

The Effect of Profitability, Funding Decisions and Cash Flow Operations on Financial Distress with Financial Risk as a Mediating Variable and Financial Flexibility as a Moderating Variable in the Basic Industrial and Chemical Sector Listed on the Indonesian Stock Exchange

Djuma'iyah¹, Tri Ratnawati², Ida Ayu Sri Brahmayanti^{3*}

Universitas 17 Agustus 1945, Surabaya

Coessponding Author: Djuma'iyah 1262300075@surel.untag-sby.ac.id

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ABSTRACT

The study was conducted with the aim of analyzing the effect of profitability, funding decisions and cash flow operations on financial distress through financial flexibility with financial risk as mediation. The population used in this study were Basic Industry and Chemical Sector Manufacturing companies listed on the Indonesia Stock Exchange for the period 2019 - 2023 which received a special notation category X, namely listed on a special monitoring board with a total sample of 20 companies. Hypothesis testing in this study was carried out with a Structural Equation Model (SEM) approach based on Partial Least Square (PLS). The results showed that profitability and financial risk directly have a significant effect on financial distress. The cash flow operation funding decision has no significant effect on financial distress. Through financial risk, profitability is proven to have a significant effect on financial distress, while funding decisions and cash flow operations have no significant effect on financial distress. Other results show that financial flexibility is not able to moderate the effect of profitability, funding decisions and cash flow operations on financial distress

INTRODUCTION

The economy of countries in the world today certainly cannot be separated from the Industrial Revolution 4.0 Era which is closely related to large-scale changes in the field of technological speed and lifestyle of the world community. This industrial revolution change is also accompanied by the Volatility, Uncertainty, Complexity, and Ambiguity (VUCA) Era. According to (Afkarina et al., 2023), in the VUCA era, it is important for organizations to be more flexible, innovative, and able to adapt quickly to environmental changes. According to (Harjito & Martono, 2014) the VUCA era is a challenge for companies to mobilize their finances carefully and requires companies to be dynamic towards all changes, the goal of a company is to maximize the profit to be received, the welfare of the company owner and the optimization of the company's value which is reflected in its share price.

A decrease in company profits causes potential financial distress in the company (Rizki et al., 2024). Financial distress is a financial condition that arises before experiencing a downturn. Financial difficulties can be caused by the company not being able to maintain and manage its financial capabilities properly, causing the company to experience losses (Fakhar et al., 2023). Many studies have examined financial distress with several models as follows:

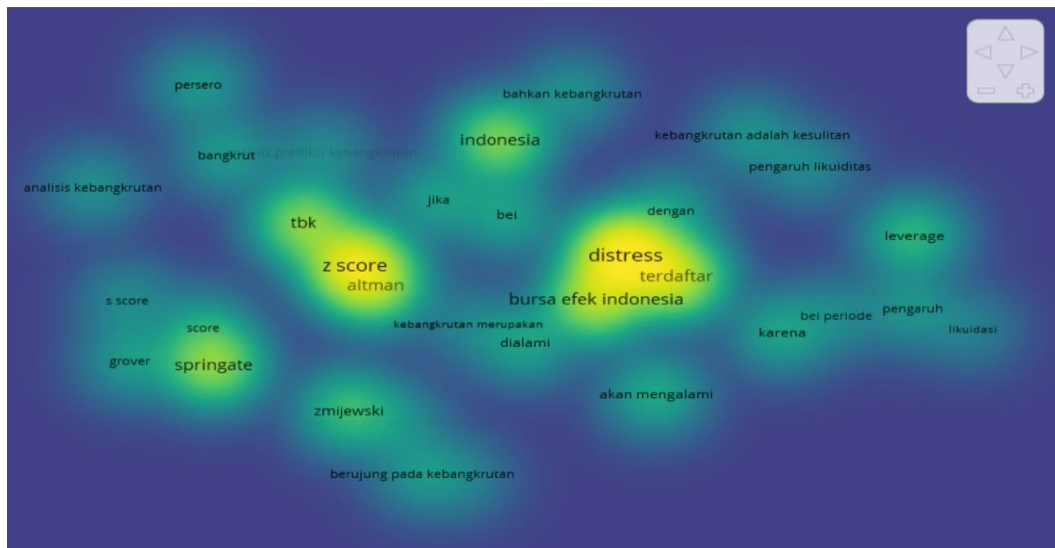


Figure 1. Visualization of Research Density related to Financial Distress

Based on the density visualization above, the results of research that has been done regarding Financial Distress illustrate that the models used to predict Financial Distress, including those that are seen very sharply are using Altman's Z-Score, Springgate, and the faintly visible use of the Zmijewski method, Grover, this proves that the Altman method is more widely used for Financial Distress prediction. In the Density Visualization, it can also be seen that financial ratio such as leverage, liquidity are used as factors that cause Financial Distress. Financial ratio analysis is needed to help evaluate the company's financial statements by entering numbers in or between the Balance Sheet and Income Statement. According to (Islami & Rio, 2019) suggests that financial ratios are financial variables that are often used in predicting Financial Distress conditions. Analysis of the company's financial ratios can provide information about the

