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THE IMPACT OF FINANCIAL PERFORMANCE ON SURVIVAL OF COMPANIES IN THE FOOD BEVERAGE AND RETAIL COMPANY SERVICES FROM POTENTIAL BANKRUPTCY

NAME & MATRIX

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SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF BACHELOR IN ACCOUNTING

MANAGEMENT AND SCIENCE UNIVERSITY

FEBRUARY 2023

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as it appears on the title page and front cover of the thesis/dissertation that the research is

acceptable in format and content and that a satisfactory knowledge of the field is covered

by the thesis/dissertation.

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ACKNOWLEDGEMENT

First, I would like to thank Allah SWT, because it is by His help and bless that I have been able to complete my studies and carry out my research so far. Also, I am very grateful to my parents and my grandfather and grandmother also my uncle for the prayers, care, and sacrifices for my future. I would like to thank them for their hard work, sacrifice, patience, and endless love that they have given me since day one. Prayers and Al-Fatihah to my mother who already passed away recently, hopefully she rests in peacefully and I hope she will really be proud of me. I would like to give the highest respect to myself for being patient and strong to continue all my work. I would also like to thank, my younger siblings, Jeay and Jean and for their endless support. I would like to thank my girlfriend Khofifah Damayanti for the endless love, support and prayer. I would like to thank my cats, Raven and Cloudy for giving me emotional support by their cuteness. I would like to express my sincere gratitude to my lecturers and research supervisors, AP Dr. Aza Azlina Binti Md Kassim and Dr. Nurul Fitri Binti Mohd Noor for guiding me fully and always providing the best input for my research. Lastly, I am very grateful to my best friends Bramasta Ihza Ginantaka and Hafizatull Ummy who have always helped and encouraged me all this time and always made me learn to be better. There are no proper words that can express my feelings, but my heart is full of all of you.

(MUHAMMAD SULTHAN BINTANG EFFENTRI)

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Chapter I

Introduction

1.1 Background of study

The food, beverage, and retail service industries play a vital role in the economy of many countries, providing employment opportunities and generating significant revenue. However, companies in these industries are also vulnerable in financial performance and potential bankruptcy due to various internal and external factors.

One of the internal factors that can significantly impact the financial performance and survival of companies in these industries is the economic condition. The overall Profitability, liquidity, and debt can make an impact on the company. Companies in these industries must navigate these economic conditions to ensure long-term financial stability and survival.

Another factor that can impact the financial performance and survival of companies in these industries is their organizational structure. The size of the organization, degree of centralization or decentralization, and hierarchy within the organization can affect the ability to respond to changes in the economic environment, adapt to consumer behavior, and innovate to remain competitive.

Therefore, this study aims to investigate the impact of financial performance on food & beverages, and retail companies. By analyzing the relationship between these variables, the study seeks to provide insights into effective strategies that companies can adopt to mitigate the risk of potential bankruptcy and ensure long-term financial stability. The findings of this study

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can also inform policies and regulations aimed at supporting companies in these industries and promoting economic growth.

financial performance can have a relationship with financial distress. Financial performance refers to the evaluation of a company's financial health and operational efficiency, usually measured through various financial indicators such as revenue growth, profitability, cash flow, and return on investment. On the other hand, financial distress occurs when a company faces significant difficulties in meeting its financial obligations or maintaining its operations due to a lack of liquidity or solvency.

A decline in financial performance can be an indicator or precursor of financial distress. For example, if a company experiences declining revenues, shrinking profit margins, increasing debt levels, or negative cash flow over an extended period, it may be a sign of financial distress.

companies with strong financial performance, such as consistent revenue growth, healthy profit margins, positive cash flow, and prudent financial management, are generally less likely to face financial distress. Strong financial performance provides a cushion against potential financial challenges, allowing companies to meet their financial obligations and invest in future growth.

1.2 Statement of The Problem

The food and beverage sector and restaurant services are important sectors for the Indonesian economy. This can be seen from the contribution of 36.40% to the GDP of the non-oil and gas processing industry in 2019. This shows how vital the role of the food and beverage industry is in the growth of the industry

