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Determinants of Company Financial Performance on Financial Distress With Enterprise Risk Management as an Intervening Variable

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ABSTRACT

The purpose of this study is to determine the effect of leverage, liquidity, and cash flow operations on financial distress, with enterprise risk management as an intervening variable. For the period 2017-2021, this study was conducted at building construction service companies listed on the Indonesian stock exchange.

Methodology/approach -The sampling technique used in this study is purposive sampling. The sample in this study are 17 companies of construction services companies listed on the Indonesian stock exchange during 2017 to 2021. The data analysis method is panel data regression analysis which is processed using the EViews program tool 12.0.

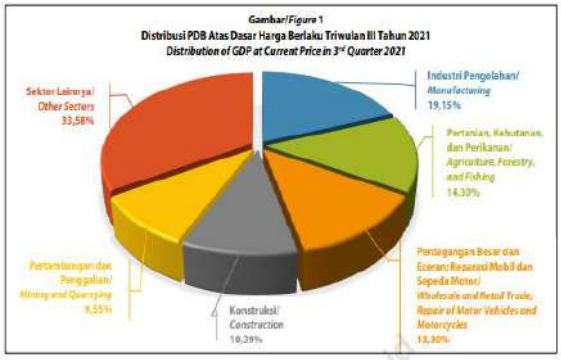
.**Findings** - The results of this study indicate that leverage and liquidity have no effect on enterprise risk management, while cashflow operation has an effect on enterprise risk management. Furthermore, leverage, liquidity, enterprise risk management have no effect on financial distress, while cash flow operation has an effect on financial distress. On the intervening variable, enterprise risk management is unable to mediate the effect of leverage, liquidity, cash flow operations on financial distress. However, simultaneously as the result of F-test shows that leverage, liquidity and cashflow operation jointly have an effect to the enterprise risk management (ERM) and also leverage, liquidity, cashflow operation, and ERM have a joint effect on financial distress.

Novelty/value – As the result of T statistic test and Sobel test found that cashflow operation affects ERM and financial distress. However, enterprise risk management as intervening is unable to mediate the effect of leverage, liquidity, cash flow operations on financial distress.

INTRODUCTION

The development of the industrial sector, especially construction services, is one of the driving factors in the growth of the national economic system and has a strategic position as the basis for the growth of other industries. In addition, construction services also have other strategic values as derivatives its business, namely the linkages between this sector and the supply chain (raw materials, equipment, manpower), as well as the products that function as facilities and infrastructure (Suraji et al., 2007;). The role of the construction services sector is closely associated with employment, investment, the number of infrastructure and building projects, reciprocity with other supporting sectors, and even acting as a facilitator in the movement and growth of the goods and services sector. improvement in educational and health facilities, adequate road access for goods and service transportation, and

increased attractiveness (BPS: Construction in Figures, 2021). Because the construction service industry has an important role in national economic growth, it is also necessary to pay attention to various problems that often occur, which can result in a decrease in the performance of construction service companies (Trianto, 2011).

Figure-1, construction sector 

percentage to GDP

To achieve greater economic growth, the government is focusing on increasing investment, whether public or private, in order to achieve greater economic growth in Indonesia, particularly in the area of infrastructure. Infrastructure development in Indonesia is one of the factors influencing the country's economy. This can be seen in Figure-1 above, where the construction sector's share of total GDP (PDB) is estimated to be 10.39% in the third quarter of 2021.

Table-1, Construction Services Sector Contribution to GDP and Growth Rate (2015-2021)

REMARK	2105	2016	2017	2018	2019	2020	2021
Construction Sector Contribution to GDP (%)	10,21	10,38	10,37	10,53	10,60	10,60	10,39
Construction Sector Average Growth Rate (%)	6,6	5,22	6,79	6,09	5,75	-2,39	2,43

However, as shown in Table-1 above, the growth rate of the construction services sector's contribution to GDP has significantly decreased, resulting in financial distress where the contribution of the construction sector to GDP has stagnated and even decreased from 2019 to 2021. Aside from that, if you look at the rate figures, the average growth in the construction sector has also decreased significantly, from 6.09% in 2018 to minus -2.39% in 2020, before rising slightly by 2.43% in 2021. The depiction of these figures shows that the construction services sector is experiencing growth challenges.

