The Effect of Profitability, Leverage and Company Size on Financial Difficulties During Covid-19 And Post Covid-19 in the Oil and Gas Sector in the Period 2019-2023

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Abstract. The reason of this consider was to decide the impact of productivity, use and company measure on money related challenges. The inquire about strategy may be a causality approach. Purposive inspecting was utilized to choose the test. Purposive examining was utilized to choose 60 oil and gas companiess recorded on the IDX between 2019 and 2023 based on 300 monetary articulation information. Stata/IC 15 was utilized to prepare the investigate information, which came from the Osiris and Bloomberg databases. The discoveries of the consider uncover that productivity plays a critical and positive part in easing money related trouble amid and after the COVID-19 widespread. Be that as it may, the relationship between productivity and money related trouble developed after the pandemic, suggesting that beneficial businesses are still vulnerable to budgetary trouble. Within the in the mean time, amid the COVID-19 plague, use has no perceivable affect on budgetary enduring. Use, on the other hand, essentially declines money related hopelessness after the widespread, showing that a rise in use really reduces money related trouble taking after the widespread. Amid the COVID-19 widespread, firm estimate essentially emphatically influences money related hardship; the larger the firm, the more noteworthy the probability of encountering budgetary inconvenience. Firm estimate, in any case, now not altogether influences monetary enduring amid the plague.

Keywords: *Profitability, Leverage, Firm Size, Financial Distress.*

INTRODUCTION

The sudden emergence of the coronavirus disease 2019 (COVID-19) worldwide has had a significant negative impact on the local economies of various countries. Many nations have faced this issue in their own ways. Since the first case was detected in December 2019 in Wuhan, Hubei, China, this epidemic has instilled fear worldwide [1]. To curb the spread of COVID-19, governments worldwide implemented measures such as lockdown policies and restricting access to the most affected regions [2]. These measures aimed to reduce the likelihood of virus transmission. In such a challenging situation, companies with specific characteristics, particularly related to profitability, leverage, and size, may have a better capacity to cope with and manage financial distress[3]. Financial distress is a situation where a company experiences financial decline or crisis before ultimately facing bankruptcy[4]. Companies experiencing financial distress generally exhibit signs such as declining revenues, delays in goods delivery, and negative operating income reports[5]. Financial distress threatens companies' financial stability, referring to a period when a company experiences a downturn before reaching bankruptcy or liquidation[6]v. Agency theory states that businesses function as forums between principals (owners) and agents (management), with specific management having the power to make decisions [7]. The relationship between agency theory and financial distress can be understood through the concept of information asymmetry as proposed by Jensen & Meckling (1976) in [7]. In this context, management is expected to be responsible for the company's management to investors and creditors. Information related to a company's fundamentals, such as profitability, debt levels, and company size, becomes crucial for investors and creditors in evaluating their investment decisions[3].

Financial problems in companies can be influenced by various characteristics, such as company size, profitability, and

leverage. Profitability describes the relationship between revenue and expenses, reflecting a company's performance and future growth potential. Additionally, profitability relates to how a company manages its working capital [8]. Regression testing by [9] and[3] shows that profitability positively affects financial distress, while [10] finds that the impact of profitability is not significant. Leverage is defined as a company's use of debt to support operations. It is a strategy used to maximize resource utilization and increase operational efficiency [11]. Leverage ratios reflect the extent to which a company can meet its financial obligations in the event of liquidation. Changes in debt levels, whether increases or decreases, can significantly impact a company's market value [12]. Regression tests by[3] and [13]indicate a positive effect of leverage. However,[14] finds a negative impact of leverage on financial distress. Company size is a metric used to categorize businesses as large or small. Larger firms generally disclose more information due to higher agency costs . Regression research by[15] and [16]vfinds a positive coefficient for company size, suggesting a positive but not strong effect on financial distress, while[17] indicate that company size does not significantly impact financial distress.

The novelty of this study lies in the comparative analysis conducted over two periods: during and after the COVID-19 pandemic (2019-2023). This study addresses gaps in previous research, where some studies show an impact on financial distress while others do not. Therefore, this study aims to determine whether profitability, leverage, and company size have a positive or negative impact on financial distress in the oil and gas sector. The researchers hope that the study's findings will contribute significantly to financial accounting and provide accurate information about the capital market at both local and global levels.

METHOD

This study employs a quantitative methodology. Purposive sampling was used to select the sample. The sample consists of 300 financial statement records from 60 companies listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023. The data were obtained from the Osiris and Bloomberg databases and processed using Stata version 15.

