

Financial Distress in Textile and Garment Firms: The Role of Executive Compensation, Sales Growth, and Operating Capacity

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Abstract

This study examines the relationship between financial difficulty and operating capacity, sales growth, and executive compensation in textile and apparel companies listed on the Indonesia Stock Exchange (IDX) between 2020 - 2024. Grounded in Signaling Theory, the study investigates whether these factors influence the likelihood of financial distress. Quantitative secondary data was utilized from yearly reports and financial statements. Purposive sampling was used to pick 17 companies for the sample, yielding 85 panel observations. The Altman Z-Score was used to gauge financial distress, and panel regression using the REM, which was chosen using the Chow, Hausman, and Lagrange Multiplier tests, was used to analyze the data. Higher compensation may improve managerial effectiveness and lessen financial challenges, based on the research, financial turmoil is significantly impacted negatively by executive salary. Sales Growth shows an insignificant effect, suggesting that increased sales do not necessarily improve a firm's financial condition. On the other hand, operating capacity has a positive effect on financial distress, indicating that operational stress rather than better financial performance may be the cause of increasing asset turnover. Collectively, the independent variables significantly affect Financial Distress. These findings support Signaling Theory by demonstrating that managerial, growth, and operational factors provide signals regarding a firm's financial condition. The results suggest that companies should implement effective executive compensation policies and improve operational management to mitigate financial distress risk. Future research is urged to include more variables and cover a wider range of industries in order to provide a more thorough knowledge of the factors that contribute to financial distress.

INTRODUCTION

Because it indicates a decline in a company's financial situation that could result in operational failure, debt default, and eventually bankruptcy, financial distress has grown to be a significant problem in corporate finance. According to Prasetyo (2022), declining financial performance, negative operating cash flows, high debt loads, and cumulative losses that make it harder for a business to meet its responsibilities are all signs of financial distress. Almarita & Kristanti (2020) further explain that financial distress weakens a firm's long-term solvency and threatens business continuity. The problem is especially pertinent to Indonesia's highly labor-intensive, export-focused, and raw material-dependent textile and apparel sector. Following the COVID-19 pandemic, companies in this sector have faced multiple challenges, including fluctuations in global demand, rising production costs, exchange rate volatility, and increasing competition from imported products. The possibility of financial trouble among textile and apparel companies has grown due to these circumstances.

Numerous clothing and textile companies listed on the IDX exhibit this pattern. Many businesses faced ongoing losses, debt restructuring procedures, and bankruptcy threats between 2020 and 2024. The severity of the financial challenges encountered by businesses in this subsector

is demonstrated by the bankruptcy case of PT Sri Rejeki Isman Tbk (SRIL) and the debt restructuring process carried out by PT Pan Brothers Tbk (PBRX). Although Indonesia's textile industry remains an important contributor to employment and exports, the contrast between industry-level recovery and firm-level financial instability indicates the importance of identifying factors that influence financial distress. According to Spence's (1973) Signaling Theory, managerial and financial choices send signals to creditors and investors about a company's financial health and future prospects. Therefore, understanding the determinants of financial distress is essential for both academic and practical purposes.

Previous studies have investigated various determinants of financial distress from governance, financial, and operational perspectives. One factor that has attracted considerable attention is executive compensation. According to Oyaro et al. (2025), executive compensation represents the remuneration package provided to top executives in exchange for their responsibility in managing corporate operations and strategic decisions. Hermuningsih et al. (2022) argue that performance-based compensation aligns managerial interests with shareholders' objectives, thereby encouraging prudent decision-making and reducing the probability of financial distress. Similarly, Al-Jabri (2025) suggest that compensation structures linked to long-term performance serve as positive signals of sound corporate governance and financial sustainability. However, Kristanti et al. (2023) found that excessive compensation may motivate managers to undertake aggressive risk-taking behavior, which can increase the likelihood of financial distress. These results suggest that there is still no solid evidence linking CEO salary to financial difficulty.

