

CHAPTER I

INTRODUCTION

1.1. Background

Up until the past few years, the entire world was suffering continuously from the Covid-19 disease, which was categorized as a pandemic. The world rarely suffered from a pandemic and rarely suffered from one of this much caliber in the past. The Covid-19 pandemic, other than endangered the lives of people, was also endangered economic conditions of the world. Every region took a big hit on their economic condition, creating severe instability. Covid-19 has put people's lives in jeopardy while also putting a strain on family finances. The main problem of the period, for instance, was paying family costs and monitoring children's education, among other things (Anchan & Noronha, 2021). The pandemic kept spreading further along with the increasing number of Covid-19 cases. Covid-19 kept spreading from one country to another.

Among the many countries that got affected, the Covid-19 pandemic and its impacts also reached out to Indonesia. Currently, Indonesia is severely affected by Covid-19. The economy's downturn has emerged as a major source of concern in the corporate sector. Transportation of items was halted, the market

was shut, and no transactions or purchases were made, interfering with asset growth (Anchan & Noronha, 2021). Many local businesses and branches of international companies are trying their best to survive in the market. Transportation, tourism, culinary and many other sectors were previously hindered due to circumstances created by the pandemic. Although many sectors are currently on the stage of rebuilding after government regulations regarding the pandemic were loosened, the impact from when some businesses took a short break from their selling activity can be felt.

Many companies have suffered financially and are currently struggling to survive from the amount of loss they had because of the whole Covid-19 pandemic situation. The situation of having a struggle in a company's financial condition is known as financial distress. Financial distress is described as a scenario in which a firm is unable to meet its obligations in just about any manner, or when its obligations exceed its assets (Omelka et al., 2013). Financial distress can be caused by constant loss in profit, unachieved target of selling, immense growth of technology, natural disaster, and other factors.

Amongst many industries that were affected by Covid-19, one of them is the food and beverage industry. Food and beverage industry is one of the leading industries in Indonesia as there is a high demand for food and beverage, therefore making it one of the leading supporters of Indonesia's economy and manufacture

growth. Abdul Rochim, The Director General of Argo Industry at the Ministry of Industry, said that the consistent contribution of food and beverage industry to the gross domestic product (GDP) of non-oil and gas industry shows their role in Indonesia's economy. The food and beverage contributed as much as 7.02% to national GDP, making the food and beverage industry its largest contributor. This was all recorded throughout the second quarter of 2020 (Kristyana Dananti et al., 2022).

Financial distress can be seen through the company's financial statement. Financial statements can be said as the result of a company because they sum up everything. A financial statement represents the financial condition of a company. Financial statements are the outcome of the company's financial forecasts, which are primarily concerned with the development of turnover and changes in the environment, as well as a hypothesis based on the connections that may be formed among balance sheet items and turnover (Florea, 2020). It is shown in several ways (cash, fund statement, etc.). For the measurement of the performance evaluation process, the financial ratio is a sort of accounting information that enables financial ratios to report on the financial health of the company during a given period. The research uses numerous metrics, including the current ratio and the debt ratio.

The purpose of this study is to look at the components of the Altman Z-score to compare the financial condition of Indonesia's food and beverage companies before and during Covid-19 pandemic through financial distress prediction and see if there is a significant difference between the two periods. This study analyzes 17 of Indonesia's food and beverage companies using Altman Z-Score Model for emerging economies as its foundation. It is hoped that the result of this paper will be beneficial for companies and investors. It is also hoped that this research will be able to serve as a solid foundation for future research.

1.2. Research Problem

Based on the background explained above, we can identify several problems:

1. Does the WCTA index have a significant difference between food and beverage companies during the pre-Covid period and the Covid period?
2. Does the RETA index have a significant difference between food and beverage companies during the pre-Covid period and the Covid period?
3. Does the EBITTA index have a significant difference between food and beverage companies during the pre-Covid period and the Covid period?
4. Does the MVETL index have a significant difference between food and beverage companies during the pre-Covid period and the Covid period?

5. Does the Z-Score value have a significant difference between food and beverage companies during the pre-Covid period and the Covid period?

1.3. Research Purpose

Based on the formulation of the problem above, the objectives of this study are as follows:

1. To identify the difference of WCTA index between food and beverage companies during the pre-Covid period and the Covid period.
2. To identify the difference of RETA index between food and beverage companies during the pre-Covid period and the Covid period.
3. To identify the difference of EBITTA index between food and beverage companies during the pre-Covid period and the Covid period.
4. To identify the difference of MVETL index between food and beverage companies during the pre-Covid period and the Covid period.
5. To identify the difference of Z-Score value between food and beverage companies during the pre-Covid period and the Covid period.

1.4. Benefits of Research

Through achieving these goals, it is hoped that this research will provide the following benefits:

1. Theoretical

The result of this study can be used by future researchers as their foundation or reference for their research regarding financial distress. It

is hoped that this research will increase the reader's knowledge about financial distress in companies.

2. Practical

a. For Investors

The result of this study can help investors to understand that they should be aware of a company's Z-Score value for consecutive years before investing in that company.

b. For Companies

The result of this study can help companies understand that they should be aware of their Z-Score value, which evaluate their financial condition through financial distress prediction, and hopefully help companies avoid being financially distressed.