CHAPTER I

INTRODUCTION

1.1   Research Background

One of the industrial sectors that will be of interest to investors in Indonesia is the food and beverage industry. The Ministry of Industry said that the food and beverage industry is projected to remain one of the mainstay sectors supporting manufacturing growth and the national economy in 2021. The role of the food and beverage industry sector can be seen from its consistent and significant contribution to the gross domestic product (GDP) of the non-oil and gas industry. It was recorded that during the third quarter of 2020 alone, the food and beverage industry became the largest contributor to national GDP by reaching 7.02%. The food and beverage industry also provided the highest export value in the manufacturing group, which reached up to US$ 27.59 billion in January-November 2020. In addition, the food and beverage industry made a significant investment of Rp 40.53 trillion in January-September 2020 (www.wartaekonomi.co.id).

The times have changed the food and beverage industry today. With the entry of technology in various industrial sectors, the food and beverage industry is growing rapidly both in terms of quantity and quality of production. Technology such as online motorcycle taxi services has changed the shape of this industry where customers usually have to order food and drinks to the place of business, now they no longer have to order food or drinks directly to the place of business.

Changes in this industry can also be felt at this time where at this time there is a pandemic that is spreading globally called Covid-19. With the Covid-19 pandemic, people will start to be more careful in choosing food and drinks to avoid disease.

This change has an impact on intense competition by business actors. In this case the company must be able to adapt to the changes that exist in order to maintain the sustainability of the company, because if the company is not able to adapt then the company will find it difficult to beat other business competitors and this will have an impact on bad business activities. If the company is not able to survive, it will make the company's financial condition unhealthy and will even go bankrupt.

In facing business competition, every company is required to always improve the effectiveness and efficiency in managing the company. For example, by evaluating strategies and policies within the company. Because a company that avoids the risk of bankruptcy will prosper longer to survive. Weakening industry prospects in the future combined with weak company management can be consequences for a company. To overcome and minimize the occurrence of bankruptcy, companies must monitor the financial conditions using financial statement analysis techniques. Because of that it can be known the condition and development of the company's financial difficulties, weaknesses and potential for bankruptcy of the company that occurs.

Bankruptcy analysis can be measured through financial statements by conducting an analysis of the financial statements issued by the company. Financial statement analysis is very important to know the company's financial performance and other results that have been achieved with the company's strategy that has been implemented. From these financial statements, information about financial performance, company performance, company cash flow and others. Financial statement analysis includes the calculation and interpretation of financial ratios that can indicate the bankruptcy of a company. According to Kasmir (2013) in simple terms, financial statements are reports that show the company's current financial condition or subsequent periods in the future. In companies that have gone public, financial statements are very important things to pay attention to because they influence decision making. In the financial statements, there is a lot of information that can be used to consider in making decisions in the future. To understand financial statement information, an appropriate analysis is needed, so that it can produce useful information.

Bankruptcy analysis was conducted to obtain signs of bankruptcy. Bankruptcy analysis is very useful for many parties. Because this bankruptcy analysis can provide knowledge for many parties about the company's financial performance to face difficulties in the future. For company owners, this analysis can be used to decide whether to keep their ownership in the company or sell it and invest in other places. Investors and creditors as external parties of the company are required to know the developments in the company for the safety of

their capital investment. Because the inability to read the signals in business difficulties will cause losses in the investment made.

Many analyzes have been developed to analyze early corporate bankruptcy, including the Altman model and the Zmijewski model. The Altman Model was first proposed by Edward I Altman in 1968 as a result of his research. After selecting 22 financial ratios, he found 5 ratios that can be combined to see companies that are bankrupt and not bankrupt. The ratios are Working Capital to Total Assets Ratio, Retained Earnings to Total Assets Ratio, EBIT or Earning Before Interest and Tax to Total Asset Ratio, Market Value of Equity to Total Liabilities Ratio, Total Sales to Total Assets Ratio. The Żmijewski Model was created by Żmijewski in 1983. Zmijewski created a bankruptcy prediction model using three ratios, they are ROA (Return On Assets), Debt Ratio, and Current Ratio. This model has 100% accuracy. Listyarini (2016) compares the Zmijewski, Altman, and Springate models, in analyzing financial distress in manufacturing companies listed on the Indonesia Stock Exchange 2011-2014. The result is that the Zmijewski model is the best financial distress analysis model.

