
THE ROLE OF AUDIT QUALITY IN MODERATING THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY AND CAPITAL STRUCTURE ON FINANCIAL DISTRESS



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Abstract

This study investigates the impact of corporate social responsibility and capital structure on financial distress, as well as the moderating influence of audit quality, within transportation and logistics firms listed on the Indonesia Stock Exchange from 2021 to 2023. Data from 102 firm-year observations across 34 organizations were examined employing multiple linear regression and moderation analysis via SPSS version 26. The findings demonstrate that corporate social responsibility (CSR) has a negative but insignificant effect on financial distress, suggesting that CSR activities have not yet contributed meaningfully to financial stability. Conversely, capital structure exerts a substantial negative impact, suggesting that proficient management aids in alleviating the danger of financial distress. Audit quality does not moderate the relationship between CSR and financial distress but it greatly diminishes the impact of capital structure. This outcome indicates that while a robust capital structure might mitigate financial distress, high-quality audits may uncover latent risks, potentially undermining the apparent efficacy of financing options. The results underscore the necessity of integrating CSR with financial risk management and the relevance of meticulously evaluating the influence of audit quality on financial reporting.

Keywords: Audit Quality, Corporate Social Responsibility, Capital Structure, Financial Distress

INTRODUCTION

As an archipelago country, Indonesia necessitates a dependable connectivity system to facilitate people's mobility and logistics distribution to isolated regions. The transportation and logistics sector is crucial to the national economy, particularly in guaranteeing the accessibility and cost-effectiveness of goods. The government anticipates that this sector will serve as the primary catalyst for economic growth and enhance national competitiveness (Kementerian Perhubungan Republik Indonesia, 2021).

Nonetheless, the financial status of enterprises within this sector over the past five years has exhibited a detrimental tendency. Data from the Indonesia Stock Exchange indicated that multiple issuers incurred successive losses. PT AirAsia Indonesia Tbk. (CMPP) reported a loss of IDR 1.08 trillion in 2023, despite a sales increase of 75.26% compared to the prior year. The primary factor was the surge in operating expenses, notably from the rise in gasoline prices attributed to the Russia-Ukraine crisis (Permana, 2022). Other companies, including PT Eka Sari Lorena Transport Tbk (LRNA), reported a loss of IDR 777 million in 2023. The primary obstacles are from intense competition and the policy restricting biodiesel allocation. PT Mitra International Resources Tbk (MIRA) had a loss of IDR 10.1 billion in 2023, attributed to decreased demand for building material transportation services resulting from the sluggish property industry during the Covid-19 outbreak (Sunarsip, 2024).

A sustained deterioration in financial performance may signify initial indicators of financial difficulty for corporations. Templar et al. (2020) characterize financial distress as a state in which a corporation struggles to fulfill its obligations. The consequences may encompass insolvency, job termination, and stakeholder losses (Appadurai, 2020). Consequently, organizations must identify and mitigate the risk of financial distress promptly. Implementing corporate social responsibility (CSR) is a viable strategy to avert financial distress. Effective corporate social responsibility can cultivate favorable relationships with stakeholders and enhance the company's resilience in confronting disasters (Anwar, 2022). Nonetheless, studies regarding the influence of CSR during financial difficulty yield inconclusive outcomes. Numerous studies suggest that CSR may mitigate the risk of financial distress (Rahman et al., 2023; Khan et al., 2021), however, other research indicates that excessive CSR disclosure could exacerbate the risk of financial distress (Farooq & Noor, 2021; Tarighi et al., 2022).

Capital structure is another aspect that affects financial distress. Inadequate management of capital structure, particularly through excessive debt, might elevate the risk of financial distress (Ali et al., 2020; Yaman & Korkmaz, 2022). Nonetheless, various research indicates divergent outcomes, wherein elevated debt does not inherently lead to financial trouble if the organization possesses significant income (Afridayani, 2023; Nuranti et al., 2022).

Moreover, audit quality is perceived as a determinant that can either enhance or diminish the correlation between CSR and capital structure concerning financial distress. Audits performed by esteemed public accounting firms, including the Big Four, are regarded as exhibiting superior professionalism and independence (Chang & Hwang, 2020; Santosa et al., 2020). Quality audits can enhance investor confidence and assist organizations in sustaining financial stability.

