RISET

JURNAL APLIKASI EKONOMI AKUNTANSI DAN BISNIS

THE EFFECT OF NATIONAL ECONOMIC RECOVERY ON THE FINANCIAL PERFORMANCE DURING THE COVID-19 PANDEMIC

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ABSTRACT

The COVID-19 pandemic triggered a health crisis and ultimately had a broad impact on business. The slowdown in economic activity resulted in many businesses failing. In this crisis, the government's role is crucial in improving the economy. Based on the phenomenon, the study analyzes the impact of government roles and firm characteristics on financial performance during COVID-19. The sample is an Indonesian-listed company in the non-financial sector during 2020. Government intervention is proxied by National Economic Recovery (in Indonesia, known as Pemulihan Ekonomi Nasional-PEN) and firm characteristics by liquidity, efficiency, and market power. The study employed the difference-in-difference method to analyze the intervention and used ordinary least squares. National Economic Recovery is found inadequate to raise a firm's financial performance. Otherwise, efficiency and market power positively affect the firm financial performance. The study has some practical implications to execute. First, it is suggested that the government provide unemployment benefits equivalent to wage loss caused by the pandemic. Second, the firm must use its liquidity to adapt quickly to the environment since unused liquidity will be useless in the short term. Third, firms must also raise efficiency and market power to survive the pandemic.

Keywords: Economic Recovery, Market Power, Efficiency, Financial, Performance; COVID-19

INTRODUCTION

The World Health Organization (WHO) declared the disaster caused by COVID-19 as a global pandemic on March 9, 2020. This virus outbreak spread rapidly and consequences in many fatalities, which led to a health crisis. To reduce the spread, various governments have implemented social interaction restrictions. These restrictions lead to decreased consumption, slowed economic activity (Shen et al., 2020), a health crisis, and changed human behavior (Mogaji, 2020).

Indonesia is one of the countries that is suffering from the outbreak. The COVID-19 pandemic prompted the government to implement social restrictions until, ultimately, these restrictions slowed the pace of economic activity. The economic slowdown puts pressure on the supply and demand sides. From the supply side, companies reduce production, lose income, and cannot fulfill obligations or pay operational costs. The pandemic has resulted in a deep decline in aggregate demand and productivity (Eichenbaum et al., 2021). The enormous impact on the Indonesian economy occurred in the second quarter of 2020 when Gross Domestic Product (GDP) contraction reached -5.32%. This decline could result in layoffs and then increased poverty.

The social restrictions implemented by the government to prevent virus transmission also significantly reduce operational activities in the tourism, accommodation, transportation, property, and construction sectors (Shen et al., 2020). According to the Indonesia Central Statistics Agency (BPS, 2020), the number of tourists visiting Indonesia decreased by 87.81% in the second quarter. It drives the accommodation sector, tourism, restaurants, and hotels to experience a contraction of up to 22.02%. Transportation supporting tourism and community movement also had a severe contraction, around 30.84% (BPS, 2020). The contraction in the transportation sector is derived from the social restriction policy implemented by the government on April 10, 2020.

The initial observations are in line with the statement of the Minister of Finance of the Republic of Indonesia, Sri Mulyani Indrawati, who stated that as a result of the COVID-19 pandemic, the 4 sectors most affected were households, medium, small, and micro enterprises (MSMEs), corporations and the financial sector (Ramadhan, 2020). The household sector experienced a decline in consumption as well as potential income. The corporate sectors most disrupted are manufacturing, trade, transportation, and accommodation (hospitality and restaurants). A decline in public consumption and supply chain disruption causes pressure on the corporate sector. For the financial sector, Sri Mulyani estimates that there are potential liquidity and insolvency problems (MoF, 2020).

The impact of the economic slowdown continues to trigger panic in the capital market (Rababah et al., 2020; Shen et al., 2020). Based on preliminary observations (see Appendix 1), the study found that the financial performance of the listed firms on the Indonesia Stock Exchange had declined during the pandemic. Moreover, the most heavily affected sectors (tourism, transportation, and hospitality) experienced sharp declines during the pandemic. It raises doubts about business continuity and sends an unfavorable signal to investors and company creditors.

