

**PENGARUH UKURAN PERUSAHAAN, RASIO ARUS KAS OPERASI,
DAN EFISIENSI INVESTASI TERHADAP *FINANCIAL DISTRESS*
PADA SEKTOR BARANG KONSUMSI
NON-SIKLIKAL DI INDONESIA**

**THE INFLUENCE OF FIRM SIZE, OPERATING CASH FLOW RATIO,
AND INVESTMENT EFFICIENCY ON FINANCIAL DISTRESS IN
INDONESIA'S CONSUMER NON-CYCLICAL SECTOR**

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ABSTRAK

Distress keuangan merupakan kondisi ketika perusahaan menghadapi kesulitan finansial yang dapat berujung pada kebangkrutan. Salah satu penyebabnya adalah faktor internal perusahaan, seperti keputusan manajerial, efisiensi investasi, dan kemampuan menghasilkan arus kas dari kegiatan operasi. Penelitian ini bertujuan menganalisis pengaruh ukuran perusahaan, rasio arus kas operasi, dan efisiensi investasi terhadap *distress* keuangan pada perusahaan sektor non-siklikal konsumen yang terdaftar di Bursa Efek Indonesia periode 2018–2023. Metode penelitian menggunakan pendekatan kuantitatif dengan analisis regresi linier berganda dan pemrosesan data melalui IBM SPSS versi 27. Teknik pengambilan sampel yang digunakan adalah *purposive sampling*, dengan total 374 unit observasi dari 65 perusahaan. Hasil penelitian menunjukkan bahwa ukuran perusahaan tidak berpengaruh signifikan pada *distress* keuangan. Sebaliknya, rasio arus kas operasi dan efisiensi investasi berpengaruh negatif signifikan pada *distress* keuangan. Temuan ini mengindikasikan bahwa semakin tinggi arus kas operasi dan semakin efisien investasi yang dilakukan, semakin kecil kemungkinan perusahaan mengalami *distress* keuangan.

Kata Kunci: Ukuran Perusahaan, Arus Kas Operasi, Efisiensi Investasi, Distress Keuangan

ABSTRACT

Financial distress occurs when a company experiences financial difficulties that may result in bankruptcy. Internal challenges within the company are one factor contributing to financial distress. This study examines the influence of firm size, operating cash flow ratio, and investment efficiency on financial distress in noncyclical sector companies listed on the Indonesia Stock Exchange from 2018 to 2023. The research employs multiple linear regression analysis using IBM SPSS version 27. A purposive sampling technique was applied, resulting in 374

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observation units. The findings indicate that firm size has no significant impact on financial distress. However, operating cash flow ratio and investment efficiency negatively affect financial distress, suggesting that higher cash flow and efficient investments reduce the likelihood of financial distress.

Keywords: *Firm Size, Operating Cash Flow Ratio, Investment Efficiency, Financial Distress.*

1. INTRODUCTION

A company requires sufficient resources, such as capital and labor, to operate effectively. However, operational challenges can cause financial distress. In 2023, 563 companies filed for bankruptcy or postponed debt payment obligations (PKPU) despite Indonesia's stable economy. The case information system recorded 3,431 bankruptcy and PKPU cases, indicating persistent financial instability due to high debt levels and liquidity constraints (Setiawati, 2023).

The Indonesia Stock Exchange (IDX) reported 17 stocks under special monitoring due to financial issues in 2023, which increased to 225 by October 1, 2024, signifying a rising trend of financially distressed firms (Setiawati, 2023). According to Nadya (2023), while consumer noncyclical companies are expected to remain stable during economic downturns, 20 companies from this sector were listed under special monitoring, suggesting that financial distress is influenced not only by external conditions but also by internal factors.

Internal factors, such as corporate policies, managerial decisions, and firm size, play a crucial role in financial distress (Kristanti, 2022). Larger firms tend to be more financially stable because of better resource allocation (Audina et al., 2022). However, inefficient asset management can still lead to financial problems. Operating cash flow, derived from core business activities, reflects financial stability, as positive cash flow allows companies to sustain operations, pay dividends, and invest in growth. Conversely, negative cash flow may signal financial distress, though not necessarily losses.

