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The Effect of Financial Distress, Stock Split, and Financial Performance on Stock Returns in Companies Listed on the IDX in 2020-2023

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Abstract

Stocks are one of the investment instruments in the capital market. The stock price is the value of a share, reflecting the wealth of the company or issuer issuing the shares. Stock prices are determined by supply and demand in the capital market (secondary market). The more investors buy a stock, the higher the stock price will be, and when investors sell, the price will fall. Several factors influence stock prices, including macroeconomic conditions, sectoral growth, company fundamentals, fair value, and stock price charts. However, stock prices can also fluctuate due to financial distress, stock splits, and financial performance. This study aims to examine the effect of financial distress, stock splits, and financial performance on stock returns. This study used a sample of 26 companies for the 2020-2023 period. The total sample size was 104 annual reports, financial statements, and stock prices. This research used a purposive sampling method. Data analysis in this study used the Statistical Package for the Social Sciences (SPSS) using the SPSS 27 application. The results of the study found a simultaneous effect of financial distress and financial performance on stock returns. Furthermore, the results also showed a partial effect of financial performance on stock returns. Independent variables other than financial performance did not have a partial effect on stock returns.

Keywords:Financial Distress, Financial Performance, Stock Returns, Stock Split

INTRODUCTION

In 2020, an extraordinary event occurred, namely the spread of the Covid-19 virus. This virus caused many companies to experience setbacks. However, this event did not negatively impact the enthusiasm for capital market investment. Despite the economic downturn, investor enthusiasm remained strong. This can be seen through the increase

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in SID (Single Investor Identification) throughout the year. According to KSEI Regulation No. IE, SID is a single code issued by KSEI and used by customers to conduct securities transactions based on KSEI approval. In 2018, SIDs were 1,619,372 and in 2019, SIDs were 2,478,243. In 2020, SIDs reached 3.6 million. This SID growth is the total SID, which includes mutual funds, bonds, stocks, and other capital market investment instruments. Looking solely at the stock sector, there was a 93.4 percent increase in SID, with SID shares in 2019 reaching 252,370 and rising to 488,088 in 2020 (inews.id, 2019).

Investment is the investment of capital in an asset, usually long-term, with the goal of generating future profits. Investments are divided into two categories: securities and real assets. Marketable securities, for example, include stocks, deposits, and others, with the goal of increasing wealth. Real assets, for example, include land, gold, watches, houses, and others. (Tambunan, 2020). Stocks are one of the investment instruments in the capital market. Stocks are equity participation that signifies ownership of an issuer, commonly known as a limited liability company (PT). Investing in the capital market offers greater returns than investing in real assets such as gold, watches, cars, and others. Investing in the capital mark*et al*so offers greater returns than investing in the money market. Unfortunately, investing in the capital market carries a higher level of uncertainty than investing in real assets and the money market. This uncertainty is felt by investors because each year, some stocks experience significant declines. (Nugraha & Rochmawati 2023).

Stock price is the value of a share, reflecting the wealth of the company or issuer issuing the shares. Stock prices are determined by supply and demand in the capital market (secondary market). The more investors buy a stock, the higher the price will be, and when investors sell, the price will fall. Several factors influence stock prices, including macroeconomic conditions, sectoral growth, company fundamentals, fair value, and stock price charts. However, in addition to those mentioned, stock prices can fluctuate due to financial distress and financial performance (Sulia, 2017).

Financial distress is a condition where a company is in poor financial condition and is threatened with being unable to continue its business. Only after a company experiences bankruptcy or liquidation is it called financial failure or economic failure. Companies in poor financial condition or financial distress can be threatened with delisting from the Indonesia Stock Exchange (IDX). Financial distress can be caused by three internal factors: when a company's operating income is unable to cover operating expenses or when the company experiences poor cash flow; when the company's funds are insufficient to pay debts; and when the company experiences losses due to declining

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revenue, resulting in negative cash flow. A company that has successfully avoided these internal causes cannot be guaranteed to have avoided financial distress. In addition to internal causes, external circumstances can also cause a company to experience financial distress. External factors include government regulations that result in increased company expenses. For example, when the government increases tax rates or loan interest rates. This will impact the company's tax burden and loan interest (Curry & Banjarnahor, 2018).

