

NAVIGATING TURBULENCE: HOW MACROECONOMIC SHOCKS, INVESTMENT CHOICES, AND FUNDING STRATEGIES IMPACT VALUE IN DISTRESSED INDONESIAN SOES - WITH A TWIST OF GCG

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Abstract

The COVID-19 pandemic potentially causing financial distress in companies, including non-financial state-owned enterprises registered on IDX. The company's financial condition is crucial, especially for the firm's value of the company listed on the stock exchange. The research aims to determine financial distress in the state-owned company and identify factors that may be the cause, such as macroeconomic variables, investment policy, company financing, financial risk, and its relationship to company value. The research' novelty lies in testing the moderating influence of corporate governance. Causality quantitative research methods used in this research. The secondary data obtained from quarterly financial reports published by non-financial sector state-owned enterprises registered on IDX. Data analysis done using descriptive data analysis, and SEM was analyzed using the SmartPLS program. The research results show that macroeconomics and financial risk insignificantly affect financial distress or firm value; investment and funding decisions impact financial distress but not on firm's value. Increasing financial distress increases firm's value. Financial distress does not mediated or moderated by good corporate governance on firm value.

Keywords: Macroeconomics, Investment Decisions, Financial Risk, Firm Value, Financial Distress, Good Corporate Governance.

BACKGROUND

In general, companies always face fierce competition in the business world, which requires them to survive by seeking capital, developing new strategies, generating innovative ideas, and building a positive image in the eyes of consumers. Capital is the main key in efforts to maintain the company's existence, either through providing loans from external parties or by issuing shares. Creditors and investors have an important role in the company's capital cycle; therefore, increasing company value is crucial to winning their trust. The capital market is a vital platform in this process, where stable and rising share prices provide an idea of the company's value and investor profits. Wijaya (2014) stated that the value of a company can be seen from its stock price which is stable and increases in the long term. So, the higher the share price, the higher the company value. The COVID-19 pandemic has presented serious challenges to the global economic sector, including Indonesia, causing several companies to close down and others to have to lay off workers. The positive response to this emergency situation is outlined in Government Regulation in Lieu of Law No. 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the 2019 Corona Virus Disease Pandemic in Indonesia, which regulates state financial policy and financial system stability to respond to the threat of the pandemic. SOE along with the non-financial sector are also affected, with financial reports

becoming a reflection of transparency and investment considerations for external parties. As companies providing public services, companies with State-Owned Enterprise status are increasingly required to be transparent in their financial reporting.

Table 1: Non-Financial SEO's Net Profit Listed IDX (in billions of rupiah)

Company Name	Code	2018	2019	2020	2021
Pharmaceuticals					
PT. Indofarma Tbk.	INAF	-32.736	7,961	3,002.1	-37.571
PT. Kalbe Farma Tbk.	KAEF	765,02	501,66	653,02	985,64
Energy					
PT. Perusahaan Gas Negara Tbk	PGAS	5.104,94	1.581,74	3.020,75	5.103,48
Metal industries					
PT. Krakatau Steel Tbk.	KRAS	-93.110	-448.763	166.657	69.544
Constructions					
PT. Adhi Karya Tbk	ADHI	645,02	665,04	23,70	86,50
PT. Pembangunan Perumahan Tbk	PTPP	1.958,99	1.048,15	311,95	361,42
PT. Wijaya Karya Tbk	WIKA	2.073.300	2.621.015	322.343	214.425
PT. Waskita Karya Tbk	WSKT	3,07	2,76	-9,28	-1,83
Minings					
PT. Aneka Tambang Tbk	ANTM	1.636	193,85	1.149	1.861
PT. Bukit Asam Tbk	PTBA	469,91	196,51	2,52	9,95
PT. Timah Tbk	TINS	-8,712	6,171	-124,715	49,211
Cement					
PT. Semen Baturaja Tbk.	SMBR	247,50	233,94	215,16	234,31
PT. Semen Indonesia Tbk.	SMGR	3.085	2.371	2.674	2.082
Transport and Transportation Infrastructure					
PT. Jasa Marga Tbk.	JSMR	2.202	2.207	501	1.615
PT. Garuda Indonesia Tbk.	GIAA	-21,33	-64,70	-198,83	-35,79
Telecommunications					
PT. Telekomunikasi Indonesia Tbk.	TLKM	26,98	27,59	29,56	33,95

Source: Annual Report, processed (2023)

Table 1 shows that the operating profit of 16 state-owned companies tends to decline, except for Kimia Farma (KAEF) which is successful because it produces a variety of COVID-19 drugs which have high demand. Meanwhile PT. Garuda Indonesia Tbk. (GIAA) suffered a major blow due to the implementation of PPKM which prohibited civilians from carrying out activities outside the home. Other large state-owned companies also did not escape the pressure of the pandemic, with some of them recording large losses. The millions of USD losses they experienced in the first semester of 2020 are clear evidence of the economic impact felt by state-owned companies due to the pandemic. Conditions with low operational profits can endanger the company's financial health, increasing the risk of default on loans, interest and short-term liabilities. Inability to fulfill this obligation can cause the company to fall into financial distress. To predict potential financial difficulties, several financial ratios can be used as indicators in the applied score model.