Investment efficiency is another key determinant of financial health. While efficient investments generate higher returns and reduce financial instability, inefficient capital deployment increases financial distress risks. Previous studies

show mixed results on the relationship between firm size and financial distress. Nilasari (2021) found a positive correlation, whereas Purwaningsih and Safitri (2022) reported no significant impact. Additionally, Purwaningsih and Safitri (2022) found that operating cash flow negatively affects financial distress, but Faldiansyah et al. (2020) argued that cash flow has no significant influence. This study examines the impact of investment efficiency on financial distress, an area that remains underexplored.

Despite numerous studies investigating financial distress determinants in Indonesia, most have focused on manufacturing or financial sectors, while the consumer noncyclical sector remains underexplored. Furthermore, previous research presents inconsistent findings regarding the effects of firm size and cash flow ratios on financial distress (e.g., Nilasari, 2021; Purwaningsih & Safitri, 2022; Faldiansyah et al., 2020). Research rarely integrates investment efficiency as a predictor variable, even though inefficient investment decisions may trigger financial strain. Therefore, this study contributes by (1) analyzing the joint impact of firm size, operating cash flow ratio, and investment efficiency in a sector known for its relative stability; (2) providing empirical evidence from the post-pandemic period (2018–2023); (3) offering practical implications for managers to maintain financial resilience.

This study provides insights into CFS by analyzing the relationship between firm size, operating cash flow ratio, and investment efficiency, particularly in noncyclical consumer companies. These findings can help companies develop strategic financial policies to ensure stability during times of economic uncertainty.

2. LITERATURE REVIEW AND HYPOTHESIS

Agency Theory

Agency theory explains the interaction between two parties, the agent and the principal. According to (ACCA, 2022), the relationship between the principal, who is the company's owner, and the agent, who is the management of the business is explained by agency theory. The person who assigns responsibilities is the

principal, and the person who performs actions on the principal's behalf is the agent. According to agency theory, each person is driven by their own interests, which frequently results in disputes between the principal and the agent. The agent has more information because the agent is directly involved in carrying out all the task while the principal is not. This imbalance of information between the principal and the agent is referred to as information asymmetry (Purba, 2023). Therefore, the agent needs to provide accountability reports to the principal regarding all activities occurring within the company.

Financial Distress

Financial distress refers to a company's financial instability, which may lead to bankruptcy (Dewi et al., 2022). Indicators include declining or negative profits and an inability to cover operational costs (Kristanti, 2022). Internal factors contributing to financial distress include poor human resources, bad decision-making, and outdated technology, while external factors involve macroeconomic conditions, social and cultural issues, and natural disasters (Kristanti, 2022). Financial distress can arise from both internal and external factors (Kristanti, 2022). One key internal factor is poor human resource quality, which affects decision-making within a company. Agency theory explains the relationship between the principal (owner) and the agent (management), where conflicts often occur due to knowledge asymmetry. When the agent's decisions do not align with the principal's goals, mismanagement and poor decision-making can lead to financial losses and ultimately financial distress (Kartika et al., 2020).

Firm Size

Firm size refers to how big a company is, which is typically measured by its total assets. According to Purwanti (2021), companies are generally categorized into three types based on their net assets and annual revenue:

- a. Large companies: Businesses with net assets (including land and buildings) exceeding IDR 10 billion and generating annual revenue of more than IDR 50 billion fall into this category.

- b. Medium-sized companies: These are businesses with net assets ranging from IDR 1 billion to IDR 10 billion, including land and buildings. Their annual sales are between IDR 1 billion and IDR 50 billion.
- c. Small companies: Small businesses have net assets below IDR 200 million (excluding land and buildings) and generate at least IDR 1 billion in sales.

Larger companies typically have more resources at their disposal, allowing them greater flexibility in managing and allocating those resources. This gives them an advantage in expanding their operations and adapting to market changes. According to Audina et al. (2022), bigger companies also tend to diversify their business activities more than smaller ones, which helps reduce risks and lowers their chances of facing financial distress or bankruptcy.

