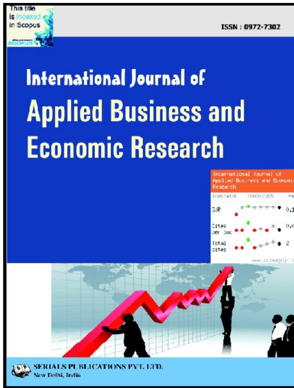

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Analysis of Financial Distress and Factors Affecting IT

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Abstract: This study aimed to examine the effect of the company's performance and economic conditions of the financial distress, the study also examines the difference between financial distress when the economic crisis and after the economic crisis. This study uses a quantitative approach, with data processing using SPSS version 16.0 using multiple linear regression analysis to examine the effect among variables and paired t test to test the difference. Samples of this research are 40 companies listed in the Indonesia Stock Exchange (BEI) using secondary data, data collection techniques by downloading financial data website *www.idx.co.id.* The research proves that the first, the company's performance with a significant influence positively related to financial distress. Second, economic conditions significantly influence financial distress with a negative relationship. Third, and there are differences between the different test after financial distress as before the economic crisis and after the economic crisis.

Keywords: Corporate Performance, Economic Conditions, Financial Distress

I. INTRODUCTION

Stable financial condition is one of the objectives of the company, with the ongoing stability of financial conditions will have an impact on the company's business itself. The company's financial performance can be measured by financial ratios, which requires the calculation of the financial statements. The purpose of analyzing financial statements is as a tool for determining the financial projections in the future, in addition to reviewing the company's financial condition. The results of analyzing the financial statements may be used as consideration for the management in making business decisions of the company.

Economic and financial stability can not be separated from the phenomena is happening. Currently the main problem being faced by the global economic crisis which resulted in worsening of the world economy, including in Indonesia (*http://internasional.kontan.co.id* Tuesday, January 19, 2016 10:57 pm). For some companies in Indonesia to global economic crisis is a big problem. Such conditions can affect the company's financial stability. Some of the adverse effects experienced by the company, namely a decrease

of export volume, the cost of goods that getting up is not matched by revenue, poor company management will result in poor performance of the company as well, it will affect the financial statements. Companies experiencing financial hardship will take alternatives to maintain its example by seeking investors or by borrowing funds to finance the company. But poor financial condition will make investors lost confidence in the company. The company's stock price continued to fall is one indication. Besides reduction in the company's financial condition will be taken into consideration for the lender to decide will give a loan or not, because the risk is that the company is unable to meet its obligations as they mature.

Conditions that decrease the company's financial ability can be regarded as financial distress. Financial distress should be a major concern for management in making business strategies to sustain the company. Companies experiencing financial distress would be bankrupt if it continues not to be able to rise from adversity financial condition.

Problem Formulation

Based on the research background, the formulation of the question is whether the company's performance and economic conditions affect the financial distress, especially in companies listed on the Indonesian Stock Exchange (BEI)?

II. LITERATURE REVIEW

Financial statements

Munawir (2007: 2) defines that the financial report is basically the result of the accounting process that can be used as a tool for communication between financial data or activity of a company with the parties concerned with the data or its activities. The parties concerned to posisikeuangan and the development of a company is the owner of the company, the manager of the company concerned, the creditors, bankers, investors and the government, workers and other parties anymore.

Economic conditions

The economic conditions have contributed to the company's financial distress. According Harnanto (1984), there are several factors that cause companies experiencing financial distress, as follows:

a) Economic system

In the economic system in which the economy more driven by free competition, the business world will be divided into two classes, namely the traditional companies and companies that use the technology. The ability to compete is what is the causative factor of bankruptcy, so the management efficiency plays an important role and is a formidable deterrent against any competitor.

b) External Factors The Company

Difficulties and failures that might cause a company kebangkruran sometimes are beyond the (management) company. Various external factors are:

1. Business competition is fierce.
2. Reduced demand for the products or services produced.

3. The fall in selling prices continuously.
4. An accident or a natural disaster that befell the company.

Company performance

Financial ratios provide a snapshot of a company's performance. Financial ratio analysis is the basis for assessing the company's financial condition and performance. Analysis and interpretation of the kinds of ratios can provide a better view of the condition and performance of the company.

