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Research Article

The Effect of Profitability and Operating Cash Flow on Financial Distress with Firm Value as a Mediating Variable

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Abstract: Technology sector companies are known for rapid innovation but also face high uncertainty, which is likely to cause financial distress. In Indonesia, several technology firms publicly traded on the Indonesia Stock Exchange (IDX) experienced declining profitability and negative operating cash flows during the 2021–2023 period. The aim of this research is to examine the influence of profitability and operating cash flow on financial distress, with firm value as an intervening variable. The research addresses inconsistencies in financial indicators—declining profits do not always indicate financial distress, especially when firm value is not taken into account. Using secondary data from annual reports and the Investing website, this study makes use of a quantitative method involving path analysis. A purposive sampling technique resulted in 78 firm-year observations. Data analysis was carried out using SPSS software. It was found that both firm value is positively and significantly affected by profitability and operating cash flow. However, only operating cash flow and firm value have a statistically significant positive relationship with financial distress, unlike profitability. Furthermore, firm value does not mediate the relationship between profitability and financial distress but does mediate the relationship between operating cash flow and financial distress. These findings suggest that operating cash flow is a more reliable indicator than profitability in predicting financial distress and emphasize the mediating role of firm value in financial instability.

Keywords: Financial Distress; Firm Value; Operating Cash Flow; Profitability.

1. Introduction

The objectives of a company include achieving successful production, economic efficiency, timely delivery of goods and services, and attaining profitability as a primary focus. Optimal profitability serves as the foundation for the company's operational continuity, thus requiring appropriate strategies and policies to maintain competitiveness amid dynamic business environments (Zahra, et al., 2023).

Business competition in Indonesia has become increasingly intense, driven by rapid economic development and technological advancements. This situation compels companies to improve both operational and financial performance to sustain competitive advantage (Bintara, 2020). Among various industries, technology is one of the rapidly growing sectors, comprising 44 companies as of December 2023. These companies operate in various technology-related fields such as digital platforms, fintech, electronic devices, and software development. This study focuses on technology firms belonging to the sector listed on the IDX between 2021 and 2023 as the research object.

Although Technology is a major driver of economic advancement growth, creating jobs, and fostering innovation, it also faces significant challenges, including the risk of financial distress. The inability of companies to adapt to global changes may lead to declining business volumes and increase the likelihood of bankruptcy (Myllariza, 2021).Therefore, it is critical for technology companies to strengthen fundamental management practices to remain competitive and ensure business sustainability.

A firm is classified categorized as having financial problems when it reports net losses for two consecutive years or suffers a decline in profits for more than one year, reflecting an

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unhealthy financial condition that risks bankruptcy if left unaddressed (Wijaya & Suhendah, 2023). Analysis of financial statements from technology sector companies listed on the IDX between 2021 and 2023 revealed that 19 companies experienced significant declines in net profit, with several recording losses for three consecutive years. For example, PT Kresna Graha Investama Tbk (KREN) reported losses of -IDR 328.6 billion in 2021, -IDR 61.8 billion in 2022, and -IDR 52.9 billion in 2023. Similar trends were observed in PT Envy Technologies Indonesia Tbk (ENVY), PT Hensel Davest Indonesia Tbk (HDIT), PT Cashlez Worldwide Indonesia Tbk (CASH), PT Bukalapak.com Tbk (BUKA), and PT Tourindo Guide Indonesia Tbk (PGJO), all of which recorded losses over three consecutive years.

Studies by Maronrong, et al., (2022) and Indrawan & Sudarsi (2023) indicate that profitability has a strong inverse impact on financial distress. Conversely, research by Syalomytha & Natalia (2023) and Heliani & Elisah (2022) found that profitability significantly and positively influences financial distress.

Financial distress is not only measured by profitability but also by negative operating cash flow (OCF) over three consecutive years, which indicates the company's inability to cover daily operational expenses (Wahyuningtiyas & Retnani, 2020). Fourteen companies recorded negative OCF, some exhibiting a consistent negative trend over several years. For instance, PT Cashlez Worldwide Indonesia Tbk (CASH) showed OCF of -IDR 37.8 billion (2021), -IDR 4.42 billion (2022), and -IDR 13.513 trillion (2023), all negative values. Similar consistent negative OCF trends were observed in PT Tourindo Guide Indonesia Tbk (PGJO) and PT Envy Technologies Indonesia Tbk (ENVY).

