

THE EFFECT OF THE ECONOMIC RECESSION IN THE COVID-19 ERA AND CASH FLOWS ON FINANCIAL PERFORMANCE

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ABSTRACT

Based on empirical research on retail trade sub-sector companies listed on the Indonesia Stock Exchange in 2019–2021, this study aims to explain and understand the effect of the Economic Recession (Decreasing GDP) and Cash Flow on Financial Performance. 28 retail trade sub-sector businesses that are registered on the IDX for the 2019–2021 period make up the population of this study. A purposive sampling technique was used to collect 69 samples in total. Multiple linear regression analysis is the data analysis technique, while Eviews12 software is used for data processing. The study's findings show that while cash flow has no bearing on financial performance, the economic recession (a decline in the GDP) does. The findings of this research demonstrate that, although cash flow has no bearing on financial performance, the economic recession (a decline in GDP) does. Financial performance is impacted by both the economic recession (a decline in GDP) and cash flows at the same time.

Keywords: *Economic Recession, Gross Domestic Product, Cash Flow, Financial Performance*

INTRODUCTION

The introduction of different regulations to stop the Covid-19 virus's chain of transmission in Indonesia is one of the effects of the epidemic. One of the initiatives taken by the Indonesian government is to apply a call to action to the public to preserve physical distance, including recommendations to keep space between people, decrease activities in all forms of gatherings and crowds, and avoid gatherings that involve more than one person.. As a result of this policy, it is determined that most of the work or activities are carried out at home or Working from Home (WFH). The world of work or a number of companies are also not spared from this policy, where work cannot be done face to face in the office.

Increased uncertainty of country's business environment has been significantly impacted by the Covid-19 outbreak. This means that companies with various industrial sectors must make several innovative and efficient breakthrough changes in

order to survive. Companies also need to make the right decisions when reviewing operational strategies so that the business wheel can turn according to the new economic situation in 2021. Executive Director of PPM Management, Triono Saputro said that this pandemic had also brought about a change in the company's attitude to be more efficient and agreed to increase their sense of prudence. be careful investing. (www.cnbcindonesia.com)

The Covid-19 pandemic has had an impact on the economies of several countries, including Indonesia. As in previous years, 2020 was greeted with a firm heart by the people of Indonesia. If this negative growth continues, economic conditions will get worse and even end in a crisis and economic recession. In the last 12 years, Indonesia's economic growth in 2020 experienced negative growth. (www.bps.com)

Economic influence and development extend beyond the boundaries of the economy (Burhanuddin & Abdi, 2020). However, culture

and health can also have an impact on the economic domain. The corona virus outbreak, which has a detrimental effect on the world economy, is proof of this. Low investor sentiment toward the market contributed to poor market developments (Nasution et al., 2020). This can indicate growth (negative or positive) in the company's actual economic profit in the current year.

Macro Indicator Projection Survey (SPIME) in the second quarter of 2020, respondents revealed that Indonesia's economic performance was lower than the previous year, which grew by 0.03% year-on-year (yoy) in 2020, decreasing compared to the realization in 2019 of 5.02% year-on-year (yoy).

Indonesia will enter a recession if economic growth continues to decline (www.cnbcindonesia.com). In the second quarter of 2020, Jakarta's economy was minus 8.23 % due to weak government purchasing power. Household consumption contributed 59.61 % to the Jakarta economy which grew negatively by 5.28% year-on-year (yoy). Moreover, with a contribution of 48.64 %, exports were hit the hardest with growth of minus 20.75% year-on-year (yoy).

Recession is understood as a phenomenon that can in principle be avoided, such as land transportation accidents, and is different from natural disasters caused by rain which cannot be avoided. Although the number of accidents can be reduced, plane crashes cannot be completely avoided. Even now, we don't know if we have the knowledge or the ability to reverse the recession. A recession is defined as a condition in which economic activity slows down for a long period of time..