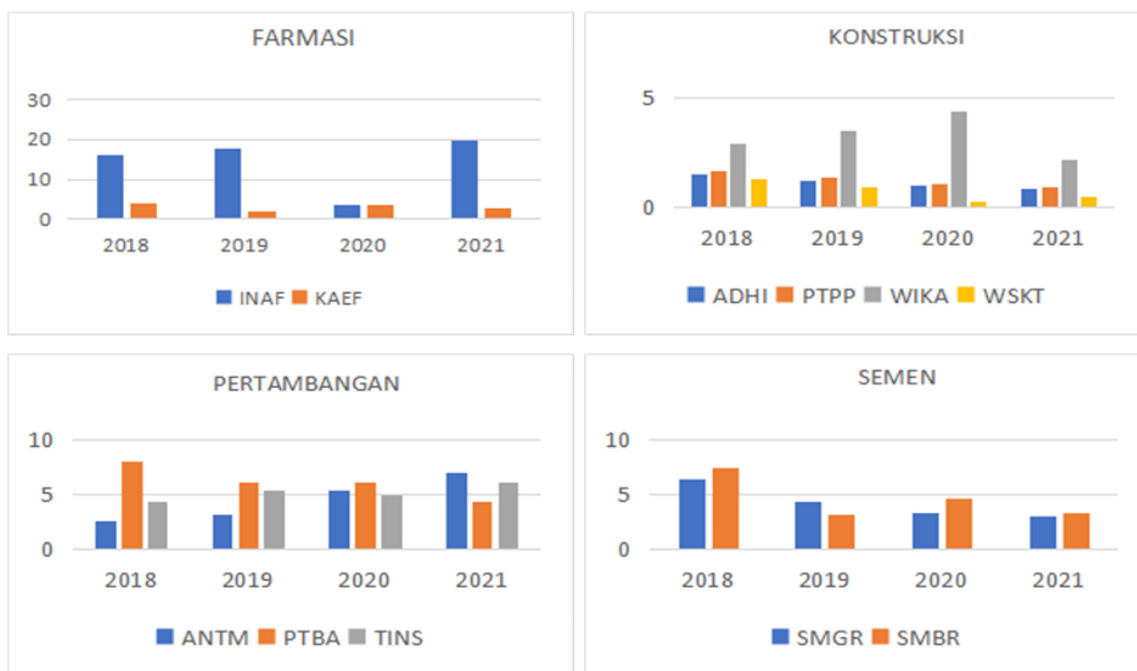


Figure 1: Financial Distress (Z score) of Listed SOE in the Pharmaceutical, Construction, Mining and Cement Sectors for the 2018-2021 Period

Figure 1 shows the financial distress condition of SOE listed on IDX in the 2018-2021 period. A Z-score value between 1.23 to 2.99 indicates a "gray area" and has a moderate chance of bankruptcy. However, if the Z value is below 1.23, it is said to be in the "distress zone" and there is a very high possibility of reaching bankruptcy. The majority of SOEs registered on IDX are experiencing a situation approaching the "grey area" and some have even entered the "distress zone"

Financial distress is a condition where a company has difficulty meeting operational needs and short-term obligations to suppliers and creditors (Eboiyehi & Ikpesu, 2017; Sari et al., 2018). To overcome this, the main step that can be taken is to change the company's strategy, such as increasing capital through selling assets, looking for new investors, or obtaining funding from financial institutions. However, this process can be complicated, especially in selling high-priced assets and finding willing investors when the company experiences financial distress.

Previous research provides mixed results regarding the influence of financial distress on firm value. Some studies state there is no significant effect, while others show both positive and negative effects. Therefore, this research will focus on the relationship between financial distress and the value of non-financial state-owned companies listed on IDX, especially in the context of the COVID-19 pandemic. The aim is to identify possible financial distress conditions and the factors that cause them, such as macroeconomic variables, investment policies, company funding and financial risks.

Rational investors tend to infer higher firm value from higher debt levels. Thus, these investors tend to bid up a company's stock price after the company has issued debt to buy back equity. Investors view debt as a signal of company value. The above implies that the company can cheat investors by taking some additional leverage.

Ross Signaling Equilibrium Theory (Ross, 1977), in internal fundraising activities, financial managers can consider compensation schemes based on capital decision choices between equity (internal funding source) or debt (external funding source). This capital decision will reveal the information the manager has about the intrinsic value of the company. This signal theory emphasizes the existence of information released by companies regarding investment decisions aimed at investors and other stakeholders to show that the company is better than other companies.

Signal theory in financial distress conditions explains that financial managers use liberal accounting for good conditions and conservative accounting for bad conditions. The aim is to provide information to managers so they can take quick action in resolving the company's financial problems. A small decrease in profits can be an indicator of financial distress, where financial reports are used to provide confidence to investors. In this context, signal theory plays an important role in assessing a company's financial condition. By analyzing financial reports, investors can evaluate the company's financial health and identify potential risks of financial distress. Positive signals in financial reports can reduce the risk of financial distress for the company.

This research is novel by testing the influence of the Good Corporate Governance variable as a moderator of the relationship between financial distress and firm value. Similar research has never been conducted on state-owned companies in all industrial sectors, so it can provide an important contribution to understanding this aspect. Thus, this research is an effort to better understand and analyze the impact of financial distress on the value of SOE companies during the pandemic and its relevance to the principles of good corporate governance.

Theoretical Foundation

Corporate Enterprise, State-owned Enterprise and State-Owned Corporate Enterprise

A corporate company is a legal entity that has as much power and authority as an individual. In forming a corporation, the process is more complex than with ownership or partnership. Founders must prepare articles of association and bylaws that regulate various aspects, from the name of the company to the rights of shareholders and the board of directors. Corporations consist of three main parties: shareholders as owners, directors, and corporate officers as top management.

One of the great advantages of corporations is the separation of ownership from management, where shareholders are responsible for the direction, policies, and activities of the company while management carries them out. This provides flexibility in the transfer of share ownership, the continuity of the company without taking into account changes in owner, as well as limited shareholder responsibility according to the amount of their investment. Other advantages

include unlimited company life and the ability to raise capital easily. State-owned Enterprise (SOE) is a company owned and operated by the government of a country. In contrast to private corporate companies, SOE has majority ownership or is entirely held by the government at various levels, from central to regional. SOEs usually play a strategic role in a country's economy, involved in vital sectors such as energy, transportation, telecommunications, and finance. The government's position as owner provides direct or indirect control over SOE's strategic decision making.

Meanwhile, State-Owned Corporations are business entities that are fully owned by the government of a country, but are run professionally like private companies. The main goal of state-owned corporations is to achieve community welfare and optimize the use of state resources for economic progress. Even though ownership is owned by the government, state-owned corporate companies are often expected to be able to compete and run their businesses efficiently and transparently without any detrimental political interference.

Both forms of entity, both State-owned Enterprises and State-Owned Corporations, have a major responsibility in creating added value for the country's economy and ensuring the delivery of public services and important infrastructure. Even though there are differences in ownership and management structures, both still play an important role in economic development and community welfare.

Macroeconomic Factors

Macroeconomics is a branch of economics that looks at the overall economic activities of a country, including important factors such as consumption and investment levels, trade balance, prices and wages, as well as fiscal and monetary policies. The focus is on the overall economic structure and aggregate aspects, explaining the interactions between labor, turnover of goods, and economic assets in the trading activities of individuals or countries. In analyzing economic conditions, macroeconomics also examines the relationship between aggregate economic variables such as national income, employment opportunities, consumption, investment, money supply, prices, interest, balance of payments, capital stock and government debt.