Research by Bachtiar & Handayani (2022) demonstrated that operating cash flow positively and significantly affects financial distress, which contrasts with the findings of Amelia, et al., (2024), who reported a significant negative effect of operating cash flow on financial distress.

However, not all companies with negative profits or negative operating cash flow (OCF) are automatically in financial distress, as firm value also plays an important role as an indicator of the market's perception of the company's future prospects. In other words, investors may still have confidence in a company's business continuity despite experiencing short-term financial pressures. A decline in profitability and negative operating cash flow can reduce firm value, which ultimately increases the risk of financial distress (Heliani & Elisah, (2022). Some studies have found differing results, such as Yemima & Jogi (2020), who showed a positive how firm value affects financial distress. Therefore, the inclusion of firm value as an intervening variable is considered important to provide A broader perspective on the link between financial performance and financial risk.

The technology sector designated as the focus of the research object due to its rapid growth but also high risk stemming from significant investment needs and financial fluctuations. Several technology companies listed on the Indonesia Stock Exchange (IDX) showed declining profits and negative operating cash flows during 2021–2023, reinforcing the urgency of this study. Furthermore, there are still limited studies discussing financial distress in the technology sector, so this research is expected to fill that gap in the literature. By using profitability and operating cash flow as independent variables, firm value as an intervening variable, and financial distress as the dependent variable, this study employs path analysis to gain deeper insights into the factors affecting the sustainability of technology companies in Indonesia.

2. Literature Review

2.1. Signal Theory

Signal theory explains how companies communicate with investors and creditors to reduce information asymmetry, influencing market reactions such as stock price changes (Suryani & Herianti, 2021). Management signals the company's future prospects through financial reports, especially during challenging times like declining profits or negative cash flows. Clear communication about profitability and cash flow enhances investor confidence and supports firm value.

2.2 Financial Distress

Financial distress refers to a company's severe financial difficulties, often indicated by sustained losses and inability to meet obligations, which can lead to bankruptcy (Sulaeman & Hasanuh, 2021). It involves declining financial health, negative operating profits, and challenges in paying debts (Zees & Kawatu,2022). This condition may result from poor

financial management and can cause risks such as loss of supplier credit and employee turnover. The Altman model, using Multiple Discriminant Analysis, is commonly used to accurately predict financial distress with up to 95% accuracy.

2.3 Profitability

According to Sirait (2017 in Aprilia & Riharjo, 2023), profitability is the company's ability to generate comprehensive profits by converting sales into earnings and cash flow. Profitability ratios serve as tools to assess how effectively a company generates profit from its operational activities. These ratios provide an overview of the company's ability to manage resources in order to achieve optimal earnings. In addition, profitability ratios are also a crucial source of information for investors when making investment decisions, as they reflect the company's financial performance and future growth potential (Ratih Kusumastuti, 2023).

2.4 Operating Cash Flow

Operating cash flow indicates how well a company can produce cash through its main business activities and is essential for evaluating financial stability. (Bachtiar & Handayani, 2022). It is important for creditors to evaluate debt repayment capacity, as higher operating cash flow signals better ability to meet obligations Hary (2015 in Fitri & Dillak, 2020). According to PSAK No. 2 (2014, cited in Annabila & Rasyid, 2022), operating cash flow indicates a company's ability to sustain operations, repay debts, pay dividends, and invest without external financing.

2.5 Firm Value

Firm value represents investors perception of a company's success, closely linked to its stock price Sujoko & Soebiantoro (2007 as cited in Ningrum, 2021). It reflects company performance as seen in the capital market Mayangsari (2018) and helps investors assess investment feasibility through stock price movements, Fajaria and Isnalita (2018 as cited in Ignacio & Lasar, 2024).

2.6 Theoretical Framework and Hypothesis Formulation

2.6.1 The Effect of Profitability on Firm Value

Profitability is a key indicator of a company's performance, reflecting the amount of profit earned and serving as an important signal to potential investors about the company's future prospects. A high level of profitability often attracts investor interest, which can drive up stock prices and ultimately increase the firm's value Evania, et al. (2018 as cited in Mujino & Wijaya, 2021). Firm value is a crucial measure in assessing corporate performance, influencing investment decisions and reflecting the market's perception of the company's financial condition (Yunita & Artini, 2019). Several studies have shown a significant positive effect of profitability on firm value Saputri Dan Giovani (2021); Yanti & Darmayanti (2019); Valensia & Khairani (2019). Based on the above description, the following hypothesis can be formulated:

H1: Profitability has a positive effect on firm value.

