimension (2021–2024) and the firm dimension allowed for consistent study of dynamics, trends, and changes in financial performance across periods, which is essential for research. As a consequence, 56 financial reports from entertainment and media enterprises were selected for the sample.

Table 1. List of Sample Entertainment Meda Companies

Company Code	Company Name
ABBA	Mahaka Media Tbk.
BMTR	Global Mediacom Tbk.
DIGI	Arkadia Digital Media Tbk.
FILM	MD Pictures Tbk.
FORU	Fortune Indonesia Tbk.
IPTV	MNC Vision Networks Tbk.
MARI	Mahaka Radio Integra Tbk.
MNCN	Media Nusantara Citra Tbk.
MSIN	MNC Digital Entertainment Tbk.
MSKY	MNC Sky Vision Tbk.
NETV	Net Visi Media Tbk.
RAAM	Tripa Multivision Tbk.
SCMA	Surya Citra Media Tbk.
VIVA	Visi Media Asia Tbk.

Table 2. Operational Definitions

Variable	Variable Definition	Indicator
Financial Distress	A condition of declining financial health of a company that occurs before reaching the stage of bankruptcy or liquidation (Setiawan, 2021)	$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$
Liquidity	A measure of a company's ability to meet its short-term obligations by comparing current assets to current liabilities; a ratio above 1 indicates a more secure financial position (Yuda Pratiwi & Sudiyatno, 2022)	$CR = \frac{Current\ Assets}{Current\ Liabilities}$
Leverage	A measure that shows the extent to which a company is financed by debt compared to its capital or assets (Yuda Pratiwi & Sudiyatno, 2022)	$DER = \frac{Total\ Liabilities}{Total\ Equity}$
Profitability	A measure of a company's ability to generate profits from the capital or assets it uses (Yuda Pratiwi & Sudiyatno, 2022)	$ROA = \frac{Net\ Income}{Total\ Assets}$
Company Size	Company size (SIZE) is a measure of the size of a company as indicated or assessed by its total assets, total sales, total profits, tax expenses, and others (Hartono, 2022)	$Firm\ Size = Ln (Total\ Assets)$

RESULT AND DISCUSSION

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Financial Distress	56	73.00	1530.00	449.3571	309.83693
Current Ratio	56	13.00	1156.00	303.2143	284.8925
Debt to Equity Ratio	56	4.00	6297.00	316.6071	897.66875
Return on Assets	56	1.00	89.00	12.0714	16.39829
Company Size	56	24.00	31.00	28.3571	2.19444
Valid N (listwise)	56				

According to descriptive statistics, there is a wide range of variance across all study variables. Companies are under varying degrees of financial strain, and this is reflected in the rather large range of values for the financial hardship variable. Significant disparities in the capacity to satisfy short-term commitments and the extent of business dependency on debt are shown by the

extremely high variance in liquidity (CR) and leverage (DER). Differences in how well organizations generate profits from their assets are reflected in the comparatively wide variety seen in profitability, as measured by ROA. Media and entertainment enterprises in the sample tend to have a uniform business scale, as shown by the relatively low diversity in company size.

Table 4. Normality Test

N	54
Asymp. Sig. (2-tailed)	0.152
	Sig. 0.104
Monte Carlo Sig. (2-tailed)	Lower Bound 0.096
	99% Confidence Interval
	Upper Bound 0.112

The regression model is feasible, according to the findings of classical assumption testing. With an Asymp. Sig. (2-tailed) result of 0.152 (>

0.05) from the One-Sample Kolmogorov-Smirnov Test, which is used to test for normality, the data is deemed to have a normal distribution.

Table 5. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
CR	0.778	1.286
DER	0.753	1.328
ROA	0.808	1.238
FirmSize	0.914	1.094

There is no strong association between the independent variables, as shown by the multicollinearity test, which finds that all of them have a VIF value less than 10 and a tolerance value more than 0.10.

Table 6. Park's Test

Model	Sig
(Constant)	0.869
CR	0.277
DER	0.059
ROA	0.812
FirmSize	0.440

The heteroscedasticity test using the Park method with natural logarithm (LN)

transformation shows that all variables have significance values above 0.05, namely liquidity (0.277), leverage (0.059), profitability (0.812), and company size (0.440), hence, it is safe to say that heteroscedasticity is not present.