Research by Febrianto *et al.* (2018) and Sugiarto *et al.* (2019) shows that macroeconomics has a significant influence on the Value of the Firm, while the research results of Himama *et al.* (2018) concluded that macroeconomic factors have a positive but not significant effect on company value. In contrast, Brahmayanti *et al.* (2021) conclude that macroeconomics does not have a significant effect on company value.

Investment Decisions

Investment decisions are an important financial management function in allocating company funds, aimed at achieving future profits (Achmad & Amanah, 2014: 4). This decision is emphasized as the key in determining the company's future investment profitability and cash flow. The investment decision process involves planning, setting goals, arranging funding, and applying specific criteria to select long-term assets that will provide profits in the future (Riyanto, 2011: 256). The right investment decision can improve asset performance, share

prices, and provide a positive signal for investors to invest in the company (Prasetio, 2011: 109). Investments can be divided into two categories, namely short term (securities, receivables, inventories) and long term (land, buildings, vehicles, machinery and other fixed assets).

Research by Himama *et al.* (2018) and Sugiarto *et al.* (2019) shows that Investment Decisions on the Value of the Firm are significant. In a different study, Männasoo *et.al.* (2017) concluded that there was a substantial adverse impact of investment intensity and debt financing on the financial health of companies during the crisis; and Meryana & Setiany (2021) concluded that investment does not have a significant effect on the financial difficulties of healthy companies.

Brahmayanti *et al.* (2021), Matiin *et al.* (2018), Himana *et al.* (2018), Sugiarto *et al.* (2019) and Syamsudin *et.al.* (2022) concluded that the influence of investment decision on the value of the firm is significant; while Triani & Tarmidi (2019) and Likitwongkajona & Vithessonthi (2020) concluded the opposite.

Funding Decisions

Funding decisions include the allocation between debt and equity, the type of financial resources to be used, and the timing of implementation. Evaluation of financing decisions uses NPV criteria, similar to the evaluation of capital budgeting projects, but the results are different because companies tend to have more projects with positive NPV than financing options. An increase in debt is interpreted by the market as the company's ability to pay future obligations or reduce business risk Brigham & Houston (2001). There are two views on funding decisions: the traditional view that connects capital structure with company value, and the concept that the composition of internal and external funding sources determines the optimal capital structure policy to finance company operations. Funding decisions also focus on determining the appropriate composition of share capital and debt to form an optimal capital structure for the company.

Trade-off Theory discusses the relationship between a company's capital structure and company value, with an emphasis on the balance between the benefits and sacrifices resulting from the use of debt. The essential concept of this theory is that although debt provides benefits, there are costs that must be considered by financial managers Husnan & Pudjiastuti (2015:282). In Trade-off Theory it is also stated that increasing debt below the optimal point can increase company value, but if it exceeds that point, bankruptcy costs will increase. According to Modigliani-Miller (MM), companies can use debt fully to achieve maximum value, utilize interest payments to reduce tax burdens, but also be wary of bankruptcy costs. Brigham & Houston (2016:36) explain that limiting the use of debt by companies is carried out to keep costs related to bankruptcy low.

Männasoo *et.al.* (2017) concluded that there was a substantial adverse impact of investment intensity and debt financing on the financial health of companies during the crisis. In addition, there is a strong non-linear pattern in the sensitivity of a firm's distress to its investment financing relationships. Meanwhile Matiin *et.al.* (2018) concluded that funding decisions have a significant effect on company financial performance in coal mining sub-sector companies

going public on the Indonesian stock exchange, as is the conclusion of Pristiana & Istiono (2020) and Widarno & Irawan (2021). Ukhriyawati *et.al.* (2017) concluded the opposite.

Four different studies conducted in Indonesia concluded that funding decisions have a significant effect on company value, such as in the coal mining sector (Matiin *et al.*, 2018), the construction sector (Wiratno *et al.*, 2018), the banking sector in Indonesia (Febrianto *et al.*, 2018), and in the manufacturing sector (Brahmayanti *et al.*, 2021). However, research by Nurlela *et.al.* (2020) and Sulistiono & Yusna (2020) conclude that funding decisions do not affect company value.

Financial Risk

Risk is a crucial factor that must be considered in company management related to capital structure, investment and profit distribution decisions. Definitions of risk vary, with some economists viewing it in terms of probability or expected value, while others emphasize undesirable events (Bessis, 2011; Aven, 2012). Risks can be divided into systematic (related to macroeconomic sectors) and non-systematic (related to microeconomics). Financial risks include external and internal risks, which arise as a result of changes in financial markets and company financial decisions. Effective risk management in dealing with these various risks is a big challenge for company stakeholders (Noor & Abdalla, 2014), because their goal is to maximize profitability and company value (Waitherero *et al.*, 2019). Good internal communication and effective financial risk management can help reduce the company's risk exposure, as well as make it easier to achieve the company's goal of maximizing shareholder wealth (Bessis, 2011). Petrovska (2017) emphasizes the importance of analyzing financial indicators such as capital adequacy level, financial leverage, and financial debt in evaluating the financial risk of an organization.

Brahmayanti, Ratnawati & Nugroho (2021), concluded that financial risk in manufacturing companies listed on the IDX has a positive and significant effect on company value.

Four different studies conducted in Indonesia concluded that financial risk has a significant effect on company value, such as in the banking sector in Indonesia (Febrianto *et al.*, 2018), and in the manufacturing sector (Brahmayanti *et al.*, 2021). In more detail, Nurcan & Erdogan (2020) concluded that the firm value of textile companies is influenced by Exchange Risk and Financial Leverage, while Liquidity Risk and Credit Risk do not have a significant effect on firm value. However, Olalere *et.al.* (2020) concluded that liquidity risk, credit risk, operational risk & interest rate risk significantly influence firm value. Even Roy & Bandopadhyay (2021) concluded that financial risk and firm value have a significant negative relationship.

Financial Distress

Often the condition of financial distress is equated with bankruptcy, even though financial distress and bankruptcy are two different things. Financial difficulties are an early indication before company bankruptcy occurs. According to Platt & Platt (2002) financial distress is a stage of decline in a company's financial condition before liquidation or bankruptcy occurs. Indications of financial distress can be seen from the financial performance reflected in a

company's financial reports. Financial distress begins with the inability to fulfill its obligations, especially short-term obligations such as liquidity obligations and also includes obligations in the solvency category. According to Hofer (1980) and Whitaker (1999), a company is said to be in financial distress if it continues to experience negative net profits for several years. This is generally due to high fixed costs, large levels of illiquid assets, or revenues that are sensitive to downturns in economic conditions. Gerritsen (2015) stated that financial distress is the initial stage that a company will face before experiencing bankruptcy.