The pandemic brought rapid and unexpected changes in 2020. The company will rely on its dynamic capabilities to integrate, build, and reorganize internal and external competencies to face rapid environmental changes (Bromiley & Rau, 2016). The work-

from-home policy also requires adaptation, especially for companies that need more infrastructure (Bai et al., 2021). Resource-Based View (RBV) assumes that companies with strategic resources will have a sustainable competitive advantage. The resources owned by the company will be vital in its efforts to survive. The company will prioritize short-term business continuity compared to long-term competitive advantage. This paradigm shift is reinforced by the threat-rigidity effect, which results in companies focusing on doing things that have functioned well in the past (Hitt et al., 2021).

RBV becomes relevant during a pandemic because companies that have more resources have a higher ability to survive. However, large companies can only sometimes use their resources due to the need for a more dynamic ability to quickly adapt to unexpected environmental changes (Egbunike & Okerekeoti, 2018). Sometimes, companies that can adapt will have better survival capabilities. It is what led to the development of RBV into dynamic capability theory. Management needs to adapt to the changes expected to lead to improved financial performance. The most crucial thing management performs is understanding the changes and then learning the factors that can improve the company's financial performance (Lim & Rokhim, 2020). Better understanding will prevent the company from experiencing a further decline in performance.

Previous scholars documented the determinants of financial performance, among others, company size, working capital, leverage, company efficiency, liquidity, market power, company growth, and others (Alarussi & Alhaderi, 2018; Egbunike & Okerekeoti, 2018; Lim & Rokhim, 2020). These internal factors are often described as unique characteristics of each company. It is vital in company liquidity when extreme environmental changes, such as a financial crisis, occur. High liquidity will provide financial flexibility for companies to respond quickly to changes (Hitt et al., 2021). The pandemic has high uncertainty, so it is assumed that liquidity will be significant in financial performance, especially in adapting to the changes.

When the external environment changes rapidly, companies are forced to survive due to unexpected crises. Based on RBV's perspective, the company will act strategically with its resources. Focusing on efficiency is a company's response, especially in adapting to a crisis (Bromiley & Rau, 2016). Adaptation must be made by finding out problematic areas of the company, determining corrective steps quickly, and maximizing resources. Efficiency is the main factor influencing company profits, so theoretically, high efficiency will produce high profits (Alarussi & Alhaderi, 2018; Lim & Rokhim, 2020). Thus, efficiency becomes crucial in a pandemic that reduces productivity and decreases aggregate supply (Eichenbaum et al., 2021).

In addition to liquidity and efficiency, market forces are essential in stabilizing financial performance in various situations. High market power means little competition (Lim & Rokhim, 2020), so consumers have little choice but to buy the product (Guei, 2022). Companies with high market power will have greater latitude in setting prices. During a pandemic, consumption capacity will be limited. Market forces are the final internal factor that has become important during the pandemic. Companies with high market power can raise prices without losing sales (Hertati et al., 2022). Market power becomes a company's competitive advantage when a crisis occurs. Consumers are willing to pay premium prices to get the products sold by the company. This ability will maintain the company's financial performance better during uncertain conditions. Companies with substantial market power will not have to worry about competition because consumers will choose their products. Companies with high market power will profit better than their

competitors, primarily when the government provides social assistance to the community to encourage consumption.

In a profoundly contracting national and global economy, internal efforts to keep its sustainability do not necessarily get the company out of the crisis. Demmou et al. (2022) and Rababah et al. (2020) also recommend that government intervention plays a crucial role in preventing worsening due to COVID-19. Rescue actions by the government can strengthen both the aggregate demand and supply sides. Financial assistance to producers can encourage companies to continue operating activities so that the supply side is maintained. On the demand side, the government can help households maintain consumption when income decreases.

In handling COVID-19 in Indonesia, the government intervened with the National Economic Recovery policy (after this, it was shortened to Economic Recovery). Through Financial Services Authority Regulations Number 11/2020, the government has provided funding placement, encouraging credit distribution of up to IDR.287.23 trillion during 2020. The government ordered banks to participate in national economic recovery by realizing credit restructuring in 2020, amounting to IDR.971.10 trillion for IDR.7.60 million debtors (Bank Indonesia, 2021). However, the effectiveness of this policy in Indonesia in the short term needs to be investigated, considering that economic growth in 2020 is still negative. This condition also increases the urgency of analysis due to the impact of government intervention on financial performance during the pandemic.

