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ANALYSIS OF THE INFLUENCE OF FINANCIAL FLEXIBILITY, FINANCIAL DISTRESS, AND TAX POLICIES ON THE PERFORMANCE OF COMPANIES ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

The growth of Indonesia's manufacturing sector GDP has shown a declining trend since 2016 and was further exacerbated by the Covid-19 pandemic, necessitating improved company performance through the application of sound financial management principles. Financial flexibility, financial distress, and tax policies are key factors that need to be studied to understand their impact on the performance of manufacturing companies. This study aims to identify the influence of financial flexibility, financial distress, and tax policies on the performance of manufacturing companies in Indonesia.bThis research uses a quantitative method with a descriptive statistical approach, examining manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2023. A sample of 123 companies was selected using purposive sampling techniques, and data analysis was used to test the analysis hypothesis, namely panel data regression using the Eviews 12 program to broadcast the influence of financial flexibility, financial difficulties and tax policy on company performance. The research results show that financial flexibility has no significant effect on company performance and financial distress has a significant effect on company performance, while tax policy has a significant effect on company performance.

KEYWORDS *financial flexibility, financial distress, tax policy, company performance*

INTRODUCTION

The Central Statistics Agency (CSA) recorded the number of public companies on the Indonesia Stock Exchange (IDX) as many as 709 as of October 2020. Companies must continue to grow in order to compete with other companies. The company as a business entity has the main goal of maximizing profits and increasing capital that can benefit the company and its shareholders. Many companies are competing to achieve this goal by trying to improve company

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performance, one of which is manufacturing companies. The Ministry of Industry (Kemperin) has declared manufacturing companies as the backbone for national economic growth in Indonesia (Vivian & Nuryasman, 2022). However, the growth of manufacturing companies does not always move forward. The decline that has occurred since 2016 indicates that the performance of Indonesia's manufacturing companies is still not running well in each sector. This is evidenced by the CSA report (2023) regarding the percentage of Gross Domestic Income (GDP) from 17 manufacturing industry sectors presented in the form of the diagram below.

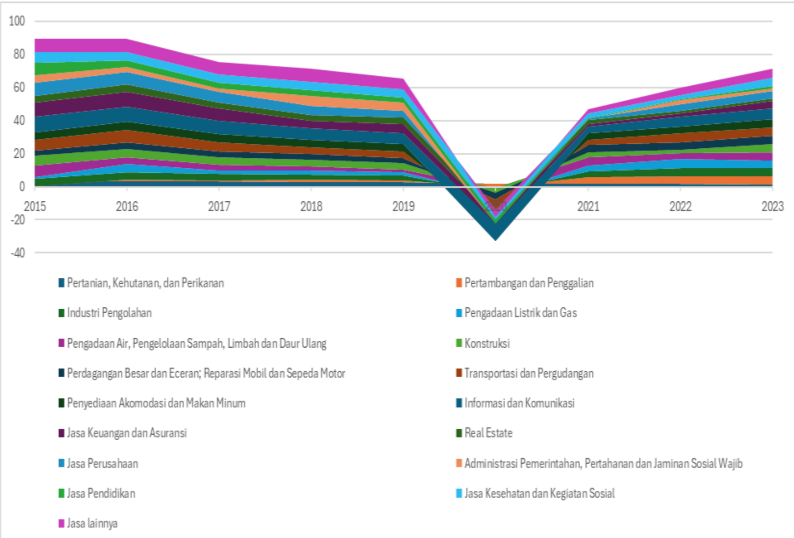

Figure 1. GDP Growth of the Manufacturing Industry Sector 2015-2023
Source : CSA (2023)

Figure 1 shows that the decline in GDP began to decline since 2016 and then worsened by Covid-19 in the range of 2020 where the achievement of the percentage of GDP reached minus until 2021 began to increase and slowly improved until 2023 but did not appear to have a significant increase again as in 2015. This is the reason why it is necessary to improve company performance by applying the principles of good corporate management, including from the financial aspect. Some of the factors that are considered to be able to improve company performance are financial flexibility, as the company's ability to manage finances flexibly, is considered the key in facing economic uncertainty (Rahman, 2023). Meanwhile, financial distress is a risk that can interfere with a company's operational continuity, so it is important to understand the factors that affect it (Azadegan et al., 2020). Tax policy also has an important role in a company's financial structure, as it can influence investment decisions and financial strategies taken by companies (Bahrun, 2020).

On the other hand, financial flexibility, which refers to a company's ability to access financial resources in an emergency situation, can help companies deal with market uncertainty and investment opportunities that suddenly arise (Barry et al., 2022). On the other hand, financial distress reflects the financial condition of a company that has difficulty meeting its obligations, which can threaten the survival of the company and reduce its operational performance (Kamaludin, 2019). Tax policy also plays an important role in determining the fiscal burden of companies, which in turn affects the profitability and efficiency of companies (Ojo, 2020). However, several studies such as Chang and Ma (2019) and Wu et al. (2024) show that financial flexibility contributes positively to company performance, while Yousuf's research (2019) found a negative or insignificant impact. Therefore, this study aims to identify the influence of financial flexibility, financial distress and tax policy on company performance. This research is expected to provide valuable insights for practitioners, regulators, and academics in optimizing corporate financial strategies in Indonesia's capital market.