The occurrence of financial distress begins with the condition of the company being unable to fulfill all its obligations, which causes a decline in the financial condition of a company (Sopian & Rahayu, 2017). Failure is an economic failure that occurs when a company loses revenue and cannot cover its total operating costs (Helena & Saifi, 2017). Bankruptcy is the worst situation for a company that is in a state of financial distress where the company is at its lowest point and is unable to fulfill its debts or obligations (Wardani & Hidayati, 2022).

Pratama *et al.* (2020) found that financial distress has an insignificant effect on firm value. More firmly, Sumaryati & Tristiarini (2017) concluded that there is no influence of financial distress on firm value. Meanwhile Dewi *et al.* (2021) conclude that there is a negative influence of financial distress on firm value. However, Nurul & Zulfiati (2018) and Witjaksono (2020) conclude that financial distress has an effect on firm value.

Firm Value

Firm Value is something that investors really pay attention to, because Firm Value is investors' perception of the success of a company. Apart from that, Firm Value is also a reflection of the prosperity of shareholders or investors through the company's share price. The increase in share prices shows investor confidence in the company. They are willing to pay more to get higher profits. High share prices can provide a good signal to attract investors' interest in making investment decisions (Ifada *et al.*, 2019). In other words, company value is a measure of financial manager performance.

From a broad perspective, Husnan & Pudjiastuti (2015) define that Firm Value is the price that prospective buyers are willing to pay if the company is sold. Meanwhile, from a capital market perspective, Keown (2010) explains that Firm Value describes the market value of outstanding debt securities and company equity. So it can be concluded that company value is the market value of all the company's financial components that prospective buyers are willing to pay if the company is sold, which is reflected in the share price.

Good Corporate Governance

The issue of good corporate governance has become popular and important in the last decade. This concept is recognized as the key to a company's success in long-term growth and global competition (Daniri & Simatupang., 2009). There is increasing attention to corporate governance due to corporate scandals such as Enron, Worldcom, Tyco, and others. The economic crisis in Asia and Latin America is said to have occurred due to the failure to implement good corporate governance. Especially in Asia, weak corporate governance

practices are caused by the relationship between government and business, conglomeration, and market intervention (Arifin, 2005). Good corporate governance aims to create added value for all stakeholders by paying attention to shareholder rights, information disclosure and the principles of justice.

Implementing GCG is important for companies, especially in Indonesia which is experiencing a serious impact due to the financial crisis. Cases of insider trading and financial report mark-ups show how violations of corporate governance principles can harm investors. Regulations issued by the government, such as the Decree of the Minister of SOE, emphasize the importance of implementing GCG consistently. Organizations such as the Financial and Development Supervisory Agency also play a role in increasing awareness and implementation of good corporate governance in the public sector and SOE. The OECD defines good corporate governance as a system that directs and controls a company to achieve company goals and monitor its performance.

The importance of GCG is to increase and maximize company value in order to win global competition, to avoid fraud and corruption and to encourage the creation of markets that are efficient, transparent and consistent with laws and regulations based on 5 basic principles of GCG -Transparency, Accountability, Responsibility, Independency, and Fairness, increasing the company's contribution to the environment around the Company and in the national economy, increasing a conducive climate in the environment around the company.

RESEARCH METHODS

This research aims to answer the problems raised by testing hypotheses using a cause-and-effect research approach. Secondary data from SOE financial reports was used in this research. The results of data analysis are presented in the form of descriptive and inductive analysis through the SmartPLS program.

The population of this study consisted of 16 state-owned companies in the non-financial sector listed on IDX during the period 2018 to 2021. The research used a saturated sampling technique because the population was relatively small. The research sample includes 64 observations from five years. The validity test was carried out using the Pearson Product Moment correlation test, while the reliability test used Cronbach Alpha to measure the reliability of the question items.

The research conceptual model uses reflective indicators with a relationship model between latent variables that fulfills the nature of a recursive model. Therefore, the analysis method used is SmartPLS. The use of SmartPLS was chosen because this program is effective, powerful, does not require many assumptions, and can operate with relatively small samples.