2.6.2 The Effect of Operating cash flow on Firm Value

Operating cash flow reflects a company's ability to generate cash from its core operational activities, making it a crucial indicator for assessing financial health, business sustainability, and investment appeal (Taufandaru, 2018). Based on signaling theory, cash flow reports can serve as more credible alternative information compared to earnings, as they are generally more difficult to manipulate. Thus, an increase in operating cash flow may send a positive signal to investors regarding the company's future prospects (Amin & Juanda, 2021). Investors are generally attracted to companies with strong operating cash flows, as these are seen as having good growth potential, ultimately leading to higher firm value (Launtu, 2021); Angkotasan et al., (2023). However, contrary findings from Rangkuty et al., (2023), who reported a negative influence of operating cash flow on firm value, indicate that previous research results remain inconsistent. Based on the above description, the following hypothesis can be formulated:

H2: Operating cash flow has a positive effect on firm value.

2.6.3 The Effect of Profitability on Financial Distress

Profitability is a key indicator for measuring a company's ability to generate profits and assess managerial efficiency in managing the company's resources (Ratih Kusumastuti, 2023).

A high level of profitability reflects a healthy financial condition and reduces the likelihood of the company experiencing financial distress, as the profits earned can be used to meet financial obligations and support ongoing operations (Indrawan & Sudarsi, 2023). This is consistent with several studies such as Saraswati, et al., (2020); Pujianty & Khairunnisa, (2021) and Maronrong, et al., (2022) which found that profitability has a negative and significant effect on financial distress. In contrast, different results were found by Heliani & Elisah (2022) and Syalomytha & Natalia (2023) who established that profitability significantly contributes to financial distress in a positive way, indicating that the relationship between the two remains inconsistent. Based on the above description, the following hypothesis can be formulated:

H3: Profitability has a negative effect on financial distress.

2.6.4 The Effect of Operating cash flow on Financial Distress

Operating cash flow is an important indicator that reflects a company's ability to generate cash from its core operational activities to meet obligations, maintain operations, pay dividends, and invest without relying on external funding (Suwaldiman & Diwasari, 2018); Hary (2015 as cited in Fitri & Dillak, 2020). In line with signaling theory, companies with high operating cash flows send a positive signal to investors and creditors, as it indicates healthy financial conditions and the ability to fulfill obligations independently (Adityatama & Hermi, 2023). Conversely, low operating cash flow becomes a negative signal as it may indicate financial distress. This view is supported by Amelia et al. (2024), who found that operating cash flow has a negative effect on financial distress, suggesting that a decline in cash flow reflects a company's inability to meet its obligations. However, different findings were reported by Bachtiar & Handayani (2022) and Amanda & Muslih (2020), who found a positive relationship between operating cash flow and financial distress, indicating that previous research results remain inconsistent. Based on the above description, the following hypothesis can be formulated:

H4: Operating cash flow has a negative effect on financial distress.

2.6.5 The Effect of Firm Value on Financial Distress

The firm value reflects investors' perceptions of the company's success, which is closely linked to its stock value, where fluctuations in stock prices can indicate potential financial distress that harms shareholders (Ningrum, 2021). Firm value not only represents the company's current financial condition but also its future prospects, making it a crucial factor in investor evaluation (Yanti & Darmayanti, 2019). The use of Tobin's Q ratio as a measure of firm value is considered superior because it assesses the company's value relative to the current replacement cost (Weston & Copelan, 2010 as cited in Ningrum, 2021). The higher the firm value, the lower the expected risk of financial distress, as evidenced by Heliani & Elisah (2022), who found a significant negative effect of firm value on financial distress. This means that a decrease in firm value increases the risk of financial distress, while an increase in firm value reduces this risk. However, this finding contrasts with the study by Yemima & Jogi (2020), which found a positive effect of firm value on financial distress, indicating that the relationship between firm value and financial distress still requires further investigation. Based on the above description, the following hypothesis can be formulated:

H5: Firm value has a negative effect on financial distress.

