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The Role of Firm Size in Moderating the Determinants of Financial Distress: Evidence from Indonesia's Technology Sector

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Abstract

This study examines the effects of leverage, liquidity, operating cash flow, and audit committee characteristics on financial distress, with firm size as a moderating variable. The analysis covers 17 technology sector firms listed on the Indonesia Stock Exchange (IDX) from 2018–2023, selected through purposive sampling. Using multiple linear regression and processed with EViews 12, the results reveal that leverage significantly positively affects financial distress, indicating that firms with higher debt exposure face greater financial vulnerability. In contrast, liquidity, operating cash flow, and audit committee variables show no significant effects. Moreover, firm size does not moderate any of the relationships examined. These findings highlight the pivotal role of leverage in predicting financial instability, particularly in capital-intensive industries, and underscore the need for prudent debt management. The study contributes to the literature by integrating a moderating perspective and offers practical insights for enhancing early financial risk detection mechanisms in the technology sector.

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Introduction

Financial distress is when a company experiences difficulty meeting its financial obligations due to declining profitability or inadequate cash flows (Fitri & Syamwil, 2020). Yolanda et al. (2019) define it as a critical financial state wherein operational losses hinder a firm's capacity to fulfill short- and long-term liabilities. If left unaddressed, financial distress may escalate into insolvency or bankruptcy. Therefore, early detection of distress indicators is essential for enabling timely strategic interventions to sustain a firm's going concern status (Septiani & Dana, 2019).

While financial distress is often associated with macroeconomic downturns, it may also occur in periods of economic growth, underscoring the influence of internal financial weaknesses such as poor liquidity management or excessive leverage (Christine et al., 2019). These imbalances can lead to operational inefficiencies and diminishing investor confidence. In this context, effective corporate governance mechanisms, particularly the audit committee's role, are essential to enhancing monitoring functions, strengthening internal control, and improving risk management (Darsono, 2019).

In Indonesia, the technology sector has recently exhibited heightened vulnerability to financial distress. Despite its strategic relevance and growing appeal to investors, many listed technology firms have reported sharp revenue declines, weakening their financial positions. For example, PT Distribusi Voucher Nusantara Tbk (DIVA) experienced a revenue drop of 14.69%, PT Galva Technologies Tbk (GLVA) declined by 8.33%, PT WIR Asia Tbk (WIRG) by 4.76%, PT Bukalapak.com Tbk (BUKA) by 3.33%, PT Global Digital Niaga Tbk (BELI) by 0.88%, and PT GoTo Gojek Tokopedia Tbk (GOTO) suffered a 48% decrease (Kristianto, 2023). These trends reveal the urgency of examining financial distress determinants in this capital-intensive, innovation-driven, highly volatile sector.

Extant literature has investigated financial distress using financial indicators such as leverage, liquidity, and operating cash flow. Leverage—reflecting a firm's dependence on debt financing—has been commonly linked to distress risk, as higher debt levels increase fixed obligations and reduce financial flexibility (Rahma, 2020; Amna et al., 2021). However, empirical findings remain inconclusive, with some studies reporting a positive association Ayuningtyas and Suryono (2019), while others find insignificant or even negative relationships (Suryani, 2020; Giovanni et al., 2020). Similar inconsistencies are found in the effects of liquidity and operating cash flow, which, although theoretically associated with enhanced solvency, have shown unexpected results in various empirical contexts (Pebrianti et al., 2023; Ramadhani & Khairunnisa, 2019).

The audit committee, a core governance structure, is expected to reduce the likelihood of financial distress by increasing transparency, improving internal oversight, and minimizing information asymmetry (Putra & Serly, 2020). However, research findings on its effectiveness are mixed. While some scholars affirm its mitigating role Dara and Thamrin (2022); Wowor and Zabrina (2021), others report either no significant impact or even a positive relationship with financial distress (Widiyanto & Dwijayanti, 2022; Irmayanti & Almurai, 2020). These discrepancies suggest that the audit committee's effectiveness may vary based on sectoral characteristics, firm-specific governance quality, or contextual institutional factors.

To address these inconsistencies, this study introduces firm size as a moderating variable grounded in signaling theory (Spance, 1973). Larger firms may signal greater financial stability and operational resilience through visibility, resource access, and investor credibility. Accordingly, firm size may moderate the impact of leverage, liquidity, operating cash flow, and governance mechanisms on financial distress. Large firms typically possess stronger institutional frameworks, diversified income streams, and better

access to capital, which may cushion them against financial shocks—even when underlying financial indicators suggest elevated risk.