This study examines the impact primarily of Indonesia's Economic Recovery Program on company financial performance during the Covid-19 pandemic. Apart from the role of government intervention, this research also analyzes how a company's internal strengths support its financial performance when the economy is in decline. Even though the COVID-19 crisis has passed, the findings of this study provide a better explanation of the features of dynamic (internal) capabilities, which are the pillars of survival in crises. It is due to the inconsistency of previous findings. Lim & Rokhim (2020) found that liquidity, sales growth, company size, and market power positively influence financial performance, but efficiency has a negative influence. Lim & Rokhim's (2020) research took samples from the pharmaceutical sector in Indonesia. Meanwhile, Alarussi & Alhaderi (2018) did not prove the effect of liquidity on financial performance, though company size, working capital, and efficiency influence financial performance.

Based on a critical analysis of empirical evidence and synthesis of RBV theory, the study proposes the following hypothesis:
H_1 : Economic Recovery increases financial performance post-COVID-19
H_2 : Liquidity increases financial performance in the pandemic
H_3 : Efficiency increases financial performance in the pandemic
H_4 : Market Power increases financial performance in the pandemic

This study fills a research gap by using two approaches. First, we analyzed the trend of changes in quarterly financial performance throughout 2020. Based on initial observations of the financial performance of companies listed on the Indonesian Stock Exchange, the financial performance trend of all industrial sectors has decreased (images of observation results are presented in Appendix 1). The infrastructure, utilities, transportation, and consumer goods sectors experienced a sharp decline at the end of the 2nd quarter. Only after the Economic Recovery Program was launched and the Restrictions on Social Interaction were relaxed at the end of the 3rd quarter to the end of

the 4th quarter of 2020 did the company's financial performance increase by varying amounts. This phenomenon is interesting to analyze why the level of improvement in financial performance for each sector is different.

Second, we use a difference-in-difference (DiD) approach to cluster the effectiveness of the Economic Recovery Program on the worst industry group affected (set as a treated group) and that was not as severely affected (as a control group). The aim of implementing DiD is to highlight how the unique character of each company sector plays a vital role in facing the financial crisis. When a pandemic occurs, short-term business continuity, not long-term profits, is the company's primary concern (Hitt et al., 2021). The pandemic poses a liquidity threat that companies must face immediately. The main difference from research before the pandemic is the disruption in business activities due to the COVID-19 pandemic.

RESEARCH METHODS

This research uses a quantitative approach and analyzes the influence of the independent variable on the dependent variable. To test this influence, the analytical method used is multiple regression analysis. The dependent variable is the financial performance of companies listed on the Indonesia Stock Exchange in 2019-2020. Due to the COVID-19 pandemic in 2020, the company's financial performance experienced quite dramatic volatility. At the end of quarter 2, financial performance declined sharply. However, after government intervention in the Economic Recovery Program, some companies' financial performance experienced changes. These changes vary for each sector (see visual description in Appendix 1), leading us to analyze further whether the Economic Recovery impacts the company's financial performance. The study employs the difference-in-difference (DiD) method to examine how effective economic recovery is in priority sectors thoroughly. DiD has advantages in the analysis of two groups that have different characteristics. Thus, it can provide conclusions about a policy, especially for the group chosen as the treatment group, to investigate its effectiveness on the expected results (Fredriksson & Oliveira, 2019).

The first group is the Treatment Group (TREAT), which contains companies in sectors highly impacted by COVID-19, which are priority targets for implementing Economic Recovery, and the Control Group, which includes other sectors. This classification is intended to assess whether, after implementation, there has been an improvement in financial performance in companies affected by the pandemic. This classification refers to Shen et al. (2020). The treatment group comprises companies operating in the housing, building construction, non-building construction, transportation, tourism, restaurant, and hotel sectors. The control group is companies listed in industries other than those mentioned previously. The pandemic severely affected the treatment group of 340 companies, and the control group of 1,484 comprised different companies.

The companies studied are listed on the Indonesia Stock Exchange and have financial reports that have been reported on the Indonesia Stock Exchange website (www.idx.co.id). The research object period was the 1st, 2nd, third, and fourth quarters 2020. Sample selection used purposive sampling on actual sector companies that published financial reports for the 1st, 2nd, third, and fourth quarters of 2020 with complete data. The population is the sector companies listed on the Indonesia Stock Exchange with reports for the 1st, 2nd, third, and fourth quarters of 2020. The total

observations were 1,824, divided into 532 treatment groups and 1,292 control groups. Table 1 shows a sample of companies that are the object of study.