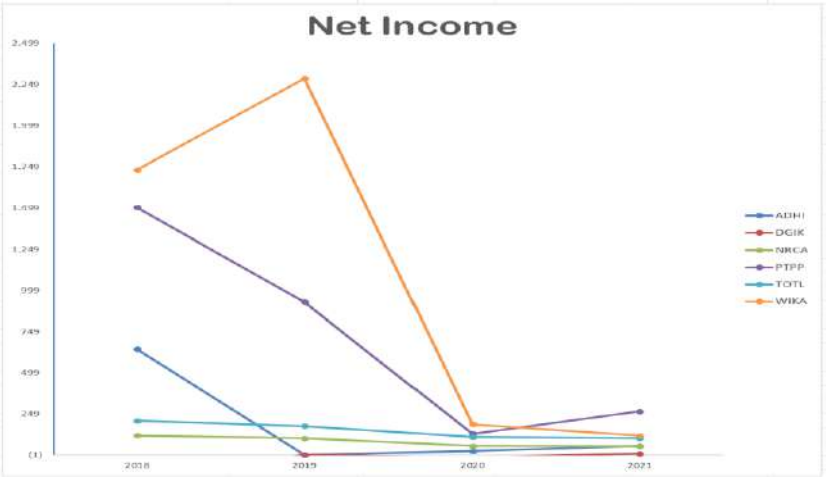


Figure-2, Net Income

Figure 2 shows that several companies' net profits fell and even experienced significant losses in a row the following year. In addition to the total liabilities of construction issuers mentioned above, they have increased from year to year. It is obvious that companies in the construction services sector are experiencing financial difficulties as a result of financing through large amounts of debt with relatively high interest rates. For example, ACST issuers lost approximately IDR 1.14 trillion in 2019, increasing to IDR 1.32 trillion in 2020, but their total liabilities decreased from IDR 10.1 trillion to IDR 2.7 trillion. Similarly, WSKT suffered 7.4 trillion in losses in 2020 and reduced them to 1.1 trillion in 2021, while their total liabilities decreased slightly from 93.5 trillion.

In addition to the BUMN construction services sector, the private construction industry experienced a significant decline, owing in part to government policies that discouraged fair business competition between private and BUMN contractors in carrying out large government projects. Aside from that, there is no policy for loan interest reduction or making it easier to provide bank guarantees. Furthermore, local construction firms are beginning to deal with the large number of foreign contractors looking for projects in Indonesia. As a result, competition for projects in government and private sector development has become increasingly fierce in the construction services sector. Private companies proposed to the government, through the Indonesian Contractors Association (AKI), on their 33rd anniversary (9 November 2006), tax breaks and loan interest relief policies so that private contractors can compete with foreign contractors while also overcoming financial challenges in completing projects.

The explanation and data above demonstrate that there is a phenomenon of financial difficulties in the construction services sector, which is due in part to government assignments, economic growth that has become an anomaly due to the long COVID-19 pandemic, high credit interest rates and short tenors, and adequate taxation. burdensome. Because of the influence of financial ratios (leverage, liquidity, and cashflow operations) mediated through enterprise risk management, the author is interested in taking on titles related to financial distress.

Previous research on the factors that influence financial distress produced a wide range of results, while very few studies discovered factors that influence ERM in mediating financial distress. Nur Rina Erayanti (2019) discovered a negligible positive effect of leverage on financial distress. Felicia Komala Yustina Triyani (2019) discovered an insignificant positive effect of leverage on financial distress. However, Dewi Purwanti and Dr. Andam D. Syarif (2022) discovered that leverage has a significant positive effect on financial distress. Saskara (2018) and Kumalasari (2014) have the same opinion that leverage has significant positive effect on ERM. Syifa (2013), Tahir (2011), and Pristianingrum (2018) discovered no effect of leverage on ERM. Meanwhile, Tessema (2016) and Marhaeni (2015) discovered a significant negative effect of leverage on ERM.

Meanwhile, Simorangkir (2020) discovered insignificant positive effect of liquidity on financial distress. Meanwhile, Ayumi Rahma (2020), Silvia Sarina, Aprilia Lubis, and Linda (2020) discovered a significant negative effect of liquidity on financial distress. Based on research conducted by Zhafirah (2019), Chairani Nurhamidah and Kosasih (2021) showed that liquidity has a positive effect on financial difficulties

In research on the effect of cash flow (Cashflow Operation) on financial distress, Liza Zuhrianto, Sri Mulyani, Paramita (2019) found a significant negative effect of Cashflow Operation on financial distress. Meanwhile Faldiansyah, et al. (2020) found no significant positive effect of Cashflow Operation on financial distress. Based on research conducted by Heni Yusnita (2022), Florentina Cindy

Finishtya (2019), Tutliha and Rahayu (2019) shows that Operating Cash Flow has a positive effect on financial distress

Khalizah L and Lely Dahlia (2020) discovered a significant negative effect of ERM on financial distress in their research. Arya Imamuddin Koeswara found in 2016 that ERM doesn't have much of an effect on financial distress. Aviani Widyastuti (2020) in her journal says that quality financial reports, one of which can be seen from companies that are able to manage their risks well, which is usually called Enterprise Risk Management (ERM).