financial condition systematically and provide an assessment process that aims to evaluate the company's financial position and operating results in the past and present. The overall goal of financial statements, according to (Hery, 2016), is to give creditors and investors relevant information for credit and investment decisions, assessing the company's liquidity and solvency as well as its financial strengths and weaknesses.

One method used to predict Financial Distress is using the Grover method (Liew et al., 2023). This Grover method is a development of the Altman method, there are ratios that are removed, namely the ratio of the company's market value and the ratio of retained earnings to total assets and adding the ROA ratio. Jeffrey S. Grover, the method's researcher, tested this approach by selecting a sample of 35 bankrupt and 35 non-bankrupt businesses from 1982 to 1996. The study's findings demonstrated a 97.7% accuracy rate, suggesting that Grover's approach is appropriate for identifying financial distress in businesses (Fahma & Setyaningsih, 2021).

The company's declining profitability ratio can undoubtedly be influenced by the company's declining profits. An overview of the company's ability to turn a profit can be obtained using profitability ratios. Businesses that generate high earnings must steer clear of financial hardship issues. There are still discrepancies in the research on how profitability affects financial distress. According to research (S. Agustina & Mranani, 2020), financial distress is significantly impacted negatively by profitability. This suggests that the more profitable a firm is, the more likely it is to experience financial distress. These findings are consistent with studies by (Indrawan & Sudarsi, 2023), which found that financial distress is negatively correlated with profitability. This suggests that the more profitable a company is, the better it will perform and prevent financial distress. However, other research has shown that financial distress is unaffected by profitability (Artamevia & Wahyuni, 2022).

Financial Distress is a critical financial stage characterized by shrinking industry profits and even experiencing negative profits (Feanie & Dillak, 2021). The condition of the company with negative profits if it continues is alleged to cause Financial Distress in the initial condition and allows bankruptcy in the future (Bilondatu et al., 2019). To develop a manufacturing company, it is necessary to carry out various kinds of macro analysis and micro fundamental analysis (Putrihadiningrum, 2021). Proper micro fundamental analysis can increase the development of a company, this is because micro fundamental policies are policies carried out by company managers so that good governance carried out by company managers will have an impact on company development. One of the micro fundamental analysis that can be done is by paying attention to the company's financial decisions. Corporate financial decisions are one of the internal factors that need to be considered because the wrong investment policy will make the company experience difficulties in the company's operational activities (Pristiana & Istiono, 2020).

A successful company must achieve profit (Brigham & Daves, 2010) The profit can then be reinvested in operating assets, used to purchase securities, used to pay off debt or distributed to shareholders. Financial management is divided into (1) investment decisions, or capital budgeting and (2) funding decisions. Funding decisions according to (R. A. Brealey et al., 2020) are financing or funding or spending that can be used to show where the source of funds or the origin of funds that finance or fund or spend the assets of a company.

When a business adds more debt to its capital structure, bankruptcy-related issues are more likely to occur (Brigham & Houston, 2014). Businesses with a lot of leverage will also be riskier. This assertion is consistent with research findings by (Widarno & Irawan, 2021), which show that funding policy significantly reduces financial distress. According to the study's findings, funding decisions have a major impact on financial distress; the more funding decisions are made, the more of an impact they have on changes in the drop in financial distress (Pristiana & Istiono, 2020).

According to (Hery, 2017), the cash flow report is a report that shows all aspects related to the company's activities, either directly or indirectly affecting cash. According to (Prabawati et al., 2021), with the research results that operating cash flow has a significant effect on Financial Distress. These results are supported by research conducted by (Sianturi et al., 2021), that Cash Flow has a significant positive effect on Financial Distress because the cash flow statement from operating activities contains all transactions related to operating profit in the income statement, so that the more companies face losses can experience financial difficulties. This proves that companies with low operating cash flow levels cause companies to experience Financial Distress (Aburishah et al., 2022).

Financial flexibility is the ability of a company to be able to respond effectively to any unexpected conditions that befall the company on cash flow or investment opportunities (Teng et al., 2021). Financial flexibility is a barometer in the company's sustainable growth efforts. From the perspective of dynamic capabilities, companies should maintain financial flexibility at a reasonable level and moderate level after considering transportation costs and potential benefits so that the dynamic capabilities of companies try their best to improve company performance (Wu et al., 2024).