Companies that have Go-Public will sell their shares widely on the stock market. Stock returns in the market are of course determined by looking at the demand and supply traded by both sellers and buyers. To assess the demand and supply are usually influenced by internal and external factors of the company. Internal factors include the amount of cash flow, profit information and accounting information presented in the form of the company's financial statements. The company's external factors are influenced by the volume of stock

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transactions, changes in cash flows, high inflation rates, government policy issues, interest rates, socio-political conditions and public confidence in the capital market.

The capital market can be said to be a means for public companies to raise capital funds for their business continuity. The capital market has an important role in the investment world because it is a means to trade company securities. The wider community has a role in the company's capital. The viability of the company is uncertain.

Investors will not want to invest in companies that have financial distress which may later lead to bankruptcy. Financial distress or bankruptcy experienced by the company will harm investors. Therefore, investors need to choose companies that can provide benefits from their investments. The state of the company that loses will be detrimental to investors. As a result of the company's loss, it is feared that investors will not be able to get the expected return on investment.

According to the research of Amir (2014) and Mushawir (2016) by examine and analyze the effect of bankruptcy prediction on the company's stock return in financial sector companies that are listed on The Indonesia Stock Exchange, the results showed that bankruptcy prediction with Altman Z-Score Model has no effect on stock return of those companies. The Altman Z-Score value from those companies cannot provide information about the company's

financial condition in detail, that's why investors do not respond and do not have an effect on stock return.

1.2 Research Question

Based on the background above, then the question in this research are as follows:

1. Which companies will potentially go bankrupt?
2. What is the impact of the bankruptcy prediction analysis using Altman Model on stock returns in Go-Public Food and Beverage companies in the Indonesia Stock Exchange from 2018 to 2020.
3. What is the impact of the bankruptcy prediction analysis using Zmijewski Model on stock returns in Go-Public Food and Beverage companies in the Indonesia Stock Exchange from 2018 to 2020.

1.3 Research Objective

The objectives of this research are to obtain the empirical evidence about:

1. Companies that will potentially go bankrupt.
2. The impact of the bankruptcy prediction analysis using Altman Model on stock returns in Go-Public Food and Beverage companies in the Indonesia Stock Exchange from 2018 to 2020.

3. The impact of the bankruptcy prediction analysis using Zmijewski Model on stock returns in Go-Public Food and Beverage companies in the Indonesia Stock Exchange from 2018 to 2020.

1.4 Research Benefit

The benefit of this research are as follows:

1. For Academics

   The results of this research are expected to give their view and insight into the bankruptcy analysis in food and beverage companies in Indonesia. And also their view and insight into the impact of the bankruptcy analysis in stock return.

2. For Investor

   The results of this research are expected to give a consideration and illustration in bankruptcy analysis and decision for the investor to invest in food and beverage companies in Indonesia.

3. For Further Research

   This research as a source of reference and information to allow subsequent studies concerning discussion in bankruptcy analysis and the impact of bankruptcy prediction in stock return.

1.5 Research Scope

The Altman analysis model was chosen because this model is a major pioneer in the formation of other bankruptcy analysis models. Altman conducted research in 1968 and found that there are 5 ratios out of 22 financial statement ratios that can be used to predict company bankruptcy. Altman research results then continue to be developed by experts so that many bankruptcy analysis models appear such as the Springate model (1978), the Oshlon model (1980) and the Zmijewski model (1983). The Zmijewski model was chosen because this model has 100% accuracy. Listyarini (2016) compares the Zmijewski, Altman, and Springate models, in analyzing financial distress in manufacturing companies listed on the Indonesia Stock Exchange 2011-2014. The result is that the Zmijewski model is the best financial distress analysis model. The food and beverage sector was chosen because The Ministry of Industry said that the food and beverage industry is projected to remain one of the mainstay sectors supporting manufacturing growth and the national economy in 2021.

1.6 Writing Systematic

The first chapter contains an explanation of the research background, problem formulation, objectives research, research benefits, and systematic writing. The second chapter contains the theoretical foundation, previous research, and theoretical frameworks. The third chapter discusses how to collect data, population and sampling, models research, variables used, and analysis methods. The fourth chapter will discuss the results of the research conducted and will

answer questions from the initial problem formulation. The fifth chapter contains

conclusions from the research that has been done and advice that will be given for

subsequent research related to this research.