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THE EFFECT OF FINANCIAL DISTRESS ON COMPANY VALUE WITH DISCLOSURE OF MANAGEMENT POLICIES RELATED TO COVID-19 AS A MODERATION

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ABSTRACT: Corona Virus Disease-19 (Covid-19) has had a huge impact. One of the most felt impacts is the performance of the Indonesia Composite Index (ICI) during 2020 which is quite volatile. That kind of ICI condition indicates that the value of companies listed on the Indonesia Stock Exchange (IDX) is not in optimal condition. This study makes the disclosure of management policies related to Covid-19 as something that is able to moderate the relationship between financial distress and firm value. Quantitative approach with the type of explanatory research as the associative is used in this research. This study used 38 listed emittens from the property, real estate & building sectors during 2020. The result of this research is able to prove that the firm value during the current pandemic is influenced by financial distress and the disclosure of management policies related to Covid-19 is able to moderate the relationship between financial distress and firm value.
KEYWORDS:*financial distress, management disclosure, value.*

I. INTRODUCTION

The emergence of Corona Virus Disease-19 (Covid-19) at the end of 2019 has had a huge impact on the world until now. It was recorded that up to the end of 2020 there were 735,124 people positive for Covid-19 in Indonesia (Source: www.liputan6.com). The increasing number of positive cases ultimately affects all aspects of society.

One of the most pronounced impacts is in the socio-economic sector. The performance of the Composite Stock Price Index (IHSG) during 2020 was quite volatile. It was recorded that at the beginning of January, the JCI was still at 6,323. In March, the index fell drastically to 3,937 or down 26.55% from the figure at the beginning of the year. Furthermore, on January 31 2021, the index rose again and reached 5,940 (Source: market.bisnis.com).

The condition of the IHSG which continues to rise and fall certainly indicates that the value of companies listed on the Indonesia Stock Exchange (BEI) is not in optimal condition. The main objective of establishing a company is to provide maximum welfare to stakeholders, especially shareholders, through increasing company value (Brigham and Houston, 2010). The description of the company's condition can be reflected in the company's value so that potential investors will provide a good view (Hermuningsih, 2012).

One of the situations currently encountered as a result of the pandemic not yet receding is that many companies are experiencing financial distress. Various sectors are starting to experience difficulties in paying off their obligations because their operations are disrupted. According to Rayenda (2008), financial distress occurs due to the company's inability to manage and maintain stable financial performance and has an impact on both operational and net losses for the current year.

It was recorded that five (5) companies were removed from the list of issuers registered on the IDX from January to August 2020 (Source: investment.kontan.co.id). According to Pranowo (2010), a company can be de-listed from the Indonesia Stock Exchange (BEI) because the company is in financial distress or is experiencing financial difficulties. This certainly indicates that conditions during 2020 were not good enough so that issuers had to be willing to leave the capital market.

A company can be categorized as experiencing financial distress when the company has performance that shows negative operating profit, negative net profit, negative book value of equity, and the company is undergoing a merger (Brahmana, 2007). These indicators certainly greatly influence investors' or creditors' assessment of the company's value. When a company is in financial difficulties, public confidence in its financial performance will decrease and this will result in a decline in the company's share price.

Currently, company value is not only influenced by its financial performance. Many investors use other indicators when deciding to invest. One of them is social media which is a platform for investors to carry out social interactions. Social interactions contain sentiments which then give rise to new preferences for investors in making investment decisions so that they can influence stock movements (Mufidah & Rafik, 2018). There are also investors who assess companies based on Corporate Social Responsibility (CSR) disclosures. This will improve the company's reputation if the disclosure is considered positive by the public. Robert (1992) explains that companies categorized as high-profile will tend to receive attention from the public because their operations cause environmental impacts which is much larger than low-profile companies.

Various reports are the output of a company's management performance. The current pandemic conditions require management to reveal the policies they have taken in response to what is happening. Researchers believe that during a pandemic like this, disclosing management policies related to Covid-19 is important for investors to know the extent of the impact and the company's future plans in responding to this.

This research makes disclosure of management policies related to Covid-19 something that can strengthen or weaken the relationship between financial distress and company value. Considering that if almost all sectors are experiencing financial difficulties, it is possible that the disclosure of management policies will be able to provide considerations regarding future management performance so that it does not affect the value of the company.