Based on the problem phenomena and research gaps discussed above, the purpose of this study is to investigate the impact of company ratios, leverage, cashflow operation liquidity, and ERM on financial distress by using ERM as a mediating variable. The study focused on construction companies listed on the Indonesia Stock Exchange, with observations spanning the years 2017 to 2021. This study focuses on infrastructure sector companies (Sector J) in the infrastructure construction sub-sector (J-211) in state-owned and private companies listed on the Indonesia Stock Exchange for the period 2017–2021. The purpose of this research is to use ERM, the company's fundamental ratio, to assess the financial distress of infrastructure construction companies. The findings of this study will make it easier for students and academics to see the company's financial difficulties, making learning more practical and understandable. This research will also assist company executives in evaluating the company's financial performance before making a decision.

LITERATURE REVIEW

Theoretical Background

Theory Du Pont

The du Pont theory is frequently used to evaluate the effectiveness of company performance: if the company is able to optimize activity ratios and achieve a high profit level, it will also achieve a high cash flow. Because the company has adequate funding, this can have a positive impact on improving financial performance, Lianto (2013).

Trade-off Theory

According to Brigham and Houston (2014), this is a capital structure theory in which a company is likely to default if it prioritizes debt sources over tax savings in its funding (financial distress).

Signalling Theory

The occurrence of financial distress conditions can send a bad signal to internal parties to make decisions about company performance in order to correct mistakes that have occurred, while external parties use these signals to continue cooperation, and vice versa. Shareholders and investors typically have more complete information about the company's prospects than management. Investors who are unaware of company management policies will always interpret them as specific signals (Mamduh, 2014).

The Effect of Leverage on ERM

The leverage ratio is a calculation that determines how much of a company's assets are financed by debt. The amount of debt carried by the company in relation to its assets can be interpreted in this case. The leverage ratio is used to evaluate a company's ability to meet all of its short- and long-term obligations (Kasmir, 2019). Leverage has significant positive effect on ERM, according to Saskara (2018), Kumalasari (2014), Onder & Ergin (2012), and Marhaeni & Yanto (2015) research. The hypothesis proposed is based on the results of the description and prior research as follows:

:

H_1: Leverage has positive effect on ERM.

The Effect of Liquidity on ERM

The ability of a company to meet its short-term obligations on the maturity date is referred to as "liquidity." Liquidity is also commonly used to determine whether or not a company is healthy, as well as the company's ability to meet its short-term obligations. The liquidity ratio assesses a company's ability to meet its short-term obligations smoothly and on time (Ngadi & Ekadjaja, 2019). A decrease in the current ratio value can indicate a problem within a business (Shabrina & Hadian, 2021). The results in the description, however, previous research has not been available in journals, so the hypothesis proposed is as follows:

H_2: Liquidity has positive effect on ERM.

The Effect of Cashflow Operation on ERM

Operating cash flow is the most important cash flow generated by the company's operations. Creditors require cash flow information to determine how to pay their debts (Santoso, 2017). As a result, if a company's cash flow is large and positive, the creditor will have confidence in the return on the credit provided. The results in the description, however, previous research has not been available in journals, so the hypothesis proposed is as follows:

H_3: Cashflow Operation has positive effect on ERM.

The Effect of Leverage on FD

Leverage depicts the composition of the debt borne by the company. If the leverage ratio is high, the company will be saddled with a large amount of debt at maturity (Chrissentia & Syarief, 2018). As a result, financial managers must effectively manage leverage ratios in order to balance high returns with the level of risk they face (Kasmir, 2015). Research by Putri (2020), Rizka Vidya Dwi Giarto and Fachrurrozie (2020), Volta Diyanto (2020), leverage has positive effect on financial difficulties. The results in the description and previous research, the hypothesis proposed is as follows:

H_4: Leverage has positive effect on FD.

The Effect of Liquidity on FD

The current ratio represents the liquidity ratio. The current ratio is widely used because the excess of current assets over current liabilities protects against potential losses from converting current assets to cash. The greater the guarantee to cover losses, the less likely financial distress will occur (Shofwatun et al., 2021). The relationship between financial distress and a high current ratio value means that companies can pay off their debts more easily, so the risk of experiencing financial difficulties is low. Research conducted by Zhafirah (2019), Chairani Nurhamidah and Kosasih (2021), and Silvia Sarina et al. (2020), liquidity has positive effect on financial difficulties. The results in the description and previous research, the hypothesis proposed is as follows:

H_5: Liquidity has positive effect on FD.