Wholesale and retail trade IDR 546.36 trillion (13.08%). With details of non-car and motorcycle wholesale and retail trade of IDR 446.1 trillion (10.68%) and the sub-sector of car, motorcycle and repair trade IDR 100.26 trillion (2.4%). Of the 17 main sectors, only 4 sectors contribute more than 10% to the national Gross

Domestic Product (GDP), and the rest are less than 10%.

The previous research states that gross domestic product has a significant effect on financial performance (Rizal & Humaidi, 2019). It differs, nevertheless, from earlier studies that found no relationship between GDP and financial performance (Sipahutas, 2020).

A number of factors influence the company's value, among others are dividend policy, capital structure, investment decisions, funding decisions, company growth, company size, profitability and leverage. The Ministry of Industry has made every effort to maintain the climate and business continuity of the domestic industrial sector even though it is under pressure from the impact of the pandemic. Therefore, there is a need for coordination and synergy with all stakeholders in order to formulate policies that are in line with the current needs of industry players.

Indonesia's economic growth has been around 5% for several years, showing no improvement. For several quarters, economic growth was below the highest average economic growth in the previous year. Shocked domestic demand can be a source of disruption to the flow of economic activity, affecting exports and imports between countries.

Shocks in both domestic and international supply chains can result from decreased demand and sudden supply shocks.. Both led to a further decline in production, especially in the trading sector. Several trading companies' retail outlets had to be closed (Golden Truly Mall, Matahari Department Store, Gramedia, Ace Hardware and Ramayana) for reasons of expanding their locations to a more strategic location, the desire to develop online services and the things that were hardest hit were the decline in visitors and sales due to pandemic and the emergence of Large-Scale Social Restrictions (PSBB) (www.cnnindonesia.com). However, Indonesia's economic growth returned

to positive in the second quarter of 2021 driven by increased population mobility.

Financial statements are used by various parties for decision making, to make forecasts of the economic situation more effective and to influence company performance. During a pandemic, companies need to assess their financial performance. Where one of the elements in the financial statements that can assess financial performance is cash.

This research was conducted to become a media for early analysis and a source of information for policy makers in order to prevent and overcome economic risks and cash flows that occur, especially during the Covid-19 pandemic.

LITERATURE REVIEW

Signal Theory

Signal theory is a theory in which changing operating costs, operating income, and sales volume will affect the size of the company's net profit in the future. Signal theory is one of the main theories in understanding finance.

The implications of signaling theory are based on how normal something is retail trading companies provide signals to users of financial statements, so companies are encouraged to manage their cash efficiently. The more efficient a company's cash management, the more capable the company is of generating maximum benefits and profits. If the company is able to manage its cash efficiently, with the amount or total profits are greater than sales, the greater the Economic Value Added (EVA) that will be obtained.

Market Based View (MBV) and Resource Based View (RBV)

Resource based view describes the company's internal environment. The MBV theory is being challenged from external environmental

conditions which were initially relatively stable at this time, then occurred very significant changes, quickly and uncertainly.

The study of the MBV theory is a modification of the Industrial Organization theory into the realm of strategic management (Spanos & Liokas, 2001).

Hypothesis Development

Effects of Economic Recession (Decrease in Gross Domestic Product (GDP)) on the Company's Financial Performance

A recession is a negative decrease in Gross Domestic Product (GDP) for two consecutive quarters (more than one year). This results from a sharp downturn in economic activity that drags on for several months or even years.

Research indicates that the scope of economic development and influence extends beyond the confines of the economy itself (Abdi, 2020). The study's findings (Purwohandoko, 2021) demonstrate that there is no connection between capital adequacy and liquidity and financial performance. The size, growth, and gross domestic product all positively impact performance finance.

H1: Economic Recession (Decrease in Gross Domestic Product (GDP)) effect on the Company's Financial Performance.