Table 1. Sampling Objects

Description	Number	
Company registered in 2019-2020		715
Less: Financial sector companies		(93)
Real sector companies		622
Less: The company does not have complete data		(166)
The number of selected samples		456
Number of observation periods (4 quarters)		4
Total population of research objects		1,824
Population grouping for DiD:		
Treatment Group (266 x 4)	532	
Control Group (323 x 4)	1,292	1,824

Source: Data Processed, 2023

The model refers to research by Lim & Rokhim (2020). The main objective of the model is to assess the characteristics that influence the company's financial performance. In this model, the variables TREAT, POST, and POST*TREAT, which refer to the research of Rababah et al. (2020), are included. In the study of Rababah et al. (2020), the POST variable shows after the COVID-19 pandemic, whereas in this study, it shows the time after implementing the Economic Recovery program. The purpose of adding these variables is to test the effect of Economic Recovery implementation.

$$ROA_{it} = \alpha + \beta1.\ POST{*}TREAT_{it} + \beta2.\ POST_{it} + \beta3.\ TREAT_{it} + \beta4.\ CR_{it} + \beta5.\ TATO_{it} + \beta6.\ MP_{it} + \beta7.\ LEV_{it} + \beta8.\ REV_{it} + \beta9.\ FATA_{it} + \varepsilon$$

Information:

ROAit : Financial performance as measured by Net Profit/Total Assets$_{t-1}$ (Lim & Rokhim, 2020)

POST : The implementation of the Economic Recovery program will use a dummy. A score of 0 will be given in the quarter before implementation, namely quarters 1 and 2. A score of 1 will be given in quarters 3 and 4 after the government has officially implemented the Economic Recovery program, which is reported to have had a significant impact.

TREAT : TREAT, sectors that are highly impacted by the pandemic, will be given a dummy of 1 and 0 for other sectors. This company operates in the tourism and accommodation sectors (hospitality, restaurants, transportation), property, and construction (Shen et al., 2020).

POST*TREAT : The interaction between POST and TREAT shows the influence of Economic Recovery implementation on sectors greatly affected by the pandemic.

CR : Liquidity uses the Current Ratio (CR) proxy (Lim & Rokhim, 2020). This ratio is measured by Current Assets/Current Liabilities.

TATO : Company efficiency will be measured by the asset turnover ratio proxy (Alarussi & Alhaderi, 2018). Total Sales/Average Assets calculate this ratio.

MP : Market Power. The Lerner index will measure the market power variable (Lim & Rokhim, 2020). This ratio will be calculated by (Selling Price-Marginal Cost)/Selling Price*

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LEV   : Leverage is the company's loan capital ratio. Leverage is measured by Total Debt/Total Assets.

REV   : Income is calculated using the natural log of total revenue (Rababah et al., 2020).

FATA   : The proportion of fixed assets to total assets, measured by Fixed Assets/Total Assets

α   : Constanta

β1 β2 β3 β4 β5 β6 β7 β8 β9 : Regression coefficient

ε   : Error

*Selling price will use income obtained from financial reports. Marginal costs that cannot be observed will use COGS.

The variables used in this research are financial performance (ROA), Economic Recovery implementation time (POST), treatment group (TREAT), interaction of implementation time with treatment group (POST*TREAT), liquidity (CR), efficiency (TATO), market power (MP), leverage (LEV), income (REV), and fixed assets (FATA). Data are presented after removing extreme values using winsorization at the 1% and 99% levels.

This research carried out descriptive statistical analysis, model test, classical assumption test, multiple linear analysis test, and DiD test. First, the data was winsorized to remove outliers. Winsorization is commonly used on data with extreme values and better values than deleting data (Davidov et al., 2018). Next, descriptive statistical analysis is carried out to explain the phenomenon or characteristics of a population (Hair et al., 2014). Descriptive analysis will examine the average, most significant, lowest, median, and standard deviation values. Model analysis is carried out to select the regression model used. There are three regression models: the Common Effect Model, the Fixed Effect Model, and the Random Effect Model. Model selection will be determined using the Chow, Hausman, and Lagrange Multiplier tests. The next test is the classic assumption test, carried out before multiple regression testing. This test consists of normality, multicollinearity, heteroscedasticity, and autocorrelation tests.

