



Financial Performance Analysis in Predicting Corporate Bankruptcy: A Comparative Study Before and During the COVID-19 Pandemic in the Retail Sector

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Abstract

This study holds significant implications as it analyzes financial performance in predicting bankruptcy in retail sector companies before and during the COVID-19 pandemic. It is a part of the 3rd TKT measurement, providing a comprehensive analytical and experimental understanding. Financial performance is gauged through the Current Ratio (CR), debt-to-equity ratio (DER), and Return on Assets (ROA). The research method employed is a quantitative approach. By using the purposive sampling method, a sample of 22 companies was obtained, with 2 years of observation before the Covid-19 pandemic and 2 years during the Covid-19 pandemic. The research findings reveal that the CR and ROA variables had a positive effect on financial distress, while the DER variable did not affect financial distress. Furthermore, the study concludes that there was no difference in the potential for financial distress before and during the COVID-19 pandemic, providing a unique and intriguing perspective on the impact of the pandemic on the retail sector.

Keywords: Current Ratio, DER, ROA, Financial Distress, Pandemic Covid

1. Introduction

The COVID-19 pandemic has profoundly impacted companies' operations in Indonesia, forcing many businesses to halt their operations to curb the virus's spread temporarily. This global economic slowdown, including in Indonesia, has posed significant threats to companies, ranging from potential losses to bankruptcy. In this context, the ability to predict bankruptcy becomes a crucial early warning system, allowing companies to implement policies, restructuring, or reorganization (Kassidy & Handoko, 2022).

As professionals in the finance and retail sectors, your role in understanding and applying the findings of this research is crucial. Every company, including yours, aims to ensure its survival in the future. Planning and research regarding company performance are necessary to address this uncertainty. The health of a company is crucial for improving efficiency in its operations, thereby enhancing the ability to generate profits and ultimately avoiding the possibility of bankruptcy (liquidation). By understanding the factors that contribute to financial distress, as highlighted in this research, you can play a vital role in steering your company towards a more secure financial future (Yuliasy & Wirakusuma, 2014; Andirawan & Salean, 2016).

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Financial difficulties have been a prominent topic in finance, and a company's financial health serves as an essential indicator for stakeholders interested in understanding the company's performance. Various stakeholders, such as creditors, suppliers, investors, customers, and employees, are concerned when a company experiences financial difficulties. Kazemian et al. (2017) state that determining the financial condition is important for investors and creditors to assess a company's financial health. They use this knowledge for financial planning and take corrective actions to avoid potential bankruptcy costs. This is crucial for investors, prospective investors, and stock market regulators. In other words, knowledge of bankruptcy prediction or financial distress can be used as an early warning system to prevent or reduce failures. For example, bankers or creditors can utilize this information to assess potential borrowers or credit risks.

The COVID-19 pandemic has had a significant impact on the Indonesian economy. The pandemic has severely affected the business sector (Widiastuti, 2022). The pandemic has led to a decrease in purchasing power, and the intense competition among companies has resulted in fluctuating company performance. Financial performance is one of the challenges faced. It is necessary to analyze financial statements to gain a comprehensive understanding of company opportunities and impacts. There are potential threats to revenue decline, but also potential growth opportunities during the COVID-19 pandemic.

According to Andirawan & Salean (2016), financial ratio analysis is an alternative method to test whether the financial information generated by financial accounting is useful for classifying or predicting bankruptcy. Therefore, to address and minimize the occurrence of financial distress, companies can monitor their financial conditions in terms of their balance sheets and income statements through the use of financial statement analysis techniques (Pernamasari, 2020).

Moghaddam et al. (2016) state that early warnings about possible bankruptcy enable managers and investors to take preventive actions and identify profitable investment opportunities from unfavorable ones. The negative effects of bankruptcy not only affect the bankrupt companies and traders but also have an impact on the stakeholders involved in transactions with those companies.