Financial ratios used in this study are:

1. Profitability Ratios
   Munawir (2017: 33) argues that the profitability or profitability is to show the company's ability to generate profits for a certain period. Profitability of a company is measured by the success of the company and the ability to use assets productively, thus the profitability of a company can be determined by comparing the profits obtained in a period by the number of assets or the amount of capital the company. Profitability ratios used in this penerlitian adala Return on Assets.

   (a) Return on Assets

   Return on Assets ratio, or the ratio of return on total assets is intended to measure the company's ability to generate net income under a certain level of assets.

$$Return\ Assets = \frac{Net\ Income}{Total\ Assets} \times 100\%$$

Financial Distress

One important aspect of the analysis of the financial statements of a company is its usefulness to predict continuity or survival of the company. Prediction of survival is very important for management companies and owners of companies to determine a company's financial condition and anticipate the conditions that led to the possibility of their potential bankruptcy. Platt and Platt (2002) defines financial distress is a condition in which financial companies not in good condition or are in crisis. In other words, financial distress is a condition where the company is experiencing financial difficulties to fulfill its obligations.

The company's financial difficulties can be interpreted as the difficulties experienced by the company in addressing short-term liquidity to the difficulties that are not solvable (resolved). Altman (2006) argues that financial distress is one result of poor management processing is not from bad neighborhoods. Financial distress is a stage of decline in a company's financial condition before the company actually went bankrupt. To meminimalisai and overcome bankruptcy is possible, then the analysis of financial statements is important. This is because important for companies to determine the level of financial health of the company.

Financial difficulties short-term experienced by the company to be temporary and not too severe, but if conditions are not followed up and resolved immediately, then this problem will be a problem that is not solvable, and it is not possible for the company this will lead the company experienced a business failure , Financial difficulties can be interpreted in several categories, as follows:

(a) Economic Failure, namely economic failure which means that the company's revenue can not cover its costs alone. This means the rate of profit is less than the cost of capital.

(b) Bussines Failure, defined as businesses that ceased operations with consequent losses for the creditors, and then said with consequent losses for the creditors, and then said to fail even though not through the normal bankruptcy.

(c) Technical insolvency, a company can be assessed experiencing financial difficulties if it does not fulfill its obligations due.

(d) Technical insolvency indicate a temporary lack of liquidity at a time in which the company can raise money to meet its obligations and continue to operate.

(e) Insolvency in bankcrupy, a company can be said to be experiencing financial difficulties when the book value of total liabilities exceed the market value of the company's assets.

(f) Legal Bankcrupy, a company said to be bankrupt by law, unless the claims filed formally with the law.

Corporate Performance and Financial Distress

Good performance will be able to assist management in achieving corporate goals. The higher the performance of the company, then it will be better the company's value in the investors view. One way to assess the financial performance of current and future business prospects is by analyzing the financial statements by calculating the ratio. Results of the analysis of financial ratios will show the company's financial condition is healthy or in an unhealthy state. Unhealthy financial condition or even are experiencing this crisis can be regarded as financial distress

Altman (1968) is one of the researchers who studied the use of financial ratio analysis as a tool for predicting corporate bankruptcies. This analysis has been known as the Z-Score, which is determined from the score count of financial standards. Altman took samples from 66 manufacturing companies to be analyzed, of which half of them went bankrupt. From these studies, acquired 22 financial ratios, of which five are considered to be the most beneficial to the bankruptcy and can be used to detect defaults company two years before the company officially declared bankrupt. Bankruptcy prediction model by Altman have high levels of accuracy, 90% a year before the company went bankrupt. However, for the second year before the bankruptcy rate fell to 72% accuracy. And continued to fall up to five years before it went bankrupt, ie by 48%, 29% and 36%. It shows a decrease in the predictive power of financial ratios for a longer period of time. Altman test the weight of each variable using regression analysis, the results of these tests are used to get a certain constant as the weight of each variable that has been determined. The values obtained from the calculation is then adjusted by the cut-off value that has been determined to determine the classification of the company.