Operating Cash Flow Ratio

All cash inflows and outflows brought on by the business's operational activities are referred to as operational cash flow. According to Fitriana (2024), operational cash flow is the total cash flow from all operational operations, such as production, distribution, and service provision. The cash flow statement must contain documentation of all financial transactions. Three sections make up the cash flow statement: the operating cash flow statement, the investing cash flow statement, and the financing cash flow statement. According to Nickhole (2023), the total cash flow from operating activities is a key indicator in determining whether the company's operations can generate enough cash to carry out operational activities without needing additional funds outside of its operations. This makes managing operational cash flow crucial to ensure it is used optimally, resulting in an increase in operational cash flow. The larger the amount of cash flow generated, the more cash the company has to meet its obligations and expenses, which can minimize the likelihood of financial distress (Mondayri & Tresnajaya, 2022).

Investment Efficiency

Investment efficiency consists of two words: efficiency and investment, which refers to making investment efficiently. According to Fajriani et al. (2021),

inefficient investment occurs when a company faces conditions of underinvestment and overinvestment. Underinvestment is when managers fail to invest despite having the ability, knowledge, and resources to do so, yet they do not make the decision to invest. Conversely, overinvestment is when managers make investment decisions that exceed the allocated funds and lack sufficient knowledge. This leads to misallocation of capital. Efficient investment is expected to help companies generate profits that can be used to meet their needs and obligations. However, inefficient investment can have the opposite effect, potentially causing financial difficulties.

Firm Size on Financial distress

Firm size, reflected in total assets, significantly impacts financial stability. Larger companies generally have more resources, allowing them to manage their operations effectively and lower their risk of financial distress (Kristanti, 2022). However, as businesses expand, agency conflicts may emerge, as owners (principals) face challenges in ensuring that managers (agents) act in alignment with company goals (Apriliani & Dewayanto, 2018). Poor alignment between management decisions and company objectives can contribute to financial instability. On the other hand, larger firms often implement better monitoring systems, ensuring greater managerial accountability and reducing the risk of financial distress (Faldiansyah et al., 2020; Apriani & Ritong, 2024). Studies provide contrasting views on the relationship between firm size and financial distress. Jonathan (2022) argues that financial distress is not necessarily influenced by firm size, as large firms may still struggle to meet financial obligations. Conversely, Apriani and Ritong (2024) and Nilasari (2021) found that larger firms are less prone to financial distress, as they have greater financial flexibility and asset availability to meet obligations. Meanwhile, smaller companies, which operate with limited resources, must carefully manage their finances to prevent financial challenges (Audina et al., 2022). If mismanaged, financial distress becomes a higher risk for smaller businesses.

H1: Firm size has an effect on financial distress

Operating Cash Flow on Financial Distress

Operating cash flow refers to the movement of cash in and out of a company as part of its daily business activities. A company with strong cash flow is better equipped to meet its financial obligations and maintain smooth operations. On the other hand, weak cash flow can be a warning sign of financial struggles, and if not managed properly, may lead to bankruptcy. From the perspective of agency theory, effective cash flow management depends on a strong relationship between business owners (principals) and management (agents). Since their goals may differ, maintaining transparency and reducing information gaps is crucial to prevent poor financial decisions that could harm the company. Research on the link between operating cash flow and financial distress offers mixed conclusions. Some studies, such as those by Audina et al. (2022), Harto and Napisah (2020), Mondayri and Tresnajaya (2022), and Nickhole (2023), suggest that higher cash flow lowers financial distress risk, as companies with sufficient funds can cover their expenses more easily. However, Venisa and Widjaja (2022) and Dewi et al. (2022) argue that cash flow alone does not determine financial stability. A company may have a large cash flow but still struggle to meet its financial obligations due to other factors. Despite these differing perspectives, most experts agree that efficient cash flow management plays a vital role in maintaining a company's long-term financial health. Poor cash flow management can make it difficult for businesses to meet expenses, increasing the risk of financial distress.

H2: Operating cash flow has an effect on financial distress

Investment Efficiency in Financial Distress

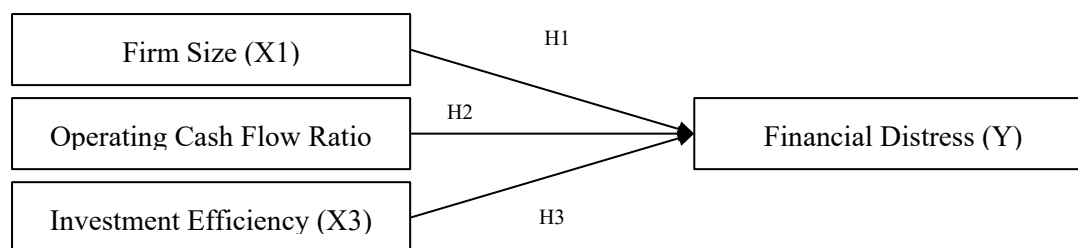
Investment efficiency refers to the ability of a company to make strategic investments using minimal capital while maximizing returns. Fajriani et al. (2021) state that efficient investments increase profitability, ultimately enhancing the company's value. A higher level of investment efficiency leads to greater financial gains, whereas poor investment decisions can result in lower profits or even financial losses. This highlights the importance of careful decision-making by