Financial Risk according to (Brigham & Houston, 2014) is an additional risk for ordinary shareholders due to decisions to use debt. The level of financial risk can also be measured through the solvency ratio as a measure of the level of long-term risk of the company's short-term risk through the calculation of the Debt To Asset value (Shahfira & Hasanuh, 2021). The higher the DAR value, the company's financial risk arising from the inability to settle its obligations will increase (Bahtiar et al., 2023).

Based on the phenomenon of the increasing number of issuers in the Manufacturing Sector who get a special notation category X by the IDX from year to year and the large number of studies related to Financial Distress conducted by researchers and as an effort to further explore the influence of several independent variables on the dependent variable accompanied by moderating and mediating variables related to the Financial Distress condition, the researcher will examine the effect of Profitability, Funding Decisions and Cash Flow Operations on Financial Distress with financial risk as a mediating variable and Financial flexibility as a moderating variable in the Basic and Chemical Industry Sectors listed on the Indonesia Stock Exchange. The contribution of research findings will certainly provide benefits to potential investors as a basis for making investment decisions in companies with special category X notations. Additional information will later be provided regarding whether companies that get special category X notations from the IDX have or are experiencing Financial Distress. A study conducted by (Hutauruk et al., 2021) found that even companies that are losing money are not necessarily exposed to Financial Distress.

LITERATURE REVIEW

Signalling Theory

Spence was the first to create signaling theory (1973). Generally speaking, a signal is a message sent to external parties (investors) by the business (management). Signal theory is used in the economic and financial literature to show that those inside the company typically know more about its state and prospects than do people outside of it. This theory signals that there is an information imbalance. Under these conditions it is difficult for investors to objectively distinguish between good and bad performing companies. Often parties inside the company claim to have attractive profit prospects (Connelly et al., 2011).

Legitimation Theory

According to legitimacy theory, organizations always work to make sure that their actions are seen by outsiders as "legitimate," or as functioning within the bounds and conventions of their own cultures. The foundation of legitimacy theory, according to (Moloi & Marwala, 2020), is the notion that a social contract exists between the institution in question and the community in which it functions.

Financial Distress

According to (Hotchkiss et al., 2011), financial distress occurs when a business is unable to meet its financial obligations due to a lack of revenue or income. High fixed costs, significant amounts of illiquid assets, or revenues that are susceptible to deteriorating economic conditions are typically the causes of this predicament. If the company can improve its performance, the Financial Distress cycle will cover the first time of performance decrease to the lowest point till the recovery stage. When the company experiences financial difficulties, the company in particular is not in the same position, but will continue to transition

to the next stage. (Abdu, 2022) suggests that Financial Distress is the initial stage that will be faced by the company before experiencing bankruptcy.

Profitability

According to (Brigham & Houston, 2014), the profitability ratio reflects the final result of the company's overall financial policies and operating decisions. According to (R. Brealey et al., 2023), profitability measures focus on company profits. Of course, large companies are expected to generate more profits than small companies. The profitability ratio, according to (Hery, 2017), is a metric used to assess a company's capacity to turn a profit from its regular operations. An organization that sells goods and services to its clients in order to turn a profit is called a company (Astuti & Taufiq, 2020; Wulandari et al., 2024).

Funding Decision

The type and quantity of a company's investment funds are factors that influence funding decisions. The extent to which a business uses debt funding is governed by its debt policy. The market will react favorably if a growth in debt is perceived by external parties as a sign of the company's capacity to meet future commitments or the presence of low business risk (Abidin, 2022). There are two categories of funding sources: internal and external. Retained earnings are an internal source of funding, whereas debt and stock are external sources. The company's worth will be impacted by the best possible balance between debt and equity capital.

Cash Flow Operation

Cash flow is one of the financial statements that provides information to those who utilize financial statements, claims (Dirman, 2020). The three activities that make up this information are funding, investment, and operational operations. The sustainability of the business would be questioned by investors if it has poor operating cash flow. Because the company's cash is used to fund its operations activities. Businesses must manage their cash flow carefully since inappropriate and poor cash flow will put them in financial distress (Anwar, 2020).

Financial Risk

Risk is an uncertainty experienced by a company as a result of ongoing business activities (Dewi & Sujana, 2019). If the company is unable to overcome the various risks that exist, it is certain that the company will experience the risk of bankruptcy. Risk is the possibility of a loss, or the variability of income associated with certain assets (Owusu et al., 2023). In general, everything has a risk, but the size of the risk depends on the results we expect, the greater the results to be obtained, the greater the risk that must be faced, therefore the success or failure of the risk faced depends on how we manage existing risks in order to produce opportunities that bring profit (Liu & Huang, 2022).