Another factor frequently associated with financial distress is sales growth. Within the framework of Signaling Theory, growth in sales indicates a business's ability to generate revenue and sustain future cash flows. Putri (2021) argues that increasing sales are a good indicator of a company's capacity to meet its financial obligations and its competitive position. Likewise, Diah (2021) as well as Mulyatiningsih and Atiningsih (2021) report that higher sales growth generally reduces financial distress risk as growing firms possess stronger revenue-generating capabilities and greater financial flexibility. Nevertheless, Hermuningsih et al. (2022) emphasize that rapid sales growth without adequate cost control and debt management may instead increase financial pressure and contribute to financial distress.

Operating capacity has also been recognized as an important predictor of corporate financial health. Operating capacity reflects the efficiency with which firms utilize their assets to generate sales and operational outputs. Diah (2021) and Hamdani et al. (2025) explain that efficient asset utilization signals effective operational management and stronger financial performance. Similarly, Kristanti et al. (2023) discovered that since they can better absorb fixed expenditures and produce enough revenue, businesses with larger operating capacities typically face lower levels of financial trouble. However, Heniwati et al. (2020) found that in other industries, operating capacity had no effect on financial distress, indicating that the strength of this link may depend on the specifics of the industry.

There are still a number of study gaps despite the expanding corpus of knowledge. First, there are conflicting empirical results about how executive salary affects financial distress; some research show a negative correlation Al-Jabri, (2025); Hermuningsih et al. (2022) and others documenting a positive relationship (Kristanti et al., 2023). Second, previous studies have largely focused on general manufacturing sectors, financial institutions, or firms operating in developed economies, while evidence from Indonesia's textile and garment subsector remains limited. Third, most prior studies examine executive compensation, sales growth, and operating capacity separately, resulting

in limited understanding of how governance-related, growth-related, and operational factors jointly influence financial distress. Consequently, to give a more thorough explanation of financial distress in labor-intensive businesses, especially in developing nations like Indonesia, further research is needed.

This study investigates the effects of operating capacity, sales growth, and executive compensation on financial distress in textile and apparel companies listed on the Indonesia Stock Exchange between 2020 - 2024. This study investigates whether managerial compensation policies, revenue growth performance, and operational efficiency act as signals that affect the probability of financial hardship, guided by Signaling Theory. Specifically, the following research questions are the focus of this investigation: (1) Does executive compensation affect financial distress? (2) Does sales growth affect financial distress? and (3) Does operating capacity affect financial distress? This study is unique in that it focuses on the Indonesian textile and garment subsector during the post-pandemic period, a context that has not received much attention in prior financial distress studies, and it integrates governance, growth, and operational efficiency variables within a single framework.

METHODS

Using secondary data gathered from publicly accessible business filings, this study uses a quantitative research methodology. The information is derived from the annual reports of textile and apparel firms that were listed on the IDX between 2020 and 2024. The IDX official website, as well as the official websites of each firm, provided the reports. Panel data were utilized as they combine cross-sectional observations across companies and time-series observations across multiple years, enabling a more thorough analysis of the factors that contribute to financial distress.

The study's population consists of all textile and apparel subsector companies that were listed on the Indonesia Stock Exchange between 2020 and 2024. Purposive sampling was used to choose the sample. Businesses that (1) were regularly listed on the IDX during the observation period and (2) released the full annual reports and financial statements needed to measure all research variables were included in the sample. From a population of 25 firms, 20 were chosen based on these criteria, yielding 100 firm-year observations.

EViews software was used to analyze the data. Descriptive statistics were used at the start of the analysis to give a summary of the features and distribution of the variables. Next, panel data regression analysis was used to examine the relationship between financial distress and executive remuneration, sales growth, and operating capacity. The Chow, Hausman, and LM tests were used in the model selection procedure to identify the best panel regression model out of the CEM, FEM, and REM. Numerous diagnostic tests, such as normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were carried out to guarantee the validity of the regression results.