Furthermore, solvency ratios can also be used as tools to predict bankruptcy. One commonly measured ratio is the Debt to Asset Ratio (DER). According to Irama (2018), a high DER indicates that the debt used to finance a company's assets is increasing, thus increasing the financial risk. For creditors, a higher DER poses a significant risk and increases the likelihood of default, which has been observed during the COVID-19 pandemic (Mutiarra & Septyanto, 2022).

Another financial ratio is profitability. One of the ratios that can be measured is Return on Assets (ROA). According to Mutiarra and Septyanto (2022), a high ROA reduces the likelihood of financial distress. Consistent profitability is a crucial measure to assess a company's ability to borrow in times of cash shortage and serves as an indicator for the company to recover from a state of financial distress. Their research findings show that ROA has a positive impact on predicting bankruptcy.

2. Literature Review

2.1. Signaling Theory

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According to Brigham and Houston (2013), signals are actions taken by a company to provide guidance to investors regarding how management views the prospects of the company. These signals consist of information about what management has done to fulfill the desires of the owners. The information disclosed by the company is crucial because of its influence on the investment decisions of external parties. Therefore, management needs to provide information to stakeholders through the issuance of financial reports. The information received by investors is initially interpreted as either good news or bad news signals. This information is important for investors and business actors because it essentially provides an explanation, notes, or an overview of the past, current, and future state of the company and its effects.

Information is an essential element for investors and business actors because it essentially provides an explanation, notes, or an overview of the past, current, and future state of a company and its market effects. Tarmidi (2019) states that due to the information asymmetry between the company and external parties, the publication of a company's condition is necessary to create a positive corporate image, attracting external parties to join as investors. Investors in the capital market highly demand complete, relevant, accurate, and timely information as an analytical tool for making investment decisions. Connelly et al. (2011) reveal that some individuals want to communicate information while others may prefer not to, but overall, in the signaling theory, the action of conveying information directs people to change their behavior

2.2. Financial Distress

Financial distress is when a company experiences difficulties in fulfilling its obligations, where its income is insufficient to cover total costs and results in losses (Hery, 2017, p. 33). Financial distress can also be defined as a stage of declining financial condition that occurs before bankruptcy or insolvency. One indicator used to identify companies experiencing financial difficulties is the inability to meet long-term debt obligations (Fahmi, 2014, p. 93). Furthermore, financial distress can be defined as the final stage of a company's decline or as an early warning for financial health, used to predict bankruptcy or liquidation issues (Sayari & Mugan, 2013). Company failures can be caused by financial difficulties such as dividend reductions, company closures, losses, layoffs, director resignations, and stock price declines (Pernamasari et al., 2019).

The causes of financial distress consist of two factors: internal factors and external factors (Hery, 2017:35).

1. Internal factors Internal factors arise from within the company and are typically micro-level factors. These internal factors include: a) Excessive credit provided to customers. Company policies aimed at increasing sales volume through credit sales can disrupt liquidity in the short term due to high investments in accounts receivable, which can have negative long-term effects on the company's goals. b) Weak qualification of human resources. Insufficient qualifications of human resources in terms of skills, expertise, experience, responsiveness, and initiative can hinder the achievement of company objectives. c) Working capital shortages. Inadequate sales revenue that cannot cover the cost of goods sold and operational expenses continuously will lead to working capital shortages and ultimately bankruptcy. d) Abuse of authority and fraud. Poor individual quality among employees and a lack of proper supervision facilitate fraud, which can affect the company's performance.



2. External factors External factors arise from outside the company and are typically macro-level factors. External factors can include: a) Intense business competition. b) Decreased demand for products or services. c) Continuous decline in selling prices. d) Accidents or natural disasters that harm the company and disrupt its activities.

In the study conducted by Kusanti & Andayani (2015), the usefulness of information when a company experiences financial distress includes:

1. Accelerating management actions to prevent problems before bankruptcy occurs.
2. Management can take actions such as mergers or takeovers to enhance the company's ability to pay debts and manage the company more effectively.
3. Providing early warning signs of future bankruptcy.