RESULTS AND DISCUSSION

The variables used in this research are financial performance (ROA), Economic Recovery implementation time (POST), treatment group (TREAT), interaction of Economic Recovery with treatment group (POST*TREAT), liquidity (CR), efficiency (TATO), market power (MP), leverage (LEV), income (REV), and fixed assets (FATA). Data are presented after removing extreme values using winsorization at the 1% and 99% levels. Descriptive statistics are presented after removing extreme values using winsorization at the 1% and 99% levels in Table 2 below:

Table 2. Descriptive Statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
ROA	N = 1824	0.0000	0.0313	-0.1353	0.0896
CR	N = 1824	2.8929	4.8037	0.0813	37.6111
TATO	N = 1824	0.1851	0.2024	0.0009	1.1693
MP	N = 1824	0.2474	0.2187	-0.5023	0.7796
LEV	N = 1824	0.4913	0.3260	0.0315	2.3755

Table 2. Descriptive Statistics (continuous)

Variable	Observations	Mean	Std. Dev.	Min	Max
REV	N = 1824	26.9940	2.1699	20.8687	31.3358
FATA	N = 1824	0.5615	0.2439	0.0309	0.9649
Dummy					
POST	$N_0 =$ 912; $N_1 =$ 912				
TREAT	$N_0 =$ 1,292; $N_1 =$ 532				

Source: Data Processed, 2023

The average financial performance during the pandemic was relatively low, namely 0.0020%; this means that the profits generated by the company during the pandemic were low. The average liquidity is quite good, namely 2.8900, which indicates that the company's current assets can pay its short-term debt. Efficiency has a value of 18.5100%, which shows that each rupiah of assets owned by the company generated 0.1851 Rupiah during the pandemic. Finally, with an average of 24.7300%, market power shows that the company can also sell its products with a markup level of 24.7300%.

This study analyzes descriptive statistical comparisons of variables before and after the implementation of Economic Recovery in 2020. Table 3 shows changes in financial performance conditions and predictor variables. A comparison of the average figures for each variable illustrates the differences in conditions before and after the implementation of economic recovery. Financial performance (ROA) reached an opposing average after implementing the Program. Apart from the average figure, the ROA deviation, representing the company's financial performance, is wider after implementing the Economic Recovery (0.0295 and 0.0329, respectively). The situation indicates a deep contraction that the Economic Recovery Program cannot reduce.

Table 3. The Comparison of Descriptive Statistics

Variables	Obs	Mean		Std. Dev.		Min		Max	
		Pre	Post	Pre	Post	Pre	Post	Pre	Post
ROA	912	0.0002	-0.0001	0.0295	0.0329	-0.1353	-0.1353	0.0895	0.0895
CR	912	2.8419	2.9440	4.6850	4.9215	0.0813	0.0813	37.6110	37.6110
MP	912	0.2497	0.2450	0.2195	0.2180	-0.5023	-0.5023	0.7796	0.7796
TATO	912	0.1800	0.1902	0.2020	0.2029	0.0009	0.0009	1.1693	1.1693
SIZE	912	2.8404	2.8381	1.7793	1.7898	2.3570	2.3570	3.2280	3.2280
DER	912	1.2195	1.1816	2.1167	2.0545	-7.4851	-7.4851	1.1868	1.1868
REV	912	26.5740	27.4140	21.3170	21.2720	20.8690	20.8690	31.3360	31.3360
FATA	912	0.5553	0.5677	0.2440	0.2438	0.0309	0.0309	0.9649	0.9649

Source: Data Processed, 2023

The descriptive explanation from Table 3 shows unique facts. Liquidity (CR) and efficiency (TATO) increased in the fourth quarter of 2020. A similar pattern was enacted in the standard deviation of these two variables. This fact led to the initial finding that the COVID-19 pandemic forced companies to be more stringent and careful in using their resources. On the other hand, market power (MP) experienced a decline after implementing the Economic Recovery Program. On average, MP decreased from 0.02597 to 0.02450. Interestingly, the deviation from MP also decreased by 0.00150 points. These

indicators represent a decline in marketing performance due to weakening aggregate demand during the pandemic.