This research also uses the property, real estate & building sector during 2020 with the consideration that the development of this sector will of course attract investor interest because land and building prices tend to rarely fall. Technically, the supply of land is fixed, while the demand also tends to increase because it is directly proportional to the increase in population, the need for housing, offices or other facilities.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Signalling Theory

Signal theory was developed in economics and finance which uses asymmetric information between the company and outside parties because management knows more about the company's prospects and future opportunities than outside parties (Goranova, Alessandri, Brendes & Dharwadkar, 2007). Signal theory is also relevant as a reference for explaining the relationship between senders and receivers of signals, especially signals in the capital market, and is widely used to solve information asymmetry problems (Spence, 2002). Information asymmetry will occur if management does not fully convey all information that can influence company value to the capital market. To avoid asymmetric information, companies must provide information as a signal to investors. Asymmetric information needs to be minimized, so that companies going public can inform investors about the company's situation transparently.

2.2 Company Value

The principle that companies are founded to carry out production processes in an effort to maximize profits has become a logical reason today. Furthermore, the financial sector has another main focus, namely maximizing shareholder wealth. This goal will be achieved when the company has a good company value (value of the firm) by multiplying the share price per share and the number of shares outstanding. This shows that shareholder wealth will be reflected in the value of the company, which is shown by the share price of the company concerned on the stock exchange.

2.3 Financial Distress

Financial distress is a condition where a company is facing financial difficulties. According to Platt & Platt (2006), financial distress is defined as the stage of decline in financial conditions that occurs before bankruptcy or liquidation occurs. The condition of financial distress is reflected in the company's inability or unavailability of funds to pay its maturing obligations. This condition is caused by three conditions, including insufficient capital, large debt and interest burdens and losses (Rodoni & Ali, 2010).

2.4 Disclosure of Management Policies Regarding Covid-19

The information disclosed by companies in annual reports is grouped into two, namely mandatory disclosure and voluntary disclosure. Disclosure of management policies related to Covid-19 can be categorized as voluntary disclosure because it is not mandatory. However, the current pandemic conditions require management to create policies so that the company can survive. This policy, if disclosed in company reports, will provide considerations to users of financial reports regarding management performance.

2.5 The Effect of Financial Distress on Company Value

According to Brahmana (2007), a company is categorized as experiencing financial distress when carrying out a merger, negative profits (losses), and its equity value is also negative. The negative equity value reflects that the company's share price is in a declining condition. Share price is an important point in looking at company value. These indicators certainly greatly influence investors' or creditors' assessment of the company's value. When a company is in financial difficulties, public confidence in its financial performance will decrease and this will result in a decline in the company's share price.
H1: Financial distress has an effect on company value.

2.6 Financial Distress on Company Value is Moderated by Disclosure of Management Policies Related to Covid-19

Various reports are the output of a company's management performance. The resulting reports provide information for internal and external parties. The existing types of reports can be grouped into two, namely mandatory disclosure and voluntary disclosure. The current pandemic condition, which generally has an impact on the company's unhealthy financial condition, requires management to reveal the policies they have adopted in response to what is happening through the disclosure of management policies related to Covid-19.
H2: Disclosure of management policies related to Covid-19 strengthens the influence of financial distress on company value.

III. Research Methods

3.1 Research Approach

This research uses a quantitative approach based on the positivism paradigm because it explains phenomena that can be classified, are relatively fixed, observable, concrete, measurable and cause and effect relationships (Sugiyono, 2013: 8). This type of research is explanatory research because it explains the causal relationship between variables through hypothesis testing (Hartono, 2016). This research is associative because it provides an explanation of the relationship between variables.

3.2 Population and Research Sample

The population of this research is all property, real estate & building sector issuers registered on the IDX during 2020. The research sample consisted of 38 issuers obtained through purposive sampling as a sample determination technique.

3.3 Data Collection Techniques

The data used is the company's 2020 financial report obtained via the IDX website at www.idx.co.id.

3.4 Operational Definition of Variables

The definition and measurement of each variable in this study is explained as follows.

3.4.1 Company Value (Value)

The company value in this study uses the Tobin's q ratio which is the ratio of the market value of company assets as measured by the market value of the number of outstanding shares and debt (enterprise value) to the replacement cost of company assets (Fiakas, 2005). In simple terms it can be formulated as follows.

$$Q = (EMV + D)/(EBV + D) \ldots\ldots..(1)$$

Information :

Q	= Company value
EMV	= Market value of equity
EBV	= Book value of total assets
D	= Book value of total debt

3.4.2 Financial Distress (FD)

Financial distress is a stage of decline in financial conditions that occurs before bankruptcy or liquidation occurs. According to Damodaran (2014), there are several factors that cause financial distress within a company, including: cash flow difficulties (negative value); the amount of debt with the debt ratio and losses experienced over the last 2 years. Companies that meet these 3 criteria are given a score of 1; if there are 2 criteria then the value is 0.67; value 0.33 if only 1 criterion; and 0 if none of the criteria are met.

3.4.3 Disclosure of Management Policies related to Covid-19 (MJ)

Disclosure of company policies regarding the Covid-19 pandemic is important for the continuity of the company's business. In financial reports, important matters that occur and affect the company's financial condition must be disclosed in the notes to the financial statements. This variable is measured using a dummy by giving a value of 1 for companies that disclose and 0 otherwise.