Measurement Indicators

Financial Distress

Financial distress, determined by the company's financial ratios, is the dependent variable in this study. The Altman Z-Score, specifically designed for publicly traded companies, was used in this study[3].

Profitability

Profitability indicates how effectively a company generates profits; the higher the profitability level, the better the company manages its assets. To determine profitability, net income is compared with total assets[10]. Profitability is calculated using the formula:

Variablee	Obs	Meann	Std. Dev.	Min	Max
Financial Difficulties	300	3.673667	3.308686	-3.59	9.05
Profitabilitas	300	-63.34867	174.9949	-638.93	49.94
Leverage	300	201.7663	327.4945	-1072.6	816.32
Company Size	300	1.36e+10	5.98e+10	48821	3.24e+1

Leverage

Leverage (LEV), represented by the debt-to-asset ratio (DAR), is a ratio that shows the proportion of total debt to total assets of a company. This ratio is often used to assess the extent to which a company's assets are financed by debt. The value of this ratio is positively correlated with the amount of borrowed capital used to invest in assets intended to generate profit for the company[18].

Company Size

The company size variable in this study is calculated using the natural logarithm of total assets. The formula used to calculate this variable is: Ln (Total Assets)[19].

This study employs multiple linear regression using Stata 15. The analysis includes descriptive statistics, classical assumption tests (normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test), and hypothesis testing (coefficient of determination R^2 test, F-test, and T-test). The research model is formulated in the multiple linear regression structural equation as follows:

Yi,t = a i,t + b1X1i,t + b1X2i,t + b1X3i,t + ei,t

Explanation:

Y = Financial Distress (KK)
a = Constant
b1 = Regression coefficient
X1 = Profitability (ROA)
X2 = Leverage
X3 = Company Size
i = Sample Companies (Oil and Gas Sector)
t = Year (2019-2023)
e = Error term

RESULTS AND DISCUSSION

Results

Descriptive Statistical Test

Tabel 1

Hasil Uji Statistic Deskriptif Saat Covid

Tabel 2

Variablee	Obs	Mean	Std. Dev.	Min
Financial Difficulties	300	3.747097	2.166617	-.03
Profitabilitas	300	-.5225806	42.95081	-151.21
Leverage	300	141.2884	133.7205	0
Company Size	300	1.53e+10	5.49e+10	38299

Hasil Uji Statiscic Deskriptif Setelah Covid

In Tables 1 and 2. The results of the descriptive statistical analysis show that the level of financial difficulties during the pandemic recorded an average of 3.673667 with a standard deviation of 3.308686. The minimum value measured was -3.59, while the maximum value reached 9.05. On the other hand, financial difficulties had a minimum value of -0.03, a maximum value of 7.59, and an average of 3.747097 with a standard deviation of 2.166617 after the epidemic. The value of -3.59 is the lowest value recorded. profitability during COVID-19 with an average value of -63.35, a standard deviation of 42.95, a minimum value of -638.93, and a maximum value of 49.94. After the pandemic ended, the average value of profitability increased to -5.23, but the standard deviation remained at 42.95, with a minimum value of -151.21 and a maximum value of 53.52. The leverage value during COVID is an average of 201. 7663 with a standard deviation of 327. 4945, there is a minimum value of -1072. 6 and a maximum value of 650. 94, while the leverage after covid has a mean value of 141.2884, a standard deviation of 133.7205, a minimum value of 0, and a maximum of 650.94.

The company size during covid has a mean value of 1.36e + 10, a standard deviation of 5.98e + 10, a minimum value of 48.821 and a maximum of 3.24e + 11. In contrast, after the COVID-19 pandemic, the company size shows an average size of 1.53e + 10, a standard deviation of 5.49e + 10, and a minimum value of 38.299 and a maximum of 2.95e + 11.

Classical Assumption Test

Normality Test

Table 3

Results of Normality Test During Covid

Skewness/Kurtosis testss for Normality					
				joint	
Variable	Obs	Pr (Skewness)	Pr (Kurtosis)	Adj chi2(2)	Prob>chi2
Residual	300	0.6886	0.1468	2.47	0.2909

Tabel 4

Hasil Uji Normalitas Setelah Covid

Skewness/Kurtosis tests for Normality					
				joint	
Variable	Obs	Pr (Skewness)	Pr (Kurtosis)	Adj chi2(2)	Prob>chi2
Residual	300	0.2791	0.1005	4.08	0.1302

During COVID, the probability value is greater than chi2 is 0.2909, and after COVID, the value is 0.1302, both greater than 0.05. The test results shown in Tables 3 and 4 indicate that the residuals in the data

both during and after COVID meet the assumption of normality.

