ProBusiness: Management Journal, 15 (6) (2024) pp. 256-261

Published by:Jonhariono Research, Publication and Consulting Institute

ProBusiness: Management Journal

Financial Distress Analysis of Media Companies Listed on the IDX during the Covid-19 Pandemic

Vika Meiliasari[1], Frasto Biyanto[2], Baldric Siregar[3], Miswanto[4]
[1,2,3,4]YKPN College of Economics, Special Region of Yogyakarta, Indonesia

A R T I C L E I N F O

Article history:

Received Des 15, 2024
Revised Des 20, 2024
Accepted Des 24, 2024

Keywords:

Financial Distress,
Altman Z-Score,
Media Companies,
Indonesia Stock Exchange,
Covid-19 pandemic.

ABSTRACT

This study focuses on assessing the risk of financial distress that may occur in media companies listed on the Indonesia Stock Exchange (IDX) during the Covid-19 pandemic period. The pandemic has significantly impacted various economic sectors, including the media sector, which faced severe pressure due to declining advertising revenues and shifts in consumer behavior towards digital platforms. The research employs a quantitative approach using the Altman Z-Score method to project the potential bankruptcy of companies. The data analyzed consists of financial reports from media companies listed on the IDX during the pre-pandemic and pandemic periods, specifically from 2020 to 2022. The analytical technique utilized in this study involves multiple regression analysis. The findings reveal that profitability, liquidity, and company size collectively influence financial distress. However, when analyzed individually, only liquidity has a positive impact on financial distress, while profitability and company size do not exhibit significant effects. These results are expected to provide insights into the financial conditions of media companies during the pandemic and identify factors contributing to the risk of financial distress. This information can serve as a guide for media company management, investors, and other stakeholders in developing strategies to mitigate bankruptcy risks in the future.

Corresponding Author:

Vika Meiliasari
YKPN College of Economics,
Special Region of Yogyakarta
Email: vikameiliasr@gmail.com

1. INTRODUCTION

Financial distress refers to a situation where a company encounters significant financial challenges, which are usually characterized by its inability to pay off financial obligations in either the short or long term. This situation may indicate the risk of bankruptcy if no corrective action is taken (Altman, 1968). Altman in *his Z-score* model emphasizes that profitability and liquidity are the two main indicators in determining a company's financial health, where low levels of these two factors increase the likelihood of financial distress. Financial distress can be detrimental to various stakeholders, reducing the value of the company, damaging relationships with stakeholders, and lowering market confidence.

The Covid-19 pandemic is a clear example that accelerates the emergence of financial distress, especially in the media industry. Based on *Katadata*'s report, the pandemic has caused drastic changes in consumption patterns and advertising spending, which has reduced the revenue of media companies. This decline in advertising spending has caused many media companies in Indonesia to experience financial pressure, and even forced to reduce employees and restructure operations to stay afloat.

Factors such as profitability, liquidity, and company size greatly affect the level of financial distress. Profitability measures a company's ability to earn profits, which serves as an indicator of

financial health and can help companies survive in negative economic conditions. Weston and Thomas (1992) assert that high profitability allows the company to have financial flexibility and rely less on external funding. Liquidity, or the ability to meet short-term obligations, provides reserve funds to support continued operations. Researchers also agree that good liquidity reduces the company's financial stress in the face of a crisis, by providing the capacity to cover short-term debt burdens.

Firm size, calculated by total assets or revenue, often reflects the stability and resilience of the firm to changing market conditions. (Titman & Wessels, 1988) states that large companies have wider access to capital markets and can mitigate financial risk through asset diversification. This study examines the impact of profitability, liquidity, and firm size on financial distress in media companies listed on the IDX during the pandemic, to understand how these factors are interrelated in maintaining the financial resilience of companies amid increasing economic challenges.

Research on *financial distress* indicates that profitability, liquidity, and firm size can affect *financial distress*. Profitability, which indicates the company's ability to earn profits, has a mixed relationship with *financial distress*. Research conducted by Choirunnissa and Nursiam (2023) indicates that profitability has a positive effect. However, another study found profitability has a negative impact on *financial distress* (Fitria & Syahrenny, 2022).