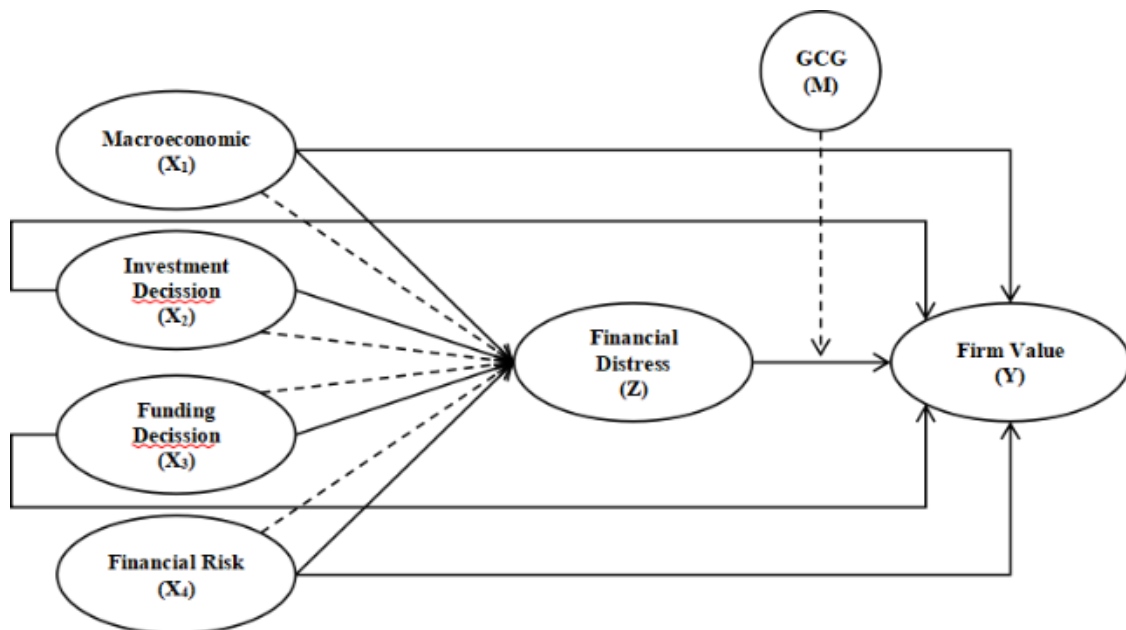


Figure 2: Conceptual Framework

- H1: Macroeconomic variables influence Financial Distress in SOE in the non-financial sector listed on IDX.
- H2: Macroeconomic variables influence Firm Value in SOE in the non-financial sector listed on IDX.
- H3: Investment decisions influence Financial Distress in SOE in the non-financial sector listed on IDX.
- H4: Investment decisions influence Firm Value in SOE in the non-financial sector listed on IDX.
- H5: Funding Decisions influence Financial Distress on SOE in the non-financial sector listed on IDX.
- H6: Funding Decisions influence Firm Value on SOE in the non-financial sector listed on IDX.
- H7: Financial Risk influence Financial Distress on SOE in the non-financial sector listed on IDX.
- H8: Financial Risk influence Firm Value on SOE in the non-financial sector listed on IDX.
- H9: Financial Distress influence Firm Value on SOE in the non-financial sector listed on IDX.
- H10: Financial Distress mediates the influence of macroeconomics on Firm Value SOE in the non-financial sector recorded on IDX.

- H11: Financial Distress mediates the influence of investment decisions on Firm Value SOE in the non-financial sector recorded on IDX.
- H12: Financial Distress mediates the influence of funding decisions on Firm Value SOE in the non-financial sector recorded on IDX.
- H13: Financial Distress mediates the influence of financial risk on Firm Value SOE in the non-financial sector recorded on IDX.
- H14: GCG moderates the influence of Financial Distress on Firm Value SOE in the non-financial sector listed on IDX.

RESULTS

Data Descriptive Analysis

Debt to Equity Ratio

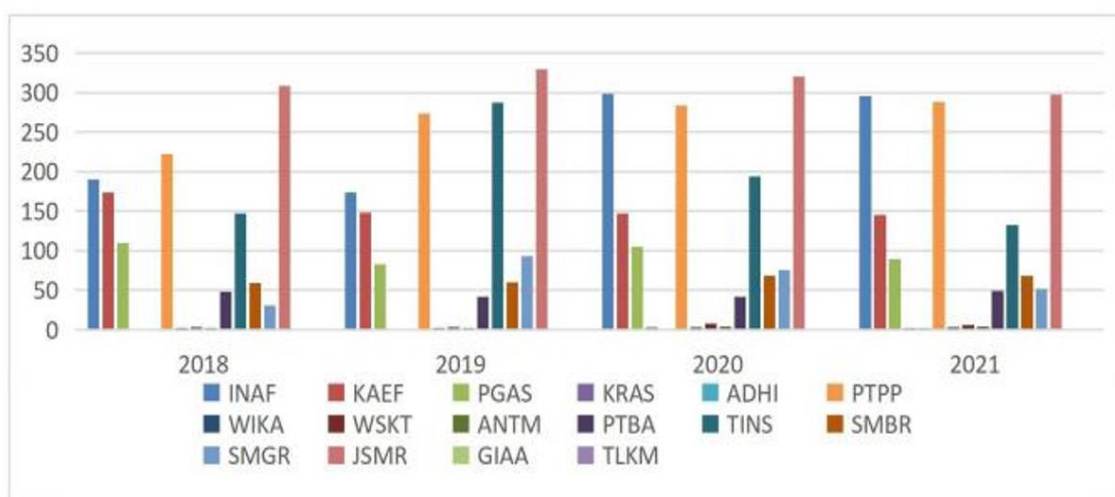


Figure 3: DER of non-financial BUMN for the 2018-2021 Period

In the research period, the majority of SOEs had very high Debt to Equity Ratio values, meaning their debt was greater than the equity they owned.

During the research period, several SOEs appeared to be trying to reduce their DER scores, but some actually experienced an increase, such as PT. Indofarma Tbk. which operates in the pharmaceutical sector, PT. Housing Development Tbk. which operates in the construction sector, and PT. Jasa Marga Tbk. which operates in the transportation services sector.

A debt to equity ratio value that is too high indicates that the company is unable to collect business working capital, so it must provide financing to financial institutions.

If this increase in debt is not properly considered, especially with the onset of the pandemic, it could disrupt the company's financial performance, which could position the company as being unable to pay its debt obligations.

Financial Distress (Z-Score)

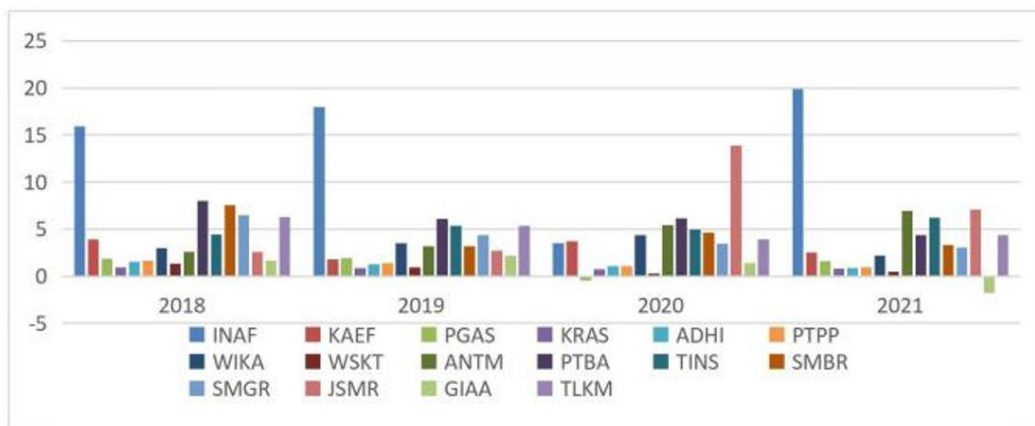


Figure 4: Z-Score value of non-financial BUMN for the 2018-2021 period

The way to understand the Z-Score value is to compare it with certain limits established by Altman (1968) to classify companies into different risk groups:

Table 2: Z-score value cut off

Nilai	Kondisi	Arti
Z-Score < 1.81	<i>Distress Zone</i>	company is at high risk
1.81 < Z-Score < 2.99	<i>Gray Zone</i>	company has the potential to experience risks
Z-Score > 2.99	<i>Low Risk Zone</i>	company is in a safe condition

Source: Altman (1968)

From **Table 2** it's known that based on the Z-Score, SOE in the mining, cement, transportation and telecommunications sectors, as well as one SOE in the pharmaceutical sector are in a safe condition, while SOE in the construction and iron manufacturing sectors are in the gray zone in the post-pandemic period. And are in the distress zone during the pandemic.