investment managers to ensure capital is allocated effectively. From the perspective of agency theory, investment decisions should align with the goals of the business owner (principal), which requires strong communication and trust between the principal and the management (agent). Since their objectives often differ, reducing information asymmetry is crucial to prevent poor decision-making that could lead to inefficient investments. Making well-informed investment choices is key, as rushed or poorly planned decisions can result in financial instability and long-term challenges for the company.

H3: Investment efficiency has an effect on financial distress

Conceptual Framework

The conceptual framework of this research, based on relevant theories and hypotheses, is illustrated in Figure 1.



Source: Author

Figure 1
Conceptual Framework

3. RESEARCH METHOD

This research focuses on companies listed in the consumer noncyclical sector on the Indonesia Stock Exchange (IDX) from 2018 to 2023. During this period, 70 companies were listed on the IDX. Using the purposive sampling technique, 65 companies were selected from the 70 listed companies, resulting in 390 observational units. Using the statistical casewise diagnostic method, 16 observational units were identified as outliers due to extreme values. Therefore, this study used 374 observational units.

Table 1
Sample Criteria and Selection

Description	Number of Observational Units
Consumer noncyclical companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2023	420
Companies that did not publish audited financial statements for the period 2018-2023	(18)
Companies that did not present financial statements in rupiah	(12)
Total observation units meeting the criteria	390
Total data outliers	(16)
Total sample used for the research	374

Source: Processed Data by the Author

Population and Sampling

This research uses secondary data from 2018-2023 annual financial reports of noncyclical consumer companies listed on the Indonesia Stock Exchange (IDX). Noncyclical consumer businesses listed on the IDX during the 2018-2023 period serve as the research objectives. A purposive sampling technique is used in the sampling process, where sample selection is based on specific criteria aligned with the research objectives. This technique ensures that the selected data meet specific requirements, making the research results more relevant to the research's focus. The criteria for sample selection are as follows:

1. Noncyclical consumer sector companies listed on the Indonesia Stock Exchange during the 2018-2023 period.
2. Companies that published audited financial statements for the years 2018-2023
3. Companies that present financial statements in Indonesian rupiah.

Research Variables and Operational Definitions

Firm Size

Firm size refers to the scale of a company, which can be assessed based on its total assets. According to Purwanti (2021), companies are categorized into three groups: large, medium and small. This classification is based on the company's assets and sales revenue. As stated by Faldiansyah et al. (2020), firm size can be measured using the following formula:

$$Firm\ Size = Ln\ (Total\ Asset)$$

Operating Cash Flow Ratio

Operating cash flow refers to the amount of cash generated from all operational activities. According to Faldiansyah et al. (2020), ratio of operating cash flow can be measured using the following formula:

$$Ratio\ of\ Operating\ Cash\ Flow = Total\ Operating\ Cashflow / Total\ Assets$$

Investment Efficiency

Investment efficiency refers to the optimal use of resources for investment without any wastage. According to Bimo et al. (2022), investment efficiency can be measured using the following formula:

$$Investment = \beta_0 + \beta_1 Sales\ Growth_{i,t-1} + \beta_2 Return\ On\ Asset_{i,t-1} + \epsilon_{i,t-1}$$

Investment is measured by a company's total assets, while sales growth represents the percentage change in sales over time. Return on Assets (ROA) is calculated by dividing net income by total assets, providing insight into a company's profitability. Investment efficiency is determined through regression analysis, where deviations from the expected investment level indicate different scenarios. A positive residual suggests overinvestment, while a negative residual signals underinvestment. According to Bimo et al. (2022), investment efficiency is measured by taking the absolute residual multiplied by -1, meaning higher values reflect greater investment efficiency.