2.6.6 The Effect of Profitability on Financial Distress with Firm Value as a Mediating Variable

Profitability reflects a company's ability to generate profits and cash flows from its operational activities (Sirait, 2017 in Aprilia & Riharjo, 2023), which, if optimized, can increase firm value and reduce the risk of bankruptcy (Khotimah et al., 2020). Firm value, as reflected in stock prices, indicates investors' perceptions of the company's performance and future prospects (Saputri & Giovani, 2021). According to bankruptcy theory, financial distress is the initial stage of bankruptcy and can be identified early. In this context, firm value serves as a mediating variable that can mediate the negative relationship between profitability and financial distress. The study by Maronrong et al. (2022) shows that profitability has a significant negative effect on financial distress, while Heliani & Elisah (2022) found that firm value plays a role in reducing the risk of financial distress. Therefore, firm value is considered capable of mediating the influence of profitability on financial distress, where an increase in profitability will enhance firm value, which in turn can reduce the likelihood of a company experiencing financial distress. As outlined above, the following hypothesis can be formulated:

H6: Firm value mediates the relationship between profitability and financial distress.

2.6.7 The Effect of Operating cash flow on Financial Distress with Firm Value as a Mediating Variable

Operating cash flow plays a crucial role in assessing a company's financial health and its risk of experiencing financial distress, with firm value acting as a mediating variable. Strong operating cash flow reflects the firm's capacity to produce cash internally through its main activities, without depending on outside funding, which boosts investor trust and raises the company's value (Launtu, 2021). The study by Angkotasan et al. (2023) shows that operating cash flow has a significant positive effect on firm value, while Heliani & Elisah (2022) found that higher firm value plays a role in diminishing the possibility of financial distress. Conversely, negative operating cash flow can reduce firm value and increase the likelihood of financial distress, as explained by Amelia et al. (2024), who found that operating cash flow has a significant negative effect on financial distress. Firm value reflects market perceptions of a company's financial resilience and serves not only as a performance indicator but also as a mediator that bridges the indirect relationship between operating cash flow and financial distress. Drawing from the explanation above, the subsequent hypothesis can be developed:

H7: Firm value mediates the relationship between operating cash flow and financial distress.

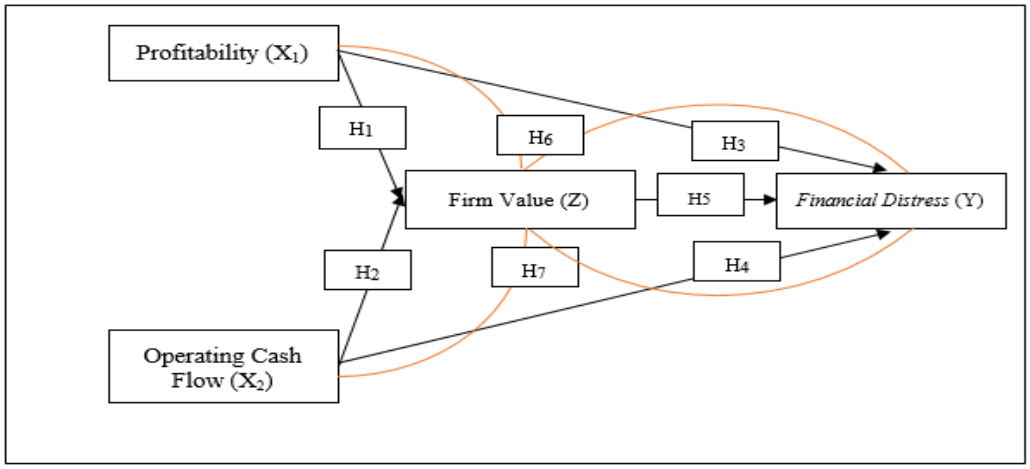

Figure 1. Research Model

3. Findings and Duscussion

3.1. Data Types and Sources

The research method used in this study is a quantitative method, utilizing secondary data obtained from annual reports of technology sector companies listed on the IDX for the period 2021 to 2023. According to Sugiyono (2020), quantitative research is an approach that relies on the positivist philosophy as its foundation, utilized for researching certain groups or samples with data collected through tools used to collect data in a study and analyzed statistically to test predetermined hypotheses.