Inferential Statistical Analysis

Direct Effect Hypothesis Testing

Table 3: SmartPLS Bootstrap resampling results of Direct Effect

Hypothesis	Corellation	Original Sample (O)	T Statistics ((O/STDEV))	P Value
H ₁	Macroeconomic -> Financial Distress	0.110	0.996	0.320
H ₂	Macroeconomic -> Firm Value	-0.043	0.438	0.662
H ₃	Investment Decisions -> Financial Distress	0.260	2.511	0.012
H ₄	Investment Decisions -> Firm Value	-0.178	1.798	0.073
H ₅	Funding Decisions -> Financial Distress	0.371	3.399	0.001
H ₆	Funding Decisions -> Firm Value	-0.130	1.235	0.218
H ₇	Financial Risk -> Financial Distress	-0.073	0.366	0.714
H ₈	Financial Risk -> Firm Value	-0.000	0.005	0.996
H ₉	Financial Distress -> Firm Value	0,514	5.045	0,000

Based on the results of direct effect hypothesis testing, the following results were obtained:

1. In H1 testing, we found that the p-value was 0.320. This value is greater than the standard deviation value (0.5), which means there is no significant relationship. So it is concluded that macroeconomics has no influence on Financial Distress. From these results it was decided that H1 (Macroeconomics has a significant positive effect on Financial Distress) is REJECTED.
2. In H2 testing, we found that the p-value was 0.662. This value is greater than the standard deviation value (0.5), which means there is no significant relationship. So it is concluded that macroeconomics has no influence on Firm Value. From these results it was decided that H2 (Macroeconomics has a significant negative effect on Firm Value) is REJECTED.
3. In H3 testing, we found that the p-value was 0.012. This value is smaller than the standard deviation value (0.5), which means there is a significant relationship; while the Original Sample value obtained was 0.260, which means the relationship that emerged was positive. So it is concluded that Investment Decisions have a positive influence on Financial Distress. From these results it was decided that H3 (Investment Decisions have a significant positive effect on Financial Distress) is ACCEPTED.
4. In H4 testing, we found that the p-value was 0.073. This value is greater than the standard deviation value (0.5), which means there is no significant relationship. So it is concluded that Investment Decisions have no influence on Firm Value. From these results it was decided that H4 (Investment Decisions have a significant positive effect on Firm Value) is REJECTED.
5. In H5 testing, we found that the p-value was 0.001. This value is smaller than the standard deviation value (0.5), which means there is a significant relationship; while the Original Sample value obtained was 0.371, which means that the relationship that emerged was positive. So it is concluded that Funding Decisions have a positive influence on Financial Distress. From these results it was decided that H5 (Funding Decisions have a significant positive effect on Financial Distress) is ACCEPTED.
6. In H6 testing, we found that the p-value was 0.218. This value is greater than the standard deviation value (0.5), which means there is no significant relationship. So it is concluded that the Funding Decision has no influence on Firm Value. From these results it was decided that H6 (Funding Decisions have a significant positive effect on Firm Value) is REJECTED.
7. In H7 testing, we found that the p-value was 0.714. This value is greater than the standard deviation value (0.5), which means there is no significant relationship. So it is concluded that Financial Risk has no influence on Financial Distress. From these results it was decided that H7 (Financial Risk has a significant positive effect on Financial Distress) is REJECTED.

8. In H8 testing, we found that the p-value was 0.996. This value is greater than the standard deviation value (0.5), which means there is no significant relationship. So it is concluded that Financial Risk has no influence on Firm Value. From these results it was decided that H8 (Financial Risk has a significant negative effect on Firm Value) is REJECTED.
9. In H9 testing, we found that the p-value was 0.000. This value is smaller than the standard deviation value (0.5), which means there is a significant relationship; while the Original Sample value obtained was 0.514, which means that the relationship that emerged was positive. So it is concluded that Financial Distress has a positive influence on Firm Value. From these results it was decided that H9 (Financial Distress has a significant negative effect on Firm Value) is REJECTED.

Indirect Effect Hypothesis Testing

Table 4: SmartPLS Bootstrap Resampling Results of Indirect Effect

Hypothesis	Corellation	Original Sample (O)	T Statistics ((O/STDEV))	P Value
H ₁₀	Ekonomi makro -> Financial Distress -> Firm Value	0.110	0.996	0.320
H ₁₁	Keputusan Investasi -> Financial Distress -> Firm Value	0.260	0.438	0.012
H ₁₂	Keputusan Pendanaan -> Financial Distress -> Firm Value	0.371	2.511	0.001
H ₁₃	Financial Risk -> Financial Distress -> Firm Value	-0.073	1.798	0.714

Based on the results of indirect effect hypothesis testing, the following results were obtained:

10. In H10 testing, we found that the p-value was 0.320. This value is greater than the standard deviation value (0.5), which means there is no significant relationship; while the Original Sample value was 0.110, which means the relationship that emerged was positive. So it can be concluded that Financial Distress mediates the influence of the Macro Economy on Firm Value positively, although not significantly. From these results it was decided that H10 (Financial Distress mediates the influence of macroeconomics on Firm Value) is REJECTED.
11. In H11 testing, we found that the p-value was 0.012. This value is smaller than the standard deviation value (0.5), which means there is a significant relationship; while the Original Sample value obtained was 0.260, which means the relationship that emerged was positive. So it can be concluded that Financial Distress mediates the influence of Investment Decisions on Firm Value positively and significantly. From these results it was decided that H11 (Financial Distress mediates the influence of Investment Decisions on Firm Value) is ACCEPTED.
12. In H12 testing, we found that the p-value was 0.001. This value is smaller than the standard deviation value (0.5), which means there is a significant relationship; while the Original Sample value obtained was 0.371, which means that the relationship that emerged was positive. So it can be concluded that Financial Distress mediates the influence of Funding Decisions on Firm Value positively and significantly. From these results it was decided that H12 (Financial Distress mediates the influence of Funding Decisions on Firm Value) is ACCEPTED.