A stock split is an activity carried out by company managers by changing the number of shares outstanding and the nominal value per share. According to a report (idx.co.id), stock splits in companies listed on the Indonesia Stock Exchange (IDX) have occurred since 1990 and are still occurring today. A stock split is a corporate action undertaken by a public company with the aim of increasing the number of shares issued. According to the report, a stock split will divide a share into n shares. They added that this action will not increase the company's value. A stock split is carried out when the company's share price is overvalued, thus affecting investors' buying and selling ability. By conducting a stock split, the share price will decrease, allowing investors with small capital to buy and sell the company's shares. There are three objectives of a company conducting a stock split. First, to return the share price to a price that aligns with the company's desired price, in line with market demand. Second, to send a positive signal that company management is confident in the company's future prospects. Third, to increase stock liquidity. A lower share price will reach investors with both large and small capital. (Muna & Khaddafi, 2022).

A company's financial performance is the company's ability to run its business and will be shown financially in the company's financial statements. Financial statements are all kinds of records of a company's financial information for a certain accounting period that can illustrate the company's performance during that period. Information from a financial statement can also be used to predict the company's financial condition in the future (Fadlol, *et al*. 2018). Financial statement analysis is the process of studying existing financial data so that it is easy to understand in knowing the company's financial position and the results of the company's development by studying the relationships in the existing financial data. Financial statement analysis can serve as a basis for decision-making for parties who have an interest in the financial statements. Good company financial performance can be one of the bases for an investor's investment decision to invest their funds in the company. This investment decision will increase the volume of stock trading, thereby increasing the liquidity of the stock (Afrianti & Sarboini, 2020).

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Based on the above background, this study takes the title "The Effect of Financial Distress and Financial Performance on Stock Returns in Companies Listed on the Indonesia Stock Exchange (IDX) for the 2020-2023 Period."

METHOD

This study uses quantitative research methods. This study aims to analyze the causal relationship used to explain the influence of independent variables, namely financial distress, stock splits, and financial performance, on the dependent variable, namely stock returns. This study uses secondary data sources from the financial statements and annual reports of companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023 that implemented stock splits.

The data used in this research is a literature study, namely data obtained from several literatures related to the problem being researched, data tracing is carried out in the following ways:

1. Library Research

   Researchers use library research methods to obtain supporting research data. Researchers obtain data related to the theory of the variables being studied from books, journals, theses, the internet, and other sources related to the variables and research title.
2. Field Research

   The data used in this study is secondary data, that is, data obtained indirectly through intermediary media (obtained and recorded by other parties). The data in this study comes from financial reports and annual reports of companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2023 period on the website (www.idx.co.id)

Data Analysis Methods

The data analysis method aims to convey and limit findings so that they become organized data. Data in quantitative form is displayed in the form

Classical Assumption Test

To validate the results of multiple linear regression analysis before hypothesis testing is carried out, a classical assumption test must first be performed. One of the requirements that underlie the use of a multiple regression model is that all classical assumptions must be met, so that the test results are unbiased. In this study, the classical

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assumptions that are considered most important are having a normal distribution, no multicollinearity between independent variables, no autocorrelation between residuals of each independent variable, and no heteroscedasticity or constant variable variance (homoscedasticity) (Ghozali, 2018).

RESULTS AND DISCUSSION

Classical Assumption Test

Table 1 Normality Test

Tests of Normality

	Kolmogorov-Smirnov[a]		
	Statistics	df	Sig.(2-tailed)
y	068	.40952454	.200

a. Lilliefors Significance Correction

Based on the image above, the results of the Kolmogorov-Smirnov test show that the Asymp. Sig. (2-tailed) is 0.200. This value is greater than the significance value of 0.05. This means that the data is normally distributed.

Table 2 Multicollinearity Test

Coefficientsa

Model		Tolerancee	VIF
1	Financial Distress	.733	1,364
	Stock Split	.991	1,009
	Financial performance	.992	1,008

a. Dependent Variable: Stock Return

Based on the image above, all variables have a tolerance number above 0.1 and all variables also have a VIF number below 10. From these results, the researcher concludes that the independent variables in this study are not correlated with each other, if the independent variables are correlated then the variables are not orthogonal.