Financial Distress

Financial distress in this research is measured by using the Zmijewski method. The Zmijewski method was first introduced by Zmijewski in 1984 as a follow-up study to predict financial distress. This study developed by Zmijewski using data from companies listed during 1972-1978 period, demonstrating an accurate rate of 95,29% (Kristanti, 2022). The Zmijewski method's accuracy is higher than other methods (Ramadhani et al., 2023). According to Ramdani (2020) the formula used to calculate financial distress with the Zmijewski method is as follows:

$$Zm = -4,3 - 4,5X1 + 5,7X2 - 0,004X3$$

Zm = Financial Distress

$X1$ = Net Income / Total Assets

$X2$ = Total Liabilities / Total Assets

$X3$ = Current Assets / Current Liabilities

The Zmijewski method is used to assess a company's financial distress status based on calculation results. If the computed value is greater than 0, the company is considered financially unhealthy and may be at risk of distress. Conversely, if the result is less than 0, the company is categorized as financially healthy, indicating stability in its financial condition.

Research Model

A regression model called multiple linear regression analysis is used to look at how two or more independent variables affect one dependent variable. Determining the degree to which each independent variable affects the dependent variable is the aim of this analysis. According to Sahir (2021), the multiple linear regression equation can be expressed as follows:

$$FinDis = a + \beta_1Size + \beta_2OCF + \beta_3InvEff$$

$FinDis$ = Financial Distress

$Size$ = Firm Size

OCF = Operating Cash Flow

InvEff = Investment Efficiency

a = Constant (the value of the dependent variable when the independent variables are 0)

$\beta_1, \beta_2, \beta_3$ = Regression coefficient (indicating the rate of increase or decrease in the variable)

4. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis is used to explain the state of the data for each variable. Table 2 displays the mean (average), standard deviation, minimum value, and maximum value that are used to characterize the state of each variable.

Table 2
Descriptive Statistic Results

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Distress	374	-4.60	2.54	-1.7609	1.46976
Firm Size	374	25.00	33.00	29.0160	1.59246
Operating Cash Flow Ratio	374	-0.31	1.92	0.0936	0.15698
Investment Efficiency	374	-185.60	-4.33	-58.9359	14.43648
Valid N (listwise)	374				

Source: Processed Data Using IBM SPSS 27

This study uses two data analysis methods: multiple linear regression and descriptive statistics, with IBM SPSS version 27 as the data processing tool. Table 2 presents a summary of the descriptive statistics for key variables, including financial distress, firm size, operating cash flow ratio, and investment efficiency. The analysis is based on 374 observations collected for this research.

Financial distress variable calculated using the Zmijewski method, financial distress has a minimum value of -4.60, observed in PP London Sumatra Indonesia Tbk. in 2023. The negative financial distress value indicates good financial health and a low likelihood of financial distress. The maximum value of 2.54, observed in

Wicaksana Overseas International Tbk. in 2022, suggests poor financial health, as a value greater than 0.5 indicates financial distress. The average financial distress value is -1.76, with a standard deviation of 1.469, reflecting a wide data variation due to the relatively high standard deviation compared to the mean.

The firm size variable has a minimum value of 25 and a maximum value of 33, with an average of 29.016 and a standard deviation of 1.592. This indicates that the firm size data is relatively concentrated, as the standard deviation is small compared to the mean.

Operating cash flow variable is represented by the ratio of total operating cash flow to total assets which has the minimum value -0.31, belonging to Prima Cakrawala Abadi Tbk. in 2018. The negative operating cash flow indicates inefficient asset utilization and an inability to generate sufficient cashflow for the operations. The insufficient cash flow for the operations requires additional funding to meet their operational needs. The maximum value is 1.92, belonging to Charoen Pokphand Indonesia Tbk. in 2018, showing efficient asset utilization, resulting in sufficient cash flow to support operations. The average value is 0.936, with a standard deviation of 0.1569, indicating a concentrated distribution due to the higher average value than the standard deviation.

The investment efficiency variable has a minimum value of -185.6 observed in Dua Putra Makmur in 2020. The negative investment efficiency value indicates inefficient investments, where the returns do not exceed the capital, or which could lead to losses. The maximum value is -4.33, observed in H.M. Sampoerna in 2018. The high investment efficiency value showing efficient investment practices with optimal returns. The average value of investment efficiency value is -58.9359, and the standard deviation is 14.4364, indicating a wide range of data due to higher standard deviation than the average.