13. In H13 testing, we found that the p-value was 0.714. This value is greater than the standard deviation value (0.5), which means there is no significant relationship; while the Original Sample value was -0.073, which means the relationship that emerged was positive. So it is concluded that Financial Distress mediates the influence of Funding Decisions on Firm Value negatively but not significantly. From these results it was decided that H13 (Financial Distress mediates the influence of Funding Decisions on Firm Value) is REJECTED.

Moderation Effect Hypothesis Testing

Table 5: SmartPLS Bootstrap Resampling Results of Moderating Effect

Hypothesis	Corellation	Original Sample (O)	T Statistics (O/STDEV)	P Value
H ₁₄	Moderating Effect 1 -> Firm Value	-0.202	1.605	0.109

Based on the results of moderating effect hypothesis testing, the following results were obtained:

14. In the moderating effect testing (H14), we found that the p-value was 0.100. This value is greater than the standard deviation value (0.5), which means that there is no significant moderating. So it is concluded that Good Corporate Governance does not moderate the positive influence of Financial Distress on Firm Value. From these results it was decided that H14 (GCG significantly positively moderates the influence of Financial Distress on Firm Value) is REJECTED.

DISCUSSION

Financial Distress

The findings show that macroeconomic conditions do not always have a direct impact on SOE Financial Distress in the non-financial sector. This is due to government support and intervention in SOE, as well as industry characteristics that lack strong competition in serving the needs of fellow SOE. However, there is the potential for financial distress due to bad economic conditions, changes in government policy, or internal factors. Therefore, it is important to conduct in-depth analysis to identify potential risks, taking into account internal financial governance, variance between industries and sectors, monetary and fiscal policies, varying capital structures, and effective risk management.

SOE investment decisions in the non-financial sector can increase their financial distress Z-score and S-Score, which are indicators of security conditions from financial distress. Although the influence of macroeconomic conditions may vary, SOE's specific characteristics such as political and regulatory support, as well as strategic objectives, make it more stable to economic fluctuations. Wise investment decisions can improve a company's profitability, liquidity, and financial reporting transparency, positively affecting both scores. Investments that produce good returns can also improve liquidity ratios and encourage integrity in financial reporting, providing confidence to stakeholders and minimizing the risk of negative behavior on the S-

Score. SOE funding decisions in the non-financial sector play an important role in driving the Z-score and S-Score values, which influence the company's risk of financial distress. Selecting the right funding source can increase liquidity, reduce dependence on one source of income, and have a positive impact on financial reports and transparency. A prudent approach to funding, including assessing the costs of borrowing and internal financing, is a crucial step in maintaining financial stability and avoiding the risk of financial distress.

Increased financial risk in SOE in the non-financial sector does not always lead to financial distress, because government support and good management can help reduce the impact and give companies time to adjust. A proper strategic plan, business diversification and investment portfolio also play an important role in managing risks effectively and avoiding dependence on one sector. Apart from financial risk factors, liquidity management, financial flexibility and debt management must also be considered as preventive measures against possible financial distress.

The findings highlight that the relationship between macroeconomic conditions and SOE financial distress in the non-financial sector is not direct, mainly due to government intervention and the lack of tough competition between SOEs. However, the potential for financial distress still exists, triggered by poor economic conditions, policy changes, or internal factors. In facing these challenges, in-depth analysis is needed to identify potential risks through monitoring internal financial governance, industry dynamics, fiscal-monetary policies, diverse capital structures, and effective risk management. Smart investment decisions and appropriate funding play a crucial role in driving the Z-score and S-Score, two main indicators of financial distress risk. Selecting an appropriate funding source can increase liquidity, reduce dependence on one source of income, and open up opportunities for increased transparency and financial stability. Therefore, wise strategies in investment, business diversification, liquidity management, and debt management are important to maintain SOE's financial health and minimize the chance of financial distress to happen.

Firm Value

Macroeconomic developments do not always have a direct impact on the value of SOE companies in the non-financial sector. SOEs are often tied to long-term contracts with partners or customers, providing revenue stability that can mitigate economic fluctuations. These contracts ensure a consistent revenue stream, as construction SOEs experience with long-term contracts that guarantee services to the government or clients. Another example is PT. Telkom Indonesia, which provides essential services, experienced stable demand during the lockdown policy because people used telecommunications services more. SOE's special characteristics such as political support, regulation, and strategic goals also make it relatively resilient to economic fluctuations, maintaining the stability of company value despite uncertain economic conditions.

Investments in SOE companies in the non-financial sector do not always directly affect company value, but are influenced by various factors that require careful consideration. Important aspects that must be considered include appropriate risk management to avoid

potential risks that may arise due to increased investment, as well as the linkage of investment to the company's business strategy and competitive advantage. Economic uncertainty and market conditions also play an important role in determining the impact of investment on company value, because an unstable economic situation can increase liquidity and dependency risks. Investment decisions can also be influenced by limited decision autonomy, non-profit objectives, the influence of public policy, efficiency limitations, as well as different funding sources in the SOE. Making wise investment decisions must be accompanied by increased operational efficiency to ensure that investments not only bring financial benefits, but also have an overall positive impact on the company.

The funding decisions taken by SOEs in the non-financial sector have a complex impact on the value of their companies. In addition to playing a role in capital structure and financial health, factors such as alignment with business strategy, long-term vision, and return on investment are key in assessing the impact on firm value. SOEs with good access to funding from the government or external sources can focus more on operational risk management and business growth, so funding decisions may influence capital structure more than company value directly. Economic and market conditions also influence the predictability of the influence of funding decisions on company value, especially when markets experience volatility. In the context of SOE, funding decisions tend to be influenced by non-financial considerations, such as government influence and the Modigliani-Miller theory which states that capital structure does not affect firm value if capital markets are efficient, where investors can adjust their portfolios to address risk.

An increase in financial risk in a company can create uncertainty for investors and the market, reducing confidence and share value and overall firm value. Apart from affecting investor perceptions, higher financial risk also has a direct impact on higher loan interest costs, reducing net profits that can be allocated to growth or dividends. The impact is not only limited to financial aspects, but also harms a company's competitiveness by hindering strategic investment, research and innovation that are vital in a competitive business environment. Moreover, limited financial flexibility created by increased financial risks can make companies vulnerable to sudden economic changes or unforeseen business situations, which can ultimately have a negative impact on overall company value.