The Effect of Cashflow Operation on FD

Companies with a high cash flow have sources of funds to carry out operational activities (Nahla Annabila and Rosmita Rasyid, 2022). According to Harahap (2015), a cash flow report is information

that contains the cash inflows and outflows of an entity over a specific time. Research by Heni Yusnita (2022), Florentina Cindy Finishtya (2019), Tutliha and Rahayu (2019), Julius et al. (2017), and Nailufar et al. (2018), Operating Cash Flow has a positive affect to financial distress. The results in the description and previous research, the hypothesis proposed is as follows:

H_6: Cashflow Operation has positive effect on FD.

The Effect of ERM on FD

Enterprise risk management (ERM) is a process that involves all entities, including directors, management, and other officers, and is used in the formulation of strategies. It is designed to identify potential events that may affect the entity and manage risk at the desired level of risk. to make reasonable promises in order to achieve the entity's goals (Robertus, 2016). Research by Nur Khalizah Luthfiyanti and Lely Dahlia (2020) and Heni Yusnita (2022), ERM has positive impact on financial difficulties. The results in the description and previous research, the hypothesis proposed is as follows:

H_7: ERM has positive effect on FD.

ERM Mediates the Effect of Leverage on Financial Distress

The quality of financial reports produced can be influenced by a variety of factors, one of which is the implementation of risk management within the company (ERM). Kochetova-Kozloski and Messier (2011) discovered in their research that adopting ERM benefits audit and financial reporting processes in general through information effects. The results in the description, however, previous research has not been available in journals, so the hypothesis proposed is as follows:

H_8: ERM is able to mediate the effect of Leverage on Financial Distress

ERM mediates the effect of Liquidity on Financial Distress

According to Aviani Widyastuti (2020) in her journal, quality financial reports can be seen from companies that are able to manage their risks well, which is commonly referred to as Enterprise Risk Management (ERM). The use of ERM demonstrates that businesses can detect risks earlier so that they can develop strategies to avoid or minimize the risks that occur. The results in the description, however, previous research has not been available in journals, so the hypothesis proposed is as follows:

H_9: ERM is able to mediate the effect of Liquidity on Financial Distress

ERM mediates the effect of Cashflow Operation on Financial Distress

ERM implementation is essentially one of the elements of corporate governance, so by implementing ERM, companies also implement good governance and can communicate quality information to stakeholders (Krause & Tse, 2016). The results in the description, however, previous research has not been available in journals, so the hypothesis proposed is as follows:

H_{10}: ERM is able to mediate the effect of Liquidity on Financial Distress

The following is the research model for this study, based on the hypothesis description:

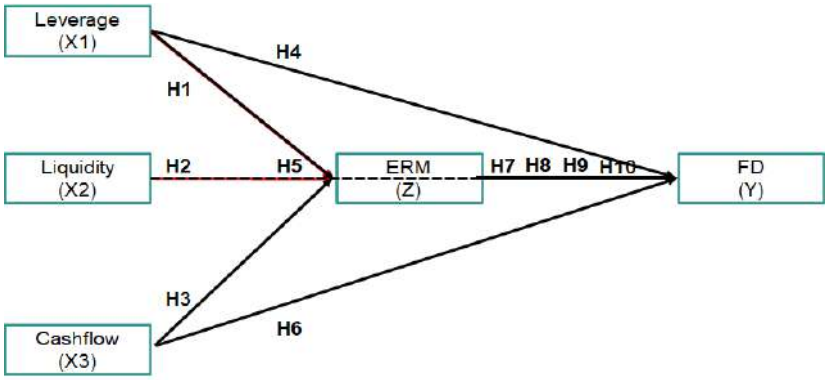


Figure-2, Research Model

METHOD

This is a causality study designed to demonstrate the effect of an independent variable on a dependent variable. The study's population consisted of 23 IDX-listed construction companies. Purposive sampling was used to select 17 companies that met the criteria in the selection sample. The research will last five years (2017–2021). As a result, this study relies on the annual financial reports of 85 companies. A path analysis was used as the data analysis method. The Sobel test is used to assess the significance of the indirect effects of mediating variables in the model (Ghazali, 2013). The path-1 equation depicts how leverage, liquidity, and cashflow operations affect ERM (intervening variable, Z). The path-2 equation illustrates the impact of financial distress on leverage, liquidity, and cashflow operations, as well as ERM (independent variable, Y).