Financial Flexibility

Financial Flexibility is the company's ability to obtain funding sources from both internal and external companies when in difficult times (Islam et al., 2022). Companies with a high level of financial flexibility can go through bad periods and are able to capture investment opportunities, but if the company has a lot of debt, it will make the company inflexible in terms of finance (Zhou et al., 2023).

Financial Flexibility is the firm's capacity to mobilize its financial resources in response to uncertain possibilities in the future (Zhang & Liu, 2022).

METHODOLOGY

The research was conducted with a quantitative approach with a causal explanatory type of research. The population used in this study are Basic Industry and Chemical Sector Manufacturing companies listed on the Indonesia Stock Exchange for the period 2019 - 2023 which get a special notation category X, namely listed on a special monitoring board. The sample technique in this study was purposive sampling and obtained a sample of 20 companies. The variable measurements in this study are as follows:

Financial Distress (Y)

- a. Grover method (Y1.1) with formula (Fahma & Setyaningsih, 2021):

$$G = 1,650X1 + 3,404X2 - 0,016X3 + 0,057$$

Description:

- G : Bankruptcy Index
X1 : Working Capital/Total Assets
X2 : EBIT/ Total Assets
X3 : ROA (*Return On Assets*)

- b. Taffler method (Y1.2) with formula (Iswahyudi, 2022):

$$T\text{-Score} = 0.53 X1 + 0.13 X2 + 0.18 X3 + 0.16 X4$$

Description:

- X1 : Earning Before Tax / Current Liabilities
X2 : Current Asset / Current Liabilities
X3 : Current Liabilities / Total Assets
X4 : Sales / Total Assets

Profitability (X1) (Assaji & Machmuddah, 2019; Hery, 2017; Priadi et al., 2020)

- a. EBITDA (X1.1) = Net income + Interest + Tax + Depreciation + Amortization
b. Net profit margin (X1.2) = Net profit/Sales
c. Return on equity (X1.3) = Net income/Equity

Funding Decision (X2) (Kasmir, 2016; Noghondari et al., 2022; Sanbowo & Naibaho, 2021)

- a. DSCR (X2.1) with formula Debt service coverage ratio = EBIDA / Debt service
b. ICR (X2.2) with formula Interest coverage ratio = EBIT / Interest expense
c. LTDTER (X2.3) with formula *Long Term Debt To Equity Ratio* = Long-term debt / Total debt

Cash Flow Operation (X3) in the study is measured by the following ratios (Sianturi et al., 2021):

$$\text{Cash Flow Operation} = \text{Cash Flow from Operating Activities} / \text{Total Assets}$$

Financial Risk (Z) (Alipudin et al., 2019; Hery, 2017)

- a. Debt To Assets (DAR) with the formula:
DAR = Total Debt / Total Asset
b. Debt to Equity Ratio (DER) with the formula:
DER = Total Debt / Capital

Financial Flexibility (M) (Murti et al., 2016)

- a. Financial Flexibility=Cash Flexibility+Debt Flexibility
- b. Financial Flexibility = (Operating cash flow / total liabilities)

Data from annual financial reports were accessed via the official websites of the company and IDX in order to compile the study's data. Partial Least Square (PLS)-based Structural Equation Model (SEM) methodology was used for the study. To ascertain whether or not there is a relationship of influence between the research variables, hypothesis testing is done. This test involves examining the Regression Weight value, specifically the Probability (P) and Critical Ratio (CR) values. The CR value must be greater than 1.96, and the P value must be less than 0.05. The suggested study hypothesis may be approved if the data processing findings demonstrate a value that satisfies these conditions (Duryadi, 2021).

RESULT

The following are the results of the outer model in this study:

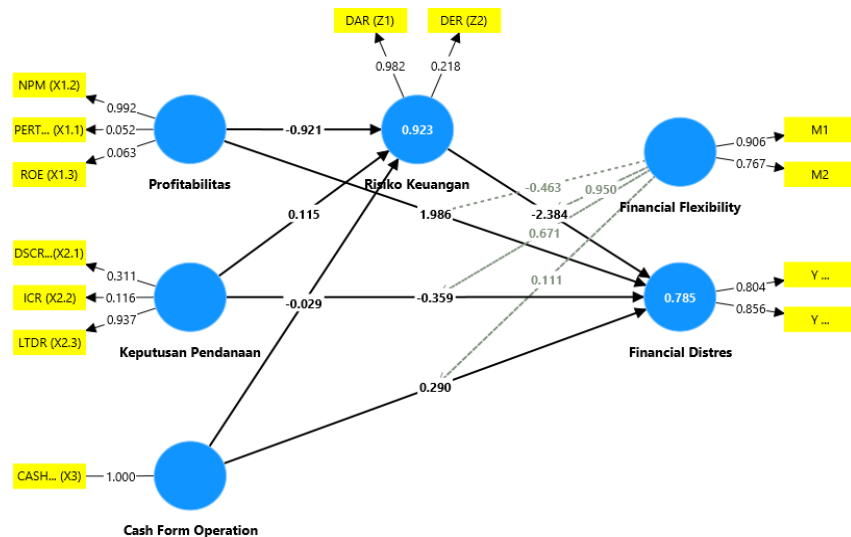


Figure 2. Outer Model

As can be seen from Figure 2, there are still loading factor values that are less than 0.7. It is known that DER (Z2) <- Financial Risk, DSCR 2 (X2.1) <- Funding Decision, ICR (X2.2) <- Funding Decision, EBITDA Growth (X1.1) <- Profitability, and ROE (X1.3) <- Profitability obtained outer loadings values less than 0.7 so that elimination was carried out. The following are the outer model results after being modified in this study:

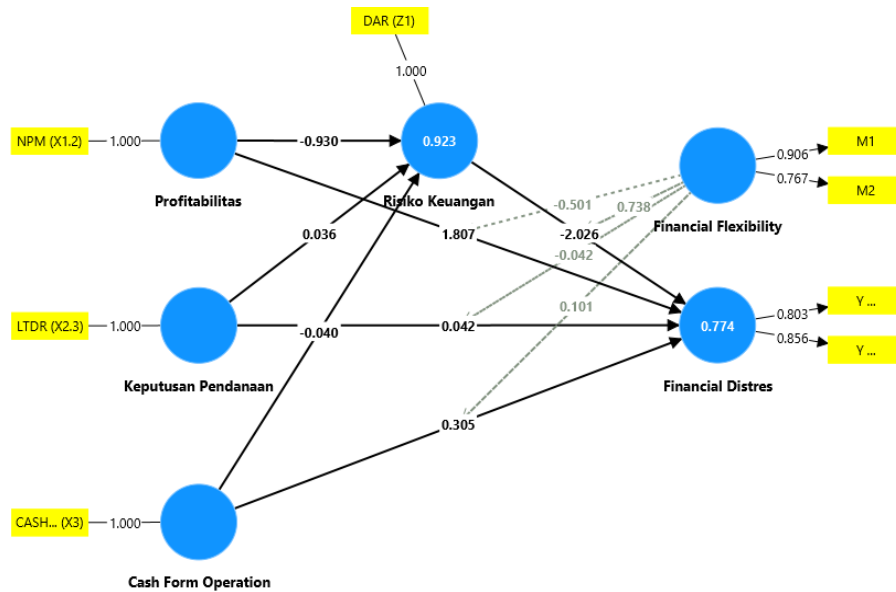


Figure 3. Modified Outer Model

Figure 3 indicates that each reflex construct's overall loading value is more than 0.7. As a result, the model is deemed to have satisfied the requirements for strong convergent validity. In this study, the authors used secondary data, namely data obtained from the company's financial statements. Therefore, in this study the authors did not test reliability and validity with discriminant validity and composite reliability. This is because these tests are only carried out on primary data tests such as questionnaires or questionnaires. Adapun hasil nilai R-Square dari inner model adalah sebagai berikut:

Table 1. Results of R-Square Value

	R-square
<i>Financial Distress</i>	0.774
Financial Risk	0.923

Based on the table above, the Financial Distress Indicator obtained an R-Square value of 0.774. This means that Financial Distress can be affected by 77.4% by Profitability, Funding Decisions, CFO, Financial risk and financial flexibility. From these results it is stated that the model is good. While the R-square value for the financial risk variable is 0.923. This means that financial risk can be influenced by 92.3% by profitability, funding decisions, CFO. These results can be stated that the model is good.

The goodness of fit assessment can be seen by looking at the Q2 value. The higher the Q2 value, the more fit the research model is with the data.

The following are the results of the calculation of Q2 in this study:

$$Q^2 = 1 - (1 - R^2_1) (1 - R^2_2)$$

$$Q^2 = 1 - (1 - 0,923) (1 - 0,774)$$

$$Q^2 = 1 - (0,077) (0,226)$$

$$Q^2 = 1 - 0,017402$$

$$Q^2 = 0,982598$$

Based on the results of the Q2 calculation, a value of 0.983 was obtained. This means that the amount of diversity in this research data can be explained by the structural model developed in this study is 98.3%. This shows that the structural model in this study has met a good goodness of fit.