Assumption Test Results

Before conducting the full regression analysis, a series of assumption tests were carried out to ensure the data met the BLUE (Best Linear Unbiased Estimator) assumptions, supporting the research objectives. These tests examined normality, multicollinearity, autocorrelation, and heteroscedasticity to confirm the reliability

of the model. The Kolmogorov-Smirnov test showed that the data followed a normal distribution. The multicollinearity test indicated that all Variance Inflation Factor (VIF) values were below 10, meaning that the independent variables were not too closely related.

The Durbin-Watson test (2.031) confirmed that there was no autocorrelation, ensuring that residuals were not dependent on each other over time. Lastly, the Glesjer test showed no signs of heteroscedasticity, meaning that the variance of residuals remained consistent across different values of the independent variables. Since all assumption tests were met, the regression model is statistically reliable, allowing the research to move forward with panel data regression analysis to explore the relationship between firm size, operating cash flow ratio, investment efficiency, and financial distress.

Regression Results

Table 3
Result of t-test

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	Collinearity Statistics	
	B	Std. Error	Beta	t		Tolerance	VIF
1 (Constant)	-4.087	1.410		-2.900	0.004		
Firm Size	0.055	0.047	0.060	1.182	0.238	0.928	1.077
Operating Cash Flow Ratio	-2.627	0.482	-0.281	-5.452	<0.001	0.902	1.109
Investment Efficiency	-0.016	0.005	-0.161	-3.210	0.001	0.947	1.056

Source: Processed Data Using IBM SPSS 27

Assuming all other variables stay the same, the partial significance test (t-test) is used to investigate the impact of operating cash flow, investment efficiency, and firm size on financial distress. The significance and direction of the independent variables' influence on the dependent variable are assessed by this test.

According to Table 3, firm size has a regression coefficient of 0.055, a t-value of 1.182, and a significance level of 0.238. Since the significance level is

higher than 0.05 and the t-value is less than the t-table (1.996), it can be concluded that firm size has no impact on financial distress. As a result, hypothesis 1 (H1) is rejected.

Operating cash flow has a regression coefficient of -2.627 and a t-value of -5.452 with a significance level of less than 0.01 according to the results of the partial significance test (t-test), which are based on Table 3. Hypothesis 2 (H2) is accepted since the t-value is greater than the t-table of 1.996 and the significance level is less than 0.05, suggesting that operating cash flow significantly worsens financial distress.

According to Table 3, the partial significance test (t-test) results indicate that investment efficiency has a t-value of -3.210, a regression coefficient of -0.016, and a significance level of 0.01. Hypothesis 3 (H3) is accepted since the t-value is greater than the t-table of 1.996 and the significance level is less than 0.05, suggesting that investment efficiency significantly worsens financial distress.

Discussions

Table 3 shows that firm size has no impact on financial distress to answer the first hypothesis. These findings suggest that a company's size alone does not determine its financial stability. A small company is not necessarily at greater risk of financial distress, whereas no large company is automatically protected from financial difficulties. This conclusion is consistent with those of Purwaningsih and Safitri (2022), Jonathan (2022), and Faldiansyah et al. (2020). From the perspective of agency theory, larger companies tend to face greater agency problems due to the increasing number of managers and employees, making it harder for business owners (principals) to ensure that management (agents) aligns with company objectives. Apriliani and Dewayanto (2018) emphasized that oversight becomes more challenging as companies grow, which can lead to financial distress if not properly managed. However, larger companies can minimize these risks and maintain financial stability through effective monitoring and strong corporate governance. Ultimately, firm size does not guarantee financial stability or distress. A large company that mismanages its resources can still face financial distress,

whereas a smaller company with strong management and resource utilization can remain financially stable and meet its obligations.

