CHAPTER 1

INTRODUCTION

1.1 Research Background

Indonesia is the 4th largest and most populous country in the world consisting of small and large islands. Indonesia itself is a country with a geography in the form of an archipelago and stretches along the equator from Sabang to Merauke with very promising tourism potential and is often in the spotlight of the world. Indonesia's large and wide territory supports various companies to provide transportation services such as land transportation, sea transportation and air transportation. Transportation is really needed by the community for the present and the future because it facilitates human access in carrying out daily activities.

However, the current condition of the Indonesian economy is at the stage of facing challenges such as a global economic slowdown, higher inflation, and a weakening exchange rate. So that it has an impact on the condition of the Indonesian economy and makes the business world no better than in previous years. This is experienced by sea, land, and air transportation companies where the rupiah exchange rate is getting weaker and continues to weaken periodically causing spare parts to become expensive and the company's operational costs to increase as well as a decrease in the number of passengers from all types of transportation, both sea, land, and air (Hafsari and Setiawanta, 2020).

Under these conditions, if companies try to survive in these conditions, the company must suppress operational costs terminate employees, and make offers to creditors regarding the payment of the company's principal debt. However, if the

company is not able to allocate resources (assets) for various operational activities appropriately and financial problems are allowed to drag on, this can affect the company's performance because it will pose a high risk so that the company will be able to experience financial problems and bankruptcy. Therefore, many companies experience a phase or condition where the company's cash flows experience negative results for some time and it is difficult to pay their obligations. This condition is called financial distress.

Financial distress is a financial condition pressure where the company is in trouble or crisis or is not healthy that occurred before the company went bankrupt (Altman, 2014). Financial distress is also a company's financial pressure which causes a company's financial condition to be not well constrained and threatened with bankruptcy to the detriment of investors' returns (Altman *et al.*, 2017). Financial distress occurs when the company fails or is no longer able to meet the debtor's obligations due to lack and insufficient funds to run or continue the business in the company again (Muchlisin Riadi, 2018). Financial distress is a company management error in managing or managing its business operation plan for the long term (Kisman and Krisandi, 2019). Usually, financial distress shows a declining trend in the financial performance of a company. In other words, it begins with financial distress warning where companies experience financial difficulties in generating profits or earnings income, which continues to decline from year to year.

Financial statements are a tool that can be used by a potential investor to obtain information about the financial position, estimate whether it is stable or not and the

business results achieved by a company have reached the target or not. Financial statement analysis can provide an early picture of a company's bankruptcy. Financial statement analysis can also be a very useful tool for management to evaluate business performance and as material for consideration by potential investors in making investment decisions. A business activity carried out by a company certainly has a goal to be achieved by the owner or holder of the company. The company's profit that will be obtained is an achievement of a predetermined target. Achieving targets is very important for the company because achieving the targets that have been set or exceeding the targets set is a separate achievement for the company's management.

The impact of the covid-19 pandemic is considered to have distorted all aspects of people's lives where transportation is public transportation that must be present in every community activity. However, an observer of public transportation policy, Bambang Istianto, said that the transportation sector experienced 80 percent distortion during the covid-19 period, and many bus operators went out of business (Mediaindonesia.com, 2021). Thus, train and aircraft operations are also greatly affected and exacerbated by government policies that impose social restrictions or restrictions on interactions between individuals including PPKM, PSBB, Lockdown, and Work From Home (WFH) enforcement, followed by strict health protocols in public transportation facilities, such as swabs and antigen tests as an effort by the government to suppress the transmission of covid-19. Thus making transportation companies experience losses in their business and business activities.

This is, in 2020 transportation companies experienced enormous losses due to the covid-19 pandemic which had an impact on the operation of the transportation business, both land, water, and air. Thus, the company cannot control its company management properly. However, many of them were able to survive the covid-19 pandemic and could even generate more profits than the previous year.

Thus, this study wants to see and analyze how the business and financial conditions of transportation companies affected by the covid-19 pandemic using financial ratios measured by CR, DER, ROA, and TATO, which are strengthened in the use of the Altman Z-Score Method as a detector financial distress. With the prediction of the level of bankruptcy on the company's financial condition or financial performance using financial ratios, it is an interesting topic to be studied by many researchers and can also be studied further in the future. This research is expected to contribute conceptually, especially regarding financial distress. Then, it can provide input for companies, especially transportation companies, in making decisions to maintain the continuity of their business activities or businesses related to preventive actions to avoid financial distress. And can be used as a consideration in making decisions for potential investors before investing in the company. Based on the description above, the author is interested in researching with the title **"ANALYSIS FINANCIAL RATIOS ON FINANCIAL DISTRESS OF TRANSPORTATION COMPANY LISTED ON INDONESIAN STOCK EXCHANGE IN 2017-2020 PERIOD".**

1.2 Research Problem

1. How is the effect of the liquidity ratio as measured by the Current Ratio (CR) on financial distress conditions in transportation companies listed on the Indonesia Stock Exchange for the 2017-2020 period?

2. How is the effect of the leverage ratio as measured by the Debt Equity Ratio (DER) on financial distress conditions in transportation companies listed on the Indonesia Stock Exchange for the 2017-2020 period?

3. How is the effect of the profitability ratio as measured by the Return of Asset (ROA) on financial distress conditions in transportation companies listed on the Indonesia Stock Exchange for the 2017-2020 period?

4. How is the effect of the activity ratio as measured by the Total Asset Turnover (TATO) on financial distress conditions in transportation companies listed on the Indonesia Stock Exchange for the 2017-2020 period?

1.3 Research Purposes

1. To find out and analyze the liquidity ratio as measured by the Current Ratio (CR) on financial distress conditiond at transportation companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

2. To find out and analyze the leverage ratio as measured by the Debt Equity Ratio (DER) on financial distress conditiond at transportation companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

3. To find out and analyze the profitability ratio as measured by the Return of Asset (ROA) on financial distress conditiond at transportation companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

4. To find out and analyze the activity ratio as measured by the Total Asset Turnover (TATO) on financial distress conditiond at transportation companies listed on the Indonesia Stock Exchange for the 2017-2020 period.

1.4 Research Benefits

This research is expected to provide the following benefits:

1. Theoretical Benefits

   This research is expected to be able to deepen the knowledge gained to implement and predict real situations or cases that occur by using financial ratios as a prediction of financial distress in transportation companies using the Altman Z-Score method.

2. Policy Benefits

   This research is expected to be able to provide policy direction on how to make decisions in analyzing financial statements that involve financial ratios as a prediction of financial distress and find out what strategies are used so that companies can survive.

3. Practical Benefits

   a. For Company

This research is expected to be a consideration for companies from related parties in analyzing the company's performance to detect early potential for financial distress and corporate bankruptcy.

b. For Investor

This research can be expected to provide information to investors as consideration for making decisions in investing their capital into companies in the future.