The results of hypothesis testing are as follows:

Table 2. Hypothesis Testing

Hypothesis	Indicator	Coefficient	t-statistic	p-value	Significance
H1	Profitability -> Financial Distress	1.807	2.165	0.030	Significant
H2	Funding Decision -> Financial Distress	0.042	0.008	0.993	Not significant
H3	CFO -> Financial Distress	0.305	0.955	0.340	Not significant
H4	Financial Risk -> Financial Distress	-2.026	2.637	0.008	Significant
H5	Profitability -> Financial Risk -> Financial Distress	1.884	2.498	0.013	Significant
H6	Funding Decision -> Financial Risk -> Financial Distress	-0.073	1.047	0.295	Not significant
H7	CFO -> Financial Risk -> Financial Distress	0.081	0.707	0.479	Not significant
H8	Financial Flexibility x Profitability -> Financial Distress	-0.501	1.582	0.114	Not significant
H9	Financial Flexibility x Funding Decision -> Financial Distress	-0.042	0.01	0.992	Not significant
H10	Financial Flexibility x Cash Form Operation -> Financial Distress	0.101	0.662	0.508	Not significant
H11	Financial Flexibility x Financial Risk -> Financial Distress	0.738	1.572	0.116	Not significant

DISCUSSION

H1 : Profitability has a significant effect on Financial Distress in the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange

Based on table 5.2, the effect of profitability on financial distress has a p value of $0.030 < 0.05$. This means that profitability has a significant effect on Financial Distress decisions or the hypothesis is accepted. These results indicate that high profitability has a protective effect against financial distress by ensuring the company has sufficient resources to meet its obligations. Profitability is one of the key indicators in assessing the financial health of a company. Its influence on Financial Distress is quite significant because profitability reflects the company's ability to generate profits from its operations. High profitability shows the company's efficiency in managing its assets, capital and operations to create added value for the company.

Profitability proxied through Net Profit Margin (NPM) will have a direct impact on the company's level of Financial Distress risk.

The results of this research are in line with research conducted by (Nursidin, 2021) where Profitability is proxied by Net Profit Margin (NPM). Partial test results on the Net Profit Margin (NPM) ratio show that Net Profit Margin (NPM) has a significant effect on Financial Distress, meaning that Net Profit Margin (NPM) can be used as a ratio for companies to consider in predicting their company's Financial Distress. So the higher the Net Profit Margin (NPM) value, the lower the Financial Distress value.

H2 : Funding Decisions Have a Significant Influence on Financial Distress in the Basic and Chemical Industry Sectors Listed on the Indonesia Stock Exchange

Based on table 2, the funding decision variable for Financial Distress obtained a p value of $0.993 > 0.05$. This means that funding decisions have no significant effect on Financial Distress decisions or the hypothesis is rejected. This reflects that funding decisions taken by company management are not a factor in the occurrence of Financial Distress in companies in the basic industrial and chemical sectors on the IDX. Even though companies use debt as a source of funding, the risk of Financial Distress can be minimized if these funds are managed efficiently to generate sufficient profits. This means that operational management is more important than the type of funding itself. It seems that this result is influenced by another, more dominant factor, namely profitability.

The results of this study are in line with studies conducted (Fitriyah & Hariyati, 2013) which show that funding decisions proxied by LTDTER do not have a significant effect on financial distress. This could be because there are several companies that use a net income capital structure approach, where the proportion of long-term debt is greater than the equity they own.

The findings in this study do not support the results of research conducted by (Fitri, 2023) where Long Term Debt to Equity has an effect on Financial Distress in textile subsector companies listed on the Indonesia Stock Exchange (BEI) in 2018-2020, this is because most companies textiles experienced an increase in long-term debt.

H3 : Cash Flow Operation (CFO) has a significant influence on Financial Distress in the Basic and Chemical Industry Sector listed on the Indonesia Stock Exchange

Based on table 2, the cash flow operation variable on financial distress obtained a p value of $0.340 > 0.05$. This means that cash flow operations do not have a significant effect on financial distress or the hypothesis is rejected. This shows that the high or low CFO owned by basic and chemical industry sector companies does not have a significant impact on whether or not financial distress occurs. CFO has no effect because the company has strong access to external funding sources (debt or equity) to meet financial needs, even though its operational cash flow is less than optimal. In addition, companies can rely on other sources of income, such as investments or non-operational income, which have a greater impact on their financial condition. Macroeconomic conditions, government policies, or market changes may have a greater impact on financial distress than the company's operational cash flow. In line with the study

conducted by (Prabowo & Iswanaji, 2022) which proves that cash flow operations do not have a significant effect on financial distress.