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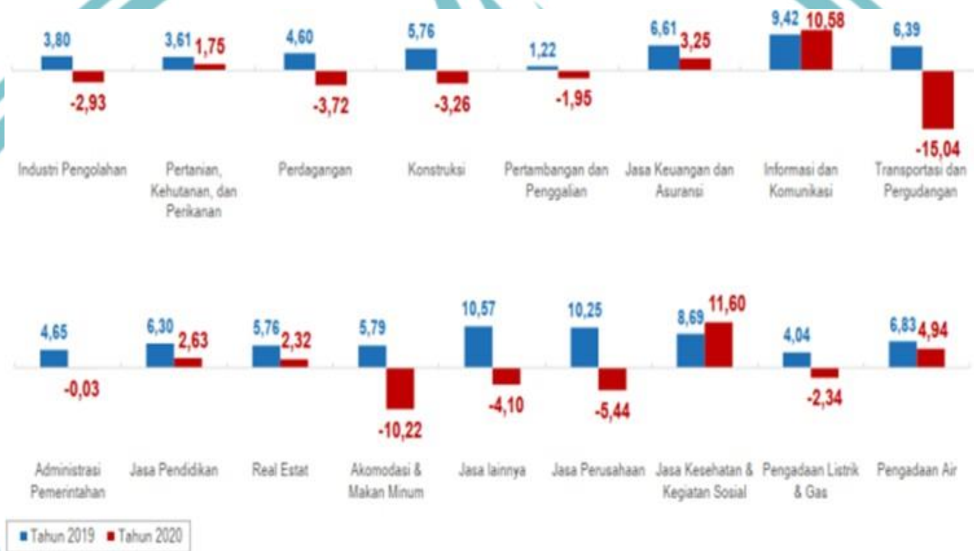
and the national economy. Meanwhile, in terms of employment, it shows that the food and beverage industry is the industry that absorbs the most workers in the manufacturing sector in 2021, where the number reaches 27% of the total workforce in the manufacturing sector.

Figure 1.0 Indonesia's Economic Growth in 2019 and 2020 by Type of Business



Source BPS, 2021

Based on the BPS (Badan Pusat Statistik) Report (2021), shows that the accommodation & food and drink sector experienced an economic slowdown of -10.22%, even though this sector grew by 5.72% in the previous year. The decline in economic growth in the food and beverage sector will affect financial performance in that sector. Apart from that, with the long-lasting COVID-19 pandemic and the existence of regulations from the government regarding large-scale social restrictions in order to accelerate the handling of COVID-19 as stipulated in PP (Peraturan Pemerintah) No. 21 of 2020, community activities have decreased, especially for activities outside the home.

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This has caused the food and beverage sector, especially the restaurant service sector, to be significantly affected by the COVID-19 pandemic. This will undoubtedly affect the financial performance of companies in the food and beverage sector, and if this goes on for a long time, it will bankrupt the company. This is due to restrictions on community activities outside the home, which decreases sales. Meanwhile, other costs tend to remain the same or even increase because companies are required to improve employee safety and health standards during a pandemic, such as the budget for purchasing masks and the budget for conducting rapid tests which aim to protect employees from the spread of COVID-19.

The first step in identifying and avoiding bankruptcy is to perform a company's financial distress analysis, namely by conducting an analysis that can predict the potential for bankruptcy of a company by conducting a ratio analysis of the company's financial statements. The ratios that are generally used in measuring a company's financial performance are rentability ratios, profitability ratios, liquidity ratios, and solvency ratios. The rentability ratio is used to assess a company's ability to generate profits by utilizing all of the company's assets. The ratio commonly used in this analysis uses ROA (return on assets).

This study seeks to provide insights into effective strategies that companies can adopt to ensure their financial stability and survival in the face of economic challenges and organizational structural issues. The findings of this study can also inform policies and regulations aimed at supporting companies in these industries and promoting economic growth.

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1.3 Research Objectives

1. To examine the relationship between Investment Ratio and Financial Performance
2. To determine the relationship between Profitability Ratio and Financial Performance
3. To examine the impact of Solvency Ratio to Financial Performance
4. To determine the effect of Liquidity Ratio to Financial Performance
5. To examine the relationship between Efficiency Ratio and Financial Performance

1.4 Research Questions

1. What is the relationship between investment ratio and financial performance?
2. What is the relationship between profitability ratio and financial performance?
3. What is the relationship between solvency ratio and financial performance?
4. What is the relationship between liquidity ratio on financial performance?
5. What is the relationship between Efficiency Ratio and financial performance?

1.5 Scope of Study

The scope of study will be limited to the Food Beverage and Retail Service companies listed and operating in Indonesia Stock Exchange.

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1.6 Significance of Study

1. For further research, the researcher hopes that the results of this study can be used as a reference material to be developed for further research in order to obtain better research results.

2. For students, researchers hope that the results of this study can be used as reference material in evaluating their knowledge and abilities in the field of finance.

3. For Food, Beverages, and Retail Service Company. Researchers hope that the results of this study can be used as a reference to improve and prevent the bankruptcies of the companies.

1.7 Organization of Study

This thesis consists of 5 chapters with the Organization of Study as described below:

Chapter 1 Introduction

In Chapter 1 the description includes: background of the study, statement of the problem, research objective, research question, scope of study, significance of study and organization of study.

Chapter 2 Literature Review

Literature review contains a description of the theory of a research result, findings, as well as materials in research activities. All of this can then be used as a theoretical basis when conducting research.