Based on the development Altman Z-Score formula that can be used by companies that go public and companies that do not go public where the company has no market value, in order to obtain the following equation:

$$Z = 1{,}2\,X1 + 1{,}4\,X2 + 3{,}3\,X3 + 0{,}6\,X4 + 0{,}999\,X5$$

Information

Z = *Overall index of bankruptcy*

X1 = *Working Capital to Total Assets*

X2 = *Retained Earnings to Total Assets*

X3 = *EBIT to Total Assets*

X4 = *Market Value Equity to Book Value of Total Debt*

X5 = *Sales to Total Assets*

The criteria used to predict corporate bankruptcy this model is, companies that have a Z score> 2.99 is classified as a healthy company, while the company has a Z score <1.81 were classified as potentially bankrupt company. Furthermore, scores between 1.81 to 2.99 is classified as a company in the gray area or the gray area.

The description of the results, each variable can be explained as follows:

1. Working Capital to Total Assets (X1)
   This ratio indicates the company's ability to generate net working capital of the whole of its total assets. This ratio is calculated by dividing the net working capital to total assets. Net working capital is obtained by means of current assets minus current liabilities. Negative net working capital were likely to face problems in covering short-term liabilities due to the unavailability of sufficient current assets to cover those obligations. Conversely, a company with net working capital is positive rarely face difficulties in meeting their obligations.

$$Working\ capital\ to\ total\ assets = \frac{Working\ Capital}{Total\ Assets}$$

2. Retained Earnings to Total Assets (X2)
   This ratio indicates the company's ability to generate retained earnings of the total assets of the company. Retained earnings is an undistributed profits to shareholders. In other words, the retained earnings shows how much revenue a company that is not paid out as dividends to shareholders. Retained profits showed a claim against assets, not assets to equity shareholders. Retained profits occur because of ordinary shareholders to allow the company to reinvest the profits distributed as dividends. Thus, the retained earnings reported in the balance sheet is not cash and is not available for dividend payments or the other.

$$Retained\ Earnings\ to\ Total\ Assets = \frac{Retained\ Earnings}{Total\ Assets}$$

3. EBIT to Total Assets (X3)
   This ratio indicates the company's ability to generate profits from the assets of the company, before interest payments and taxes.

$$EBIT\ to\ total\ Assets = \frac{EBIT}{Total\ Assets}$$

4. Equity Market Value to Book Value of Total Debt (X4)
   This ratio indicates the company's ability to meet the obligations of the market value of equity (common stock). The market value of the equity itself is obtained by multiplying the number of outstanding common shares at the market price per share of common stock. The book value of debt is obtained by summing current liabilities with long-term liabilities.

$$Market\ value\ of\ Equity\ to\ Book\ Value\ of\ Debt = \frac{Market\ Value\ of\ Equity}{Book\ Value\ of\ Debt}$$

5. Sales to Total Assets (X5)
   This ratio indicates whether a company generates sufficient business volume compared to investment in total assets. This ratio reflects the overall management efficiency in the use of corporate assets to generate sales and profit.

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

Financial Distress and Return on Equity (ROE)

Hazem (2013) results showed that the method of logistic regression and discriminant analysis can predict financial distress, and Return on Equity (ROE) and Return on Assets (ROA) are the two most important financial ratio in predicting financial distress companies. This study uses discriminant analysis and logistic regression to generate an average, the standard deviation of the results can be classified by the company with success or distressed category. The analysis showed that the financial ratios were statistically significant to differentiate between successful companies and distressed; namely, return on assets (ROA), return on equity (ROE), dividends per share, retained earnings to total assets, fixed assets to equity, asset turnover and sales to equity. This research is to avoid investing in companies that are experiencing financial difficulties and to help management shape financially distressed companies avoid financial difficulties by making corrective action long before financial distress occurs.