RESEARCH METHOD

The method in this study uses a quantitative research method with a statistical descriptive approach. The purpose of this study is to determine the influence of financial flexibility, financial distress, and tax policy on company performance. The object of the research is manufacturing listed on the website of the Indonesia Stock Exchange (www.idx.co.id) in 2018-2023.

RESULT AND DISCUSSION

Discussion of Research Results

The Effect of Financial Flexibility on Company Performance

Based on statistical findings, it has been shown that financial flexibility has no effect on the company's performance. This can be said, that financial flexibility has no relationship or influence on the company's performance or in other words, the high and low performance of the company has no relationship or is not affected by the company's financial flexibility.

Financial flexibility is the ability of a company to adjust and manage its financial structure quickly and efficiently in the face of unexpected changes in market or financial conditions. Involvement in the manufacturing industry in particular requires a high degree of adaptability to fluctuations in raw material costs, changes in market demand, and other challenges. Research conducted by Kyissimaet al. (2020) found that companies with a more flexible capital structure tend to have lower financial risk and are able to generate more stable profits in the long term. This is due to the company's ability to access additional financial resources more easily, both through internal and external funding, which can be used for investments in innovation, operational efficiency, and production capacity expansion. In addition, financial flexibility also plays an important role in increasing the resilience of companies to economic crises or changes in the business cycle. According to research by Mavlutova et al. (2021), companies with the ability to adjust the company's capital structure quickly and efficiently can avoid potential serious financial stresses during periods of economic instability. Thus, financial flexibility not only provides short-term competitive advantages, but also supports long-term growth by minimizing the risk of bankruptcy and improving financial stability.

The Effect of Financial Distress on Company Performance

Financial distress is a condition in which a company faces serious financial difficulties, such as an inability to meet financial obligations or pay debts. In the context of manufacturing companies, this condition can have a significant impact on their operational and financial performance. Research shows that financial distress positively affects company performance in a variety of ways. For example, the financial pressures a company faces can reduce its ability to invest in research and development, technology modernization, or production capacity expansion. This can result in a decrease in operational efficiency, lagging behind in product innovation, and difficulties in meeting changing market demands. An empirical study by Eggers (2020) also highlights that financial distress can limit a company's access to the financial resources needed to overcome economic and operational challenges. A decrease in credit availability or an increase in borrowing costs are concrete examples of the negative impact of financial distress on manufacturing companies. Therefore, effective management of financial distress risks is crucial for manufacturing companies to maintain stable and sustainable operational performance.

Thus, financial distress not only impacts the financial stability of manufacturing companies, but also significantly affects the company's operational performance and ability to compete in the market. By understanding the factors that cause and the early signs of financial distress, company management can take appropriate steps to manage these risks more effectively. Further studies that focus on the dynamics between financial distress and the performance of manufacturing companies can provide deeper insights for practitioners and academics in developing appropriate management strategies to face these complex economic challenges.

The Influence of Tax Policy on Company Performance

In addition, the results of the study show that tax policy has proven to have a positive and significant effect on company performance Tax policies that are not adjusted to the specific conditions of the manufacturing industry can result in excessive tax burdens without providing adequate incentives for increased efficiency and investment. Manufacturing companies, which typically have high fixed cost structures and long production cycles, need tax policies that encourage investment in technology and productivity improvements, not just general, undirected tax cuts.

In addition, other studies show that the impact of tax policies on the performance of manufacturing companies also depends on other factors such as economic stability, non-tax regulations, and overall market conditions. For example, in an unstable economic situation or convoluted regulations, the benefits of a lower tax policy may not be enough to significantly improve a company's performance. Therefore, the effect of tax policy on the performance of manufacturing companies is often indirect and influenced by many external variables. Research from Mumbua & Nekesa (2023) shows that tax policies that are not designed with regard to specific industry conditions often fail to achieve the goal of improving corporate performance effectively.

CONCLUSION

Based on the results of the hypothesis testing in this study, the effects of Financial Flexibility, Financial Distress and Tax Policy, on the Company's Performance can be concluded as follows: 1. There is no effect of financial flexibility on company performance, which emphasizes that the management of manufacturing companies must focus on improving financial flexibility to improve performance. Financial flexibility allows companies to quickly adapt to changing market and financial conditions, as well as access additional resources necessary for investment and expansion. Companies must also be careful about managing financial stress, as high financial stress can reduce a company's ability to invest and operate efficiently, which in turn can degrade performance. 2. There is a positive influence of financial distress on the company's performance, which confirms that financial distress shows that there is a relationship or influence on the company's performance. In other words, the high and low performance of the company is completely related to or influenced by the high and low financial distress faced by the company. This research also confirms that financial distress is an important indicator that needs to be managed carefully to maintain the stability of the company's operations. In addition, this study adds to the literature on the relationship between tax policy and corporate performance, by suggesting that tax policies that are not specific to certain industries may not be effective in improving corporate performance. These findings are in line with previous research that suggests that financial flexibility can improve a company's resilience to economic fluctuations and enable long-term growth. 3. There is a positive influence of Tax Policy on company performance, which confirms that Tax Policy shows that there is a relationship or influence on company performance. In other words, the high or low performance of the company has nothing to do with or is influenced by the high and low Tax Policy shown by the company.

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