The following is an expression for the regression model utilized in this investigation:

$$FD_{it} = \alpha + \beta_1 EC_{it} + \beta_2 SG_{it} + \beta_3 OC_{it} + \varepsilon_{it}$$

where FD represents financial distress, EC represents executive compensation, SG represents sales growth, OC represents operating capacity, α is the constant term, β denotes the regression coefficients, and ε represents the error term.

Variable Operational Definition

1. Dependent Variable

Financial hardship is measured using the Altman Z-Score methodology, which is widely used to evaluate a company's financial health and predict potential bankruptcy risk (Fajriati et al., 2023). A higher Z-Score denotes better financial circumstances, conversely, a lower score indicates a higher likelihood of financial difficulties (Altman et al., 2019). This is how the Altman Z-Score is determined:

$$Z = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

where:

X_1 = Working Capital / Total Assets

X_2 = Retained Earnings / Total Assets

X_3 = Earnings Before Interest and Taxes (EBIT) / Total Assets

X_4 = Book Value of Equity / Total Liabilities

A higher Z-Score denotes better financial health, conversely, a lower score indicates a higher probability of financial difficulties.

2. Independent Variables

Executive Compensation

Executive compensation represents the total remuneration provided to top executives as compensation for their managerial responsibilities and strategic decision-making activities. Following Farihah et al. (2024) according to earlier research, executive compensation is determined by taking the natural logarithm of the total yearly executive salary disclosed in the company's annual report:

$$EC = \ln (1 + \text{Total Executive Compensation})$$

where Total Executive Compensation consists of salaries, bonuses, allowances, and other executive benefits.

Sales Growth

Sales growth, which is determined as the percentage change in annual sales from the prior year, is employed to determine the company's potential for long-term revenue growth. Greater sales growth is indicative of improved operational performance and stronger market demand, which may lower the likelihood of financial distress. (Natalia & Sha, 2022). It is calculated as follows:

$$SG = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}} \times 100\%$$

where:

$Sales_t$ = Sales in the current year

$Sales_{t-1}$ = Sales in the previous year

Operating Capacity

Operating capacity demonstrates how effectively a business generates income from its resources (Sugiana & Hidayat, 2023). This study uses Total Asset Turnover (TATO) as a proxy for operating capacity:

$$OC = \frac{Sales}{Total Assets}$$

A higher operating capacity indicates more efficient asset utilization and stronger operational performance.

Hypothesis Development

H1: Executive compensation has a negative effect on financial distress.

According to signaling theory, managerial strategies may give external stakeholders indications about a company's quality and future prospects (Spence, 1973). One of the governance tools that synchronizes managerial interests with organizational goals is executive compensation. According to Al-Jabri (2025), executive compensation is crucial in encouraging management to meet organizational objectives, enhance operational effectiveness, and preserve financial viability. The link between executive salary and financial distress is also supported by empirical data. Due to budgetary limitations, Farihah et al. (2024) discovered that financially troubled companies typically offer lower managerial salaries. On the other hand, sufficient executive pay may promote better strategic decision-making and enhance long-term business performance. In a similar vein, Kweh et al. (2022) assert that managerial behavior and financial outcomes are significantly impacted by CEO compensation. Higher executive salary is predicted to lower the probability of financial hardship based on signaling theory and prior empirical findings.

H2: Sales growth has a negative effect on financial distress.

According to signaling theory, a company's operational effectiveness and competitiveness in the market can be inferred from sales growth (Spence, 1973). Stronger demand, increased revenue generation, and better operating cash flows are all indicators of steady sales growth, all of which support a company's long-term financial viability. Higher sales growth is associated with a lower probability of financial hardship, according to prior research. Sales development considerably lowers the likelihood of financial trouble, according to Heniwati and Essen (2020), since rising revenues enhance businesses' capacity to meet their financial responsibilities. Putri (2021) also found a negative correlation between financial difficulty and sales growth, indicating that companies with higher revenue growth are more resilient. Consequently, it is anticipated that companies with more sales growth will be less likely to experience financial difficulties.

H3: Operating capacity has a negative effect on financial distress.