2.2. Finance Performance

Financial performance is an analysis conducted to assess how well a company has implemented financial rules and regulations. Financial performance can be measured through financial ratios. According to Brigham, E. F. & Houston (2013), financial ratios are financial analysis tools companies use to assess their performance based on comparing financial data found in financial statements. Traditional ratio analysis focuses on profitability, solvency, and liquidity. Foster (1986) in (Almilia & Kristijadi, 2003) identified four reasons for conducting financial statement analysis using ratio models:

1. To control the influence of differences in size between companies or over time.
2. To make data more compatible with statistical tool assumptions.
3. To investigate theories related to financial ratios.
4. To examine the empirical relationship between financial ratios and estimates or predictions of specific variables (such as bankruptcy or financial distress).

In this study, the financial ratios used are the Current Ratio, the Debt-to-Equity Ratio (DER), and the Total Asset Turnover.

Current Ratio

The Current Ratio (CR) falls under liquidity ratios. Liquidity ratios measure an entity's ability to meet its short-term obligations using its current assets. Current liabilities of a company can include debts due in the near term, employee wages, purchased material debts, electricity bills, water bills required in the production process, and so on (Agustini & Wirawati, 2019). (Kasmir, 2014) states that the Current Ratio compares a company's current assets to its short-term debts or liabilities due for payment in their entirety. In practice, it is often used that a current ratio of 200% (2:1) is considered a good or satisfactory measure for a company.

Debt-to-Equity Ratio

The leverage ratio describes the source of operational funds used by a company. The leverage ratio also indicates the risk faced by the company. The greater the risk faced by the company, the higher the uncertainty in generating future profits (Agustia, 2013). The consequences of using leverage, according to (Cai & Zhang, 2011), are that if the return on assets exceeds the cost of debt, the leverage is beneficial, and the return on equity with the use of leverage also increases. Conversely, if the return on assets is smaller than the cost of debt, leverage will reduce the return on equity. Utami & Darmawan (2019) state that Debt-to-Equity Ratio (DER)

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is a measure of leverage that can be defined as the level of debt usage as a source of company financing. From the perspective of long-term liability payment ability, a lower DER will result in an increase in stock prices, and the company will be better at paying long-term obligations. Continuous increases in DER can be a signal of bankruptcy.

Return on Assets (ROA)

Return on assets (ROA) is a financial ratio used to measure a company's profitability by evaluating its ability to generate net income from its assets (Brigham & Houston, 2014). ROA is calculated by dividing a company's net income by its total assets. Generally, a higher ROA indicates that a company is more efficient in utilizing its assets to generate profits, while a low ROA indicates inefficiency and can serve as a signal for predicting bankruptcy (Mutiarra & Septyanto, 2022)

2.3. *The Influence of Current Ratio (CR) in Predicting Company Bankruptcy*

Liquidity is the ability of a company to meet its obligations that have fallen due, both to external and internal parties of the company (Kasmir, 2014). A company that has the ability to pay its short-term debts indicates good financial performance in fulfilling its current liabilities. (Cinantya & Merkusiwati, 2015) found that liquidity has an influence on financial distress. According to their findings, the more liquid a company is, the greater the probability that the company can avoid the threat of financial distress.

2.4. *The Influence of Debt-to-Equity Ratio (DER) in Predicting Company Bankruptcy*

DER is one of the leverage ratio measures that can be defined as the level of debt usage as a source of company financing. From the perspective of the ability to pay long-term obligations, a lower DER will result in an increase in stock prices, and the company will be better at paying long-term obligations (Utami & Darmawan, 2019). Continuous increases in DER can be a signal of bankruptcy. Research by (Aisyah et al., 2017) found that a high debt-to-asset ratio indicates that the debt used to finance the company's assets is higher, which increases the financial risk. If the total debt of the company is larger, the likelihood of the company experiencing financial distress increases

Based on the theory and conceptual framework, the following hypotheses can be formulated:

H1 = Current Ratio has a negative effect on predicting company bankruptcy.