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Chapter 3 Research Methodology

In Chapter 3 the description includes: introduction, overview of research design, research design and instrument, population and study sample, collection of data, data analysis strategies.

Chapter 4 Data Analysis

In Chapter 4 the description includes: data analysis and finding that discusses about the finding by researchers.

Chapter 5 Conclusion

In Chapter 5 the description includes: research findings, conclusion, recommendation, limitation of study, and future research.

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Chapter V

CONCLUSIONS AND IMPLICATION

5.1 Introduction

In this final chapter, we draw together the threads of our research and present a comprehensive conclusion that addresses the key findings and their implications. The purpose of this chapter is to discuss on overview of the study, discussion of the results, contribution of the study, recommendation for future research, and conclusion.

5.2 Overview of Study

The main research objective of this study is to examine the relationship between investment ratio, profitability ratio, solvency ratio, liquidity ratio, and efficiency ratio on financial performance of food & beverages, and retail companies listed on Indonesia Stock Exchange in the financial year 2019-2020.

Also, there are five research questions in this paper, does financial performance has significant relationship on investment ratio, profitability ratio, solvency ratio, liquidity ratio and efficiency ratio. Five hypotheses in relation to the variables have developed further to data collection test of financial performance in this study.

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The data collection method was obtained from the annual reports through Indonesia Stock Exchange website to all food & beverages, and retail companies in Indonesia for examine the insight of the companies. Also, the data collected was analyzed using the SPSS program. The corporate and financial information from the sample size of 17 listed food & beverages, and retail companies in Indonesia in the financial year of 2019-2020 were collected completely for the research study.

As a result, the data analysis from the chapter four findings and figured out that all the hypothesis were acceptable in regression test in terms of financial performance. Therefore, there is a significant of positive and negative relationship between investment ratio and financial performance, profitability ratio and financial performance, solvency ratio and financial performance, liquidity ratio and financial performance, and efficiency ratio and financial performance.

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Table 5.1

Results of Findings

Hypotheses	Accepted	Rejected
H_1: Investment ratio has an effect on financial performance	✓	
H_2: Profitability ratio has an effect on financial performance	✓	
H_3: Solvency ratio has an effect on financial performance	✓	
H_4: Liquidity ratio has an effect on financial performance	✓	
H_5: Efficiency ratio has an effect on financial performance	✓	

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5.3 Discussion of Result

5.3.1 Hypothesis 1

The first research question is "What is the relationship between investment ratio and financial performance?". Hypothesis 1, H_1 developed based on this research question to examine the relationship between investment ratio and financial performance of public listed food & beverages, and retail companies listed in Indonesia Stock Exchange. After the analysis, the research shows that investment ratio has a significant relationship on financial relationship.

The result is accordance to study conducted by Nugroho and Utama (2018) stated that the investment ratio, measured by capital expenditure to total assets

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ratio, had a significant positive impact on financial performance, particularly in terms of profitability and efficiency measures. The study highlighted the role of investment decisions in driving financial performance in the Indonesian construction sector.

5.3.2 Hypothesis 2

The second research question is "What is the relationship between Profitability ratio and financial performance?". Hypothesis 2, H_2 developed based on this research question to examine the relationship between profitability ratio and financial performance. Hence, H_2 has a significant relationship on financial performance.

This result is similar to Gunawan and Sari (2017) conducted a study on the relationship between profitability ratios and financial performance. The research found a significant positive relationship between profitability ratios, such as return on assets (ROA) and return on equity (ROE), and financial performance.

5.3.3 Hypothesis 3

The third research question is "what is the relationship between solvency ratio and financial ratio?". Hypothesis 3, H_3 developed based on this research question to examine the relationship between solvency ratio and financial performance. Through the data analysis, H_3 has a significant relationship on financial performance.

The result is accordance with a study by Sugiyanto and Sulistiowati (2019) examined the impact of solvency ratios on the financial. The research found a

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significant positive relationship between solvency ratios, such as debt-to-equity ratio (DER) and financial performance indicators.

5.3.4 Hypothesis 4

The fourth research question is “what is the relationship between liquidity ratio and financial ratio?” Hypothesis 4, H_4 developed based on this research question to examine the relationship between liquidity ratio and financial performance. Through the data analysis, H_4 has a relationship on financial performance.

The result is accordance with a study by Mustikarini and Yulistiani (2018) examined the impact of liquidity ratios on the financial performance. The research found a significant positive relationship between liquidity ratios, such as the current ratio and the quick ratio, and financial performance indicators.

5.3.5 Hypothesis 5

The fourth research question is “what is the relationship between efficiency ratio and financial ratio?” Hypothesis 5, H_5 developed based on this research question to examine the relationship between efficiency ratio and financial performance. Through the data analysis, H_5 has a relationship on financial performance.