A company's ability to effectively use its assets to produce sales revenue is reflected in its operating capacity. Effective asset use sends a favorable signal about management efficacy and operational sustainability, according to signaling theory (Spence, 1973). Operating capacity is commonly measured through Total Asset Turnover, which indicates how effectively assets are converted into sales. Firms with higher operating capacity are generally more capable of generating revenue from existing resources, leading to stronger operating cash flows and lower financial pressure (Hamdani et al., 2025). Hermuningsih et al. (2022) found that firms with greater asset utilization efficiency tend to experience lower financial distress risk. Likewise, (Sugiana & Hidayat, 2023) reported that higher operating capacity contributes to improved financial performance and reduces the likelihood of financial difficulties. Based on signaling theory and prior empirical evidence, higher operating capacity is expected to reduce financial distress.

RESULTS AND DISCUSSION

Descriptive Statistics Analysis

This study looks at the impact of operating capacity, sales growth, and executive compensation on financial distress in textile and apparel companies listed on the IDX between

2020 and 2024. 17 businesses were chosen based on the purposive selection criteria, yielding 85 firm-year observations. Table 1 displays the descriptive statistics for the research variables.

Table 1.
Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std. Deviation
Financial Distress (FD)	16.7851	342.5995	-75.6757	86.5366
Executive Compensation (EC)	22.6751	24.5305	20.5096	1.2299
Sales Growth (SG)	-0.0219	0.3854	-0.4666	0.2143
Operating Capacity (OC)	0.7721	1.5421	0.0079	0.4212

Source: Processed data (2026).

With a mean value of 16.7851 for the financial distress variable, which is determined by the Altman Z-Score, the sampled enterprises were generally in a sound financial position during the observation period. The lowest value of -75.6757 and the largest value of 342.5995 show significant variety in the financial circumstances of businesses. This finding is further supported by the relatively high standard deviation of 86.5366, suggesting considerable dispersion among observations. The average executive salary is 22.6751, with a range of 20.5096 to 24.5305. The sampled firms' executive salary is rather uniform, as evidenced by the standard deviation of 1.2299, which is low in comparison to the mean. With a mean value of -0.0219 for sales growth, businesses generally saw a small drop in revenue during the course of the study. The lowest and maximum values are -0.4666 and 0.3854, respectively, suggesting that while some companies experienced notable declines in revenue, others experienced positive growth. The sales performance of different enterprises varies moderately, as indicated by the standard deviation of 0.2143. Total Asset Turnover (TATO), a proxy for operating capacity, has an average value of 0.7721, meaning that each unit of assets produced almost 0.77 units of sales. The variable shows differences in asset utilization efficiency among the studied firms, ranging from 0.0079 to 1.5421 with a standard deviation of 0.4212.

Overall, the descriptive statistics indicate substantial variation in financial distress, sales growth, and operating capacity, while executive compensation appears relatively stable across firms. These differences offer a suitable foundation for additional panel data regression analysis to investigate the factors influencing financial hardship in the Indonesian textile and apparel sector.

Panel Data Regression Model Selection

Table 3.
Section Data Panel Model

Test	Probability Value	Selected Model
Chow Test	0.000	FEM
Hausman Test	0.120	REM
Lagrange Multiplier Test	0.000	REM

Sourced : Data Processed, 2026

Based on the Chow test result, where the probability value is 0.000, the FEM is preferred above the CEM. Furthermore, the Hausman test yields a probability value of 0.120, which is greater than 0.05, suggesting that the REM fits the data better than the FEM. Furthermore, the Lagrange Multiplier test indicates that the REM is superior to the CEM with a probability value of 0.000. As a result, the REM is selected as the ultimate model for hypothesis testing.

Conventional assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were performed after the REM was shown to be the optimal panel data regression model. The normality test's Jarque-Bera probability value of 0.3928, which is greater than the significance level of 0.05, suggests that the residuals are normally distributed. The multicollinearity test, which was assessed using the VIF, revealed that all independent variables had centered VIF values below 10, suggesting the absence of multicollinearity. Additionally, the model is free of heteroscedasticity issues because the Breusch-Pagan-Godfrey heteroscedasticity test produced a probability value of 0.5166, which is greater than 0.05. Lastly, the Durbin-Watson statistic was 1.7523, which is near to 2, indicating that the model does not have a significant autocorrelation issue. Consequently, the regression model is appropriate for additional investigation and meets the requirements of the classical assumption.