H2 = Debt to Equity Ratio has a negative effect on predicting company bankruptcy.

H3 = ROA has a positive effect on predicting company bankruptcy.

H4 = There is a difference in bankruptcy prediction before and during the COVID-19 pandemic.

3. Research Methods

3.1. *Population and Sample of the Study*

The population in this study consists of retail sector companies listed on the Indonesia Stock Exchange from 2018 to 2021. The period before the pandemic includes two years, 2018-2019, while the time during the pandemic includes two years, 2020-2021. The sampling technique used in this study is purposive sampling, which is based on specific considerations. The research sample consists of 22 companies, and the total data collected is 88.

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3.2. Data Collection Technique

The data collection technique used in this study is documentation using secondary data sources, specifically company documents such as financial reports published on www.idx.co.id and individual company websites. The financial reports used for comparison are from the years 2018 to 2021.

3.3. Variable operational

Table 1 Variable operational

Variable	Measurement	Skala
Financial distress (Y)	$Z'' = 6,56X_1 + 3,26X_2 + 6,72X_3 + 1,05X_4$ Info : Z'' = bankruptcy index X_1 = working capital/total asset X_2 = retained earnings / total asset X_3 = earning before interest and taxes/total asset X_4 = book value of equity/book value of total debt.	Rasio
Current Ratio (X_1)	$Current Ratio = \frac{Current Asset}{Current Debt}$	Rasio
DER (X_2)	$DER = Total Liabilitas / Total Equity$	Rasio
ROA (X_3)	$Net income / Total asset$	Rasio

3.4. Method of Analysis

Descriptive Statistical Analysis

According to Sugiyono (2013), descriptive statistics refer to the transformation of raw data into a form that allows readers to understand better and interpret the meaning of the displayed data or numbers. The purpose of descriptive statistics is to describe the answers to observations. It includes frequency distribution, percentage distribution, and mean.

3.5. Classical Assumption Test

Classical assumption tests must be conducted first to determine if the data is suitable for analysis. The aim is to avoid biased estimations, as not all data can be applied to regression analysis. The classical assumption tests used include tests for normality, multicollinearity, heteroscedasticity, and autocorrelation.

3.6. Model Fitness Test and Hypothesis Testing

3.6.1. Determinant Test

The model fitness test includes the coefficient of determination (R^2) to assess how the model explains the variation in the dependent variable.



3.6.2. Uji F (Simultaneous F Test)

The F test is used to determine whether the independent variables, as a whole, significantly explain the behavior of the dependent variable. The F test is performed by comparing the calculated F value to the critical F value at $\alpha = 0.05$. If the calculated F value is greater than the critical F value, it indicates that the regression model successfully explains the overall influence of the independent variables on the dependent variable. If the calculated F value is less than the critical F value, it indicates that the regression model fails to explain the overall influence of the independent variables on the dependent variable.

3.6.3. Uji t (Partial t Test)

The t-test is used to examine whether the independent variables, individually, have a significant or insignificant effect on the dependent variable. The test is performed by comparing the calculated t value to the critical t value at $\alpha = 0.05$. Suppose the calculated t value is greater than the critical t value. In that case, it indicates that the independent variable can explain the dependent variable, and there is a significant influence between the two variables being tested. Suppose the calculated t value is less than the critical t value. In that case, it indicates that the independent variable cannot explain the dependent variable, and there is no significant influence between the two variables being tested.