This study examines the impact of corporate social responsibility and capital structure on financial distress, as well as the influence of audit quality among transportation and logistics firms listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. Prior research has not explicitly investigated the interplay of these variables within the transportation and logistics sector; thus, the results of this study are anticipated to offer a more profound and pertinent empirical contribution to the literature's advancement. This study's conclusions are anticipated to offer valuable insights for organizations in developing sustainability plans and ensuring financial stability, particularly in the context of the fluctuating and uncertain global economy.

REVIEW OF LITERATURE

Stakeholder and Trade-off Theories

Stakeholder theory, formulated by R. Edward Freeman in his 1984 publication *Strategic Management: A Stakeholder Approach*, posits that corporations bear responsibilities not solely to shareholders but also to various entities with vested interests in the company's operations, including employees, customers, suppliers, and communities. This notion originated from research conducted by the Stanford Research Institute in the 1960s and was further expanded in the 1990s as a foundation for long-term corporate sustainability (Freeman et al., 2020). In this climate, firms are anticipated to chase profits while also contributing to society through CSR initiatives.

The execution of CSR is a strategic approach employed by the firm to cultivate advantageous connections with stakeholders, mitigate risks, and foster a favorable reputation. Corporate Social Responsibility can enhance the company's brand, facilitate financial access, and bolster market value and financial flexibility. Heal and Garret (in Kholis, 2020), assert that CSR operations can markedly mitigate the potential danger of financial distress by fortifying the company's social and economic underpinnings. Consequently, according to stakeholder theory, CSR serves not only as a social obligation but also as a strategic instrument for ensuring the company's sustainability and reducing financial risks.

The trade-off hypothesis is an extension of the Modigliani and Miller (1958) theory, which originally posited that capital structure does not influence a company's value in ideal market conditions devoid of taxes and bankruptcy. This approach was further developed by incorporating the tax advantages (tax shield) of debt utilization and the associated bankruptcy risk, as elucidated by Marsh (1982). This theory posits that firms must equilibrate the advantages and disadvantages of utilizing debt to attain an optimal capital structure.

Debt largely provides tax advantages by permitting the deduction of interest expenses from taxable income. Nonetheless, excessive debt accumulation heightens the danger of financial trouble due to augmented bankruptcy expenses, including reputational damage, legal fees, and operational challenges. Consequently, firms must identify the best juncture, specifically when the marginal tax advantage equals the marginal bankruptcy expense (Nurjannah et al., 2022). Utilizing the trade-off principle enables organizations to make more prudent and sustainable finance choices while reducing their risk of financial failure.

The two theories mutually reinforce the framework of this investigation. Stakeholder theory underscores the significance of social responsibility and stakeholder engagement as measures for sustaining corporate viability, whereas trade-off theory offers a framework for

achieving balanced capital structure decisions to mitigate bankruptcy risk. Both facilitate a thorough comprehension of how firms should strategically oversee CSR and capital structure to mitigate the risk of financial instability.

Hypothesis Development

The effect of corporate social responsibility on financial distress

CSR represents a company's dedication to sustainable development by harmonizing economic, social, and environmental dimensions. Effectively managed CSR may enhance reputation, foster customer loyalty, and bolster investor confidence, thus promoting organizational stability and mitigating the danger of financial turmoil. Nonetheless, if not managed judiciously, CSR may impose a financial strain, particularly during periods of economic duress on the organization (Nasution & Ratmono, 2024). Research conducted by Khan et al. (2021) and Nasution & Ratmono (2024) indicates that CSR mitigates financial distress, suggesting that CSR enhances a company's brand and fosters trust among external stakeholders, hence aiding in overcoming financial challenges. This study proposes the following hypothesis based on the aforementioned explanation:

H1: Corporate social responsibility negatively affects financial distress.

The impact of capital structure on financial distress

Capital structure delineates the relationship between the utilization of debt and equity. Companies are too dependent on debt risking substantial financial liabilities over time, particularly when debt obligations arise. If inadequately managed, this may exacerbate cash flow issues, diminish liquidity, and result in financial trouble or potential bankruptcy. Studies conducted by Yaman & Korkmaz (2022), Erawati et al. (2024), and Ali et al. (2020) indicate that an increased proportion of debt in the capital structure correlates with a heightened risk of financial trouble for a company. Consequently, prudent debt management is essential for sustaining financial stability. This study posits the following hypothesis based on the aforementioned explanation:

H2: The capital structure negatively affects financial distress.