Table 7. Durbin Watson Test

Model	Durbin-Watson
Predictors: (Constant), FirmSize, CR, ROA, DER	1.922

The results of the autocorrelation test using the Durbin-Watson method produced a value of 1.922, which is in the range of $DU < DW < 4 - DU$ ($1.7246 < 1.922 < 2.2754$), so it can be concluded that the regression model does not experience autocorrelation.

Table 8. Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	5.285	0.947		5.583	0.000
CR	0.203	0.052	0.353	3.910	0.000
DER	-0.276	0.041	-0.622	-6.782	0.000
ROA	0.157	0.050	0.278	3.142	0.003
FirmSize	-2.816	0.806	-0.291	-3.494	0.001

Regression analysis shows that all independent factors significantly impact financial stress levels. A regression coefficient of 0.203 and a significance value of 0.000 for Current Ratio (X1) suggest that changes in liquidity levels significantly impact monetary crises. Leverage affects financial situations, as seen by the -0.276 regression coefficient and 0.000 significance value

for the Debt to Equity Ratio (X2). With a p-value of 0.000, the regression coefficient for Return on Assets (X3) is 0.157. Taken together, these results highlight the significance of firm size, profitability, leverage, and liquidity in determining the precarious financial position of media and entertainment enterprises.

Table 9. F Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.926	4	3.231	27.229	0.000
Residual	5.815	49	0.119		
Total	18.741	53			

Significance values below 0.001 indicate that simultaneously, the variables of liquidity, leverage, profitability, and company size have a significant effect on financial distress. The significance level is smaller than the threshold of

0.05, so it can be concluded that the regression model as a whole is valid for use and that all independent variables together have a significant ability to explain the variation in financial distress.

Table 10. t-Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.285	0.947		5.583	0.000
CR	0.203	0.052	0.353	3.910	0.000
DER	-0.276	0.041	-0.622	-6.782	0.000
ROA	0.157	0.050	0.278	3.142	0.003
FirmSize	-2.816	0.806	-0.291	-3.494	0.001

All independent factors significantly affect financial hardship, according to the partial test findings (t-test). The current ratio (CR), which measures liquidity, has a t-value of 3.910 and a significance level of 0.000 (< 0.05), hence, H_1 is accepted and CR significantly and positively affects financial hardship. H_2 is accepted because DER has a negative and significant influence on financial hardship since the leverage variable, assessed by the Debt to Equity Ratio (DER), has a t-value of -6.782 and a significance level of 0.000 (< 0.05). In addition, the t-value of 3.142 for the profitability variable, which is assessed by Return on Assets (ROA), is less than 0.05, suggesting that ROA significantly and positively affects financial hardship, which supports the acceptance of H_3 . At the same time, the t-value for the business size variable is -3.494, which is less than the significance threshold of 0.05 (0.001), therefore supporting the acceptance of H_4 and indicating that company size significantly and negatively impacts financial hardship.

Table 11. Determination Coefficient Results (R^2)

R	R Square	Adjusted R-Square	Standard Error of the Estimate
0.830	0.690	0.664	0.34449

With a R Squared value of 0.690, the study model's liquidity, leverage, profitability, and firm size variables account for 69% of the variance in financial distress, according to the findings of the coefficient of determination test. Even while the model has great explanatory power, there are still additional factors that impact financial hardship; the remaining 31% is influenced by variables outside the model that are not included in this research.

DISCUSSION

The Effect of Liquidity on Financial Distress

Financial hardship is positively and significantly impacted by liquidity, as shown by the Current Ratio (CR). The t-value of 3.910 and

the positive direction of the coefficient, together with a significance value of 0.000 (< 0.05), prove this. These results highlight the significance of changes in liquidity levels in explaining the diversity of financial distress across media and entertainment enterprises.

In theory, a company's liquidity indicates how well it can pay its short-term bills. There is less of a chance of financial problems occurring when there is sufficient liquidity, which indicates rather stable financial circumstances. In contrast, a lack of liquidity raises the risk that a business may have financial difficulties as a result of its inability to meet its short-term commitments. The results of this study are in line with the findings of [Roiulmubin & Sulistvani \(2024\)](#), [Handayani & Yusran \(2024\)](#), and [Damayanti & Kurnia \(2024\)](#), which state that liquidity has a significant effect on financial distress.