3.6.4. Multiple Linear Regression Analysis

Multiple linear regression analysis aims to explain the influence of several dependent variables on an independent variable. The multiple linear regression equation in this study is as follows:

$$FD = \alpha + \beta_1 CR + \beta_2 DER + \beta_3 ROA + \varepsilon$$

Explanation: FD = Bankruptcy prediction α = Constant $\beta_1, \beta_2, \beta_3, \beta_4$ = Regression Coefficients
CR = Current Ratio DER = Debt-to-equity Ratio ROA = Return on Assets ε = Error

3.6.5. Difference Test

To observe the difference in bankruptcy predictions before and during the COVID-19 pandemic, the data analysis method used is the paired sample t-test. The paired sample t-test is a procedure used to compare the means of two variables within one group. This analysis is useful for testing two related or paired samples. The paired t-test in this study is used to test the formulated hypothesis, comparing the persistence of profit before and during the COVID-19 pandemic for significant differences.

Its significance value determines the results of the Paired Sample t-test. This value then determines the decision made in the study.

a. If the significance value (2-tailed) is less than 0.05, it indicates a significant difference between the initial and final variables. This suggests a significant effect on the differences in treatment given to each variable.

If the significance value (2-tailed) exceeds 0.05, it indicates no significant difference between the initial and final variables. This suggests that there is no significant effect on the differences in treatment given to each variable.



4. Results and Discussion

Table 2 Description test

	N	Minimum	Maximum	Mean	Std. Deviation
Altman's Z-Score	76	.03	15.12	5.0412	3.76572
Current Ratio	76	.21	12.05	2.2284	2.07728
Total Debt to Total Equity	76	.25	617.94	22.4581	75.91209
Return on Assets	76	-22.30	27.70	1.1932	9.32759

Based on the results of the descriptive test, it can be explained as follows:

1. Financial distress in this study uses the altman zscore measurement tool, where the healthy and bankrupt categories on the Zscore value are if the Z value " < 1.1 (bankrupt company), the value is $1.1 < Z < 2.6$ (including gray area or cannot be determined whether the company is healthy or bankrupt) and the Z value " > 2.6 (a company that is not bankrupt/healthy). In table 3, a minimum value of 0.03 is obtained for Pt. Centratama Telekomunikasi Indonesia Tbk in 2020, while the maximum value of 15.12 belongs to PT. M Cash Integrasi Tbk in 2021. From a total of 76 data examined, 7 company data were included in a state of bankruptcy, 18 were included in a gray area or could not be determined, and 51 were included in a healthy state.
2. The current ratio in Table 2 shows a minimum value of 0.21 times that of Pt. Centratama Telekomunikasi Indonesia Tbk in 2021. This result is by the minimum z-score value, which means the company is the most unhealthy among others. Meanwhile, the maximum value of 12.05 times belongs to PT Sona Topas Tourism Tbk in 2021. Current assets are the company's ability to pay its short-term debt. The higher the CR number, it can be said that the company's condition is getting better.
3. Leverage in Table 2 shows a minimum value of 0.25 times that of Pt Ace Hardware in 2018, while the maximum value is 617.94 times that of PT HERO in 2021. Leverage in this study uses a debt-to-equity ratio proxy, where the results show how much the company's capital is financed by debt or how much the company's debt affects its equity management. Companies in the retail sector obtained an average yield of 22.45, which means that of all the equity owned by the company, on average, it is financed by debt of 22.45 times its equity.
4. Return on Assets is the company's ability to generate profits from the total assets it has. In the companies studied, a minimum ROA value of -22.3% was obtained for Pt HERO Tbk in 2020, and a maximum value of 27.7% for Pt Matahari Depstore in 2019.

4.1. Classic assumption test

The results of the classical assumption test, it can be concluded that this study was late in passing the classical assumption tests such as the normality test, autocorrelation test, multicollinearity test and heteroscedasticity test.

4.2. Model Fitness Test and Hypothesis Testing



Table 3. Model fit test and hypothesis test

		B	Std. Error	Beta		
1	(Constant)	2.901	.505		5.744	.000
	Current Ratio	1.025	.129	.603	7.934	.000
	Total Debt to Total Equity	-.001	.001	-.045	-.552	.583
	Return on Assets	.204	.035	.467	5.841	.000
	Independent variabel	Altman's zscore				
	R Square	0.598				
	F test	0.000				

In the determinant test results, the R Square value is 0.598 or 59.8%, the independent variable can affect the dependent variable. Other variables outside the study influence the remaining 40.8%. The F test results obtained a sig value of $0.000 < 0.05$, which means that the model in this study is fit. Simultaneously the independent variable being measured can influence the dependent variable. In the results of the t test, the CR and ROA variables have a sig value of $0.000 < 0.05$, which means that **H1 and H3 are accepted** and the DER variable has a sig value of $0.583 > 0.05$, which means **H2 is rejected**.