This study empirically examines the effects of leverage, liquidity, operating cash flow, and audit committee characteristics on financial distress among Indonesian technology firms listed on the IDX from 2018 to 2023. It also investigates the moderating effect of firm size on these relationships through moderated regression analysis, aiming to offer deeper insight into the financial health of one of Indonesia's most dynamic but fragile sectors.

Literature Review

Hypothesis development

Leverage and Financial Distress

Leverage is a financial ratio that reflects how much a firm relies on debt financing relative to its equity. Within the agency theory framework, managers (agents) are entrusted to act in the best interests of shareholders (principals). However, excessive borrowing may reflect agency-driven decisions that prioritize short-term performance at the expense of long-term financial stability. High levels of debt impose fixed financial obligations—such as interest and principal repayments—that can strain cash flows, particularly when revenues are volatile or declining. This inflexibility can constrain investment capacity and increase the risk of default, making highly leveraged firms more prone to financial distress (Dewi et al., 2022). A substantial body of empirical evidence supports this relationship, indicating that leverage is positively associated with financial distress (Ayuningtyas & Suryono; 2019; Amna et al., 2021; Novyarni & Dewi, 2020).

H1: *Leverage has a positive effect on financial distress*

Liquidity and Financial Distress

Liquidity measures a firm's ability to fulfill short-term obligations using current assets. From an agency theory perspective, strong liquidity ensures operational continuity and reduces dependence on external financing, mitigating agency conflicts and limiting exposure to financial distress. Firms with sufficient liquidity can weather temporary revenue disruptions and manage short-term liabilities without compromising solvency (Putri & Erinos, 2020). Conversely, liquidity constraints may lead to payment defaults, deteriorated creditor relations, and increased bankruptcy risk. Empirical studies consistently document a negative relationship between liquidity and financial distress, suggesting that firms with strong liquidity profiles are more resilient during economic or operational shocks (Feanie & Dillak, 2021; Naibaho & Natasya, 2023; Indrati & Azizah, 2022).

H2: *Liquidity hurts financial distress*

Operating Cash Flow and Financial Distress

Operating cash flow (OCF) reflects the net cash generated from a firm's core operating activities, providing a reliable indicator of financial sustainability. Within agency theory, positive OCF reduces the need for external financing and serves as a credible signal of managerial efficiency and financial health (Lestari, 2019; Ramadani & Ratmono, 2023). Firms that consistently generate high operating cash flow are generally better positioned to meet obligations, finance investments, and withstand liquidity shocks, reducing their exposure to financial distress. In contrast, negative or declining OCF may signal deteriorating operational performance and heightened financial vulnerability. Prior empirical studies affirm that strong OCF is negatively associated with financial distress (Paryati, 2023; Mondayri & Tresnajaya, 2022; Rinofah et al., 2022).

H3: *Operating cash flow hurts financial distress*

Audit Committee and Financial Distress

The audit committee is critical to ensuring transparency, accountability, and quality of financial reporting. As a key component of corporate governance, it oversees internal control systems, monitors managerial conduct, and promotes compliance with financial regulations. According to agency theory, a well-functioning audit committee can reduce information asymmetry and limit managerial opportunism, thus lowering the risk of misreporting and financial manipulation—key contributors to financial distress (Ramdani & Wijaya, 2019; Dewi et al., 2022). Empirical findings suggest that firms with strong and independent audit committees are more likely to detect early signs of distress and implement corrective measures (Liga & Lukman, 2021; Dara & Thamrin, 2022; Wowor & Zabrina, 2021).

H4: *The audit committee hurts financial distress*

Moderating Role of Firm Size

Firm size is often associated with greater access to external capital, enhanced market power, and more sophisticated risk management systems. Larger firms tend to have diversified income streams and stronger credit profiles, which can mitigate the adverse effects of leverage. In contrast, smaller firms often face limited financing options and higher borrowing costs, making them more susceptible to debt-induced distress (Junior & Wijaya, 2022; Fajarsari et al., 2023). Hence, firm size may attenuate the positive relationship between leverage and financial distress.

The ability of liquidity to reduce distress risk may be more pronounced in larger firms due to their greater resource pools and operational flexibility. Large firms can more effectively restructure short-term obligations, maintain working capital buffers, and utilize internal reserves. In contrast, small firms may be constrained by limited financial infrastructure, reducing the protective impact of liquidity (Putra & Serly, 2020; Rahmadianti & Asyik, 2021).