$$Z = pZ1DER + pZ2CR + pZ3CO + \varepsilon 1 \ldots\ldots\ldots\ldots (1)$$

$$Y = py1DER + py2CR + py3CO + pyERM + \varepsilon 2 \ldots. (2)$$

RESULT AND DISCUSSION

The Descriptive Statistical Analysis Result

The objective of descriptive statistical analysis is to provide an overview of the data and research variables so that they are easier to describe (Umar, 2019). Hence, according to Ghozali (2013), descriptive statistics provide an overview or description of the data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (distribution skewness), but are not used to make broad conclusions. The ratios were used in the descriptive analysis of this study to find values or numbers from the independent variables (leverage, liquidity, and cashflow operations) that were mediated by enterprise risk management on the dependent variable financial distress.

	LEVERAGE	LIQUIDITY	CASHFLOW	ERM	FD
Mean	2.612216	0.735274	0.190155	0.564488	1.741557
Median	1.425115	0.706627	0.045011	0.564815	1.962734
Maximum	35.46560	2.692422	5.180271	0.685185	6.026327
Minimum	0.223529	0.040102	-0.435306	0.472222	-6.599549
Std. Dev.	4.758196	0.334938	0.670485	0.046460	2.043452
Skewness	5.421355	2.633608	5.452635	0.437274	-1.172549
Kurtosis	34.68835	15.98592	38.51122	3.114930	6.078333
Jarque-Bera	3972.743	695.5040	4887.400	2.755570	53.03867
Probability	0.000000	0.000000	0.000000	0.252136	0.000000
Sum	222.0383	62.49829	16.16317	47.98148	148.0323
Sum Sq. Dev.	1901.796	9.423410	37.76224	0.181318	350.7584
Observations	85	85	85	85	85

Figure-3. Descriptive Statistical Analysis

Description of Financial Distress (FD)
In the Financial Distress (FD) variable, it is calculated that the average value is 1.74. The lowest value of -6.6 owned by PT Acset Indonusa Tbk in 2020 meant that the company in that year experienced the lowest financial distress; it was near bankruptcy compared to previous years, which caused the company's performance to be very difficult and tend to bankruptcy, while the highest value of 6.02 owned by PT Paramita Bangun Persada Tbk in 2017 meant that the company has good financial performance.

Description of Leverage (DER)
In the leverage variable (DER), it is calculated that the resulting average value is 2.6. The DER value, which is very high risk, is 35.46 owned by PT Accset Indonusa Tbk in 2019 because PT Accset Indonusa Tbk in that year recorded a very high amount of debt (liabilities) compared to previous year, which led to potential bankruptcy and even bankruptcy, while the lowest DER value of 0.22 was owned by PT Paramitha Bangun Persada Tbk in 2018. Thus, it can be said that in that year, PT Paramitha Bangun Persada Tbk in 2018 had a higher equity than its debt, or the company was in the healthy category and had good performance.

Description of Liquidity (CR)
In the variable liquidity (the current ratio), it is calculated that the resulting average value is 0.73. The lowest value of 0.04 was owned by PT Indonesia Pondasi Raya Tbk in 2018 because PT Indonesia Pondasi Raya Tbk in that year recorded very low liquidity compared to the previous year and this made the company not have very liquid assets in that period to pay its debts, while the highest value of 2.69 owned by PT Acset Indonesia Tbk in 2017 so that the company may be able to pay its obligations that are due soon, when billed, or short-term debt.

Description of Cashflow Operation (CO)
In the Cashflow Operation variable, it is calculated that the resulting average value is 0.19. The lowest value of -0.43 is owned by PT Surya Semesta Internusa Tbk in 2020 because PT Surya Semesta Internusa Tbk in that year recorded the lowest performance, which caused minus operating cash flow and even difficulties to run the company, while the highest value of 5.18 owned by PT Indonesia Pondasi Raya Tbk in 2018, thus PT Indonesia Pondasi Raya Tbk in that year had a pretty good performance in running the company.

Description of Enterprise Risk Management (ERM)
The Enterprise Risk Management (ERM) variable, it is calculated that the resulting average value is 0.56. The lowest score of 0.47 was owned by PT Pembangunan Perumahan (Persero) Tbk in 2017 because PT Pembangunan Perumahan (Persero) Tbk in that year recorded poor performance, which caused its financial performance to approach financial difficulties, while the highest score of 0.68 was owned by PT Hutama Karya (Persero) Tbk in 2021. Even though the value is still below 1, it means

that PT Hutama Karya (Persero) Tbk had not properly implemented Enterprise Risk Management (ERM) in the company in that year.