Afterward, operating cash flow significantly impacts financial distress. The findings indicate that operating cash flow plays a crucial role in reducing financial distress. Simply put, the risk of financial difficulties decreases as operating cash flow increases. Consequently, a company's chances of experiencing financial distress decline when operating cash flow improves. This result aligns with research conducted by Harto and Napisah (2020), Purwaningsih and Safitri (2022), Mondayri and Tresnajaya (2022), and Nickhole (2023). From the perspective of agency theory, managers (agents) are expected to make decisions that align with the interests of business owners (principals). A strong relationship between agents and principals is essential for effective cash flow management as conflicting objectives can lead to information asymmetry. Companies can make better financial decisions when they maintain good communication and oversight, which ultimately reduces the likelihood of financial distress. A higher operating cash flow enables companies to meet financial obligations, cover operational expenses, and maintain stability. According to Nickhole (2023), operating cash flow is a key indicator of a company's ability to generate sufficient cash to sustain operations, settle liabilities, and ensure business continuity, ultimately minimizing financial distress risk.

Finally, investment efficiency significantly impacts financial distress. The findings suggest that investment efficiency plays a key role in reducing financial distress. Simply put, the more efficient a company's investments, the lower its risk of financial difficulties. Conversely, poor investment efficiency increases the likelihood of financial distress because resources may not be optimally used. From the perspective of agency theory, managers (agents) are expected to make decisions that align with the interests of business owners (principals). Strong communication and collaboration between agents and principals are essential for achieving investment efficiency. Goal misalignment can lead to information asymmetry, where decision-makers lack crucial information, increasing the risk of poor financial choices. Because investment decisions involve multiple factors, careful planning and oversight are necessary to prevent inefficiencies that could lead to

financial instability. Poorly managed investments can create long-term financial challenges for a company, making it difficult to sustain growth and meet obligations. By ensuring better oversight, transparency, and strategic decision-making, companies can improve investment efficiency, optimize resource allocation, and reduce financial distress risk. Consequently, when investment efficiency improves, a company's likelihood of experiencing financial difficulties decreases.

The finding that investment efficiency significantly influences financial distress aligns with the arguments of Jensen (1986) and Richardson (2006), who emphasized that firms with efficient investment decisions can minimize agency costs and avoid over-investment or under-investment that may lead to liquidity problems. Similarly, Biddle et al. (2009) highlights that effective capital allocation improves corporate value and reduces the risk of financial distress. These studies support the notion that efficient investment practices play a crucial role in maintaining a company's financial stability.

5. CONCLUSION AND SUGGESTIONS

Conclusions

The purpose of the research is to examine how financial distress is impacted by firm size, operating cash flow, and investment efficiency in consumer noncyclical sector companies that are listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023. Purposive sampling was used to select 374 observational units from 70 companies in the sample, and casewise diagnostics were used to handle outlier data. The following findings are based on data analysis and hypothesis testing:

1. Financial distress is not significantly impacted by a company's size. Large or small, a company's size has no bearing on whether it will avoid or encounter financial difficulties.
2. Financial distress is significantly impacted negatively by operating cash flow. This suggests that a company is less probable to face financial difficulties the higher its operating cash flow.

3. Financial distress is significantly impacted negatively by investment efficiency. This implies that a company's risk of financial distress decreases with increased investment efficiency

Limitations

This study has a few limitations that future research can address. First, it only covers the period from 2018 to 2023, which may not capture long-term trends in financial distress or account for shifts during different economic cycles and crises. Second, the research focuses only on firm size, operating cash flow, and investment efficiency, leaving out other important factors like corporate governance, managerial ownership, and investment composition, which could provide a more complete picture. Third, the study is limited to the consumer noncyclical sector, making it difficult to apply the findings to other industries with different economic dynamics, such as manufacturing, technology, or finance. Lastly, the study uses a relatively simple analytical approach, which may not fully uncover deeper patterns. More advanced techniques, like Structural Equation Modeling (SEM) or predictive analytics, could enhance accuracy and provide richer insights.

Suggestions for Future Research

To improve upon these limitations, future studies should consider a few key enhancements. First, extending the research period beyond 2023 would help capture long-term trends and show how financial distress evolves over different economic conditions. Second, incorporating additional factors, such as corporate governance, managerial ownership, and investment strategies, could provide a more well-rounded analysis. Third, expanding the study to include industries like manufacturing, technology, or finance would offer a broader understanding of financial distress and allow for comparisons between cyclical and noncyclical sectors. Lastly, using more sophisticated analytical methods, such as SEM or machine learning-based predictive models, could help identify early warning signs of financial distress and offer deeper insights. These improvements would make

future research more relevant and valuable for businesses, investors, and policymakers.

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