Financial distress can harm company value because it reflects serious financial difficulties that disrupt financial and operational obligations. Investors' reactions to these conditions often create uncertainty, lower stock prices, and lower company valuations. While smart management during financial distress can help minimize negative impacts, restructuring debt or selling assets at low prices can disrupt short-term operations. Easier access to external funds when the economy is stable can help companies manage financial risks and prevent financial distress. For SOE, a monopoly position in a particular market can provide protection from financial risks, while business diversification and government support in crisis situations can also help reduce the impact of financial distress. Although these steps can strengthen company resilience, effective risk management is still important to prevent financial distress which has the potential to harm company value and public services.

The relationship between macroeconomic factors, investment decisions, funding decisions, and financial risks has a complex impact on the value of SOE companies in the non-financial sector. Although macroeconomic conditions do not always directly affect a company's value, SOE's unique characteristics such as long-term contracts, political support, and strategic goals provide resilience to economic fluctuations. Investment and funding decisions must be considered carefully, considering aspects such as risk management, linkage to business strategy, as well as the influence of external factors such as public policy. Increased financial risk and financial distress conditions can harm company value, reduce competitiveness, net profit and investor attractiveness. Although proactive measures such as debt restructuring or access to funding can help manage risk, effective risk management remains crucial to maintaining the stability of company value in the face of economic uncertainty and maintaining the public services provided by SOE.

Financial Distress as Mediator

Financial distress can act as a mediator between macroeconomic influences and company value. When economic conditions fluctuate, the risk of financial distress can arise due to external factors such as market decline, high inflation, or changes in interest rates that affect financial conditions. Although financial distress can suppress company value, stable economic growth provides better business growth opportunities with increased demand for products or services that contribute to revenue and profitability. In a good economic situation, access to affordable funding and adequate liquidity helps companies manage financial risks and reduce the potential for financial distress. Thus, financial distress acts as a channel that allows positive macroeconomic influences to permeate firm value, demonstrating the complexity of the dynamic relationship between these factors.

Financial Distress plays a vital role as a mediator between Investment Decisions and Company Value with a positive and significant impact. Smart investment decisions can increase company growth and value, but must take into account the financial risks that may arise. Financial Distress facilitates the positive relationship of Investment Decisions with changes in company value by helping financial risk management in investment plans. By controlling risk and considering the interconnectedness of capital structure and liquidity, companies can minimize negative impacts and optimize the results of Investment Decisions, ensuring sustainable and significant growth for Company Value.

Financial Distress plays an important role as a mediator between Funding Decisions and Company Value with a significant positive impact. Even though it is well detailed, criticize that in its practical implementation, financial risk management often faces obstacles such as the inability to consistently identify risks, lack of comprehensive scenarios, and pressure to achieve short-term financial targets which can affect the company's ability to handle financial distress.

Thus, while the concept of Financial Distress mediation on Funding Decisions appears solid, the challenges in applying it in the real world highlight the operational complexity and diverse business dynamics.

Financial Distress plays a complex role in mediating the influence of Financial Risk on Firm Value. Financial Risk, which includes risks from market fluctuations to debt restructuring, can threaten the company's financial stability. Financial Distress is an important mediator that highlights the negative impact of Financial Risk on potential financial distress with consequences such as increased funding costs, reduced liquidity, and restrictions on access to new funds. Although some of these impacts may not be statistically prominent, the role of Financial Distress as an important reminder provides companies with a holistic view of the need for careful financial risk management to minimize potential operational problems and maintain company value. With a proactive approach and appropriate preventive measures, such as diversification of funding sources and wise investment selection, companies can maintain their financial stability in facing the complex dynamics of Financial Risk.

From the various discussions above, Financial Distress is emphasized as an important mediator that connects macroeconomic factors, Investment Decisions, Funding Decisions, and Financial Risk to company value. Despite its important role in clarifying the relationships between these various elements, criticism is that its implementation is often faced with practical challenges such as complex financial risk management and a lack of consistent risk identification. Although the concept of Financial Distress mediation on Investment Decisions and Funding Decisions seems solid, complex operational realities can hinder effective efforts to manage financial distress. As highlighted, proactive and preventive efforts, such as diversification of funding sources and careful risk management, are key in reducing the negative impact of Financial Risk and maintaining the company's financial stability. Thus, while the role of Financial Distress as a mediator has a significant impact, it is important for companies to take wise steps to minimize potential risks and maintain optimal company value.

Good Corporate Governance as Moderator

Good Corporate Governance (GCG) is a key element in ensuring transparency, accountability and ethics in company management. Although GCG does not moderate the significant positive impact of Financial Distress on Firm Value, the role of GCG is more focused on aspects of financial report transparency, protection of shareholder rights, and effective risk management. Although GCG can help manage risks and make wise decisions, a company's ability to take restructuring or savings actions in situations of financial distress remains independent of GCG. Thus, while GCG has important value in maintaining the integrity and operational efficiency of the company, the direct relationship between Financial Distress and company value is not moderated by GCG, highlighting that GCG does not directly influence the potential benefits that may arise from financial distress situations.

Although Good Corporate Governance (GCG) is emphasized as an important element in overseeing corporate transparency, accountability and ethics, criticism of GCG may include its inability to moderate the significant positive impact of Financial Distress on Firm Value. Although GCG focuses on aspects of financial report transparency, shareholder protection and risk management, the limitations of GCG in influencing a company's ability to respond to restructuring or retrenchment amidst financial distress raise questions about the extent to which GCG can effectively involve itself in mitigating risks related to that situation.

Therefore, while the value of GCG in maintaining company operations remains important, its existence does not always reflect GCG's ability to directly influence the potential benefits that may arise from financial distress conditions.

CONCLUSION

From the results of the hypothesis test, there are several important conclusions. First, there is no significant influence between macroeconomics and Financial Distress or Firm Value on SOE in the non-financial sector recorded on IDX. Second, Investment Decisions have a significant positive effect on Financial Distress, but do not have a significant effect on Firm Value. Apart from that, increasing financing (Funding Decisions) can increase Financial Distress but does not significantly affect Firm Value.

Other results show that Financial Risk has no significant effect on Financial Distress or Firm Value. Financial Distress has a significant positive influence on Firm Value, but is unable to mediate the influence of macroeconomics, Investment Decisions, Funding Decisions, or Financial Risk on Firm Value. Good Corporate Governance also does not moderate the significant positive influence of Financial Distress on Firm Value on SOE in the non-financial sector recorded on IDX. This indicates that the GCG Index score on SOE does not significantly weaken the effect of financial distress on firm value.

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