Statistical T Test Results

Testing Statistical test T is a test to prove whether the effect and significant of an independent variable on the dependent variable as individually occurs. In this case the hypothesis made has the following parameters:

H0: the independent variable has no effect if the probability value is more than > 0.5.

H1: the independent variable has an effect if the probability value is less than < 0.05.

Table-1: statistical T-test, Model-1 (X to Z)

Variable	Coeficient	Std. Error	t-statistic	Prob.
C	0.552168	0.011079	49.84097	0.0000
LEVERAGE	-0.000682	0.000476	-1.431534	0.1571
LIQUIDITY	0.014662	0.013451	1.090015	0.2797
CASHFLOW	0.017466	0.007874	2.218101	0.0300

Source: Result of Processed Data Eviews-12.0

Based on Table-1 above and the results of the T statistical test on the fixed effect model 1, the following conclusions are obtained:

1. Effect of Leverage on Enterprise Risk Management

The panel data regression results in Table-1 show that the leverage variable has a coefficient value of -0.00 with a probability value of 0.1571 > 0,05, indicating that H0 is accepted and H1 is rejected. As a result, it can be concluded that leverage has no effect significantly on enterprise risk management.

2. Effect of Liquidity on Enterprise Risk Management

The panel data regression results in Table-1 show that the liquidity variable has a coefficient value of 0.014 with a probability value of 0.279 > 0.05, indicating that H0 is accepted and H1 is rejected. As a result, it can be concluded that liquidity has no effect significantly on enterprise risk management.

3. Effect of Cashflow Operation on Enterprise Risk Management

The panel data regression results in Table-1 show that the Cashflow Operation variable has a coefficient value of 0.017 with a probability value of 0.030 < 0.05, indicating that H0 is rejected and H1 is accepted. As a result, it can be concluded that cash flow operation has effect significantly on enterprise risk management.

Table-2: statistical T-test, Model-2 (X,Z to Y)

Variable	Coeficient	Std. Error	t-statistic	Prob.
C	-1.992812	4.110853	-0.484769	0.6295
LEVERAGE	-0.071769	0.085197	-0.842382	0.4027
LIQUIDITY	0.019485	1.594079	0.012223	0.9903

CASHFLOW	0.336013	0.152229	2.213201	0.0305
ERM	6.808741	5.497027	1.238622	0.2200

Source: Result of Processed Data Eviews-12.0

4. Effect of Leverage on Financial Distress

The panel data regression results in Table-2 show that the leverage variable has a coefficient of -0.071 with a probability of 0.402 > 0.05, indicating that H0 is accepted and H1 is rejected. As a result, it it can be concluded that leverage has no effect significantly on financial distress.

5. Effect of Liquidity on Financial Distress

The panel data regression results in Table-2 show that the liquidity variable has a coefficient value of 0.019 and a probability value of 0.990 > 0.05, indicating that H0 is accepted and H1 is rejected. As a result, it can be concluded that liquidity has no effect significantly on financial distress.

6. Effect of Cashflow Operations on Financial Distress

The panel data regression results in Table-2 show that the Cashflow Operation variable has a coefficient value of 0.336 with a probability value of 0.030 < 0.05, indicating that H0 is rejected and H1 is accepted. As a result, it can be concluded that cash flow operations have a positive effect and significant on financial distress.

7. Effect of Enterprise Risk Management on Financial Distress

The panel data regression results in Table-2 show that the Enterprise Risk Management variable has a coefficient value of 6,808 with a probability value of 0.220 > 0.05, indicating that H0 is accepted and H1 is rejected. As a result, it can be concluded that enterprise risk management has no effect significantly on financial distress.

The Result of Sobel Test

The Sobel test is a statistical T test for testing that is used to prove whether the independent variable has a significant effect on the dependent variable through a mediating variable (intervening). The formula for the Sobel test is as follows:

$$t = \frac{ab}{\sqrt{(b^2SE_a^2) + (a^2SE_b^2)}}$$

where:

a = regression coefficient of the independent variable on the ERM mediating variable.

b = regression coefficient of the mediating variable on the dependent variable FD.

SEa = standard error of estimation from the influence of the independent variables on the ERM mediating variables.

SEb = standard error of estimation of the effect of the ERM mediating variable on the dependent variable FD.

The hypothesis is made as follows:

H0 : the independent variable has no effect on the dependent variable through a mediating variable.

H1: the independent variables affect the dependent variable through mediating variables.