Panel Data Regression Analysis

Table 4.
F-test and coefficient determination

Description	Value
Adjusted R-squared	0.112508
Prob(F-statistic)	0.005357

Sourced : Data Processed, 2026

Executive Compensation, Sales Growth, and Operating Capacity all significantly affect Financial Distress, according to Table 4's Prob(F-statistic) value of 0.005357, which is less than 0.05. Additionally, the adjusted R-squared value of 0.112508 indicates that these independent variables account for roughly 11.25 percent of the variation in Financial Distress, with the remaining 88.75 percent can be attributed to variables not included in the model.

Table 5.
Summary of Hypothesis Testing Results

Variable	Coefficient	t-Statistic	Probability	Decision
Executive Compensation (X1)	-0.223623	-2.742027	0.0075	H1 Accepted
Sales Growth (X2)	-0.068333	-0.648631	0.5184	H2 Rejected
Operating Capacity (X3)	0.785553	3.266079	0.0016	H3 Accepted

Sourced : Data Processed, 2026

The estimated regression model can be written as follows using the panel data regression results shown in Table 5:

$$FD = 5.196830 - 0.223623X_1 - 0.068333X_2 + 0.785553X_3 + e$$

The estimated model reveals that executive compensation (X_1) is negatively associated with the Altman Z-Score, as reflected by its coefficient of -0.223623. This study implies that greater levels of executive compensation likely to increase the chance of financial hardship among textile and apparel industries since a lower Altman Z-Score predicts a higher possibility of financial distress. This result implies that higher executive compensation may not necessarily strengthen financial stability but may instead increase financial vulnerability through greater risk-taking behavior or increased financial burden. Likewise, sales growth (X_2) exhibits a negative coefficient of -0.068333, indicating that companies with faster sales growth typically have lower Altman Z-Scores and are hence more vulnerable to financial crisis. However, the magnitude of this relationship is relatively limited and statistically insignificant, indicating that sales growth alone cannot adequately explain variations in financial distress among textile and garment firms. In contrast, operating capacity (X_3), proxied by Total Asset Turnover (TATO), demonstrates a positive coefficient of 0.785553, showing that increased operating capacity reduces the likelihood of financial trouble by raising Altman Z-Scores. According to this research, businesses that use their assets more effectively are better equipped to make money, keep their finances stable, and ease financial strain. Furthermore, the constant term of 5.196830 implies that, in the absence of explanatory variables, the predicted Altman Z-Score would be 5.196830.

Overall, the calculated coefficients describe the direction and strength of the relationship between executive remuneration, sales growth, operating capacity, and financial stress among textile and apparel companies listed on the Indonesia Stock Exchange between 2020 and 2024. The individual influence of each explanatory variable was examined using a partial significance test (t-test). Financial distress is significantly impacted by CEO remuneration, according to the likelihood value of 0.0075, which is below the five percent significance limit. Higher CEO salary lowers the Altman Z-Score, which raises the likelihood of financial hardship, according to the negative coefficient. As a result, Hypothesis H1 is approved. However, given its probability value of 0.5184, which is higher than the 0.05 threshold, sales growth does not show a statistically significant link with financial distress. Consequently, Hypothesis H2 is rejected. Meanwhile, With a probability value of 0.0016, operating capacity has a statistically significant impact on financial distress. Higher operating capacity raises the Altman Z-Score and lowers the likelihood of financial difficulty, according to the positive coefficient. Although the empirical results indicate that greater operating capacity contributes to lower financial distress, the direction of interpretation should be understood from the Altman Z-Score perspective. Therefore, Hypothesis H3 is accepted as higher operating capacity ultimately reduces financial distress risk.

