Comparing financial distress prediction models for listed non-financial firms : the case of Indonesia over 2001-2011 = Membandingkan model model prediksi kebangkrutan untuk perusahaan-perusahaan publik bidang non-keuangan : kasus Indonesia pada 2001-2011 / Deny Martin

Deny Martin, author

Abstrak

ABSTRAK
The economy of Indonesia has rapidly grown since its first economic turmoil in 1997/1998. The annual growth rate of the GDP exceeded 6% in the last four years despite the global economies slow down due to the consequences of ‘bubble’ subprime mortgage that ruined most of the world’s financial institutions. The growth significantly energizes the local economic activities either in the industrial market or in the capital market.

In spite of the ‘bull’ market, the risk of financial distress remains alive and the economic direction might change because of the volatility of business environment. There is no firm protected or immune from financial adversity that may result in failure, insolvency, default or bankruptcy. Plummeting stock price, reduced dividend payment, consecutive net loss, massive lay-offs, pending obligations and a fair number of other negative signs are common association with financial distress.

Widely recognized, financial distress prediction models may be examined to assess a firm’s economic situation for further purposes. Altman, Ohlson, Zmijewsky, Fulmer, and Springate are some of notable researchers to which their models are referred to evaluating the soundness of a firm. However, each market has its own financial distress environment that in consequence any financial distress prediction model requires an evaluation whether or not the model adequately fits to a certain market, in particular Indonesia for this case. The importance of predictors and accuracy will minimize producing misleading results from the economic forecast.

The results of this testing against the first hypothesis showed that none of the adjusted models included all the variables of the base model, respectively. There were some variables with insufficient explanatory power to predict the cessation of activities of the tested firms. The second hypothesis argued that the adjusted models were less capable than those developed originally in terms of accuracy.
<hr>

ABSTRACT
The economy of Indonesia has rapidly grown since its first economic turmoil in 1997/1998. The annual growth rate of the GDP exceeded 6% in the last four years despite the global economies slow down due to the consequences of ‘bubble’ subprime mortgage that ruined most of the world’s financial institutions. The growth significantly energizes the local economic activities either in the industrial market or in the capital market.

In spite of the ‘bull’ market, the risk of financial distress remains alive and the economic direction might change because of the volatility of business environment. There is no firm protected or immune from financial adversity that may result in failure, insolvency, default or bankruptcy. Plummeting stock price, reduced dividend payment, consecutive net loss, massive lay-offs, pending obligations and a fair number of other negative signs are common association with financial distress.

Widely recognized, financial distress prediction models may be examined to assess a firm’s economic situation for further purposes. Altman, Ohlson, Zmijewsky, Fulmer, and Springate are some of notable researchers to which their models are referred to evaluating the soundness of a firm. However, each market has its own financial distress environment that in consequence any financial distress prediction model requires an evaluation whether or not the model adequately fits to a certain market, in particular Indonesia for this case. The importance of predictors and accuracy will minimize producing misleading results from the economic forecast.

The results of this testing against the first hypothesis showed that none of the adjusted models included all the variables of the base model, respectively. There were some variables with insufficient explanatory power to predict the cessation of activities of the tested firms. The second hypothesis argued that the adjusted models were less capable than those developed originally in terms of accuracy.