THE STUDY OF VULNERABILITY OF INDONESIAN COMPANIES: APPLYING ALTMAN MODEL TO BOTH BANKRUPT GROUP OF COMPANIES AND SURVIVING GROUP OF COMPANIES

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Abstract

Objectives The main objective of this research is to examine the accuracy of Z score when to analyze bankruptcy or stability of companies in Indonesia, therefore, management, creditors and investors would know how much they should rely on Z-score as predictive tool.

Method The firms are stratified by industry; the data collected are from the same years as those compiled for the bankrupt firms. For the initial sample test, the data are derived from financial statements one reporting period 2 years prior to bankruptcy. The author develops two hypotheses, and analyzes the data using Altman Z score model (1968) using 2.67 as critical value.

Result The results revealed applying Altman Z-score model in Indonesian companies during period 1998-2003 in 6 different industries show that Z-score implementation in companies in Indonesia is less accurate if compared to its predictive ability in Israel or United States. This applies for both two years prior and one year prior bankruptcy, where the results are lower than Altman initial research for tested his formula predictive ability.

Conclusion In conclusion, based on the calculation, Z score is not absolutely accurate in predicting candidate of bankrupt or surviving companies, however its accuracy still can be used for detect financial trouble as an early warning or alarm, that can encourage management to take action and minimize the incidence of failure.

Keywords Altman Z score, predicting bankruptcy, financial distress, Z score accuracy