Operating cash flow is a more credible signal of financial resilience in large firms, particularly capital-intensive industries. Such firms often have broader operational scopes, enabling them to reallocate cash flows strategically across units to avoid localized distress. In smaller firms, the positive impact of OCF may be constrained by narrower margins and limited financial flexibility (Ramadani & Ratmono, 2023; Tania & Wijaya, 2022).

The effectiveness of the audit committee may also vary with firm size. Larger firms are subject to greater public scrutiny and regulatory oversight and typically have audit committees with more resources, diverse expertise, and frequent engagement. This enhances their monitoring capabilities and reduces the risk of financial mismanagement. In smaller firms, audit committees may lack the authority or capacity to enforce robust oversight (Prastyatini & Novikasari, 2023; Agatha & Wijaya, 2022).

H5: *Firm size weakens the positive relationship between leverage and financial distress*
H6: *Firm size strengthens the negative relationship between liquidity and financial distress*
H7: *Firm size strengthens the negative relationship between operating cash flow and financial distress*
H8: *Firm size strengthens the negative relationship between audit committee effectiveness and financial distress*

Research Methods

This study adopts a quantitative approach using secondary data from publicly available sources. The population comprises all technology sector companies listed on the Indonesia Stock Exchange (IDX) from 2018–2023. The sample was selected using purposive sampling, with specific inclusion criteria based on

data availability and consistency of financial reporting over the observed period. Data were collected through documentation techniques by reviewing annual reports and audited financial statements published on the IDX official and individual company websites. All financial data used in this study have been verified for completeness and comparability.

This study employs panel data regression analysis using EViews 12 software to examine the hypotheses. The panel regression model is applied to assess the relationship between the independent variables (leverage, liquidity, operating cash flow, and audit committee), the dependent variable (financial distress), and the moderating variable (firm size). Panel data regression allows for controlling unobserved heterogeneity across firms and over time, thereby improving the robustness of estimation results.

Variable Measurement

Variabel	Notation	Measurement
Variable Dependency		
Financial Distress	FD	Z-score = 1, 2 X1 + 1, 4 X2 + 3, 3 X3 + 0, 6 X4 + 1, 0 X5
Independent Variables		
Leverage	BUT	$DAR = \frac{Total\ Liabilitas}{Total\ Aset}$
Liquidity	CR	$CR = \frac{Aktiva\ Lancar}{Utang\ Lancar}$
Operating Cash Flow	OCF	$OCF = \frac{Operating\ Cash\ Flow}{Total\ Assets}$
Audit Committee	KA	$komite\ Audit = Jumlah\ Anggota\ Komite\ Audit$
Moderation Variables		
Company Size	UK	$Size\ = Ln\ (Total\ Aset)$

The regression model is specified as follows:

$$FD = \alpha + \beta 1\ (DAR)_{it} + \beta 2\ (CR)_{it} + \beta 3\ (OCF)_{it} + \beta 4\ (KA)_{it} + \beta 5\ (DAR*UK)_{it} + \beta 6\ (CR*UK)_{it} + \beta 7\ (OCF*UK)_{it} + \beta 8\ (KA*UK)_{it} + e$$

The financial distress formula in this study describes α as a constant, β1 – β8 as the coefficient of each independent variable, t as a period, DAR as leverage, CR as liquidity, OCF as operating cash flow, KA as audit committee, UK as company size, e as error.

Result and Discussion

Descriptive statistics are used to determine distributions that help in justifying the results. The dependent variable, financial distress, stated the highest value of 4,269 with the lowest value of -0.773. The average financial distress is 1.027 with a standard deviation of 0.851, where the average value is close to the minimum value (-0.773), indicating a low data variation level. Therefore, it can be explained that technology companies are in bad condition, so they face financial distress.

The leverage variable shows a high value of 3.7163 and a low value of 0.027. The average for the leverage variable is 0.401, with a standard deviation of 0.429. The spread of leverage data in this study was high because the standard deviation was higher than the mean, showing a mean close to the minimum, indicating a low level of variation. It is concluded that technology companies have good performance and strategies, so the level of leverage is low.

The liquidity variable had a high value of 38.076 and a low value of 0.052. The average liquidity is 5.044, with a standard deviation of 7.119, which is close to the minimum, indicating a low level of variation in the data. In this regard, technology companies in the research year cannot pay short-term debt.

The operating cash flow variable showed the highest value of 1.928 and the lowest (-0.765). The average operating cash flow was 0.034, with a standard deviation of 0.373, indicating an average value close to the minimum and a low level of variation in the data. For this reason, it is concluded that the technology sector has poor operational performance, and companies may face difficulties in paying their short-term liabilities, resulting in low operating cash flow.