The Effect of Leverage on Financial Distress

Tests reveal a negative and statistically significant relationship between financial hardship and leverage, as assessed by the Debt to Equity Ratio (DER). The t-value is -6.782 and the coefficient is pointing in the negative direction, and the significance value is 0.000 (< 0.05), which imply this. The Z-score, which represents the likelihood of financial trouble or a worsening of the company's financial situation, tends to drop as DER increases, according to this result. Therefore, the probability of financial strain on the firm increases as the amount of leverage increases.

In theory, leverage is a measure of how much debt an organization uses to fund its assets. Companies with high DERs rely too much on debt financing, which may lead to higher interest costs and even default in the event of poor financial performance. While taking out a loan might be helpful in certain situations, the danger of financial trouble increases when the amount of debt is too high. Consistent with previous research, this analysis finds that leverage significantly affects financial hardship ([Oktaviani & Zaretta, 2024](#); [Yoganata & Fitria, 2024](#); [Andriani, 2023](#)).

The Effect of Profitability on Financial Distress

The findings of the tests demonstrate that financial hardship is positively and significantly affected by profitability as evaluated by Return on Assets (ROA). The t-value of 3.142 and the positive direction of the coefficient, together with a significance value of 0.003 (< 0.05), prove this. Our research shows that a higher return on assets (ROA) means a higher Z-score, which means the company's financial situation is stronger and less likely to be in trouble.

In theory, a high return on assets (ROA) indicates that a business is good at turning its assets into cash, which it can then use to pay for operations and other debts. This bodes well for the company's capacity to weather financial storms and maintain consistent success. Consistent with previous research, our study found that profitability significantly affects financial hardship ([Azis et al., 2024](#); [Hadi et al., 2024](#)).

The Effect of Firm Size on Financial Distress

A negative and statistically significant relationship between firm size and financial hardship was found in the tests. The t-value is -3.494 and the coefficient is pointing in the negative direction, and the significance value is 0.001 (< 0.05), which show this. According to these results, the probability of financial hardship decreases as firm size increases. Maintaining financial stability and coping with operational constraints are often easier for larger organizations due to their greater asset bases, wider access to financing, and superior risk diversification capabilities.

But in the media and entertainment sector, being a huge corporation is no guarantee of financial stability. Businesses with a lot of employees and long-term commitments (such as distribution contracts and the expense of producing content) are less nimble when it comes to reacting to changes in their external environment. Without proper cost management and financing mechanisms, the risk of financial hardship might grow due to macroeconomic forces including interest rate variations, inflation, and shifts in market demand. Consistent with previous research, our analysis found that firm size significantly affects financial hardship ([Safitri & Retnani, 2024](#); [Nababan & Hartikayanti, 2025](#)).

CONCLUSION

Based on the results of this study, it can be concluded that liquidity, leverage, profitability, and firm size have significant effects on financial distress in media and entertainment companies. Liquidity, as measured by the Current Ratio (CR), shows a positive and significant effect on financial distress, indicating that better liquidity conditions

are associated with stronger financial stability and a lower likelihood of distress. This finding underscores the importance of maintaining adequate short-term assets to meet current liabilities.

Leverage, proxied by the Debt to Equity Ratio (DER), exhibits a negative and significant relationship with financial distress. This implies that higher leverage levels increase the risk of financial difficulties, as excessive reliance on debt can burden companies with higher financial obligations and default risk, especially during periods of unfavorable performance.

Profitability, measured by Return on Assets (ROA), also demonstrates a positive and significant effect on financial distress. Higher profitability contributes to improved financial health, as companies are more efficient in generating earnings from their assets, thereby enhancing their ability to sustain operations and fulfill financial commitments.

Furthermore, firm size is found to have a negative and significant effect on financial distress. Larger firms tend to have greater financial resilience due to their asset base, access to funding, and risk diversification. However, this does not entirely eliminate the possibility of financial distress, particularly when large firms face operational inefficiencies or external economic pressures.

Overall, these findings highlight that both internal financial performance indicators and firm characteristics play crucial roles in determining the likelihood of financial distress. Therefore, companies should carefully manage liquidity, control leverage levels, improve profitability, and optimize resource utilization to maintain financial stability and minimize the risk of distress.

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