The moderating effect of audit quality on the relationship between CSR and financial distress

Transparent corporate social responsibility initiatives via sustainability reports can enhance stakeholder trust. Nonetheless, substantial CSR expenditures may provoke apprehensions if not substantiated by credible financial statements. Audits performed by reputable auditors, particularly from the Big 4 accounting firms, can facilitate transparent and standards-compliant CSR reporting. Nasution & Ratmono (2024) assert that high-quality audits enhance confidence in a company's CSR initiatives and mitigate the danger of financial instability. Consequently, audit quality contributes to the precision of financial information, such as the current ratio and debt-to-equity ratio analyzed in the study, thereby enhancing investor trust (Juliyani & Gularso, 2023). Rahman et al. (2023) demonstrated that auditor reputation can influence the association between corporate social responsibility and financial distress. This study proposes the following hypothesis based on the aforementioned explanation:

H3: Audit quality strengthens the negative effects of CSR on financial distress.

The moderating effect of audit quality on capital structure in relation to financial distress

Audit quality moderates the impact of capital structure on financial distress. An imbalanced capital structure, particularly one that relies excessively on debt, heightens the risk of default and financial distress. A quality audit ensures the accuracy of financial accounts and instills confidence in stakeholders regarding the company's debt management. An effective audit enhances value by augmenting openness and oversight of the company's financial decisions. Research conducted by Santosa et al. (2020) indicates that audit quality can enhance the correlation between capital structure and financial distress, particularly in firms with significant leverage. This study posits the following hypothesis based on the aforementioned explanation:

H4: Audit quality strengthens the negative impact of capital structure on financial distress.

According to the development of the hypothesis pointed out in this study, the research framework is illustrated in Figure 1.

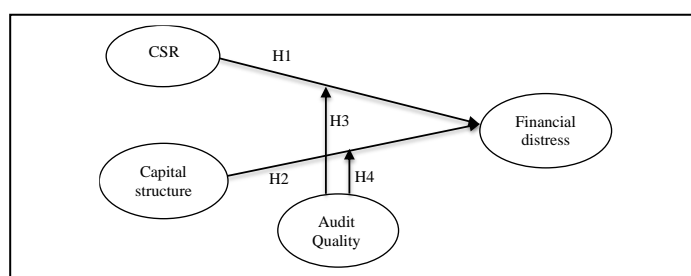


Figure 1.
Research Framework

RESEARCH METHOD

This study analyzes 34 firms in the transportation and logistics sector that are listed on the Indonesia Stock Exchange from 2021 to 2023. This study employs a non-probability sampling method with a purposive sampling strategy for sample selection. The criteria for sample selection in this study are as follows:

Table 1.
Sample Selection Procedure

No.	Description	Total
1	Companies in the transportation and logistics sector listed on the Indonesia Stock Exchange from 2021 to 2023.	57
2	Companies in the transportation and logistics sector that were delisted from the Indonesia Stock Exchange during the 2021-2023 period.	(0)
3	Companies in the transportation and logistics sector that fail to submit yearly financial reports in rupiah.	(0)
4	Companies in the transportation and logistics sector that fail to provide comprehensive data necessary for the research process.	(4)
5	Outlier	(19)

Annual total sample	34
Cumulative sample for three years	102

Research variables are elements that can exhibit diverse or fluctuating values (Pardede et al., 2023). This study employs CSR and capital structure as independent variables, with financial distress and audit quality serving as moderating variables. Table 1 presents the variable indicators in this study:

Table 2
Operational Variables

Variable	Indicator	Source
Financial distress	$Z'' = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$ Details: X1 = Working Capital / Total Assets X2 = Retained Earnings / Total Assets X3 = Earnings Before Interest and Taxes / Total Assets X4 = Market Value of Equity / Total Liability	(Sasi et al., 2023)
Corporate Social Responsibility	Index POJK 51/POJK.03/2017 CSRI = Total Disclosure divided by Total Criteria	(Puyo et al., 2024)
Capital structure	Debt to Equity Ratio = Total Liability / Total Equity	(Erawati et al., 2024)
Audit quality	Dummy Variable One point to the Big Four (PwC, KPMG, Deloitte, and EY) The non-big 4 attained a score of 0	(Santosa et al., 2020)