The Effect of Cash Flow on the Company's Financial Performance

Cash flow has a significant positive impact on profitability and stock performance, and profitability has a significant positive impact on stock performance, according to research results (Sitepu, 2017). With the cash flow statement, the company can find out what condition he is experiencing, whether it is a deficit or even surplus. This shows that cash flow has an influence on performance sectoral business, resulting in the following hypothesis:

H2: Cash Flow affects the Company's Financial Performance

Framework

Based on all the descriptions that have been reviewed, the variables used in this study related to fraud reporting can be formulated with the following framework:

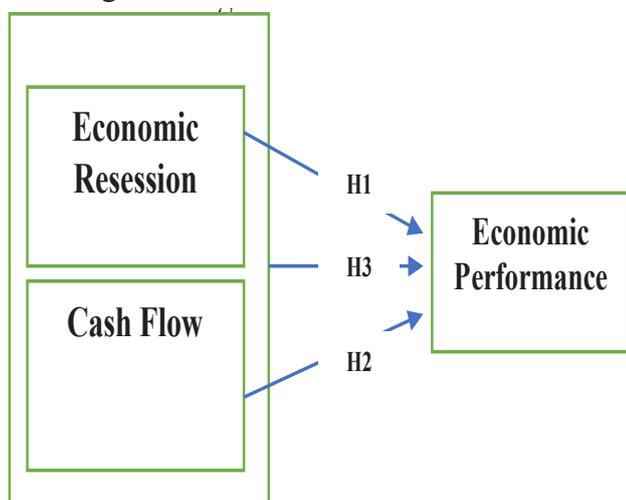


Figure 1. Conceptual Framework

METHODS

Types of research

The type of research approach used in this research is a quantitative research methodology approach.

Object of research

The research object is the topic of the problem studied in the research, the object used in this research is the X variable such as economic recession and cash flow, while the Y variable is the company's financial performance. company. This research was conducted at retail trading companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period.

Population and Sample

The population used in this study are all trading sub-sector companies listed on the Indonesia Stock Exchange in 2019-2021. For the sample used, a total of 69 companies.

Several trading company outlets had to be closed (Golden Truly Mall, Matahari Department Store, Gramedia, Ace Hardware and Ramayana) in order to expand more strategic locations, want to develop online services, and so on. The hardest hit was the drop in footfall and sales due to the Covid-19 pandemic. 19 and Large-Scale Social Restrictions (PSBB) (www.cnnindonesia.com). However, Indonesia's positive economic growth in the second quarter of 2021 was driven by increasing population mobility. This phenomenon makes researchers interested in further researching the retail subsector.

Using companies registered on the IDX as a population, because these companies are required to submit annual reports to relevant parties to assist with data collection. The sample criteria used in this study are:

1. Retail trade sub-sector companies listed on IDX during the 2019-2021.
2. Publish complete financial reports on the IDX during the 2019-2021.
3. Companies that have complete financial statements, especially the items that become research variables.

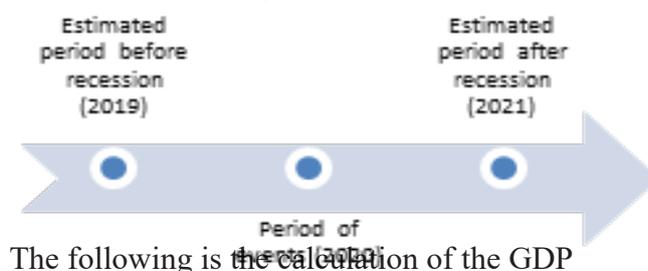
Data collection technique

The data was obtained through financial data analysis and literature study.

Research variable

Economic Recession (X1)

The economic recession in this study uses data in the form of GDP obtained by the Central Bureau of Statistics for 2019-2021. The following describes the period of the economic recession event in 2019-2021 as a cut off /differentiating variable in this study:



The following is the calculation of the GDP

formula:

$$GDP = C + I + G + (XM)$$

Information:

C = Household Consumption

I = Investment

G = Expenditures/ Government Expenditures

X – M = Export minus Import

Cash Flow (X2)

This ratio measures the amount of cash a business generates as a result of sales.

$$\text{Operating Cash Flow Ratio} = \frac{\text{Total Operating Cash Flow}}{\text{Current Liabilities}}$$

Company Financial Performance (Y)

The dependent variable used in this study is the profitability ratio, namely *Economic Value Added*.

