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COVID-19 and Financial Outcome in Tourism Sub-Sector Company in Indonesia

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ABSTRACT: *Since the Covid-19 pandemic emerged in Indonesia in early 2020, tourism and its various derivative sectors such as hotels, food and beverages, cleaning service providers, local tour guides, and transportation have taken a major hit. This study examines the differences in financial outcome of hotel, resort, and cruise ship sub-industry companies before and after the COVID-19 pandemic. Financial outcome measurements are financial distress and firm value. Using the Wilcoxon Test on 25 company samples, this study proved differences in financial distress and firm value before and after the COVID-19 pandemic in the Hotel, Resort, and Cruise Ship Sub-Industry companies. This signal began to occur in the first year of the pandemic. At this time, the majority of the research sample experienced financial distress. Of course, it greatly affected the firm's value, so it feared that it could not maintain its business sustainability.*

KEY WORD: *COVID-19 Pandemic, Financial Outcome, Tourism, Indonesia*

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I. INTRODUCTION

Tourism is a leading sector in national development in Indonesia. In 2018, the tourism sector contributed to the National GDP (gross domestic product) of 4.5%, with a total foreign exchange of US$ 16.4 billion, and absorbed 12.7 million workers in the tourism sector. Continuing to increase in 2019, the tourism sector's contribution to GDP was 4.7%, foreign exchange in the tourism sector in 2019 was US$16.9 billion and as many as 19.24 million people worked in this sector (Kemenparekraf, 2020).

The tourism sector is vulnerable to risks such as epidemics, pandemics, disasters, or other activities that endanger the safety of travelers (Beh & Lin, 2021). Global tourism is currently one of the sectors most affected by the COVID -19 pandemic, as tourism relies heavily on human mobility. The decline in the number of foreign tourists has occurred not only in Indonesia but also in various countries because many countries that are the main markets for Indonesian foreign tourists are still imposing travel bans abroad. Some countries are also experiencing a *second-wave lockdown*. One of the tourism sub-sectors affected by the COVID-19 pandemic is the hotel, resort, and cruise ship sub-industry.

Chairman of the Indonesian Employers Association (Apindo), Hariyadi Sukamdani, said that more than 2,000 hotels and 8,000 restaurants were closed (Gunawan, 2020). Companies engaged in the hotel, restaurant, and tourism sectors will face several risks, including decreased revenue and operating profit. This decline will certainly affect the company's financial outcome, both accounting-based and market-based (Devie et al., 2019). Financial reports are used by companies to report their performance (Amyulianthy et al., 2020), (Cahyo et al., 2022), (Muhyidin et al., 2021), (Azizah et al, 2022), (Damayanti et al., 2021), (Natanael, 2021) (Putri et al., 2023). Through their discretionary authority, managers could have the opportunity to manipulate financial reports to obtain personal gain (Azizah, Bantasyam, et al., 2020), (Majid et al., 2020), (Azizah, Zoebaedi, et al., 2020), (Azizah et al., 2019), (Prasetyo et al., 2021), (Azizah, 2021), (Azizah, 2017a), (Azizah, 2017b), (Romantis et al., 2020), (Utami et al., 2022), (Azizah et al., 2021).

The tourism sector's performance during the COVID-19 pandemic is certainly in the spotlight. It added to the fact that President Joko Widodo has determined that tourism is the leading sector for Indonesia's development. The category of services related to the tourism sector and *travel-related services* consisting of services provided by hotels and restaurants, tourist agent and travel operator services, tour guide services, and other related services are certainly also affected by the COVID-19 pandemic. Therefore, this research is entitled "COVID-19 and Financial Outcome in Tourism Sub-Sector Company in Indonesia".

II. LITERATURE REVIEW

Bankruptcy Theory

Bankruptcy is a condition where the company can no longer pay off its obligations. This problem typically does not just occur in the company, and if the financial records are examined more carefully in a particular way, there are frequently early signs from the company that can be recognized sooner. Early indications can be obtained when a company's financial condition during a certain period result in a negative net profit and the company's operating cash flow is insufficient to make improvements (Oktrivina and Azizah, 2022). If the company's financial performance has decreased from year to year, the company will enter financial distress. This is because companies experiencing financial distress indicate that their survival is in doubt, and the company is threatened with bankruptcy.