The kind of data employed in this study refers to data that has been previously collected by others. Sugiyono (2020) defines secondary data as data not obtained directly from the research subjects, but through other parties or pre-existing documents. In this study, secondary data includes annual reports published by the IDX via its official website www.idx.co.id, stock price data from Investing.com, and other supporting sources such as academic journals. The advantage of secondary data lies in its time and cost efficiency, though a limitation is the potential for outdated or inaccurate information (Setiawan, 2021).

3.2 Population and Sampling

The population this research includes 44 technology sector firms registered on the idx during the period 2021 to 2023, resulting in a total of 132 data points (44 companies × 3 years). The sample was picked based on specific criteria, resulting in 26 companies and 78 data observations. Sampling in this study is conducted through purposive sampling, a non-probability sampling technique. According to Sugiyono (2020), purposive sampling refers to

a technique aimed at determining samples chosen based on certain things to be mindful of or criteria defined by the researcher, meaning not every individual in the population has the same opportunity of being selected.

3.3 Operational Definition of Variables

Research variables are attributes or values that have certain variations to be studied and analyzed (Sugiyono, 2020). Operational definitions explain the variables used in this study, including independent, dependent, and intervening variables.

3.3.1 Profitability

Profitability is assessed by calculating Return on Assets (ROA), calculated as:

$$\textbf{ROA} = \frac{Net\ Profit\ for\ the\ Current\ Year}{Total\ Assets}$$

ROA > 5% indicates a good company performance, while ROA < 5% indicates poor performance (Ratih Kusumastuti, 2023). ROA is relevant as it reflects the efficiency in utilizing assets to generate profit, especially in technology companies.

3.3.2 Operating Cash Flow (OCF)

Operating Cash Flow is measured via the ratio of operating cash flow to current liabilities:

$$\textbf{AKO/OCF} = \frac{Operating\ Cash\ Flow}{current\ liabilities}$$

A ratio > 1 represents the company's capacity to pay its current liabilities from operating cash flow, in contrast, a ratio < 1 indicates liquidity difficulties (Handayani et al., 2024; Hary, 2015 in Fitri & Dillak, 2020).

3.3.3 Financial Distress

Financial distress refers to a serious financial difficulty condition and risk of bankruptcy (Sulaeman & Hasanuh, 2021). It is assessed by applying the Altman Z-Score:

$$\mathbf{Z} = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$$

Where:

Z = Bankruptcy index
X_1 = Working Capital (Current Assets – Current Liabilities) / Total Assets
X_2 = Retained Earnings / Total Assets
X_3 = Earnings Before Interest and Taxes / Total Assets
X_4 = Market Value of Equity / Book Value of Total Debt

Z < 1.81 indicates bankruptcy risk, 1.81 < Z < 3 is a gray area, and Z > 3 indicates a healthy company (Silvianti & Aslamiyah, 2024).

3.3.4 Firm Value

Firm value is determined using Tobin's Q, which is the ratio of market value of the firm against the replacement value of its assets, calculated as:

$$\textbf{Tobin's Q} = \frac{\textbf{Market Value of Equity + Total liabilities}}{\textbf{Total Assets}}$$

Where:

- Market Value of Equity = Closing price × Number of outstanding shares
- Total Assets = Current Assets + Non-Current Assets
- Total Liabilities = Current Liabilities + Non-Current Liabilities

Tobin's Q > 1 indicates an overvalued firm (successful asset management), Tobin's Q < 1 indicates undervalued, and Tobin's Q = 1 indicates stagnation Fajaria & Isnalita (2018 in Ignacio & Lasar, 2024). This ratio reflects market valuation, managerial effectiveness, and potential for company growth (Lukito & Hasanudin, 2024).

3.4 Data Analysis

Data analysis was conducted through hypothesis testing through Path Analysis with the help of SPSS software version 26. Before performing the path analysis, classical assumption tests were undertaken to ensure the regression model met the required criteria. The data analysis methods used include:

- Analysis using descriptive statistics to describe the properties of the data, such as mean, minimum, maximum, and standard deviation values.
- Classical Assumption Tests, such as tests for normality, multicollinearity, autocorrelation, and heteroscedasticity, to ensure the suitability of the regression model.
- Hypothesis Testing using t-tests to examine the partial effects of independent variables on the dependent variable.
- Path analysis to find out the direct and indirect effects between variables as well as to test the role of intervening variables.