Multicollinearity Test

Table 5
Multicollinearity Test Results During Covid

Variable	VIF	1/VIF
Profitabilitas	1.04	0.960974
Leverage	1.04	0.964516
Company Size	1.03	0.971699
Mean VIF	1.04	

Tabel 6
Hasil Uji Mulltikolinearitas Setelah Covid

Variable	VIF	1/VIF
Profitabilitas	1.09	0.915749
Leverage	1.08	0.926346
Company Size	1.07	0.937818
Mean VIF	1.08	

The VIF values for the variables of company size, profitability, and leverage during the COVID-19 period were 1.04, 1.04, and 1.03, respectively, in accordance with the results of the multicollinearity test in Tables 5 and 6. The VIF values then increased after COVID-19, to 1.09 for profitability, 1.08 for leverage, and 1.07 for firm size, with an average VIF value of 1.08. Despite the small increase, the VIF value remained at 1.08. Therefore, multicollinearity did not occur either before or after COVID-19. All VIF values remained well below the threshold of 10. Therefore, it can be concluded that there was no multicollinearity problem either before or after COVID-19. Therefore, the regression model used is still valid and is not affected by the high correlation between the independent variables.

Heteroscedasticity Test

Table 7
Heteroscedasticity Test Results During Covid

* OLS Glejser Lagrange Multiplier Heteroscedasticity Test	
Ho: No Heterosceedasticityy- Ha: Heterosceedasticity	
Glejser LM Test	= 1.93980
Degrees of Freedom	= 3.0
P-Value > Chi2(3)	= 0.58499

Table 8
Heteroscedasticity Test Results After Covid

* OLS Glejser Lagrange Multiplier Heteroscedasticity Test	
Ho:No Heterosceedasticityy - Ha: Heterosceedasticity	
Glejser LM Test	= 0.92318
Degrees of Freedom	= 3.0
P-Value > Chi2(3)	= 0.81983

The results presented in Tables 7 and 8 show that during the Covid-19 period, the Glejser LM test value was 1.9398 with a p-value of 0.58499; after the Covid period, the Glejser LM test value decreased to 0.92318, with a p-value of 0.81983, which is also greater than 0.05. Thus, there is insufficient evidence to reject the null hypothesis, indicating that the model does not exhibit heteroscedasticity. The results show that even after the COVID-19 pandemic, the model does not experience heteroscedasticity problems. This indicates that the non-constant error variance does not affect the estimation results, indicating that they remain consistent.

Autocorrelation Test

Table 9
Autocorrelation Test Results During Covid

Breusch-Godfrey LM test for autocorrelation

Lags (p)	chi2	df	Prob > chi2
1	0.498	1	0.4802

H0: no serial correlation

Table 10
Autocorrelation Test Results After Covid
Breusch -Godfrey LM testt for autocorrelation

Lags (p)	chi2	Df	Prob > chi2
1	0.118	1	0.7314

H0: no serial correlation

Table 9 shows the results of the autocorrelation test during COVID, where the chi-square value is 0.498 and the p-value is 0.4802. It can be concluded that there is no autocorrelation in the model because the p-value is greater than 0.05 and there is insufficient evidence to reject the null hypothesis. Furthermore, in Table 10, the chi-square value drops to 0.118 and the p-value is 0.4802. This shows that the results of the autocorrelation test both during and after COVID-19 indicate that the regression model does not experience autocorrelation problems. This shows that the assumption of residual independence is still met, and the regression estimation results are considered effective.

Regression Test

Table 11
Results of Regression Test During Covid

KesulitanKeu~n	Coef.	Std.Err.	T	P>t	[95% Conf.	Interval]
Profitabilitas	.0150275	.0019111	7.86	0.000	.011099	.0189559
leverage	.0002064	.0010193	0.20	0.841	-.0018889	.0023016
Company Size	1.38e-11	5.57e-12	2.48	0.020	2.36e-12	2.52e-11
cons	4.395828	.4252165	10.34	0.000	3.521783	5.269873

Table 12
Results of Regression Test After Covid

KesulitanKeu~n	Coef.	Std.Err.	T	P>t	[95% Conf.	Interval]
Profitabilitas	.0276536	.0056733	4.87	0.000	.0160128	.0392943
Leverage	-.0071084	.0018335	-3.88	0.001	-.0108705	-.0033464
Company Size	6.54e-12	4.50e-12	1.45	0.157	-2.68e-12	1.58e-11
_cons	4.666099	.364524	12.80	0.000	3.918157	5.414041

From tables 11 and 12 above, the research results can be described based on the regression equation obtained as follows:

$Yi,t = ai,t + B1X1i.t + B2X2i.t + B3X3i.t + ei.t$

Regression equation during covid

$Y = 4.395828 + 1.38e-11 + 0.0002064 + 0.0150275 + e$

Regression equation after covid

$Y = 4.666099 + 0.0276536 - 0.0071084 + 6.54e-12 + e$

Description:

Constant value: during COVID-19, the constant value was 4.395828, while after COVID-19 it increased to 4.666099. This shows that financial difficulties generally increased after COVID-19, regardless of company size, leverage, or profitability.