III. RESEARCH METHODS

The object of this research is manufacturing companies listed on the Indonesian Stock Exchange (BEI). The time period used in this study is the year 2007- 2012. The research method used in this research is quantitative approach. The population in this research is manufacturing companies listed on the Stock Exchange the period 2007 to 2012. Of this population, taken some samples that serve as the object of research studies. The sampling method in this study using purposive sampling method, which is a technique to limit data collection and specific objectives expected from this research. The criteria for sampling in this study are as follows. First, manufacturing companies that publish the audited financial statements. Second, manufacturing companies that still provide financial statement data period of 2007 until 2012.

The unit of data analysis in this research is the analysis unit of the organization. This is because the problem statement focuses on the financial condition of companies listed on the Stock Exchange (BEI). The data used is secondary data. Data collected by downloading data on a company's financial statements

http://www.idx.co.id website. By downloading as many as 40 financial statements of companies that meet the criteria of the sample. Mechanical analysis on this penelitiaan is regression analysis used is multiple linear regression analysis for testing more than one free variable. The data is processed using SPSS for Windows version 16.0.

IV. RESEARCH RESULT

Testing the hypothesis in this study using multiple linear regression analysis, and processed by SPSS for Windows version 16.0. Here are the details of the dependent variable and independent variables:

X1: Company Performance (ROA)

X2: Economic Conditions (0 = Before Crisis, 1 = After Crisis)

X3: Financial Different

Y : Financial Distress (Z Score)

The results of testing the effect of the company's performance and economic conditions of the financial distress:

Output SPSS

Variabel Independent	*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
	B	*Std. Error*	*Beta*		
Economic_Conditions	-.761	.186	-.273	-4.096	.000
ROA	7.422	1.156	.429	6.422	.000

Source: Data Olah SPSS for Windows Ver.16.0

Results of testing the hypothesis 1

The test results above shows that the significant value of the variable performance of the company is 0,000, the value is less than 0.05, which means Ho1 received and concluded that the Company Performance (ROA) significantly affects Financial Distress. T value obtained from the t-test is 6422 and a positive sign which means that the higher the value of the company's performance, the higher the score financial distress. It is clear that companies that perform well / high not experiencing financial distress ..

Results of testing the hypothesis 2

The test results above shows that significant value is 0,000 variable economic conditions, this value is less than 0.05, which means Ho2 received and concluded that the economic conditions have a significant effect on the Financial Distress. T value obtained from the t test was -4.096 and negative sign, which means good economic conditions affecting the company's financial distress.

Tests on whether there is a difference in the company's economic condition when the condition prior to the economic crisis and after the economic crisis is done by using a different test. Different test used was

based on the distribution of research data. Testing is done by using different paired t test with consideration for the same samples tested. Here are the different test results from the economic conditions as before the economic crisis and after the economic crisis.

Paired Samples Test

		Paired Differences							
					95% Confidence Interval of the Difference				
		Mean	*Std. Deviation*	*Std. Error Mean*	*Lower*	*Upper*	*t*	*df*	*Sig. (2-tailed)*
Pair 1	Financial_Distress_ Before_Crisis Financial_Distress_ After_Crisis	.17500	.44650	.07060	.03220	.31780	2.479	39	**.018**

Source: Data Olah SPSS for Windows Ver.16.0

Results of testing the hypothesis 3

The above test results show that based on the above table, significant values obtained from the test results is 0,018, the value is smaller than 0.05 so it can be concluded that there is a difference between the company's economic condition as before the economic crisis by following the economic crisis.

V. CONCLUSION

Based on the findings described above, it can be concluded as follows. First, the company's performance (ROA) significant positive effect on Financial Distress. That is, the higher the value of the company's performance, the higher the score financial distress. It is clear that companies that perform well / high not experiencing financial distress. Second, Economic conditions significant negative effect on scores of financial distress. That is not good economic conditions affecting the company's financial distress. Finally, there is a difference between the economic condition of the company during the economic crisis without the economic crisis.

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