Liquidity, which reflects the ability to meet short-term obligations, also plays an important role. Sudaryo et al. (2021) found that liquidity has a negative impact on *financial distress*. However, other studies show findings that liquidity has no impact on *financial distress* (Dirman, 2020; Hadi et al, 2023).

Firm size, which is often thought to reflect stability, also indicates mixed results. Research such as Runis et al. (2021) and Salim and Yanti (2023) found that company size has a negative impact on *financial distress*. However, other studies have found that company size has no significant impact on *financial distress* (Suryani, 2020; Arif Efendi et al, 2023).

These differences in research findings indicate a gap in the literature that needs to be filled. The research conducted intends to further analyze the impact of profitability, liquidity, and company size on *financial distress* in media companies listed on the IDX during the Covid-19 pandemic. By understanding the interaction between these variables in the context of a crisis, it is hoped that the following research can provide new insights to assist media companies in maintaining their financial stability.

2. RESEARCH METHOD

The research conducted applies a quantitative descriptive approach in analyzing the effect of profitability, liquidity, and company size on financial distress in media companies listed on the IDX during the Covid-19 pandemic.

1. Research Approach

The descriptive quantitative approach is used to describe the phenomenon of financial distress based on available data and analyze the relationship between research variables statistically.

2. Population and Sample

a) Population: All media companies listed on the Indonesia Stock Exchange (IDX) during the Covid-19 pandemic period.
b) Sample: Selected using purposive sampling method with certain criteria, such as:
   - Companies that have complete financial reporting during the 2020-2022 research period.
   - Companies that are actively traded on the IDX during the Covid-19 pandemic.

3. Data Type

Secondary Data: Taken from the financial reporting of companies listed on the IDX, such as financial ratios (profitability, liquidity), total assets, and the Z-score ratio (as an indicator of financial distress).

4. Data Collection Methods

Data is collected through documentation of company financial reports obtained from the official IDX website or other reliable sources.

5. Data Analysis Technique

The following research applies multiple regression analysis in examining the impact of independent variables on the dependent variable. The analysis process includes:

1. Classical Assumption Test: This is conducted to ensure that the regression model meets the requirements, such as tests for normality, multicollinearity, heteroscedasticity, and autocorrelation.
2. Hypothesis Testing:
    - Partial test (t-test) to see the impact of each independent variable.
    - Simultaneous test (F-test) to see the joint impact of independent variables on the dependent variable.
3. Coefficient of Determination (R^2): Measures how much the independent variable is able to explain the dependent variable.

6. Research Variables
- Dependent Variable: Financial distress (measured applying Altman's Z-score).
- Independent Variable:
    - Profitability (ROA)
    - Liquidity (CR)
    - Company size (log total assets).

7. Analysis Tool

Analysis was conducted using SPSS 25 statistical software.

3. RESULTS AND DISCUSSIONS

Data Analysis

Based on the results of data analysis, the results are as below:

F test

Table 2. F Test Results

ANOVAa						
Model			Sum of Squares	df	Mean Square	F	Sig.
	1	RegressIon	34.697	3	11.566	3.997	.017b
		Residuals	83.914	29	2.894		
		Total	118.611	32			
a Dependent Variable: FD							
b Predictors: (Constant), SIZE, CR, ROA							

Based on the findings of the F test, a significant value is obtained below 0.05 or 5%, namely 0.017 so that it can be concluded that the independent variables (profitability, liquidity, and company size) simultaneously have a significant impact on the *financial distress* variable.

Determination Coefficient Test

Table 3. Determination Coefficient Test Results

Model Summaryb					
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate
	1	.541a	0.293	0.219	1.70106
a Predictors: (Constant), SIZE, CR, ROA					
b Dependent Variable: FD					

Based on the findings of the coefficient of determination test, the *adjusted r* squares value .219 so that it can be concluded that the independent variables (profitability, liquidity, and company size) can simultaneously explain the variation in changes in *financial distress* variables 21.90% while the remaining 68.10% is explained by other variables outside this study.

Test t

Table 4. Results of the t-test

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.966	1.741		1.704	0.099
	ROA	1.262	1.602	0.133	0.788	0.437
	CR	0.22	0.064	0.567	3.45	0.002
	SIZE	-0.06	0.083	-0.124	-0.724	0.475
a Dependent Variable: FD						

Based on the t-test results, the equation value is obtained as below:

FD = 2966 + 1262 ROA + 0.22 CR - 0.06 SIZE + eit

1) ROA does not have a significant impact on *financial distress* where the sig value is 0.437> 0.05 or alpha 5%.
2) CR has a B value of 0.22 where the sig value is 0.002 so it is said that liquidity has a positive impact on *financial distress*.
3) Size has no impact on *financial distress* with a sig value of 0.475, 437> 0.05 or alpha 5%.