Regression coefficient value of the profitability variable (X1): The profitability coefficient was recorded at 0.0150275 during COVID-19, with a p value = 0.000. This shows that profitability has a significant impact on increasing financial difficulties. However, the coefficient increased to 0.0276536 after COVID-19, indicating that the effect of profitability on financial difficulties was greater than the previous period.

Regression coefficient of the influence variable (X2): Insignificant effect on financial difficulties when COVID-19 occurred, with a coefficient of 0.0002064 and a p value = 0.841. However, the coefficient of influence decreased to -0.0071084 with a p value = 0.001 after COVID-19. This shows that the use of leverage has begun to have an impact on reducing financial difficulties.

The regression coefficient value of the company size variable (X3): During COVID-19, the coefficient of company size was recorded at 1.38e-11 with a p value = 0.020, indicating that company size has a significant effect on increasing financial difficulties. However, after the pandemic ended, the effect of company size was no longer significant, with the coefficient decreasing to 6.54e-12 and a p value =

0.157. This indicates that company size no longer has an effect on financial difficulties.

Hypothesis Test

Coefficient of Determination (R2) Test

Table 13

Results of the R2 Coefficient of Determination Test During Covid

R-squared	=	0.7447
Adj R-squared =		0.7153

Table 14

Results of R2 Determination Coefficient Test After Covid

R- squared =		0.7447
Adj R -squared =		0.6441

The results of the determination coefficient test during Covid showed that R-squared (R2) = 0.7447, which means that 74.47% of the variation in financial distress can be explained by the variables of profitability, leverage, and total assets. Adjusted R-squared (Adj R^2) = 0.7153, which shows that after adjusting the number of variables, the model can still explain 71.53% of the variation in financial distress.

The results of the Determination Coefficient Test After COVID-19 showed that R-squared (R2) remained at 0.7447, which shows that the model still explains 74.47% of the variation in financial distress after COVID-19. However, Adjusted R-squared (Adj R2) decreased to 0.6441, which shows that the model can only explain 64.41% of the variation in financial distress after COVID after considering all independent variables.

F Test

Table 15

F Test Results During Covid

F(3, 26)	=	25.28
Prob>F	=	0.0000

Tabel 16

Hasil Uji F Setelah Covid

F(3, 27)	=	19.10
Prob>F	=	0.0000

The null hypothesis is rejected because, as shown in Table 15 above, the Prob>F value is 0.0000 or less than 0.05, indicating that the independent factors have a simultaneous impact on financial problems during COVID-19. However, Table 16 shows that the independent variables still have a significant impact on financial problems after COVID-19 at the same time, with a Prob>F value of 0.0000 or less than 0.05.

T-Test

Table 17

T-Test Results During Covid

KesulitanKeu~n	Coef.	Std.Err.	T	P>t	[95%Conf.	Interval]
Profitabilitas	.0276536	.0056733	4.87	0.000	.0160128	.0392943
Leverage	-.0071084	.0018335	-3.88	0.001	-.0108705	-.0033464
Company Size	6.54e-12	4.50e-12	1.45	0.157	-2.68e-12	1.58e-11
cons	4.666099	.364524	12.80	0.000	3.918157	5.41404

Tabel 18

T-Test Results After Covid

KesulitanKeu~n	Coef.	Std.Err.	T	P>t	[95%Conf.	Interval]
Profitabilitas	.0276536	.0056733	4.87	0.000	.0160128	.0392943
Leverage	-.0071084	.0018335	-3.88	0.001	-.0108705	-.0033464
Company Size	6.54e-12	4.50e-12	1.45	0.157	-2.68e-12	1.58e-11
cons	4.666099	.364524	12.80	0.000	3.918157	5.41404

Profitability has a positive impact on financial distress during the COVID era, according to the T-test results in Table 17. Profitability has a positive impact on financial distress, as indicated by a coefficient of 0.0150275, a t-value of 7.86, and a very small p-value of 0.000. The null hypothesis is rejected because the p-value is less than 0.05. Leverage has no significant effect on financial distress with (coef = 0.0002064, t = 0.20 p-value = 0.841). The null hypothesis is accepted because the p-value is greater than 0.05, indicating that leverage has no effect on financial distress during COVID-19. Firm Size has a positive and significant effect on financial distress (coef = 1.38e-11, t = 2.48, p-value = 0.020). Since the p-value <0.05, the null hypothesis is rejected, which means that company size has a significant impact on financial distress during Covid. The constant (cons) of 4.395828 with a p-value = 0.000, indicates that without the influence

of the independent variable, the level of financial distress remains high. The level of financial distress remains high without the influence of the independent variable, according to the constant (cons) of 4.395828 with a p-value = 0.000.

