

CHAPTER I

INTRODUCTION

1.1 Research Background

Recently, the economic condition around the world is going stronger; it is caused by the open market policy that occurs almost around the world. Open market policy allows countries that participate to the organization can sell (export) or buy (import) products or services without paying a tax. This policy gives big advantages to the companies that have strong economic condition to get higher profit and increase the number of export. But, not all companies get the advantages of that policy. New and small companies which cannot survive and compete with others companies especially from foreign will face difficulty that leads into bankruptcy.

Bankruptcy or Business failure is the important fact of life in the business environment. Business failure occurs when a firm is unable to meet its obligations. Over the past few years business failure have been rising and become more seriously. The effect of business failure gives lots negative impact to the shareholders, creditors, suppliers, owner(s), and employees who work in that company and also it gives indirect effects to the society such as increasing unemployment and criminality.

If we go back in the middle of year 2008, we know that the world faced global economic crisis till the end of 2009. This crisis begins on the August 2007 when there was an announcement from BNP Paribas (as one of big bank in France) about freezing policy of some securities that related to the subprime mortgage in US. This situation spread quickly and weakens the financial system around the world. The impact becomes stronger as an impact of collapse of Lehman Brothers, a sprawling global bank, in September 2008. This crisis weakens significantly the economic condition around the world including Indonesia. It showed by the decreasing level of IHSG (Index Harga Saham Gabungan) on December 2008 closed on the level 1,355.4 nearly half point from the beginning year of 2008 which is on the level of 2,627.3. Indonesia also faced decreasing volume of trading in capital market, and weaken the exchange rate between US Dollar to Rupiah into Rp 10,900/USD. The other impact of the global financial crisis was some companies that listed in the Indonesia Stock Exchange (IDX) become delisting companies. Companies become delisting companies because that companies in the difficult financial condition which usually called as financial distress condition (Pranowo, 2010). Companies categorize in financial distress if they have negative gross profit, negative operating income, negative equity, and merge (Brahmana, 2007).

Economic condition of the country is used as one indicator to predict the financial distress of the companies in the country. Generally, a country with a good economic condition and system will protect and maintain the financial condition of their companies from external financial crisis. This

happened in Indonesia, when there was a global financial crisis in year 2008, Indonesia's government can maintain and protect its economic condition so that there was no companies in Indonesia faced financial distress. And because of good financial condition and policy, Indonesia becomes one from three countries (Tiongkok and India) which can maintain their positive economic growth. Bara K Hasibuan (2012) said that Indonesia's good performance can't happen without Indonesia's Financial Minister, Hatta Rajasa.

Actually, financial failures (financial distress) that lead into bankruptcy are generally evidenced long before the event. Early indicators of bankruptcy include decreasing amount of profit, increasing debt, declining number of sales, etc. Since failures cause many social and economic problems, their avoidance is highly beneficial. Due to big impact caused by failure, failure prediction has become an important topic in corporate finance literature over the past two decades. That's why now adays many researchers try to developed model of failure prediction to predict accurately and precisely.

In this study, author will use the logistic regression analysis with some financial ratios in order to predict bankruptcy. Some researchers claim that financial ratios models give better prediction, like Saunders and Allen (2002); Kealhofer (2003); and Oderda et al. (2003).

1.2 Problem Statement

In conducting research about failure prediction, Author is immediately confronted with one problem:

Is the logistic regression analysis can predict corporate failure in Indonesia Stock Exchange (IDX) accurately?

1.3 Research Scope

This study will concern to develop a model that can predict financial distress amongst public listed companies in Indonesia Stock Exchange (IDX) using the logistic regression analysis. The data observation will only focus on the listed companies that have been listed in the Indonesia Capital Market Directory (ICMD) year 2009. This study only uses the data from period 2008-2013.

1.4 Research Objectives

The objective of this research is to develop a model that can predict financial distress amongst public listed companies in Indonesia Stock Exchange (IDX) using regression analysis.

1.5 Research Benefits

1.5.1 For the Researcher

This research is expected to help the researcher understanding about corporate failure prediction and can be additional references to conduct the similar research for other researchers.

1.5.2 For the Investors

This research is expected to give better understanding about how to predict financial distress in the company.

1.5.3 For Academic

This research is expected to give better understanding for the readers about financial distress prediction.

1.6 Research Outline

This thesis is divided into five chapters, which are:

CHAPTER I INTRODUCTION

This chapter consists of background of the research, problem statement, scope of the research, objective of the research, benefit of the research, and writing structures.

CHAPTER II THEORETICAL BACKGROUND

This chapter consists of the theoretical background of the research, previous researches, and hypothesis development.

CHAPTER III RESEARCH METHODOLOGY

This chapter describes the data analysis. It includes sample, data and data gathering, measurement of variables, method of analysis, and hypothesis testing.

CHAPTER IV DATA ANALYSIS

This chapter will describe about empirical findings, data analysis, and discussion of data in this study.

CHAPTER V CONCLUSION

This chapter consists of conclusion, limitation, implication of the research and suggestion for the further research.