The audit committee variables have the highest value of 3,000 and the lowest value (0.000). The average audit committee is 2.735 with a standard deviation of 0.782, which shows an average score close to the maximum, which indicates a high audit committee level. It was concluded that the average technology sector audit committee had met Good Corporate Governance standards.

The company size variable showed the highest score of 29,948 and the lowest (22,206). The average company size is 26,854 with a standard deviation of 1,863, with an average value close to the maximum, indicating the size level of a large company. In this regard, the sample data of technology companies is extensive.

Table 1. Descriptive Statistics Table

	FD	DAR	CR	OCF	KA	UK
Min	-0,773	0,027	0,052	-0,765	0,000	22,206
Max	4,269	3,716	38,076	1,928	3,000	29,948
Mean	1,027	0,401	5,044	0,034	2,735	26,854
Std.Deviation	0,851	0,429	7,119	0,373	0,782	1,865
Adjusted R-Square	0, 86					

The results of the three tests suggest that the most optimal model is the fixed-effect model (FEM).

Table 2. Panel Data Regression Analysis Table

Variabel	Coefficient	t-Statistic	Prob.
IC	-13,52410	-4,000140	0,0001
DAR	5,966689	2,500312	0,0146
CR	0,068438	0,587974	0,5583
OCF	-0,363702	-0,093666	0,9256
KA	3,736211	3,556046	0,0007
UK	0,572698	4,229664	0,0001
DAR_UK	-0,239099	-2,381675	0,0197
CR_UK	-0,002258	-0,501021	0,6178
OCF_UK	0,022863	0,157179	0,8755
KA_UK	-0,147587	-3,523886	0,0007

The first hypothesis is that leverage affects financial distress with a probability value (0.0146 < 0.05) based on the t-test results. The variables of liquidity and operating cash flow based on the t-test results above stated that it does not affect financial distress. The audit committee variable had an effect on financial

distress with a probability value (0.0007 < 0.05), so the fourth hypothesis (H4) was rejected. Therefore, it can be stated that the audit committee has a significant positive effect on financial distress.

In the variable of company size that moderates leverage and the audit committee, according to the results of the t-test above, the probability value is smaller than the level of significance, so it can be said that the variable of company size weakens the relationship between leverage and the audit committee against financial distress is rejected. Furthermore, the company's size does not moderate liquidity and operating cash flow, which indicates a probability value higher than the significance level. Therefore, the company's size does not moderate the relationship between liquidity and operating cash flow to financial distress.

Discussion

Leverage and Financial Distress

The findings reveal that leverage has a significant positive effect on financial distress, consistent with the predictions of agency theory. In this context, managers are entrusted with making financing decisions on behalf of shareholders; however, excessive reliance on debt financing increases fixed financial obligations, elevating the risk of default. This risk is particularly salient in the technology sector, which is characterized by high capital intensity and a continuous need for innovation-driven investment. Firms in this sector that rely heavily on debt without appropriate risk management frameworks are more vulnerable to financial distress. This finding is supported by prior research by Safitri and Yuliana (2021); Diyanto (2020); and Wangsih et al. (2021), which emphasizes that high leverage ratios diminish a firm's financial resilience, especially in volatile environments.

Liquidity and Financial Distress

Contrary to theoretical expectations, liquidity does not exhibit a significant relationship with financial distress. This finding diverges from agency theory, which posits that maintaining a healthy liquidity position can reduce agency conflicts and enhance financial stability. One plausible explanation in the context of technology firms is that liquidity is not the sole determinant of financial viability; these firms often engage in flexible financing strategies and may rely on intangible assets, long-term growth investments, or venture funding, even when short-term liquidity is constrained. This result is consistent with empirical studies by Megasanti and Riwayati (2023); Larasati and Wahyudin (2019); and Dianova and Nahumury (2019), which similarly suggest that high liquidity does not guarantee protection against financial distress in sectors driven by innovation and non-tangible value creation.

Operating Cash Flow and Financial Distress

The analysis further shows that operating cash flow (OCF) does not significantly affect financial distress. This contradicts the agency theory perspective, which holds that positive cash flows reduce information asymmetry and signal managerial competence in maintaining operational efficiency. In the technology sector, however, business models are often subject to revenue volatility, long development cycles, and heavy reinvestment, which may obscure the predictive power of OCF. This finding aligns with prior studies by Fitri and Dillak (2020); Khasanah et al. (2021); and Sugiana and Hidayat (2023), which argue that cash flow metrics may be insufficient to capture early signs of financial distress, especially in firms with irregular income streams.