3.5 Analysis Techniques

This research uses Moderating Regression Analysis (MRA) as a data analysis technique. There are 2 regression equations in this research, as follows.

$$Value = \alpha+\beta1FD+\varepsilon \text{ .... } (2)$$
$$Value = \alpha+\beta1FD+\beta2MJ+\beta3FD*MJ+\varepsilon \text{ .... } (3)$$

Information:

Value = Company value
FD = Financial distress
MJ = Disclosure of Management Policy regarding Covid-19
α = Constant
β1- β3 = Independent variable regression coefficient
ε = Error/other variables not identified in the model

IV. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Descriptive analysis is used to provide an overview or description related to research variables. The measurements used in this research consist of minimum value, maximum value, mean and standard deviation, as follows.

TABEL 1
Descriptive Statistics Test Result

Variable	**Min**	**Max**	**Ave**	**Std Dev**
Company Value (Value)	0,12	3,61	0,738	0,552
Financial Distress (FD)	0,00	1,00	0,281	0,274
Disclosure of Management Policy regarding Covid-19 (MJ)	0,00	1,00	0,526	0,506

4.2 Classic Assumption Test

Classical assumption testing is carried out to provide certainty that the regression equation obtained is accurate in estimation, unbiased and consistent. The classical assumption tests carried out were normality and heteroscedasticity tests which were processed using SPSS 25.0 for Windows software and showed the results that this research data was suitable for use.

4.3 Regression Analysis Results

The results of statistical tests on the equations previously explained can be presented as follows.

TABLE 2
Regression Analysis Result Equation 1

Value = α + β1FD + ε Value = 0,604 + 0,477FD + ε		
Variabel	**Koefisien Beta**	**Sig**
Konstanta	0,604	0,000
FD	0,477	0,010
R^2	0,056	
Value= Company value; FD= *financial distress*; ε = error		

The constant value (α) of 0.604 shows that the constant value is positive, which means that if the financial distress variable is constant (0), then the company value increases by 0.604. The regression coefficient β1 on the financial distress variable is 0.477. The regression coefficient is positive, indicating that if financial distress increases, it can increase company value. The significance level of 0.01 is smaller than 5% so hypothesis 1 is accepted.

These results are in line with research conducted by Damodaran (2014) and (Brahmana, 2007) which explains that there are several factors that cause financial distress within the company, including: cash flow difficulties; the large amount of debt and losses experienced over the years. In general, these factors will influence investors' assessment of the company's condition and will further reduce the company's share price. Share prices that tend to fall indicate that the company value is also not at its best.

TABLE 3
Regression Analysis Result Equation 2

Value = α + β1FD + β2MJ+ β3FD*MJ + ε	
Value = 0,752 + 0,267FD – 0,266MJ+ 0,368FD*MJ + ε	
Variabel	**Koefisien Beta**
Konstanta	0,752
FD	0,267
MJ	-0,266
FD*MJ	0,368
R^2	0,087
Value= Company value; FD= *financial distress*; MJ = Disclosure of Management Policy regarding Covid-19; ε = error	

Tables 2 and 3 show the results of the regression test. The Rsquare value in the first regression equation is 0.056, so it can be said that the FD variable has an effect on Value of 5.6%. After the MJ variable was introduced in the second regression equation, the Rsquare value increased to 0.087 or 8.7%. Thus, it can be concluded that the hypothesis is accepted. So it can be said that the existence of the MJ variable will be able to strengthen/increase the influence of the Value variable. Hypothesis 2 is accepted.

Disclosure of management policies related to Covid-19 is a voluntary disclosure. Management is willing to disclose information voluntarily if the benefits obtained from disclosing the information are higher than the costs (Mujiyono and Nany, 2010).

The current pandemic conditions require management to create policies so that the company is able to survive and continue to gain the confidence of investors and creditors. This policy, if disclosed in company reports, will provide considerations to users of financial reports regarding management performance.

In the end, this research makes disclosure of management policies related to Covid-19 something that can strengthen the relationship between financial distress and company value. Considering that if almost all sectors are experiencing financial difficulties, it is possible that the disclosure of management policies will be able to provide considerations regarding future management performance so that it does not affect the value of the company.

V. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

This research is able to prove that company value during the current pandemic is influenced by financial distress which is experienced by many companies in almost all lines. And the disclosure of management policies related to Covid-19 can strengthen the relationship between financial distress and company value. This indicates that investors or creditors tend to assess management performance from the disclosures made.

5.2 Suggestions

Future research can choose other indicators to assess management disclosures related to Covid-19 and use a longer time span to obtain more comprehensive results.

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