Dynamics of Corporate Financial Performance in Indonesia: Before and During the COVID-19 Pandemic

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Abstract. This study aims to examine the company's approach to managing the COVID-19 pandemic and its aftermath. The research focuses on comparing the company's financial performance and stock price in the pre-pandemic period of 2018-2019 and the pandemic period of 2020-2021, with particular attention paid to differences between industry classifications. The research uses financial data from publicly listed companies on the Indonesia Stock Exchange (IDX). The analysis will encompass various performance indicators, including liquidity, profitability, leverage, and stock price. The methodology employed will be comparative analysis of company financial data from both periods studied. The results of the research are expected to provide valuable insights into the impact of the COVID-19 pandemic on the financial performance of Indonesian companies and the differences in performance between industry classifications. The study will show that the company has a strategy in place to control key parameters critical to its sustainability, including liquidity, profitability, leverage, and stock prices.

Keywords: COVID-19 Pandemic, Financial Performance, Industry Classification Differences.

1 Introduction

The COVID-19 pandemic has had varied financial impacts across different countries and industries. In Indonesia, the pandemic significantly affected the financial performance of companies listed on the stock exchange, particularly impacting liquidity and profitability ratios [1]. In the United States, the stock market saw increased instability and volatility [2]. Companies in China, especially small and medium-sized enterprises, experienced sharp declines in financial performance, especially in the most affected regions and industries [3]. Meanwhile, Sharia banks in Indonesia faced challenges such as changes in capital adequacy ratios and operational expenses [4]. European funds showed a mixed bag, with some funds like social entrepreneurship funds performing well, while others did not; fund managers also shifted their strategies toward lower-risk options [5].

The concept of financial performance involves the evaluation and understanding of a company's financial condition, which includes liquidity, profitability, and leverage. According to Penman [6], liquidity is the ability of a company to meet its short-term

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financial obligations, and companies with high liquidity are considered financially stable. Profitability is a measure of a company's efficiency in generating profits over a specific period, and companies with high profitability are deemed financially healthy. Leverage involves the use of debt to finance a company's operations and can be risky but also potentially profitable [6].

Research studies have explored the relationship between factors like liquidity, profitability, and leverage and their impact on a company's value. Liquidity was found to have a positive but not significant effect on company value [7]. Other studies indicated that factors like profitability, liquidity, leverage, and even tax aggressiveness significantly impact the financial performance and thus the value of a company [8,9,10,11]

Stock prices are a crucial financial indicator, influenced by factors ranging from a company's financial performance to market sentiment and macroeconomic conditions. They not only impact economic aspects but also serve as key indicators in financial decision-making. For example, stock prices can serve as an indicator for currency crises [12] and provide valuable information for regulators, helping to create more efficient regulations for privatized companies [13,14].

Utilizing a formal tone, a research endeavor was undertaken to explore and comprehend the intricacies of the financial performance and stock prices of publicly listed companies in Indonesia, classified by industry, prior to and during the pandemic. Within this study, the financial performance of companies was confined to liquidity indicators, including the current ratio, profitability indicators, such as return on assets (ROA), and leverage indicators, such as the debt-to-assets ratio (DAR). The research hypotheses for this investigation are as follows:

H1: There are differences in the liquidity performance (current ratio) of companies between the pre-pandemic period and the pandemic period.

H2: There are differences in the liquidity performance (current ratio) of companies based on industry classification.

H3: There is an interaction between the period and industry classification in determining the liquidity performance (current ratio) of companies.

H4: There are differences in the profitability performance (ROA) of companies between the pre-pandemic period and the pandemic period.

H5: There are differences in the profitability performance (ROA) of companies based on industry classification.

H6: There is an interaction between the period and industry classification in determining the profitability performance (ROA) of companies.

H7: There are differences in the leverage performance (DAR) of companies between the pre-pandemic period and the pandemic period.

H8: There are differences in the leverage performance (DAR) of companies based on industry classification.

H9: There is an interaction between the period and industry classification in determining the leverage performance (DAR) of companies.

H10: There are differences in stock prices between the pre-pandemic period and the pandemic period.

H11: There are differences in stock prices based on industry classification.

H12: There is an interaction between the period and industry classification in determining stock prices.

2 Method

In this study, a comparative research design was utilized to examine disparities in financial performance between companies prior to and during the COVID-19 pandemic, as well as across industrial classifications. The study population comprised 532 publicly traded companies listed on the Indonesia Stock Exchange (IDX) in 2018. A sample of 444 companies was selected for the study based on the availability of financial data from all companies in the population.

To conduct the analysis, the utilized statistical method was a two-way ANOVA. The two-way ANOVA test was employed to determine the significant discrepancies between the period groups, i.e., pre-pandemic and during the pandemic, and the industry classification groups in relation to the dependent variables, such as profitability, liquidity, leverage, and stock prices. The data analysis software used in this study was SPSS version 2.7.

3 Result and Discussion

The results of the statistical test are presented in the table of the two-way ANOVA test results below:

Table 1. The ANOVA Two-Way Test Results.