EVA = Net Operating Profit after Tax – (Weighted Average Cost of Equity x Invested Equity)

Data analysis technique

The data that the researcher has collected will be processed using EViews12 software, to find out whether the economic recession and cash flow have affected the company's financial performance or not.

Regression Model Estimation

When estimating the regression model, the researcher uses 3 (three) approach model, namely:

1. Fix Effect Model (FEM) is an approach model that refers to intercept differences that can accommodate differences between companies.
2. Random Effect Model (REM) is an approach model that is able to estimate disturbance variables that allow

for relationships, both between time and individuals. This model has the advantage of eliminating heteroscedasticity.

3. Common Effect Model (CEM) is an approach model where time series data and cross section data can be combined, so that differences in time or individual dimensions are not considered.

Based on the 3 (three) previous approach models, researchers will choose a model that fits the purpose of conducting research.

Descriptive Statistical Analysis

Table 1. Statistic Descriptive

	EVAs	GDP	AKO
Means	4.51	2.27	0.52
Median	-4665	3.69	0.14
Maximum	1.86	5.02	23.9
Minimum	-1.04	-2.07	-8.02
std. Dev.	3.25	3.07	3.13
Skewness	3.36	-0.65	5.95
kurtosis	22.2	1.56	47.6
Jarque-Bera probability	1181740 0.000000	10.70233 0.004743	6046952 0.000000
sum	3.06	154.7900	35.49467
Sum Sq. Dev.	7.06	634.6952	660.4868
Observations	68	68	68

The table above shows information related to research data on each variable of Financial Performance (EVA), Economic Recession, and Operating Cash Flow (AKO). The lowest value of *Economic Value Added* indicates that the company is unable or has not succeeded in creating added value for investors (investors and creditors).

Variable economic recession has the lowest (minimum) value -2.07% in 2020, the highest (*maximum*) value is 5.02% in 2019, and the average value (*mean*) 2.27. The lowest value was obtained when the Covid-19 pandemic was increasing, so that Indonesia was experiencing a period of economic crisis. While the standard deviation of

3.07 means that during the study period, the size of the spread of the Gross Domestic Product (GDP) variable was 3.07 out of 68 existing data.

In the variable Operating Cash Flow (AKO) (X2), it is known that this variable has the lowest (*minimum*) value -8.02%, the highest (*maximum*) value is 23.92%, and the average (*mean*) value is 0.52. The lowest value of cash flow indicates that the company is unable or has not been successful in managing cash and even reduce company revenue. This is because the company's total cash flow is negative in 2021, which means that the company's income is lower than its expenses.

The average value of changes in operating cash flow in the companies studied has a positive value of 0.52, which means that the average company experienced an increase in operating cash flow in the 2019-2021 period.

T test

Table 2. Individual Parameter Significance Test Results

Variables	coefficient	std. Error	t-Statistics	Prob.	Information
C	6.412671	0.776472	8.258729	0.0000	
LOG(GDP)	4.463851	0.917206	4.866790	0.0000	H1 (Accepted)
LOG(AKO)	-0.077719	0.278564	-0.278997	0.7811	H2 (Rejected)

Based on the partial test results listed in the table, it can be seen that:

1. The probability value of LOG(X1) is 0.0000, which means that the value is below 0.05. Thus, it can be interpreted that the economic recession variable (X1) has an influence on the company's financial performance variable (Y).
2. The probability value of LOG(X2) is 0.7811, which means that the value is above 0.05. Thus, it can be interpreted that the cash flow variable (X2) has no influence on the company's financial performance variable (Y).

F Test

Table 3 Simultaneous Significance Test Results

Root MSE	1.307624	R-squared	0.273190
Mean dependent var	3.642424	Adjusted R-squared	0.250827
SD dependent var	1.546371	SE of regression	1.337459
Sum squared residue	116.2718	F-statistics	12.21597
Durbin-Watson stat	2.309891	Prob(F-statistic)	0.000031

Based on the table related to the results of the simultaneous significance test, it can be seen that the probability of the F- *statistic* is 0.000031 or below 0.05. Thus it can be interpreted that the composition of the independent variable towards the dependent is feasible to use because it influences simultaneously. Then based on the results of *the Adjusted R-squared* in the table, it can be seen that the *Adjusted R-squared value* is 0.250827.