COVID-19 Pandemic and Financial Outcome

Worldwide lockdowns have been implemented as a result of the COVID-19 epidemic. International airlines are compelled to discontinue routes because access between nations is restricted. Some countries have also implemented regulations prohibiting the visit of foreign nationals to Indonesia (Azizah et al., 2022). This condition creates a tough challenge for the tourism industry, including the hospitality business. Many companies are concerned about their financial performance in 2020 due to the economic slowdown caused by the COVID-19 pandemic. The coronavirus pandemic significantly impacted financial performance in 2020, especially in terms of company revenue, which decreased due to weakened purchasing power (Azizah, 2022).

The high number of confirmed positive cases of COVID-19 in Indonesia has an impact on the tourism industry. Large-scale social restrictions and the closure of entry and exit points resulted in a 20.7 billion decrease in state revenue from the tourism sector. Famous tourist destinations in Indonesia, such as Bali, Lombok, and Yogyakarta, have seen a significant drop in tourist numbers (Utami & Kafabih, 2020).

This condition contrasts sharply with the end of 2019, when Indonesia's tourist sector experienced great success due to the industry's strong support of the leisure economy. The tourism sector, which has suffered the most from the pandemic, may take some time to recover.

Research related to company performance during the COVID-19 pandemic has been conducted by Hadiwardoyo (2020) using a qualitative approach. The results suggested that the most impacted company sectors are those that depend on crowds, such as those in the tourism and tourism service industries, such as mass transit, hotels, and tertiary product businesses, whose sales depend on public savings, property, and lending institutions. Research by Khoiriah et al. (2020) proves a significant difference between Average Abnormal Return (AAR) before and during the Covid-19 pandemic event. This proves that the information substance of the Covid-19 pandemic event is quite strong and provides a signal that absorbs information on stock movements in tourism companies in the hotel, restaurant, and tourism sub-sectors. This causes a reaction to the capital market and influences investors to invest in companies, especially tourism companies in the hotel, restaurant, and tourism sub-sectors.

III. METHOD

The research was conducted at Hotel, Resort, and Cruise Ship Sub-Industry companies listed consecutively on the Indonesia Stock Exchange from 2019 to 2020. The variables used in this study as proxies for financial outcomes are financial distress and firm value.

The measurement of financial distress in this study is carried out using the Revised Altman Model (1993) bankruptcy prediction model, better known as the Z-Score. Financial distress in this study uses dummy variables. Companies that are in the distress zone (bankrupt) are coded 1, and companies that are in the gray area (it cannot be determined whether they are healthy or in financial distress) and safe zone (not bankrupt) are coded 0. The second proxy of the next financial outcome is firm value. Firm value is measured using Tobin's Q formula, which can be calculated as follows:

$$Q = (MVE + DEBT) : TA$$

Where:

Q: Tobin's Q value

MVE: Number of common shares of the company x closing stock price

DEBT: Total debt of the company

TA: Total Assets of the company

The period before COVID-19 (PreTest) is 2019, and the period after COVID-19 (PostTest) is 2020. The COVID-19 pandemic issued by WHO on March 11, 2020 (WHO, 2020) is used as the basis for the period after COVID-19, which is included in 2020. And 2019 is the period before COVID-19.

Hypothesis testing uses the Paired Sample T-test with the requirement that the normality test must be met. However, if the normality test results show that the residual results are not normally distributed, the data will be tested using non-parametric statistical methods using the Wilcoxon test.