T-test results in table 18 After Covid Profitability still has a positive and significant effect on financial distress (coef = 0.0276536, t = 4.87, p-value = 0.000). The effect of profitability increases After COVID-19, Leverage, which was previously insignificant, became significant after COVID with a negative impact on financial distress (coef = -0.0071084, t = -3.88, p-value = 0.001). This indicates that increasing leverage after COVID-19 can help reduce financial distress.

Company size has a p-value = 0.157, which is greater than 0.05, meaning it does not significantly affect financial distress after COVID. On the other hand, the constant (cons) increased to 4.666099 with a p-value of 0.000, indicating that other factors may influence financial distress after the pandemic.

Discussion

Profitability Has a Positive Effect on Financial Distress

Financial distress has a positive impact on profitability both during and after COVID, with a coefficient value of 0.0150275, t-value = 7.86, and p-value = 0.000 ($p < 0.05$) during COVID, and 0.0276536, t-value = 4.87, and p-value = 0.000 ($p < 0.05$) after COVID. However, the impact of profitability on financial distress increased compared to during COVID-19. This positive influence indicates that the higher a company's profitability, the higher its value. This means that the company's cash inflow must exceed its expenses, leaving remaining profit. The results are consistent with studies by[20] and [9], which found that profitability positively affects financial distress. H1 is accepted.

Leverage Has a Positive Effect on Financial Distress

During COVID, leverage did not significantly affect financial distress, as leverage had a coefficient of 0.0002064, with t = 0.20 and p-value = 0.841. Conversely, after COVID, financial distress was significantly negatively affected by leverage, which had a negative coefficient of -0.0071084, t = -3.88, and p-value = 0.001 ($p < 0.05$). This indicates that higher leverage reduces financial distress after the pandemic. These findings align with research by[21], which showed that the leverage ratio has a significant negative effect on financial distress. When a company has a high leverage ratio, it indicates high debt levels. This means that financial burdens increase. H2 is rejected.

Company Size Has a Positive Effect on Financial Distress

With a coefficient of 1.38e-11, t-value = 2.48, and p-value = 0.020 ($p < 0.05$), company size during COVID had a positive impact on financial distress. This means that the likelihood of experiencing financial distress is positively correlated with total assets. These results align with research by[15], which found a positive coefficient for the company size variable. Conversely, after COVID, with a coefficient of 6.54e-12, t-value = 1.45, and p-value = 0.157, which is greater than 0.05, company size no longer significantly affects financial distress. The results align with studies by[22] and[23]. When a business experiences financial distress, controlling revenue is crucial for repaying debt. Both large-cap and small-cap companies tend to operate cautiously. Therefore, a company's financial distress is not influenced by its size. H3 during COVID-19 is accepted, but after COVID-19, it is rejected.

Profitability, Leverage, and Company Size Have a Simultaneous Effect on Financial Distress

The entire regression model is significant, according to the F-test conducted during and after COVID-19. This demonstrates how company size, leverage, and profitability affect financial distress. However, the F-statistic value decreased from 25.28 to 19.10, indicating that after COVID-19, the correlation level between independent and dependent variables slightly decreased. H4 is accepted.

CONCLUSION

This study found that profitability positively affects financial distress both during and after the COVID-19 pandemic. However, the impact of profitability on financial distress increased after the pandemic, indicating that companies, even if they generate profits, remain vulnerable to financial problems. Company size had a significant impact on financial distress during the COVID-19 pandemic, with larger companies more likely to experience increased financial distress after the pandemic. However, leverage did not affect financial distress after the pandemic, meaning that an increase in leverage actually helped reduce financial distress post-pandemic. Profitability, leverage, and company size influenced financial distress both during and after COVID-19.

RECOMMENDATIONS

The study results indicate the need for further research as this study focuses on analyzing the effect of profitability, leverage, and company size on financial distress experienced by companies during and after COVID-19. Therefore, further research exploring financial distress from various perspectives is essential. With a more innovative analytical approach, it is hoped that complex financial problems faced by companies can be resolved more effectively and efficiently.

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