H4 : Financial Risk has a significant influence on Financial Distress in the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange

Based on table 2, the financial risk variable for Financial Distress obtained a p value of $0.008 < 0.05$. This means that financial risk has a significant effect on Financial Distress or the hypothesis is accepted. This means that the higher the financial risk of a company, the greater the possibility of the company experiencing Financial Distress in basic industrial and chemical sector companies on the IDX. The results of this research are in line with research conducted by (Lienanda & Ekadjaja, 2019) with the results of the analysis showing that leverage has a positive and significant influence on Financial Distress. Based on the research results shown, it can be concluded that the higher the leverage ratio value, the higher the risk of Financial Distress conditions because total assets are not sufficient to pay obligations and pay the company's operational costs.

H5 : Financial Risk Mediates the Effect of Profitability on Financial Distress in the Basic and Chemical Industry Sectors Listed on the Indonesia Stock Exchange

According to Table 2, the financial risk variable had a p value of $0.013 < 0.05$ as a mediator of the relationship between profitability and financial hardship. This indicates that financial distress is significantly impacted by profitability through financial risk, or the premise is adopted. Financial distress in basic and chemical industry sector companies on the IDX is significantly influenced by profitability through financial risk. Financial risk is influenced by a company's profitability, which in turn influences the likelihood of financial trouble. More specifically, high profitability usually reduces financial risk, such as the ability to pay debts and operating costs, thereby reducing the possibility of financial distress. Conversely, companies with low profitability or high financial risk are more susceptible to financial distress because they may have difficulty meeting their financial obligations. In other words, profitability functions as a buffer that can protect companies from financial risk and financial distress. In line with the study conducted by (Aji & Anwar, 2022) which obtained the results that profitability has a significant effect on financial distress.

H6 : Financial Risk Mediates the Effect of Funding Decisions on Financial Distress in the Basic and Chemical Industry Sectors Listed on the Indonesia Stock Exchange

Table 2 shows that the financial risk variable had a p-value of $0.295 > 0.05$, indicating that it was a mediator of the impact of financing decisions on financial hardship. This indicates that the theory is either disproved or financing decisions based on financial risk do not significantly impact financial suffering. Financial distress in companies in the basic and chemical industries listed on the IDX is not significantly influenced by indirect funding decisions made through financial risk. This can be because the company has effective risk management, such as a flexible debt repayment schedule or hedging strategy, so that the financial risk from funding decisions does not have a direct impact on financial distress. In addition, if the company tends to use the same mix of debt and equity for a long

period of time, changes in funding decisions do not have a major impact on financial risk or financial distress. In line with the study conducted (Sari & Pristiana, 2024) which shows that funding decisions do not have a significant effect on financial distress.

H7 : Financial risk mediates the effect of Cash Flow Operation (CFO) on Financial Distress in the Basic and Chemical Industry Sector listed on the Indonesia Stock Exchange

A p value of $0.479 > 0.05$ was achieved by the financial risk variable as a mediator of the impact of cash flow operations on financial distress, according to table 2. This indicates that either the theory is not supported or cash flow operations through financial risk do not significantly impact financial distress. Financial distress in basic and chemical industry enterprises on the IDX is not significantly impacted by cash flow operations (CFO) indirectly through financial risk. With effective risk management, the negative impact of financial risk can be minimized. If the company is able to anticipate and manage risks well, suboptimal CFO does not directly cause Financial Distress. Companies with sufficient cash reserves can temporarily overcome the decline in CFO without having to experience Financial Distress. These reserves can be used to cover short-term liabilities and keep the company's operations running. Diversify funding to reduce dependence on certain sources. This can reduce the impact of financial risk, so that CFO does not have a significant effect on Financial Distress through financial risk. The results of the study are in line with the study conducted by (Sianturi et al., 2021) which found that CFO has a significant contribution to the occurrence of Financial Distress.

H8 : Financial Flexibility moderates the effect of Profitability on Financial Distress in the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange

Table 2 indicates that the relationship between financial hardship and profitability, with financial flexibility acting as a moderator, has a p value of $0.114 > 0.05$. This indicates that either the premise is not supported or financial flexibility is unable to mitigate the impact of profitability on financial distress. where the impact of profitability on financial distress cannot be mitigated by financial flexibility. Even though the company has financial flexibility, if there is not enough liquidity to cover sudden expenses or short-term responsibilities, then even good profitability may not be enough to prevent Financial Distress. Even though a company has financial flexibility (the ability to adapt and change their financial structure as needed), this is not enough to moderate or reduce the effect of profitability on financial distress. In this context, profitability remains the dominant factor influencing financial distress, and financial flexibility does not have a significant effect in weakening the relationship. The results of the study are in line with the study conducted by (Nuzurrahma & Fahmi, 2022) which found that profitability had no impact on the occurrence of Financial Distress. Strengthened by a study conducted by (Istiani, Sebrina, dan Halmawati, 2020), where financial flexibility does not contribute to the occurrence of Financial Distress.