4. Results and Discussion

Here are the results of the analysis on the effect of profitability and operating cash flow on financial distress with firm value as an intervening variable.

4.1 Path Analysis

Path analysis is an advanced form of multiple linear regression used to estimate causal connections between variables based on a theoretical model (Ghozali, 2016). In this study, multiple linear regression was conducted applied to test the effects of independent variables on dependent variables, including the role of an intervening variable, with data processed using SPSS version 26.

4.1.1 Multiple Linear Regression Analysis

After passing the classical assumption tests, the analysis continued with mul-tiple linear regression. This study uses two multiple linear regression models, where Model 1 examines the effect of profitability and operating cash flow on firm value in technology companies from a specific sector listed on the IDX between 2021 and 2023, with data processed using SPSS version 26.

Table 1. Results of Multiple Linear Regression Test Model 1

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.027	.145		7.093	.000
	Profitability	.323	.077	.129	4.216	.000
	Operating Cash Flow	.039	.018	.221	2.166	.033
a. Dependent Variable: Firm Value						

Table 2. Results of Multiple Linear Regression Test Model 2

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.234	.301		7.411	.000
	Profitability	.129	.103	.233	1.252	.106
	Operating Cash Flow	.781	.264	.311	2.955	.004
	Firm Value	.132	.040	.364	3.297	.002

Based on Tables 4.1 and 4.2 above, the following linear regression equation is obtained, which explains the relationship between the variables tested:

$Z = 1{,}027 + 0{,}323X1 + 0{,}039X2 + e1$

$Y = 2.234 + 0{,}129X1 + 0{,}781X2 + 0{,}132Z + e2$

4.1.2 t-test

Based on the partial t-test with a 5% significance level and degrees of freedom (df) = 78 - 2 - 1 = 75, the t-table value obtained is 1.992. The t-test results for Model 1 can be seen in Table 4.3

Table 3. Results of t-Test for Model 1

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.027	.145		7.093	.000
	Profitability	.323	.077	.129	4.216	.000
	Operating Cash Flow	.039	.018	.221	2.166	.033

a. Dependent Variable: Firm Value

Based on Table 4.3, profitability has a t-value of 4.216, which is greater than the t-table value of 1.992, and a significance level of 0.000, indicating a positive and significant effect on firm value. The coefficient of 0.323 means that a one-unit increase in profitability will increase firm value by 0.323 units, assuming other variables remain constant, thus hypothesis H1 is accepted. Similarly, operating cash flow has a t-value of 2.166 and a significance level of 0.033, both indicating a positive and significant impact on firm value. Its coefficient of 0.039 shows that a one-unit increase in operating cash flow raises firm value by 0.039 units, hypothesis H2 is accepted. For Model 2, with degrees of freedom equal to 74, the t-table value is 1.993, and the t-test results are presented in Table 4.4:

Table 4. Results of t-Test for Model 2

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.234	.301		7.411	.000
	Profitability	.129	.103	.233	1.252	.106
	Operating Cash Flow	.781	.264	.311	2.955	.004
	Firm Value	.132	.040	.364	3.297	.002

a. Dependent Variable: Financial Distress

Based on Table 4.14, profitability has an insignificant effect on financial dis-tress ($t = 1.252 < 1.993$; $p = 0.106$), so hypothesis H3 is rejected. Operating cash flow significantly and positively affects financial distress ($t = 2.955 > 1.993$; $p = 0.004$) with a coefficient of 0.781, but hypothesis H4 is rejected. Firm value also contributes positively and significantly to the occurrence of financial distress. ($t = 3.297 > 1.993$; $p = 0.002$) with a coefficient of 0.132, leading to the hypothesis H5 is rejected.

4.1.3 Sobel Test

The Sobel test was conducted to assess whether the mediation effect is sig-nificant by evaluating the indirect relationship from X to Y through Z. In this study, the Sobel test calculation used the online Sobel Test Calculator (www.danielsoper.com) based on path coefficients (A and B) and their standard errors (SEA and SEB) from the regression coefficients table. The Sobel Test results show a value of 1.6476 with a significance of 0.0994. Since the t-value is less than 1.992 and the significance is greater than 0.05, firm value does not act as a sig-nificant mediator between profitability and financial distress. Therefore, hypoth-esis H6 is rejected. The Sobel Test results show a value of 7.3108 with a signifi-cance of 0.00. Since the t-value is greater than 1.993 and the significance is less than 0.05, firm value acts as a significant mediator between operating cash flow and financial distress. Therefore, hypothesis H7 is accepted.