Dependen Variabel	Source	Sig.
Current Ratio	Periode	0,440
	Industry Code	0,000
	Periode * Industry Code	0,000
ROA (Return on Assets)	Periode	0,634
	Industry Code	0,825
	Periode * Industry Code	0,831
DAR (Debt-to-Assets Ratio)	Periode	0,582
	Industri Code	0,911
	Periode * Industry Code	0,928
Harga Saham (Stock Price)	Periode	0,234
	Industry Code	0,000
	Periode * Industry Code	0,584

Based on the results of the two-way ANOVA test, three hypotheses were evaluated in relation to the Current Ratio as the dependent variable. The first hypothesis, which posited a discrepancy in companies' liquidity before and during the pandemic, was rejected as its significance value was 0.440, which surpassed the 0.05 threshold. The

second hypothesis, suggesting that liquidity performance varied based on industry classification, was accepted with a significance value of 0.000, which was below the 0.05 threshold. The third hypothesis, which indicated an interaction between the period and industry classification in relation to liquidity performance, was also accepted with a significance value of 0.000, which was below the 0.05 threshold

The study concludes that there is no notable difference in the liquidity performance (current ratio) of companies in Indonesia during the pandemic compared to the pre-pandemic period. However, significant variations do exist based on industry classifications, and there's an interactive effect between the time period and industry type on liquidity. This finding contradicts previous research by Mahyar Kargar et al. [15], which suggested that liquidity conditions in financial markets, particularly in the corporate bond market, were negatively impacted during the COVID-19 pandemic. According to Kargar et al., [15] dealers were less willing to hold corporate debt, resulting in increased principal trading costs and a move toward slower agency trading.

The fourth and fifth hypotheses were both rejected based on their significance values, which exceeded the 0.05 threshold. The fourth hypothesis posited that the profitability performance (ROA) differed between the periods before and during the pandemic, while the fifth hypothesis suggested that profitability varied based on industry classification. Similarly, the sixth hypothesis, which proposed an interaction between the period and industry classification in affecting profitability, was also rejected due to its significance value exceeding the 0.05 threshold.

Based on the analysis, it can be inferred that there exists no significant discrepancy in the profitability performance, measured by Return on Assets (ROA), between the pre-pandemic and pandemic periods. Furthermore, the industry classification does not play a role in determining the profitability performance of companies during the pandemic. These findings imply that the pandemic has not exerted a substantial impact on the profitability of companies in Indonesia. This conclusion is consistent with the diverse impact of the pandemic on company profitability, as ROA during the COVID-19 pandemic has demonstrated varied results across different financial institutions and countries. It is noteworthy that conventional financial institutions, such as banks, have experienced a decline in ROA compared to previous years [16].

The seventh and eighth hypotheses were tested, but were not supported by the data. Specifically, the seventh hypothesis, which suggested that leverage performance (DAR) differs between the pre-pandemic and pandemic periods, was rejected with a significance value of 0.582, which was above the 0.05 threshold. Similarly, the eighth hypothesis, proposing that leverage performance varies based on industry classification, was also rejected with a significance value of 0.911, which was above the 0.05 cutoff. Finally, the ninth hypothesis, asserting that there is an interaction between the time period and industry classification in affecting leverage performance, was also rejected with a significance value of 0.928, which was above the 0.05 threshold.

Based on the analysis, it can be inferred that there exists no notable discrepancy in the leverage performance (DAR) of companies during and prior to the pandemic. Furthermore, there exists no association between the period and the industry classification in determining the leverage performance (DAR) of firms. Hence, it can be

deduced that the pandemic has not had a substantial impact on the leverage performance of businesses in Indonesia.

The tenth hypothesis, which aimed to assess if there was a significant difference in stock prices between the pre-pandemic and pandemic periods, was rejected due to a significance value of 0.234, above the 0.05 threshold. The eleventh hypothesis, which examined whether stock prices varied based on industry classification, was accepted with a significance value of 0.000, below the 0.05 cut-off. Lastly, the twelfth hypothesis, which suggested an interaction between time period and industry classification in affecting stock prices, was rejected as the significance value was 0.584, well above the 0.05 threshold.

This provides an understanding that there is no significant difference in Stock Price between the period before and during the pandemic. However, there are differences in Stock Price based on industry classification, and there is no interaction between period and industry classification in determining the Stock Price. Therefore, it can be concluded that the pandemic generally does not have a significant impact on Stock Prices in Indonesia, although it does affect certain industry classifications. This finding differs from previous research indicating that factors such as the number of confirmed COVID-19 cases, the exchange rate of the Rupiah, and global crude oil prices collectively and partially have a significant impact on the Composite Stock Price Index (CSPI) on the Jakarta Stock Exchange (JSX) during the pandemic [17].

4 Conclusion

In Indonesia, the COVID-19 pandemic had little impact on the liquidity, profitability, and leverage performance of companies. These metrics remained stable both before and during the pandemic. However, the pandemic did have an industry-specific impact on liquidity and stock prices. Overall, the pandemic did not have a significant effect on the financial performance and stock prices of Indonesian companies as a whole, but certain industries were affected.

During the pandemic, it is crucial that companies adopt varied strategies to optimize their performance in light of their individual circumstances. In particular, businesses operating in industries with elevated current ratios should prioritize maintaining liquidity and managing cash flows to ensure financial stability in the current uncertain economic environment. Similarly, firms in sectors experiencing an increase in Return on Assets (ROA) should focus on diversifying their product and service offerings to capitalize on new opportunities and secure long-term growth.

For industries where ROA has decreased or shown variability, enhancing operational efficiency through cost reduction and process improvement is crucial for increasing profitability. It is also essential for all companies to continuously monitor market trends and competition to adapt their strategies in real-time. In the face of these challenges, the pandemic has highlighted the importance of robust risk management plans that mitigate operational, financial, and supply chain risks to effectively navigate crisis situations.

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