4.3. Difference Test

Table 4. Paired Samples Test

		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
					Lower	Upper			
Pair 1	Altman's Z-Score								
	-	.3371278	2.3619217	.3936536	-.4620316	1.1362871	.856	35	.398
	Altman's Z-Score								

In the different test results, it was found that the bankruptcy prediction conditions measured using the altman zscore had no difference before and during the COVID-19 pandemic. So it can be concluded that **H4 is rejected**

4.4. Discussion

Effect of current ratio on bankruptcy prediction

The results of the hypothesis test show that the current ratio has a positive effect in predicting corporate bankruptcy or financial distress. This study uses the altman zscore model to measure financial distress, where if the zscore value increases it means the company is in good health and vice versa if the zscore value decreases it indicates the company is not in good health or bankrupt. The direction of positive influence on the results of the study shows that the higher



the company's ability to pay its short-term debt, the zscore value will also increase, which means the company is in good health.

The results of this study are in accordance with (Cinantya & Merkusiwati, 2015) where companies that have the ability to pay their short-term debts mean that companies have good financial performance in fulfilling their current debts. results that liquidity affects financial distress. According to him, the more liquid a company is, the greater the probability that the company will avoid the threat of financial distress.

The effect of DER on bankruptcy prediction

The results of the hypothesis test show that DER has no effect on the prediction of corporate bankruptcy or financial distress. This is because the company can manage funding from debt so that the company can generate profits, which then profits can pay off obligations despite high interest expenses.

This result is in line with Oktariyani (2019) which says that if a company's debt level is well controlled, the probability that the company will experience financial distress will be smaller. Although basically the DER ratio can increase financial distress, a high level of leverage can improve operational activities so that the company can maintain its business continuity.

The effect of ROA on bankruptcy prediction

The results of the hypothesis test show that ROA has a positive effect on the altman zscore value for predicting bankruptcy. This means that the higher the ROA, the higher the altman value, which means that the company is in good health or is experiencing bankruptcy. In accordance with the signaling theory that high profits indicate a company in good health.

This result is in line with Sari & Diana (2020) which says the ROA ratio can help management and investors see how well a company is able to convert its investment in assets into profit or profit (profit). The higher the ROA results of a company reflects that the better the use of assets by the company to generate profits, and the risk of the company experiencing financial distress will be reduced or smaller.

There are differences in bankruptcy prediction conditions before and during the COVID-19 pandemic

The hypothesis results show no difference in conditions in predicting bankruptcy before and during the COVID-19 pandemic. If you look at the descriptive table, this can be because many companies were still in a safe condition both before and during the COVID-19 period. Even though many companies had high debt during the pandemic, the company could still control it.

This result is in line with Kusumastuti et al (2023) who said that there was no difference in the potential for financial distress before and during the COVID-19 pandemic.

5. Conclusion

- a. Current ratio positively affects bankruptcy prediction
- b. Debt to equity ratio does not affect bankruptcy prediction
- c. Return on assets has a positive effect on bankruptcy prediction
- d. There is no difference in potential bankruptcy prediction before and during the COVID-19 pandemic



Suggestions:

- a. The time of this research has a very short time span, so the results obtained are less than optimal. Especially in conditions during the COVID-19 pandemic. So in the next study the research time could be longer.
- b. Subsequent research can use non-financial variables to predict corporate bankruptcy.
- c. Subsequent research can compare other measurement tools in predicting bankruptcy, so that the difference can be seen.

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