Discussion

Effect of Profitability on *Financial Distress*

Profitability indicates the capacity of a company to earn profits relative to sales, total assets, or equity. Net income is often analyzed in relation to other indicators of financial activities or conditions, such as sales, total assets, or shareholders' equity, to evaluate the company's performance as a percentage of a certain level of activity or investment (Sartono, 2010).

Based on the results of the t test, it is found that profitability has no impact on *financial distress* in media companies listed on the IDX. From Altman (1968), financial distress is more closely related to the company's ability to cover short-term liabilities and cash flow stability than just the level of profitability. Although profitability reflects efficiency in making profits, Myers (1977) explains that companies with high profitability can still experience financial distress if they have large debts or significant long-term obligations, such as interest and principal payments.

The Effect of Likuditias on *Financial Distress*

Liquidity is the company's ability to pay short-term obligations on time, a high level of liquidity indicates the ability of a company to cover short-term obligations (Haromo, 2009)

Based on the results of data analysis obtained under the Company's liquidity has a positive impact on *financial distress*. The following shows that the higher the company's ability to cover its short-term obligations, the higher the *financial distress* that will befall the company. From the **Trade-Off** theory explained by Myers (1984), companies often have to balance between holding sufficient liquidity in covering short-term obligations and maximizing shareholder value through investment. Liquidity that is too high can be a sign that the company is holding too many liquid assets that should be allocated to more productive activities. As a result, inefficiencies in the use of these funds can increase the risk of financial stress, especially if the company faces significant fixed liabilities, such as long-term debt.

In addition, Deloof (2003) explains that high liquidity may be caused by conservative asset management policies, such as extending receivables or holding cash without a strategic plan. The following can have a negative impact if the company is unable to earn enough revenue to cover operating expenses and financial obligations in the long run, thus increasing the risk of financial distress.

In the context of companies with high liquidity but facing financial distress, Brigham and Houston (2011) note that high liquidity does not always guarantee the overall financial health of the company, especially if the source of liquidity comes from short-term loans that burden cash flow or reflect a defensive strategy amid declining operating income. Therefore, while high liquidity is

considered an indication of a company's ability to cover short-term liabilities, in certain cases, it may also reflect greater financial stress.

These results are in line with research (Maximillian & Septina, 2022) which found that liquidity has a positive impact on *financial distress.*

Effect of Company Size on *Financial Distress*

From Hery (2017) company size shows the size of the company through total assets or net sales. Company size is often used as an indicator of stability and resistance to financial risk. Companies with larger sizes generally have better resources, wider access to capital, and the ability to diversify risks better than small companies. Titman and Wessels (1988) assert that large firms tend to have better liquidity, more resources, and higher risk-bearing capacity. Therefore, in the context of financial distress, large companies are generally considered more capable of dealing with financial stress than smaller companies.

Based on the results of data analysis, it is found that company size has no impact on *financial distress*. The following is due to agency theory (Jensen & Meckling, 1976), which emphasizes that agency problems in large companies tend to be more complex. Although large companies have more resources, operational inefficiencies, managerial complexity, or high agency costs can reduce the benefits of economies of scale. Thus, firm size may not be the main factor influencing the risk of financial distress, as financial stress is more influenced by ineffective management or market conditions.

In addition, the Resource-Based View (RBV) theory by Barney (1991) explains that a company's competitive advantage is not only determined by size, but also by the ability to utilize resources in a unique and valuable way. Large size does not necessarily reflect a company's ability to manage financial pressures if those resources are not used effectively.

4. CONCLUSION

Based on the results of this research, it can be concluded that: 1) Profitability has no impact on *financial distress* Media companies listed on the IDX during the Covid-19 pandemic. 2) Liquidity has a positive impact on *financial distress* Media companies listed on the IDX during the Covid-19 Pandemic. 3) Company size has no impact on *financial distress* Media companies listed on the IDX during the Covid-19 pandemic

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