In panel data research, there are three types of regression models, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). Three types of testing must be carried out to determine which model is best to use. These tests are the Chow Test, the Breusch-Pagan Lagrange Multiplier Test, and the Hausman Test. The first test carried out is the Chow Test. This research model produces (Prob>F) = 0.0000 or less than Alpha (0.0500), so the best method according to this test is FEM. The second test is the Breusch-Pagan Lagrange Multiplier Test. This test is carried out to choose between the REM and CEM methods. The research model produces (Prob>chibar2) = 0.0000, or less than Alpha (0.0500), so the best method according to this test is REM. The final test carried out for model selection is the Hausman Test. This research model produces (Prob>chi2) = 0.0000, so the best method according to this test is FEM.

Based on previous analysis, the model is fit for use in FEM. However, when the study was carried out, a variable, namely TREAT, was automatically removed. It concludes that FEM requires variations in its variables, while the TREAT variable does not change throughout the observation. CEM tests the hypothesis because TREAT is one of the main variables to be observed. Research conducted by Lechner et al. (2016) also found that the ordinary least squares model would produce more consistent values in the balanced panel difference-in-difference method.

Table 4 presents the output of the CEM results. This model has an R-squared value of 0.2257 and an adjusted R-squared of 0.2218, which means that the dependent can be explained by 22% by the independent variable. This level is almost the same as previous research conducted by Alarussi & Alhaderi (2018), Egbunike & Okerekeoti (2018), and Spitsin et al. (2020), which uses data from more than one industrial sector. The regression has been adjusted to the one-tailed hypothesis.

The POST variable, which indicates the time after implementing the Economic Recovery program, is expected to positively influence the company's financial performance. However, the results show a negative value of 0.0490, indicating financial performance declines after implementing Economic Recovery. The same thing can also be seen in the POSTTREAT variable, which shows that the company's financial performance has been dramatically impacted. After implementing the Economic Recovery program, expectations were positive, but the results showed a negative value of 0.4840. TREAT was the only one that met expectations, a proxy for highly impacted companies that experienced negative financial performance with a value of 0.0010 during the pandemic. The first hypothesis (H_1) is rejected based on the results.

Table 4. Regression Results

Variable	Expectation	Coefficient	Robust Standard Error	t	P>|t|	Result
Independent:						
POST	+	-0.0027	0.0016	-1.6500	0.0490	
TREAT	-	-0.0065	0.0021	-3.0800	0.0010	H_1 Rejected
POSTTREAT	+	-0.0001	0.0027	-0.0400	0.4840	
CR	+	-0.0002	0.0002	-0.8300	0.2040	H_2 Rejected
TATO	+	0.0214	0.0052	4.1400	0.0000	H_3 Accepted

Table 4. Regression Results (continuous)

Variable	Expectation	Coefficient	Robust Standard Error	t	P>|t|	Result
MP	+	0.0384	0.0042	9.2300	0.0000	H_4 Accepted
Control:						
LEV	-	-0.0231	0.0043	-5.3300	0.0000	-
REV	+	0.0030	0.0004	7.3500	0.0000	-
FATA	-	-0.0040	0.0036	-1.0800	0.1400	-
Constant		-0.0767	0.0110	-7.0000	0.0000	-

Source: Data Processed, 2023

The second hypothesis formulates whether liquidity improves financial performance. However, based on the regression results, hypothesis 2 is rejected. It is indicated by the negative and insignificant $\beta4$ (p-value 0.2040). This finding confirms that liquidity (CR) could not improve financial performance during the pandemic. Liquidity is proxied by the CR variable, which is the company's short-term liabilities. The third hypothesis (H_3) examines the effect of efficiency (TATO) on company financial performance during the pandemic and is accepted. The result supports the initial expectations that efficiency would positively affect financial performance. Then, the fourth hypothesis (H_4) analyzes market power (MP) on the company's financial performance during the pandemic. According to the theory, market forces are expected to positively affect a company's financial performance. The results support the expectation because a significant positive effect with a value of 0.0000 was found. Thus, the fourth hypothesis (H_4) is accepted.

As support for the primary analysis, this study analyzes the role of the control variable; it shows that leverage (LEV) and income (REV) significantly influence financial performance in the opposite direction. Otherwise, leverage reduces financial performance, while income increases financial performance. Fixed asset utilization (FATA) did not improve financial performance during the pandemic.