Audit Committee and Financial Distress

Similarly, the study finds no significant association between the audit committee and financial distress, challenging the conventional understanding of its monitoring role as proposed in agency theory. While audit committees are designed to enhance governance quality and prevent financial misreporting, their effectiveness may be compromised in firms with complex operations and limited transparency, such as

those in the technology sector. Operational and structural intricacies may reduce the committee's oversight efficacy. This result echoes findings by Hariyani and Kartika (2021); Timoty et al. (2023); and Widiyanto and Dwijayanti (2022), who suggest that the presence of an audit committee does not always translate into improved financial outcomes or lower distress probabilities.

Moderating Role of Firm Size

The results indicate that firm size does not moderate the relationship between leverage and financial distress. This implies that even large firms are not immune to the adverse effects of high debt levels. In this context, the expectation that larger firms can manage leverage more effectively due to better access to resources and financial expertise does not hold. This outcome aligns with the findings of Giovanni et al. (2020) and Bukhari and Rosalinda (2022), who observed that firm scale does not automatically reduce financial risk arising from leverage.

Likewise, firm size fails to moderate the relationship between liquidity and financial distress. Although larger firms are generally presumed to maintain more substantial liquid reserves, their liquidity may not be readily deployable, especially in technology firms that hold significant intangible assets or long-term investments. These firms may face structural constraints that limit the efficiency of liquidity usage, rendering the moderating effect of firm size negligible. This result is consistent with the findings of (Ashsifa et al., 2023; Fajarsari et al., 2023; and Christine et al., 2019).

The interaction between firm size and operating cash flow is also insignificant, indicating that the positive effects of OCF on reducing financial distress are not amplified in larger firms. One possible explanation is that large technology firms typically face more complex and capital-intensive operational demands, which may offset the protective role of cash flow. This finding supports earlier conclusions by Amanda and Tasman (2019), Nafisah et al. (2023), and Tania and Wijaya (2022), who argue that size does not guarantee operational efficiency or risk mitigation, particularly in fast-evolving industries.

Finally, the study finds that firm size does not moderate the relationship between audit committee effectiveness and financial distress. In larger organizations, the expanded scope of governance responsibilities and increased reporting complexity may hinder the audit committee's ability to perform effective oversight. This aligns with the conclusions of Liga and Lukman (2021); Dirman (2020); and Syuhada et al. (2020), who observed that the benefits of governance mechanisms may diminish in large firms due to structural inefficiencies and bureaucratic layering.

Conclusion

This study examines the impact of leverage, liquidity, operating cash flow, and audit committee effectiveness on financial distress among technology firms listed on the Indonesia Stock Exchange (IDX) during the period 2018–2023, with firm size incorporated as a moderating variable. The empirical findings demonstrate that leverage significantly affects financial distress, reinforcing the assertion that firms with greater debt burdens are more susceptible to financial instability. In contrast, liquidity, operating cash flow, and audit committee characteristics do not exhibit statistically significant effects, suggesting that these internal factors may have limited predictive power within the context of the technology sector. Moreover, firm size does not significantly moderate any of the relationships examined, indicating that larger firms do not inherently benefit from scale advantages in managing financial risks.

These findings yield both theoretical and practical implications. Theoretically, the study contributes to the development of agency theory by emphasizing the contextual limitations of internal governance and financial indicators in safeguarding firms—particularly within capital-intensive, innovation-driven sectors—from financial distress. From a managerial and regulatory perspective, the results highlight that leverage remains the most consistent and robust predictor of financial distress. This underscores the imperative for firms, especially those in the early stages of growth, to implement prudent debt management practices and reinforce internal financial oversight. These insights are particularly relevant for technology firms in emerging markets, where financial fragility may be underappreciated, and governance systems are often still evolving.

Nonetheless, the study is subject to several limitations. The analysis is confined to listed technology firms on the IDX, which may constrain the generalizability of the findings across other sectors or non-listed entities. Future research should extend the scope to include a broader array of industries and firm types to enhance external validity. In addition, this study does not account for other potentially relevant variables such as profitability, sales growth, or external governance mechanisms. Subsequent studies are encouraged to integrate these factors and to consider longitudinal designs that capture multi-cycle financial behavior, thereby providing a more comprehensive and nuanced understanding of the drivers of financial distress.

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