IV. RESULTS AND DISCUSSION

Based on the predetermined sample selection criteria, the number of Hotel, Resort, and Cruise Ship Sub-Industry companies sampled in this study was 25 (twenty-five). Based on normality testing, the results show that the residuals of the financial distress variable or company value are not normally distributed, so they do not meet the requirements for parametric statistical testing. Thus, the non-parametric statistical method is used in this study using the Wilcoxon test. The results of testing the hypothesis of differences in financial distress using the Wilcoxon test are presented in table 1 below:

Table 1. Hypothesis Testing Results of *Financial Distress* Differences

	Post_Test - Pre_Test
Z	-,392(a)
Asymp. Sig. (2-tailed)	,000

Based on the Wilcoxon test output table 1 above, the Sig. value is 0.000 < 0.05. It can be concluded that there are differences in *financial distress in* the period before and after the COVID-19 pandemic in Hotel, Resort, and Cruise Ship Sub-Industry Companies.

Table 2. Results of Hypothesis Testing for Differences in Company Value

	Post_Test - Pre_Test
Z	-1,333(a)
Asymp. Sig. (2-tailed)	,000

Based on the Wilcoxon test output table 2 above, the Sig. value is 0.000 <0.05. It can be concluded that there are differences in company value before and after the COVID-19 pandemic in the Hotel, Resort, and Cruise Ship Sub-Industry Company.

Discussion

The results of this study successfully prove that there are differences in *financial distress in* the period before and after the COVID-19 pandemic in Hotel, Resort, and Cruise Ship Sub-Industry Companies. Limited community activities due to the COVID-19 pandemic and the closure of creative and entertainment venues significantly impact the tourism sector. Based on the Central Statistics Agency (2021) data report, there is a significant decrease in the number of local and foreign tourists. The total number of foreign tourist visits to Indonesia in 2020 amounted to 4.02 million visits. Compared to 2019, the number of foreign tourists decreased by 75.03%. Since the pandemic, companies have become more focused on continuously maintaining sales effectiveness so that they are not threatened with bankruptcy since the pandemic broke out.

Several aspects lead to financial distress, one of which is a large amount of debt to cover operational costs, resulting in an obligation to return the debt in the future. The decline in performance is reflected in the annual financial statements, characterized by an increase in debt that cannot be repaid at maturity. The high level of corporate debt is a sign of high financial risk due to difficulties in paying large debts (Oktrivina and Azizah, 2022).

This study also proved that there are differences in company value in the period before and after the COVID-19 pandemic in the Hotel, Resort, and Cruise Ship Sub-Industry Companies. Before the Covid-19 pandemic, most companies in the tourism sector recorded profit growth, but after the COVID-19 pandemic, this sector experienced a decline in performance. Tourist visits decreased dramatically due to reduced international flights. Local tourists also experienced a decline due to the social and physical distancing policy. One of the Hotel, Resort, and Cruise Ship Sub-Industry companies is PT Jakarta International Hotel & Development Tbk (JIHD), which recorded a decrease in operating profit to - Rp. 62 billion in 2020 from 2019 operating profit of Rp. 144 billion. The decline in the company's financial performance impacts the company's value.

The company value itself is an indication of how the company's performance is reflected in the share price, which is determined by supply and demand on the capital market and, of course, shows how the public assesses a company's performance. This study's results align with research conducted by Khoiriah et al. (2020), which proves that there is a significant difference between Average Abnormal Return (AAR) before and during the Covid-19 pandemic event. This indicates that the COVID-19 pandemic event caused investors to be reluctant to invest heavily in tourism companies in the Hotel, Resort, and Cruise Ship Sub-Industry.

V. CONCLUSION

The results of this study successfully prove that there are differences in *financial distress* and firm value in the period before and after the COVID-19 pandemic in Hotel, Resort, and Cruise Ship Sub-Industry companies. Based on the results of this study, the advice that can be given to Hotel, Resort, and Cruise Ship Sub-Industry companies is that before bankruptcy occurs, through the detection of *financial distress*, companies must accelerate the prevention of problems before bankruptcy occurs. For this reason, management can take merger or takeover action so that the company can pay debts and manage appropriately. If there is an early warning of *financial distress*, the cooperation of leadership and management is needed to make quick decisions to avoid bankruptcy.

In addition, the COVID-19 pandemic has had a dire impact on investments. This condition makes investors cautious in choosing investments. What needs to be done by all companies, especially in the Hotel, Resort, and Cruise Ship Sub-Industry companies, is to improve the quality of company performance, which can be seen from the company's value.

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