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Table 3 Autocorrelation Test

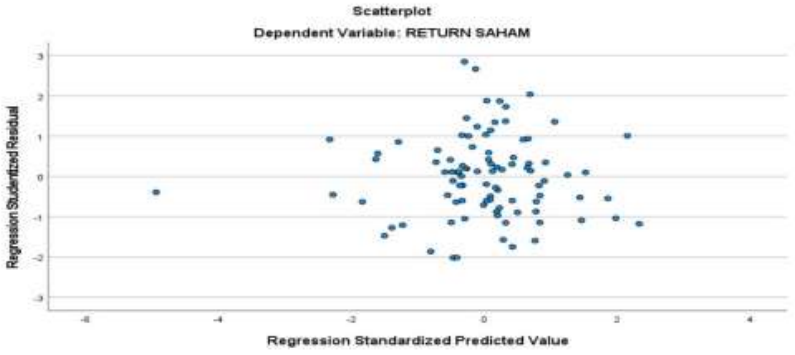
Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.379a	.144	.105	.41863	1,895

a. Predictors: (Constant), FINANCIAL PERFORMANCE, STOCK SPLIT, FINANCIAL DISTRESS
b. Dependent Variable: STOCK RETURN

Based on the image above, the Durbin-Watson test value is 1.895. These results will be compared with the significance table value of 5% with a sample size of 94 and a variable size of 5. If the Durbin-Watson value falls within the criteria of du<dw<4-du, then the model can be said to be free from autocorrelation (Ghozali, 2018). Based on the Durbin-Watson table, the DU (Durbin Upper) number is 1.7538 and the (4-DU) number is 2.2462. With these results, the researcher concludes that the Durbin-Watson number of 1.895 falls within the criteria of being free from autocorrelation.

Table 4 Heteroscedasticity Test



Based on the image above, the results of the heteroscedasticity test using a scatterplot graph can be seen that the points are spread out on the graph, the points are spread up from the number 0, to the left from the number 0, down from the number 0, and

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to the right from the number 0. From these results, the researcher concluded that in this regression model there is no heteroscedasticity (Ghozali, 2018).

Hypothesis Testing

Table 5 Test of Determination Coefficient

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.379a	.144	.105	.41863

a. Predictors: (Constant), FINANCIAL PERFORMANCE, STOCK SPLIT, FINANCIAL DISTRESS
b. Dependent Variable: STOCK RETURN

In the image above, it can be seen that the Adjusted value$RR2$ was obtained at 0.105. This indicates that stock returns listed on the IDX can be explained by the independent variables: financial distress, capital structure, stock split, and expected financial performance (10.5%). The remaining 89.5% is determined by other variables not included in this study, such as macroeconomic conditions, sectoral growth, company fair value, and stock price charts (Ghozali, 2018).

Table 6 Overall Significance Test of Sample Regression (F-test)

ANOVA

Model		Sum of Squares	df	Mean Square		Sig.
1	Regression	2,619	4	.655	3,736	.007b
	Residual	15,597	89	.175		
	Total	18,216	93			

a. Dependent Variable: STOCK RETURN
b. Predictors: (Constant): FINANCIAL PERFORMANCE, STOCK SPLIT, FINANCIAL DISTRESS

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Based on the F test results, the F value is equal to 3.736 with a sig value of 0.007. This figure is lower than the alpha value of 0.05. The significance value (0.007) which is lower than the alpha value (0.05) indicates that there is a significant simultaneous influence between financial distress, capital structure, stock split, and financial performance on stock returns (Ghozali, 2018).

Table 7 Significance Test of Individual Parameters (t-test)

Coefficientsa

Unstandardized Coefficients				Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	-.135	.121		-1.118	.267
	FINANCIAL DISTRESS	.035	.026	.156	1,362	.176
	STOCK SPLIT	.109	.101	.106	1,080	.283
	FINANCIAL PERFORMANCE	.377	.108	.343	3,483	.001

a. Dependent Variable: STOCK RETURN

1. The financial distress coefficient value of 0.035 indicates a positive result, which means that every 1% increase in financial distress can increase stock returns by 0.035 times in the research year 2020 to 2023, assuming other variables in the regression equation remain constant.
2. The stock split coefficient value of 0.109 indicates a positive result, which indicates that every 1% increase in the stock split can increase stock returns by 0.109 times in the research year 2020 to 2023 assuming other variables in the regression equation remain constant.

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3. The financial performance coefficient value of 0.377 indicates a positive result, which indicates that every 1% increase in capital structure can increase stock returns by 0.377 times in the research year 2020 to 2023 assuming other variables in the regression equation remain constant.

DISCUSSION

1. The effect of financial distress on stock returns

   From the results obtained, it was found that financial distress has a value$t$1.362 and a significance value of 0.176. These results indicate that the significance level (0.176) is above 0.05, indicating that there is no effect between financial distress as an independent variable and stock returns as a dependent variable. From these results, the researcher also concludes that Ha1 is rejected. This research aligns with research conducted by Laurens & Mulyani (2022), which concluded that financial distress does not significantly affect stock returns. In their research, they concluded that investors remain confident that companies will survive and recover despite poor financial conditions. This research also aligns with research conducted by Fachrudin & Ihsan (2021), which stated that financial distress does not affect stock returns because investors believe companies will survive and recover despite their poor financial conditions.