Thus, it can be interpreted that the GDP and Cash Flow variables are only able to influence the Financial Performance variable by 25.08 % or if rounded up is 26%. While 74% is explained in other variables that are not used in this study.

Multiple Linear Analysis

Table 4. Multiple Linear Analysis

Variables	coefficient	std. Error	t-Statistics	Prob.	Information
C	6.412671	0.776472	8.258729	0.0000	H1
LOG(GDP)	4.463851	0.917206	4.866790	0.0000	(Accepted)
LOG(AKO)	-0.077719	0.278564	-0.278997	0.7811	H2 (Rejected)

The regression model equation that was obtained is shown in the table pertaining to the multiple linear regression test results. $OAGC = 6.412 + 4.463X1 - 0.077X2$. Thus, the results of the regression equation model can be interpreted as follows:

1. The constant value obtained is 6.412671 (positive value) indicating that the influence between the independent variables on the dependent goes in the same direction. This shows that if the economic recession variable as X1 and cash flow as X2 exists

or has a value of 1, then it is seen that the value of considerations related to financial performance is 6.412671.

2. *Coefficient* value of the economic recession variable as X1 obtained is 4.463851 (positive value) indicating that the effect of the economic recession variable on financial performance goes in the same direction.
3. *Coefficient* value of the cash flow variable as X2 obtained is -0.077719 (negative value) indicating that the influence of the Operating Cash Flow (AKO) variable on financial performance (EVA) runs in the opposite direction. This shows that if the Operating Cash Flow (AKO) variable increases by 1 *point*, the financial performance variable (EVA) will decrease by -0.077719. This is supported by the assumption that other variables will have a constant value.

DISCUSSION

Effect of Economic Recession on Financial Performance (EVA) (H1)

The study's findings clarify how financial performance (EVA) is impacted by the economic recession, which is defined as a decline in GDP. So this indicates that the hypothesis is accepted because the lowest value was obtained during a pandemic Covid-19 is on the rise, so Indonesia is experiencing a period of economic crisis. This is in accordance with the theory which explains that gross domestic product is an indication of an improving economy. (Mankiw, 2007).

In general, every company will feel the impact of changes in macroeconomic fundamentals, although each company experiences a different impact from movements in inflation, interest rates, exchange rates and economic growth. High or low risk for the company as a result of changes in macroeconomic conditions is very dependent on the company's internal conditions. Companies

that are financially sound may not have that big an impact, but for companies that are not financially healthy the opposite can happen. The company becomes difficult to move to develop its business, so that its performance will decrease. If this is the case, then it is difficult for managers to increase the value of the company or the prosperity of the shareholders.

Several macroeconomic variables that can be used to estimate a country's economic condition. These economic measures provide convenience to economic analysts in summarizing and concluding the economic conditions of a country.

Effect of Operating Cash Flow (AKO) on Financial Performance (EVA) (H2)

The results of this study explain that Operating Cash Flow (AKO) has no impact on financial performance (EVA). The results of this study are in line with research conducted by (Yuniarmi & Fauziah, 2019). The business must be able to effectively manage and utilize its cash in order to prevent cash ineffectiveness, which can result in lower profits..

Because the information in cash flows has not been fully utilized as a basis for investment and creditor decision making, operating cash flows have no discernible impact. The more efficient a company's cash management, the more capable the company is of generating maximum benefits and profits.

If the company is unable to manage its cash efficiently, with the amount or total profit greater than sales, the smaller the Economic Value Added (EVA) that will be obtained. Therefore, this theory does not show a relationship in implying cash flow which is a signal to be able to prevent information asymmetry which later has a negative effect on the company's financial performance, because cash flow does not affect financial performance as a picture of the company's condition for users of the company's financial statements. or investors. The growth of the company itself can be reflected in the company's cash.