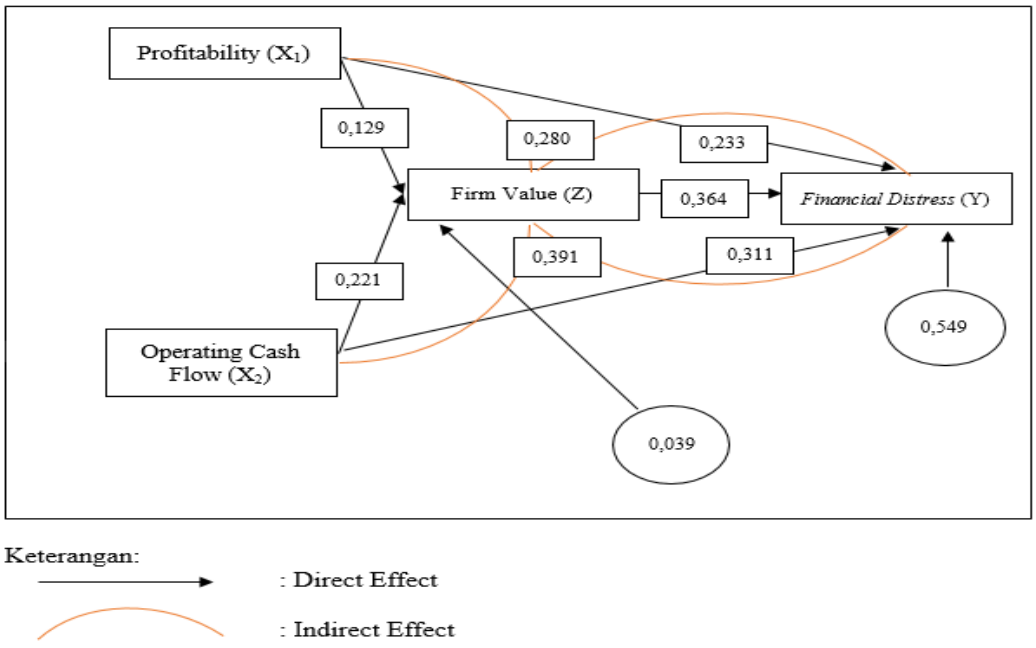

Figure 2. Results of Direct and Indirect Effects

4.1.4 Coefficient of Determination

The coefficient of determination serves to assess the level of well the model describes the changes in the dependent variable.

Tabel 5. Koefisien Determinasi Model 1

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.535[a]	.286	.267	.03932
a. Predictors: (Constant), Operating Cash Flow, Profitability b. Dependent Variable: Firm Value				

The adjusted coefficient of determination (Adjusted R^2) of 0.267 indicates that 26.7% of the variation in firm value is caused by the level of profitability and operating cash flow, while the remaining 73.3% is influenced by other factors outside the model.

Tabel 6. Koefisien Determinasi Model 2

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.448[a]	.201	.168	.54962
a. Predictors: (Constant), Firm Value, Operating Cash Flow, Profitability b. Dependent Variable: Financial Distress				

The adjusted coefficient of determination (Adjusted R^2) of 0.168 indicates that 16.8% of the variation in financial distress can be explained by profitability, operating cash flow, and firm value, and the rest 83.2% is influenced by other factors outside the model.

5. Comparison

This study examines the direct and indirect effects of profitability and operating cash flow on financial distress with firm value as a mediating variable in technology sector companies.

5.1 Effect of Profitability on Firm Value

The findings signify that profitability significantly affects positive effect on firm value, consistent with prior studies (Saputri & Giovani, 2021). This supports the notion that higher profitability signals better company prospects, attracting investors and thus increasing firm value. Profitability is a key indicator of financial performance that is generally positively correlated with firm value. High profits are considered a positive signal to investors, boosting confidence and the market value of the company. However, in the technology sector, which relies on intangible assets and future growth, this relationship is not always consistent. Some

companies exhibit high profitability but their market value does not grow as expected, or vice versa.