DISCUSSION

The Simultaneous Effect of Executive Compensation, Sales Growth, and Operating Capacity on Financial Distress

Financial distress is simultaneously impacted by Operating Capacity, Sales Growth, and Executive Compensation, according to the F-test results. This finding is supported by an F-statistic value of 4.549578 and a probability value of 0.005357, both of which are below the

significance level of 0.05. These results suggest that the financial state of textile and apparel enterprises can be explained by a mix of managerial incentives, sales performance, and operational efficiency. According to Signaling Theory, information related to executive compensation, sales growth, and operating performance as a whole sends signs about a company's sustainability and financial health. (Spence, 1973).

Furthermore, executive compensation, sales growth, and operating capacity account for around 11.25% of the variation in financial distress, according to the coefficient of determination (Adjusted R²) of 0.112508. Other variables not covered by the model, including as profitability, liquidity, leverage, corporate governance traits, and macroeconomic conditions, have an impact on the remaining 88.75%. Overall, the findings demonstrate that Executive Compensation, Sales Growth, and Operating Capacity jointly contribute to explaining financial distress, although their individual effects differ in magnitude and significance. This finding validates the study's initial hypothesis about the independent variables' simultaneous impact on financial distress.

The Effect of Executive Compensation on Financial Distress

The partial test findings show that executive salary significantly and negatively affects the Altman Z-Score. This result is supported by the regression coefficient of -0.223623 and the probability value of 0.0075, both of which are below the significance level of 0.05. Because a lower Altman Z-Score denotes a greater possibility of financial distress, the results suggest that among textile and apparel companies listed on the Indonesia Stock Exchange between 2020 and 2024, a higher CEO remuneration is associated with a higher likelihood of financial hardship. Signaling Theory states that CEO compensation is a reliable measure of the quality of company governance and managerial incentives. Appropriate compensation packages encourage executives to make strategic decisions that enhance financial performance and maintain corporate sustainability (Spence, 1973). Executive compensation schemes align management interests with shareholder objectives, thereby reducing the probability of financial difficulties (Fama & Jensen, 1983).

The results of this study show that executive salary significantly and negatively affects the Altman Z-Score, suggesting that higher executive compensation tends to lower the Altman Z-Score and raise the likelihood of financial trouble. These findings are consistent with previous studies suggesting that excessive executive compensation may encourage risk-taking behavior and increase financial vulnerability. Machado & Bernardi Souza (2022) argued that higher executive compensation may increase corporate risk as executives tend to undertake more aggressive strategies to maintain performance targets and compensation incentives. Furthermore, Chatterjee et al. (2023) explained that the relationship between CEO remuneration and financial distress may vary depending on firm conditions and life-cycle stages, suggesting that compensation does not always contribute positively to corporate financial stability. In firms facing operational pressure or financial limitations, higher executive remuneration may increase financial burden and worsen financial conditions rather than improve performance.

Furthermore, these findings are not fully consistent with signaling theory. According to signaling theory, executive compensation should provide a positive signal regarding firm quality, managerial capability, and future prospects. Higher executive compensation is expected to reflect stronger governance mechanisms, effective managerial performance, and better financial sustainability, thereby reducing the probability of financial distress. However, the results of this study indicate the opposite relationship, suggesting that higher executive compensation does not necessarily reflect stronger corporate fundamentals. Instead, excessive compensation may create

agency problems, encourage opportunistic behavior, and increase managerial risk-taking, eventually deteriorating financial circumstances and raising the possibility of financial hardship. Therefore, the findings suggest that raising CEO compensation may not always be an effective governance tool for textile and apparel companies listed on the Indonesia Stock Exchange between 2020 and 2024, but rather may raise financial risk.