H9 : Financial Flexibility moderates the influence of Funding Decisions on Financial Distress in the Basic and Chemical Industry Sectors listed on the Indonesia Stock Exchange

Table 2 indicates that financial flexibility as a moderator of the impact of financing decisions on financial hardship had a p value of $0.992 > 0.05$. This indicates that the hypothesis is either disproved or that financial flexibility cannot mitigate the impact of funding choices on financial suffering. when the impact of funding decisions on financial distress of enterprises in the basic and chemical industries on the IDX cannot be mitigated by financial flexibility. Companies have limited financial flexibility, so they are not strong enough to reduce the negative impact of funding decisions on financial distress. Funding decisions, especially those based on debt, have a strong direct impact on financial distress, so financial flexibility is not significant enough to change this relationship. External conditions, such as interest rates, inflation, or capital market conditions, can affect the relationship between funding decisions and financial distress more strongly than internal financial flexibility. In line with the study conducted (Sari & Pristiana, 2024) which shows that funding decisions do not have a significant effect on financial distress. Strengthened by the study conducted (Istiani et al., 2020), where financial flexibility does not contribute to the occurrence of Financial Distress.

H10 : Financial Flexibility moderates the effect of Cash Flow Operation on Financial Distress in the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange

Based on table 2, it is known that the effect of cash flow operations on financial distress with financial flexibility as a moderation obtained a p value of $0.508 > 0.05$. This means that financial flexibility is unable to moderate the effect of cash flow operations on financial distress, or the hypothesis is rejected. Where financial flexibility is unable to moderate the effect of cash flow operations on Financial Distress in basic and chemical industry sector companies on the IDX. Although the company has financial flexibility, if the operational cash flow is very low or negative, the company may not have sufficient liquidity to meet its short-term obligations. This can cause Financial Distress even though there is financial flexibility. Companies that rely heavily on operational cash flow to fund their daily activities will face greater difficulties when CFO is low. Cash flow from operations is a key indicator of a company's ability to generate the funds needed to meet operational and financial obligations. If CFO is low, the company has difficulty paying debts, operating costs, and other obligations, even though it has financial flexibility. Financial flexibility focuses on the company's capacity to adjust external funding or short-term financing, but cannot directly increase the company's ability to generate cash flow from operations. Low CFO still reflects problems with the company's operational performance or efficiency, which cannot be solved only with a flexible financial structure. In line with the study conducted (Isdina dan Putri, 2021) where cash flow operations do not have a significant contribution to Financial Distress. Strengthened by the study conducted (Istiani, Sebrina, dan Halmawati, 2020), where financial flexibility does not contribute to the occurrence of Financial Distress.

H11 : Financial Flexibility moderates the influence of Financial Risk on Financial Distress in the Basic Industry and Chemical Sector listed on the Indonesia Stock Exchange

Based on table 2, it is known that the effect of financial risk on financial distress with financial flexibility as a moderation obtained a p value of $0.116 > 0.05$. This means that financial flexibility is unable to moderate the effect of financial risk on financial distress, or the hypothesis is rejected. Where financial flexibility is unable to moderate the effect of financial risk on Financial Distress in basic and chemical industry sector companies on the IDX. This shows that even though companies have the capacity to adjust their financial structure or manage financial resources flexibly, high financial risk factors can still cause significant financial difficulties. If a company has a very high debt ratio or a large dependence on short-term debt with variable interest, the financial risk becomes very large. Although financial flexibility allows for restructuring or delaying debt payments, fundamental problems such as unpaid debt or increasing interest will continue to add to the company's financial burden and trigger Financial Distress. The results of the study are supported by a study conducted by (Dharmawati dan AkhERRUDDIN, 2024) which found that financial risk did not contribute to the occurrence of Financial Distress. Strengthened by a study conducted by (Istiani, Sebrina, dan Halmawati, 2020), where financial flexibility does not contribute to the occurrence of Financial Distress.

CONCLUSION AND RECOMMENDATION

Based on the results and discussion, it can be concluded that profitability and financial risk have a direct significant effect on financial distress. Meanwhile, cash flow operation funding decisions do not have a significant effect on financial distress. Through financial risk, profitability is proven to have a significant effect on financial distress, while funding decisions and cash flow operations do not have a significant effect on financial distress. Other results show that financial flexibility is unable to moderate the effect of profitability, funding decisions and cash flow operations on financial distress. The suggestion from this research is that further researchers are advised to develop research by including other external factors that might influence Financial Distress, such as macroeconomic conditions (inflation, interest rates, and economic growth), industrial sectors, and the influence of regulations. The influence of these external factors can vary greatly depending on Indonesian or global economic conditions.

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