Company growth can be measured or interpreted as an increase in company cash events. If the company grows due to translation exposure or revaluation of consolidated assets, investors may have a negative sentiment towards this growth which will affect the value of the company.

Effect of the Economic Recession and Operating Cash Flow (AKO) Simultaneously on Financial Performance (EVA)

Based on the results of testing the variables together in the simultaneous significance test (F test), it can be seen that the probability of the F-statistic is 0.000031. Therefore, because the probability value of the F-statistic is less than 0.05, it can be interpreted that the hypothesis is accepted because the economic recession and cash flow variables simultaneously affect the financial performance variable (EVA).

This simultaneous influence represents the umbrella theory. With technological developments, changes in demand from customers, changes in regulations and the occurrence of competitive competition, there is a paradigm shift and renewal of the implementation of the theory.

The theory of Market Based View (MBV) is challenged by external environmental conditions which were initially relatively stable but now there are very significant changes, which occur quickly and are uncertain.

There are difficulties with researching theory because of the difficulties companies are trying to quickly make changes to keep up with external changes that are occurring, the main challenge comes from the company's difficulties in maintaining the uniqueness of human resources, especially competence that is difficult to be able to adapt to the fast changing and uncertain external environment.

Then it also relates to the implications of signaling theory based on how users of financial statements should receive signals from a retail trading company, so that the company is motivated

to manage its cash efficiently in a situation where the gross domestic product is experiencing growth, either negative or positive.

CONCLUSION

This study aims to determine the effect of the economic recession in the Covid-19 era and Operating Cash Flow (AKO) on financial performance (EVA) with a total sample of 68 company. Based on the results of testing hypothesis 1 (H1), it was found that the economic recession had a significant effect on the financial performance. These results prove that the economic recession that occurred in Indonesia had an effect on the company's financial performance during the Covid pandemic -19. 2.

Based on the results of testing hypothesis 2 (H2), it was found that cash flows did not have a significant effect on the financial performance. These results prove that flows that are experiencing positive or negative growth in the company have no effect on the companies financial.

This research was found that the economic recession and cash flows significantly affected the financial performance.

Limitations

In carrying out this research, researchers have obstacles and limitations. with a total of 28 companies. From the 28 population, only 23 companies consistently meet each of the existing criteria from 2019 to 2021. The number of samples in this study is 69 data, but due to the need to do outliers, the sample used is 68 data.

Future Research

Based on the results ,there are several suggestions that the researcher can give, including for future researchers who take similar topics should increase the number of research samples

because the more research samples, the better the results obtained. and the research period should be extended because the longer the research time period, the difference in changes in assets, long-term liabilities, equity does not fluctuate every year with a relatively high or low value.

Then suggestions for companies namely, in an effort to increase the effectiveness of using company cash, companies need to find additional funds for cash availability. Can come from long-term debt or funding and investment activities that can provide additional cash balances in the company. Companies must correctly determine policies in allocating sources and uses of cash to maintain the company's financial performance. Company management should be able to improve the company from an internal and external perspective so that the company can develop even better, so as to improve company performance.

Implication

Academic Implications

From the results obtained by carrying out various tests, this research can provide implications for the theory, namely:

1. Signal Theory

The findings indicated that the company's financial performance was impacted by the economic downturn. The study's findings are consistent with signal theory. Where in the context of signal theory, financial statement information is provided by companies for reasons explained by signal theory. that is explained using financial ratios to external parties, where this arises due to asymmetric information between companies and outsiders.

2. Market Based View Theory

The theory of Market Based View (MBV) is challenged by external environmental conditions which were initially relatively stable but now there are very significant changes, which occur quickly and are uncertain.

Managerial Implications

This research can be an input that by maintaining the company's financial performance, this research illustrates how a retail trading business should give indications to those who read financial statements., so that companies are motivated to manage their cash efficiently. The more efficient a company's cash management, the more capable the company is of generating maximum benefits and profits.

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