   This research is inconsistent with research conducted by Sitoresmi & Herawaty (2020), which concluded that financial distress has a significant negative effect on stock prices. According to them, financial distress is usually responded to negatively by falling stock prices, thus affecting stock returns for investors. In addition to Sitoresmi & Herawaty (2020), this study is also inconsistent with research by Bachmid *et al*. (2021), which stated that financial distress has a significant effect on stock returns. According to them, when a company experiences financial distress, its ability to generate profits is also low, resulting in low stock returns.

2. The effect of stock splits on stock returns

   From the results obtained, it is clear that stock splits have value$t$1.080 and a significance value of 0.283. These results indicate that the significance level (0.283) is above 0.05, indicating that there is no effect between stock splits as an independent variable and stock returns as the dependent variable. From these results, the researcher also concluded that Ha3 is rejected. This research aligns with research conducted by Hanafie & Diyani (2016), which concluded that stock splits have no significant effect on stock returns with a significance value of 0.078. According to

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them, this is due to differences in access to information received from the market. Furthermore, investors' distrust of companies that conduct stock splits will provide them with high returns. Furthermore, this research is also in line with Zhang's (2021) research, which concluded that stock splits have no effect on stock returns. According to him, large companies are not interested in undertaking stock splits.

This research is inconsistent with research conducted by Hendra & Irawati (2021), which concluded that stock splits affect stock returns. They stated that investors can perceive positive investment opportunity signals if a company has good prospects and are believed to be interested in investing their funds in the company, thus increasing stock returns. This research is also inconsistent with research conducted by Nurdin & Abdani (2020), which stated that stock splits significantly influence stock returns. They argued that stock splits can provide information about a company's future growth, thus attracting investor interest.

3. The influence of financial performance on stock returns

The results show that financial performance has a t-value of 3.483 and a significance level of <0.001. This result indicates that the significance level (<0.001) is below 0.05, indicating that financial performance, as an independent variable, influences stock returns, as the dependent variable. From these results, the researcher concludes that Ha4 is accepted. This research aligns with research conducted by Nadyayani & Suarjaya (2021), which concluded that NPM has a significant influence on stock returns. They concluded that companies with high NPM indicate a healthy company. If the company is healthy, investors will invest their funds in that company.

This research aligns with research conducted by (Yuningsih, 2020). She concluded that NPM influences stock returns. An increase in NPM indicates increased company sales efficiency, leading to increased stock returns. This research is inconsistent with research conducted by Ismarinda & Bawono (2022), which stated that NPM does not significantly influence stock returns. According to them, this research is ineffective because many companies with high NPMs experience negative stock returns. Furthermore, research conducted by (Siregar *et al*., 2018) also concluded that NPM does not significantly influence stock returns. This suggests that investors do not use NPM as a basis for investment decisions. This also indicates a lack of trust.

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CONCLUSION

This study shows that financial distress, stock splits, and financial performance simultaneously significantly influence stock returns in companies listed on the Indonesia Stock Exchange for the 2020–2023 period. However, only financial performance is proven to have a positive and significant effect on stock returns, while financial distress and stock splits do not show a significant effect. This finding indicates that investors consider a company's ability to generate good financial performance more than financial distress or stock split policies when making investment decisions. Furthermore, the relatively low coefficient of determination indicates that stock returns are still influenced by various factors other than the research model. Practically, this study's results provide implications for company management to continuously improve financial performance to attract investors and increase stock returns, and for investors to make financial performance indicators one of the primary considerations in the investment decision-making process.

This study has several limitations, including using a sample of companies that implemented stock splits during the 2020–2023 period with a limited number of observations and only including financial distress, stock splits, and financial performance as determinants of stock returns. These conditions result in the model's ability to explain variations in stock returns remaining relatively low. Therefore, further research is recommended to expand the observation period, increase the number of samples from various industrial sectors, and include other variables such as macroeconomic conditions, company size, dividend policy, capital structure, company growth, and market sentiment. The use of more comprehensive analytical methods such as panel data, moderated regression, or Structural Equation Modeling (SEM) can also be considered to gain a deeper understanding of the factors influencing stock returns in the Indonesian capital market.

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