The study found that the government's implementation of the Economic Recovery program had not improved the company's financial performance during the pandemic. This implies that companies operating in the affected sectors maintained poor financial performance despite implementing the Economic Recovery program. Based on the descriptive analysis in table 3, the rejection of hypothesis 1 is supported by a continuous decline in financial performance (ROA) after the implementation of Economic Recovery.

The realization of the Economic Recovery Program, IDR 579.780 trillion or 83.400% of the ceiling, was channeled through credit restructuring, tax incentives, and social protection to overcome the pandemic. However, the Program's funds realization has not reduced the economic decline rate (MoF, 2020). The credit restructuring was pretty good, with IDR.971.100 trillion for 7.600 million debtors, of which 1.800 million were corporations. However, high liquidity only sometimes makes good financial performance, as shown in Figure 1 below:
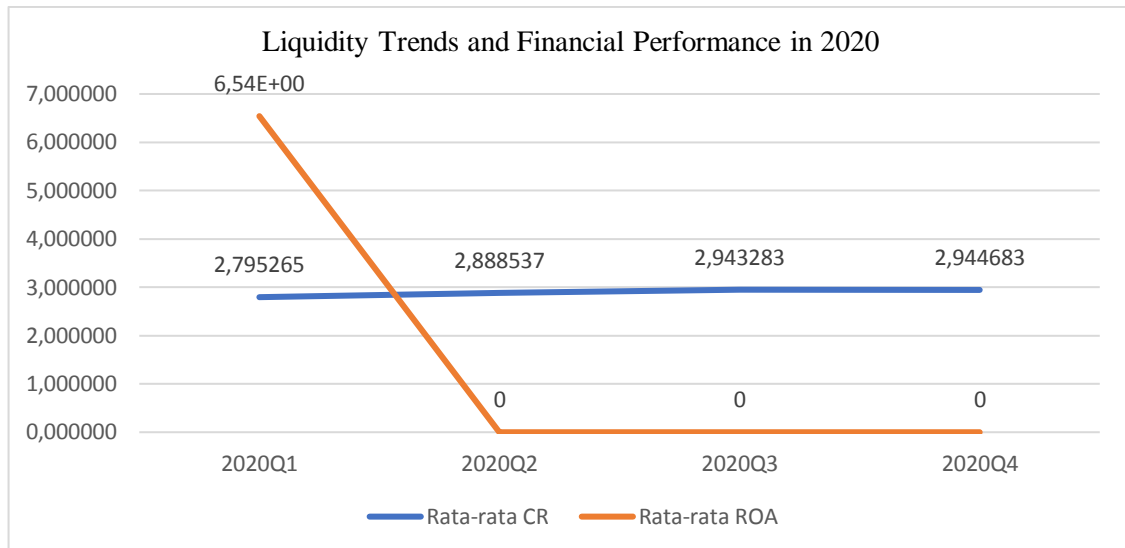
Figure 1. Liquidity Trends and Financial Performance in 2020
Source: Data Processed, 2023

Based on Figure 2, the company's liquidity trend is relatively stable, while financial performance declined sharply at the end of quarter 2. Thus, until the end of quarter 4 of 2020, the financial performance remained negative -0.110%. Companies with worse performance did not invest due to the uncertain situation during the crisis (Demmou et al., 2022). Withholding liquidity by the company will lower the financial performance (Liu et al., 2021). The policy of improving short-term liquidity effectively leverages the company's financial performance.

The government needs to create policies that incentivize consumers to buy more. The intervention is required to increase demand and prevent the performance from falling deep (Barnichon et al., 2021). It includes the policy regarding the Value Added Tax (VAT) of luxury goods on car discounts and VAT discounts on property. These are some favorable policies the Indonesian government implemented in 2021. The government also formulated a policy of strengthening demand by providing cash assistance. This policy aims to increase public consumption but has not shown positive results. During 2020, the inflation rate was still below the target, 1.680% from the 3% target, due to deflation from July to September (MoF, 2020). During 2020, Indonesia also fell in rank to become a lower middle-income country (Bank Indonesia, 2021).

The Indonesian government has provided the opportunity to restructure credit, particularly for companies affected by Covid-19. This restructuring program gives companies more time to defer payment of their obligations, but it does not eliminate the uncertain conditions during the pandemic. However, in reality, companies held back their investments. It will lead to worse financial conditions at the end of 2020. This weakening of investment represented Indonesia's manufacturing (Purchasing et al.) during 2020 due to international trade restrictions and the scarcity of raw materials (Bank Indonesia, 2021). Companies tend to hold liquidity. It reflects that management cannot allocate funds efficiently (Demmou et al., 2022).