The result is accordance with a study by Fitriani and Suharjito (2019), the researchers examined the relationship between efficiency ratios and financial performance. The findings revealed a significant relationship between efficiency ratios, such as the asset turnover ratio and the inventory turnover ratio, and financial performance indicators.

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5.4 Contribution of The Study

5.4.1 Body of Knowledge

Many studies on financial performance have been created by various academic researchers. The financial performance of a corporation can be impacted by several things. Prior research has concentrated on using balance sheets and profit and loss statements as the only types of financial reports. However, the ratio utilized to determine the independent variables in this study also used cash flow statements. In order to assess whether a firm is in financial difficulty or not, this study paper takes into account the significance of cash in the cash flow statement, including operating cash, funding cash, and investment cash. This allows for a more accurate description of a company's financial status and liquidity. At the same time, this study allows future researchers who will have relevant research subjects to use as a literature review and reference.

5.4.2 Theory

The signaling theory in economics and finance was initially proposed by Michael Spence in his seminal work titled "Job Market Signaling" published in 1973. Signaling theory is a concept in economics and finance that explores how individuals and organizations use certain actions or signals to convey information to others. It is based on the idea that in situations of asymmetric information, where one party has more information than the other, individuals or organizations may take specific actions or signals to mitigate the adverse effects of information asymmetry.

Signalling theory is the belief that information on a company's financial health is not available to all parties in a market at the same time. Based on the

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signal theory, there is a positive response if the financial performance displayed in the financial statements shows good results. Likewise, companies that are predicted not to experience bankruptcy will certainly increase the trust of both investors and creditors.

5.4.3 Practical

Financial performance really gives a consideration overall for a stability of a company’s health and growth potential. This research will benefit to society and to investors and the company itself. For the investors, they can gain sight into the company’s financial condition for investing. For the company management, this research can improve their performance and develop their performance so that they can avoid difficult situations and bankruptcy.

financial performance can have a relationship with financial distress. Financial performance refers to the evaluation of a company's financial health and operational efficiency, usually measured through various financial indicators such as revenue growth, profitability, cash flow, and return on investment. On the other hand, financial distress occurs when a company faces significant difficulties in meeting its financial obligations or maintaining its operations due to a lack of liquidity or solvency.

A decline in financial performance can be an indicator or precursor of financial distress. For example, if a company experiences declining revenues, shrinking profit margins, increasing debt levels, or negative cash flow over an extended period, it may be a sign of financial distress.

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companies with strong financial performance, such as consistent revenue growth, healthy profit margins, positive cash flow, and prudent financial management, are generally less likely to face financial distress. Strong financial performance provides a cushion against potential financial challenges, allowing companies to meet their financial obligations and invest in future growth.

5.5 Recommendation for future research

After reviewing the data analysis and discussion, there are several limitations in this research because the research is not able to cover more aspects of the topic. This research project examines five (5) independent variables such as investment ratio, profitability ratio, solvency ratio, liquidity ratio, and efficiency ratio. The ratio calculation can be added more for each variable. Mainly each variable in this research only use one ratio calculation such as ROE, ROA, Debt-to-equity ratio, current ratio, and asset turnover ratio.

In using bankruptcy prediction methods, only one method is used, namely the Taffler score. For future research can use more methods such as Zmijewski, Grover, Altman Z Score, and others.

In this study, the years studied were only 2019 and 2020, namely the period before and during the pandemic because the limitation of the data information. Further research is expected to increase the research period after a pandemic occurs if the COVID-19 pandemic is declared over in the future.

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Furthermore, there will be suggestion for increasing the sample and research population. In this study, only used 17 sample of food & beverages, and retail companies listed on the Indonesia Stock Exchange.

5.6 Conclusion

The general objective of this study is to examine the impact of investment ratio, profitability ratio, solvency ratio, liquidity ratio, and efficiency ratio on financial performance of food & beverage, and retail companies listed in Indonesia Stock Exchange.

Some of determinants are shown significant in interpreting the financial performance. As a result, some of the variables has no correlation indicating some of variables are no related to financial performance on food & beverages, and retail companies listed on Indonesia stock Exchange in financial year 2019-2020. Other factors associated to financial distress should be investigated further to achieve more accurate and better output for future research in the subject.

while financial performance is not the sole determinant of financial distress, it can serve as an important indicator or warning sign of potential financial difficulties. Monitoring financial performance metrics and conducting thorough financial analysis can help identify early signs of financial distress and inform proactive measures to mitigate risks and improve the company's financial health.

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Last but not least, it is advised that future research should modify various factors, sample populations, and industries on the Indonesia Stock Exchange, as well as look into other indicators and improve research methods. This research is limited to financial factors rather than non-financial factors. So, future research can add non-financial factors to increase accuracy in research. This will help academics develop their research framework with a better understanding of the topic in the future as well as professionals in the area find a resolution to the problem.

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