The following are the results of calculations using the results of the calculation of the t test sobel test:

Tabel-3
Sobel Test

Independent Variable	T Formula of Sobel Test	T Table
Leverage	-0.03126123	1.989319
Liquidity	0.1263004	1.989319
Cashflow	0.1963815	1.989319

Source: Result of Processed Data Eviews-12.0
Note: T table with degrees of freedom 82

If the Sobel test statistic is ≥ 1.96 with a significance of 5%, then this variable can be said to be able to mediate between the independent variables and the dependent variable (Ghozali, 2018). Based on Tabel-3 the results of the Sobel test, the following conclusions are obtained:

8. Enterprise Risk Management mediates the effect of Leverage on Financial Distress

The results of Table-3 show that the T formula of Sobel Test for the leverage variable is less than T Table, indicating that H0 is accepted. As a result, Enterprise Risk Management is unable to mitigate the effect of leverage on financial distress.

9. Enterprise Risk Management mediates the effect of Liquidity on Financial Distress

The results of Tabel-3 show that the T formula of Sobel Test for the liquidity variable is less than the T Table, indicating that H0 is accepted. So it can be concluded that Enterprise Risk Management is unable to mitigate the impact of liquidity on financial distress.

10. Enterprise Risk Management mediates the influence of Cashflow Operations on Financial Distress

The results of table 4.23 show that the t arithmetic Sobel test for the cash flow variable is less than the t table, which means H0 is accepted. So it can be concluded that Enterprise Risk Management is unable to mitigate the effect of cashflow operation on financial distress.

DISCUSSION

1. Effect of Leverage on Enterprise Risk Management

Based on Tabel 1, the results of hypothesis testing conclude that leverage has no effect on enterprise risk management in construction service sector companies listed on the Indonesia Stock Exchange for the period of 2017–2021. The result of this study is in line with the results of previous research conducted by Achmad Achsan Zainul Mafakhir Shaleh and Augustina Kurniasih (2021), which stated that leverage has no effect on enterprise risk management.

2. Effect of Liquidity on Enterprise Risk Management

Based on Table-1, the results of hypothesis testing conclude that liquidity has no effect on enterprise risk management in construction service sector companies listed on the Indonesia Stock Exchange for the period of 2017–2021. In other words, liquidity has no effect on enterprise risk management. This can be a new reference for subsequent research because the result of this hypothesis has not been found in previous research published in journals.

3. Effect of Cashflow Operation on Enterprise Risk Management

According to the findings of hypothesis testing in table 4.21, Cashflow Operation has a positive effect on Enterprise Risk Management in construction service sector companies listed on the Indonesia Stock Exchange for the period of 2017-2021. In this study, the cash flow operation variable has a positive effect, which means that if the cash flow operation goes well, it will make the enterprise risk management conditions well and easily to manage. Brigham & Ehrhardt (2014) argue that companies must manage their risk exposure to avoid financial difficulties. If the company can handle risks properly and correctly, then it can avoid losses. Due to the result of this hypothesis has not been found in previous research journals, this can be a new reference for future research.

4. Effect of Leverage on Financial Distress

Based on Tabel-2, the results of hypothesis testing conclude that leverage has no effect on financial distress in construction service sector companies listed on the Indonesia Stock Exchange for the period of 2017–2021. The result of this study is in line with the results of previous research conducted by Florentina Cindy Finishtya (2019) and Nur Khalizah Luthfiyanti and Lely Dahlia (2020), who stated that leverage has no effect on financial distress.

5. Effect of Liquidity on Financial Distress

Based on Tabel-2, the results of hypothesis testing conclude that liquidity has no effect on financial distress in construction service sector companies listed on the Indonesia Stock Exchange for the period of 2017–2021. The result of this study is in line with the results of previous research conducted by Merisa Oktaria et al. (2021) and Yeye Susilowati et al. (2019), which stated that liquidity has no effect on financial distress.

6. Effect of Cashflow Operation on Financial Distress

Based on Table-2, the results of hypothesis testing conclude that Cashflow Operation has an effect on Financial Distress in construction service sector companies listed on the Indonesia Stock Exchange for the 2017-2021 period. The result of this study is in line with the results of previous research conducted by Tutliha and Rahayu (2019), Julius et al. (2017), Nailufar et al. (2018) which stated that cashflow operation has a positive effect on financial distress.

7. Effect of Enterprise Risk Management on Financial Distress

Based on Table-2, the results of hypothesis testing conclude that enterprise risk management has no effect on financial distress in construction service sector companies listed on the Indonesia Stock Exchange for the 2017–2021 period. The result of this study is in line with the results of previous research conducted by Arya Imamuddin Koeswara (2016), which stated that enterprise risk management has no effect on financial distress.