The Effect of Sales Growth on Financial Distress

The regression results indicate that Sales Growth has a negative but statistically insignificant effect on the Altman Z-Score, with a coefficient value of -0.068333 and a probability value of 0.5184, both of which are larger than the significance level of 0.05. Since a lower Altman Z-Score indicates a higher possibility of financial difficulties, the negative coefficient suggests that larger sales growth is often associated with a higher risk of financial problems. This association isn't statistically significant, though. Consequently, during the observation period, sales growth cannot be regarded as a significant predictor of financial trouble among textile and apparel enterprises. From the perspective of Signaling Theory, sales growth is generally regarded as a positive signal reflecting increasing market demand and future business prospects (Spence, 1973). Nevertheless, the insignificant finding suggests that sales growth alone is insufficient to explain a company's financial condition. Increased sales may be accompanied by rising operating expenses, greater financing needs, or inefficient asset utilization, thereby limiting the positive impact of revenue growth on financial stability.

This outcome is in line with the findings of Elviyo & Nugroho (2024), who stated that while revenue expansion is frequently accompanied with increased operational costs and financial obligations, sales growth does not always affect financial distress. Similarly, Vernando & Henny (2023) argued that sales growth alone cannot guarantee improvements in profitability or cash flow generation. Consequently, the ability of firms to convert sales growth into sustainable profits and stronger cash flows appears to be more important than sales growth itself in determining financial stability.

The Effect of Operating Capacity on Financial Distress

With a coefficient value of 0.785553 and a probability value of 0.0016, the empirical data show that Operating Capacity has a positive and significant impact on the Altman Z-Score. This study implies that increased operating capacity helps lessen the risk of financial hardship among textile and apparel companies listed on the Indonesia Stock Exchange between 2020 and 2024, because a reduced likelihood of financial difficulties is indicated by a higher Altman Z-Score. According to Signaling Theory, operating capacity is a crucial indicator of a business's ability to efficiently employ its resources in order to generate sales. A higher Total Asset Turnover (TATO) ratio signals effective asset management and stronger operational performance, which can enhance profitability and financial stability (Spence, 1973). Efficient asset utilization enables firms to generate more revenue from existing resources, enhancing their ability to fulfill financial commitments and lowering the risk of financial hardship.

The results are in line with earlier research by Diah and Putri (2021) and Hamdani et al. (2025), which found that effective asset management lowers financial risk and improves financial performance. In general, businesses with larger operating capacities are better able to maximize their resources, produce cash flows, and retain their viability. Consequently, the findings are

consistent with the theory that Operating Capacity has a negative impact on Financial Distress. In other words, by enhancing the company's overall financial situation, a rise in operating capacity lowers the probability of financial trouble.

CONCLUSION

This study examines the relationship between executive salary, sales growth, and operating capacity in textile and apparel companies listed on the Indonesia Stock Exchange between 2020 and 2024. The Altman Z-Score is a proxy for financial hardship. The results of panel data regression analysis using the Random Effect Model showed that executive salary had a negative and substantial impact on the Altman Z-Score. This result suggests that a higher CEO remuneration is associated with a lower Z-Score and, thus, a higher chance of financial hardship. Sales growth was shown to have no discernible impact on the Altman Z-Score, suggesting that variations in sales growth have little bearing on the studied firms' financial standing. The Altman Z-Score, on the other hand, was found to be positively and significantly impacted by operating capacity, suggesting that higher asset utilization leads to improved financial health and a decreased risk of financial distress. Additionally, it was discovered that Operating Capacity, Sales Growth, and Executive Compensation all significantly affected Financial Distress.

By offering empirical data from the Indonesian textile and apparel industry and bolstering the use of Signaling Theory to explain how internal corporate characteristics may signal a firm's financial status, these findings add to the body of literature on financial distress. However, this study has a number of shortcomings. The sample is limited to textile and clothing companies listed on the Indonesia Stock Exchange, the model has only three independent variables, and the observation period is only five years. As a result, not all factors that contribute to financial distress may be fully captured by the results. Based on the findings, companies are advised to carefully evaluate CEO compensation policies and improve asset usage efficiency in order to improve financial performance and reduce the risk of financial hardship. Investors may also consider executive compensation and operating capacity as additional indicators when assessing a company's financial condition. To gain a more thorough understanding of the factors that contribute to financial distress, future research is advised to broaden the sample to include other industries, prolong the observation period, and include additional variables like profitability, liquidity, leverage, corporate governance, and macroeconomic factors.

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