Liquidity containment can be assumed to be management's unresponsiveness to pandemic conditions, resulting in worsening financial performance. Another factor that can explain the difference in results with the hypothesis is the choice of the type of firms. Liquidity is essential in financial institutions such as banks, but its influence could be more substantial in the real sector (Alarussi & Alhaderi, 2018). The financial industry

requires high liquidity, primarily to lend or meet minimum cash reserve standards. It differs from the real sector, which requires non-cash assets to operate. The actual industry requires non-cash investment to produce better financial performance.

The main finding is that efficiency and market power improve financial performance during the pandemic. These results align with Alarussi & Alhaderi (2018) and Hertati et al. (2022) research. Companies with high efficiency generate higher revenues than their competitors. Efficiency is the primary milestone for companies in seeking profits (Alarussi & Alhaderi, 2018). Efficiency is created as a result of the company being able to generate high income using the assets it owns. The more highly efficient assets owned by a company, the more income will increase. This finding is under the RBV theory, where the company has resources, in this case efficiency, that can provide a competitive advantage.

The positive influence of efficiency on the company's financial performance during the crisis period shows that the best capability needed by the company is making sales. The higher the sales generated by the company, the higher the efficiency ratio. The pandemic conditions have suppressed people's consumption capacity so companies can convince consumers to buy their products. Companies that gain this trust will have better financial performance than their competitors.

The study also proves that market forces improve financial performance. These results indicate that market forces are essential in short-term business continuity during the Covid-19 pandemic. This finding is in line with (Lim & Rokhim, 2020). Market power is a company's ability to increase the selling price of its products or services above competitive prices (Eichenbaum et al., 2022). It occurs due to barriers to entry into the market (Hitt et al., 2021) and low competition, so there are no substitutes (Foo et al., 2021).

The significant positive influence of market power during the pandemic implies the importance of the ability to set prices for companies. Companies that can set high prices without worrying about losing sales will experience better financial performance than their competitors. The RBV indicator can explain this pricing ability: competitors cannot imitate the manufacturer's products, and there are no substitutes. Market power is a competitive advantage that companies have to survive in times of crisis.

The study uses leverage, income, and fixed assets as control variables. Based on the test results, leverage had a significant adverse effect on financial performance. This result aligns with expectations because increasing leverage indicates high debt levels. These results are also similar to research from Alarussi & Alhaderi (2018) and Rababah et al. (2020). The second control variable is income, which was found to have a significant positive effect on the company's financial performance, similar to research conducted by Rababah et al. (2020). The final control variable is company fixed asset ownership. The test results found a negative influence from fixed asset ownership, but it was not significant, the same as research from Spitsin et al. (2020).

CONCLUSION

The COVID-19 pandemic has contracted the economy and impacted the company's financial performance. To maintain business continuity, companies will exploit their

internal resources or assistance from the government. This study analyzes whether these two factors improve the financial performance of companies. Our findings are that the Economic Recovery and liquidity programs did not improve the company's financial performance during the pandemic. On the contrary, efficiency and market power strengthened performance during the COVID-19 crisis.

The findings imply that the Economic Recovery program has been unable to leverage companies' finances during the crisis. Government assistance to increase aggregate supply and demand, likewise with liquidity, does not increase a firm's financial performance. It does not affect the financial performance of the real sector during the pandemic. The failure of these two factors is strongly suspected because the pandemic creates uncertain conditions that raise concerns from management to make investments that will harm financial performance.

This study proves the efficacy of the RBV theory in which internal forces in efficiency and market forces play an important role in the crisis. Efficiency is essential during the pandemic, mainly due to social restrictions, so efficient companies will have better financial performance. Companies with high market power have good financial performance due to low competition and customer loyalty.

The study has limitations, including the limited observation period of 2020, while the economic recovery program will continue until 2021. It means that the findings from this study are limited to the peak period of the crisis. We recommend that future research use a proxy for economic recovery programs with program details and accurate measurements after 2020.

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APPENDIX 1

Figure 2. Financial Performance of the Industrial Sector in 2020
Source: Data Processed, 2023

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