8. Enterprise Risk Management mediates the effect of Leverage on Financial Distress

Based on Table-3, it can be concluded that the enterprise risk management variable is unable to mediate the effect of leverage on financial distress in the construction services sector, which is listed on the Indonesia Stock Exchange for the 2017-2020 period. The result of this study is in line with the

results of previous research conducted by Achmad Achsan Zainul Mafakhir Shaleh and Augustina Kurniasih (2021). This indicates that the existence of enterprise risk management is unable to mediate the effect of leverage on financial distress..

9. Enterprise Risk Management mediates the effect of Liquidity on Financial Distress

Based on Tabel-3, it can be concluded that the enterprise risk management variable is unable to mediate the effect of liquidity on financial distress in the construction services sector, which is listed on the Indonesia Stock Exchange for the 2017-2020 period. This indicates that the existence of enterprise risk management is unable to mediate the effect of the liquidity on financial distress. This can be a new reference for subsequent research because the result of this hypothesis has not been found in previous research journals.

10. Enterprise Risk Management mediates the influence of Cashflow Operations on Financial Distress

Based on Table-3, it can be concluded that the enterprise risk management variable is not able to mediate the influence of cashflow operations on financial distress in the construction services sector, which is listed on the Indonesia Stock Exchange for the 2017-2020 period. This indicates that the existence of Enterprise Risk Management is unable to mediate the effect of the cashflow operation on financial distress. This can be a new reference for subsequent research because the result of this hypothesis has not been found in previous research journals.

CONCLUSION

This study finds empirical evidence that leverage and liquidity have no effect on ERM, whereas cashflow operation has a positive effect on ERM. Furthermore, leverage and liquidity have no effect on financial distress; however, cashflow operations has a positive effect on financial distress. ERM as an intervening variable is unable to mediate the effect of leverage, liquidity, and cashflow operation on the financial distress of construction companies listed on the IDX.

Investors who prioritize enterprise risk management (ERM) must pay close attention to cashflow operations. This study demonstrates that cashflow operations, on their own, have a positive impact on the ERM and financial distress in a construction company. The indications of financial distress experienced by companies in the construction services sector, especially infrastructure, indicate that company management needs to manage financial distress conditions seriously so that these companies do not go bankruptcy. Meanwhile, other companies that have no indication of experiencing financial distress need to maintain and improve their financial performance so that they are able to avoid the symptoms of financial distress in the future, which will distance these companies from their investors. Companies experiencing financial distress will find it difficult to get investors to increase their company's equity.

During the period 2017–2021, almost all construction service companies in the heavy construction and civil engineering infrastructure sectors listed on the IDX experienced poor financial performance or financial distress.

Lockdown instructions from the government due to the long-term COVID-19 pandemic need to be revoked immediately so that the distribution of materials and equipment is not hampered due to the goods inspection process becoming tight, time-consuming, and costly. Besides that, restrictions and health checks for workers are also strict, time-consuming, and costly. On the other hand, there is a need for the government to reduce interest rates on bank loans due to high interest rates and relatively short

repayment terms, which make the expenditure burden quite high and erode profit margins for the sector. construction services, besides that the tax burden is also considered quite high; it is very burdensome for the construction services sector, which has a relatively small margin, so it needs to get tax incentives from the government. In addition to the relatively small profit margin due to intense price competition during tenders with similar construction companies, making the price as low as possible to win the tender even though the implementation of the construction sector is full of risks, For this reason, if these risks can be kept to a minimum, profit margins can be maintained, and profits can be made.

Another thing that causes losses to a construction service company is the integrity problem of employees or authorized officials in the management of the company. It is often found that there is corruption, inflated fictitious purchase prices, reduced quality and standards, high volume, and so on, which in the end make the company lose money and experience poor financial performance, which leads to bankruptcy. Sagala (2013) argues that integrity is behaviour that is consistent with ethical and moral principles, is justifiable, contains the values of honesty, and is full of responsibility for the trust given to it. Humans who have ethics are those who have moral guidelines for every action taken in all aspects of their lives; these morals are part of a form of integrity that adheres to the principles of justice.

Future research can use other mediating variables to test the occurrence of financial distress. Further research is recommended to use intervening variables in the form of capital structure or managerial ownership to see the effect on financial distress. Additionally, because other variables influenced this research by 30%, other researchers can use other independent variables outside of this study, such as profitability, sales growth, institutional ownership, firm size, and soon.

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