5.2 Effect of Operating Cash Flow on Firm Value

Operating cash flow also positively influences firm value, aligning with signaling theory and research by Angkotasan et al. (2023). Strong operating cash flows are perceived favorably by investors, which enhances firm valuation. Operating the ability to generate cash flow from core activities is a key indicator in evaluating company performance activities and is often considered a more reliable indicator since earnings reports can be manipulated. An increase in operating cash flow generally supports a rise in firm value.However, in some technology companies, the increase in cash flow may be temporary or stem from non-sustainable activities, so careful interpretation is needed.

5.3 Effect of Profitability on Financial Distress

Profitability does not have a significant effect on financial distress in this study, contrasting with many previous findings that report a negative relationship (Maronrong et al., 2020). This may be attributed to the unique characteristics of the technology sector or other external factors influencing financial distress. Theoretically, high profitability should reduce the risk of financial distress. However, the findings show that high profits do not automatically prevent the risk of financial difficulties in technology companies, especially if not supported by healthy operating cash flow. Some companies may report positive earnings but still experience liquidity pressure or financial distress. This finding is in line with the study by Bachtiar and Handayani (2022), which also found no significant effect of profitability on financial distress in certain contexts.

5.4 Effect of Operating Cash Flow on Financial Distress

Consistent with Amanda and Muslih (2020), operating cash flow shows a significant positive direct effect on financial distress, which differs from the expected negative relationship found in some literature (Amelia et al., 2024). This result might reflect complex cash management practices or sector-specific issues. Although operating cash flow is an indication of operational health, research has noted an unexpected positive relationship between high operating cash flow and financial distress. This is likely related to the industry's characteristics, which include volatility and non-operational activities that affect cash flow.

5.5 Effect of Firm Value on Financial Distress

Consistent with Yemima and Jogi (2020), this study finds that firm value significantly positively influences financial distress, which contrasts with several prior studies reporting a negative effect (Heliani & Elisah, 2022). This indicates a need for further exploration of market perceptions and their relationship to financial distress in this context. A high firm value is often seen as a sign of strong prospects and financial strength. However, in the technology sector, high market value may reflect speculation and growth expectations without necessarily indicating true financial health, so financial distress risks persist even in highly valued companies.

5.6 Mediation of Firm Value between Profitability and Financial Distress

Although Asni (2024) found a strong mediation effect of firm value between profitability and financial distress, this study's results align with Nafisah et al. (2023), showing that firm value does not significantly mediate the relationship between profitability and financial distress in the technology sector. This contrasts with some earlier research suggesting mediation.

5.7 Mediation of Firm Value between Operating Cash Flow and Financial Distress

Firm value significantly mediates the relationship between operating cash flow and financial distress, supporting the idea that cash flow affects financial health through investor valuation (Angkotasan et al., 2023). Firm value plays a different role as a mediator in the relationship between profitability and financial distress compared to operating cash flow. Mediation through firm value in the effect of profitability on financial distress was found to be insignificant, whereas mediation in the effect of operating cash flow was significant. This indicates that operating cash flow not only has a direct impact but also influences market perception, which affects the risk of financial distress.

When compared, operating cash flow has a stronger influence on financial distress than profitability, both directly and indirectly through firm value. Unlike profitability, operating cash flow demonstrates a significant mediating role through firm value. This finding indicates that the market is more responsive to the strength of operating cash than to earnings in assessing financial distress risk, especially in technology companies that possess unique characteristics in asset structure and growth patterns. Overall, these findings highlight both consistencies and contradictions with previous research, emphasizing the complexity of financial dynamics in the technology sector and suggesting avenues for further study.

6. Comparison

Based on the results of the study, the following conclusions can be drawn:

- Profitability has a significant positive effect on firm value but does not have a significant effect on financial distress.
- Operating cash flow has a significant positive effect on both firm value and financial distress.
- Firm value has a significant positive effect on financial distress.
- Firm value does not mediate the relationship between profitability and financial distress.
- Firm value significantly mediates the aspect of the relationship between operating cash flow and financial distress.

These findings indicate that operating cash flow is more relevant than profitability in explaining financial distress, both directly and indirectly through firm value. Therefore, monitoring cash flow and firm value is essential in assessing financial risk, particularly in the technology sector.

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