This study employs a quantitative data analysis strategy with SPSS version 26 software. This study employs data analysis approaches such as descriptive statistics, classical assumption tests, and hypothesis testing.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 3 presents descriptive statistics results derived from 102 observations concerning three variables: financial distress, corporate social responsibility, and capital structure. The financial distress variable has a minimum value of -4.81, a maximum value of 9.96, a mean value of 3.36, and a standard deviation of 3.11. In 2021, PT Buana Lintas Lautan Tbk (BULL) had a minimum value of -4.81, while PT Utama Radar Cahaya (RCCC) Tbk achieved a top value of 9.96. The coefficient of variance of 92.56% signifies a substantial dispersion of financial distress data among companies. Moreover, the existence of negative values signifies that numerous enterprises are experiencing severe financial distress over the 2021–2023 timeframe.

The CSR variable exhibits a minimum value of 0.00, a maximum value of 1.00, an average value of 0.79, and a standard deviation of 0.28. From 2021 to 2023, 72 of 102 companies (70.6%) achieved CSR scores exceeding the average. This indicates that the majority of corporations have adopted corporate social responsibility to a considerable extent. The degree of variation among companies is moderate, as shown by a coefficient of variation of 35.44%.

The capital structure variable exhibits a minimum value of 0.14, a maximum value of 5.48, a mean value of 1.18, and a standard deviation of 1.19. In 2022, PT Pelayaran Nasional Ekalya Purnamasari Tbk (ELPI) recorded a minimum value of 0.14, while PT Indomobil Multi Jasa Tbk (IMJS) achieved a maximum value of 5.48 in 2021. The coefficient of variation of 100.85% signifies a substantial degree of variation in capital structure among the companies. This fluctuation indicates substantial disparities in financing techniques and risk tolerance adopted by each organization throughout the observation period.

Table 3
Results of Descriptive Statistical Analysis

Description	N	Minimum	Maximum	Mean	Std. Deviation
Financial distress	102	-4.81	9.96	3.36	3.11
Corporate Social Responsibility	102	0.00	1.00	0.79	0.28
Capital structure	102	0.14	5.48	1.18	1.19

This study did not apply descriptive statistical tests to variables measured using dummy variables. Ghozali (2021) asserts that nominal scale variables, when quantified, can be analysed using frequency distribution statistics (as illustrated in Table 4). Companies employing non-Big Four KAP audit services comprise 27 entities, representing 79.41%, whilst those utilizing Big Four KAP audit services consist of 7 entities, accounting for 20.59%. The results indicate that, among the sample of manufacturing enterprises, 20 more firms are utilizing non-Big Four KAP audit services compared to those employing Big Four KAP audit services.

Table 4
Frequency Distribution Statistics

Description	N	%
Non-Big Four (dummy = 0)	27	79.41%
Big Four (dummy = 1)	7	20.59%
Total	34	100%

The coefficient of determination (R^2) test (Table 5) demonstrates the extent of effect the independent variable exerts on the dependent variable, with values ranging from 0 to 1 (Sahir, 2021). A R^2 number approaching 0 indicates a weaker influence of the independent variable on the dependent variable, whereas a value approaching 1 signifies a stronger influence. The determination coefficient test yielded an R-squared value of 0.598, signifying that 59.8% of the variance in the dependent variable is attributable to the independent variable, whereas the remaining 40.2% is accounted for by extraneous variables not included in the model.

Table 5
Coefficient of Determination Test (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.773	0.598	0.583	1.56181

The model feasibility test (F test) (as shown on Table 6) assesses whether the independent variables collectively influence the dependent variable, utilizing a significance threshold of 0.05 as a benchmark (Sahir, 2022). The model is deemed feasible for further investigation if the significance value is below 0.05; conversely, if it exceeds 0.05, the model is regarded as impracticable. The findings from the model feasibility test in Table 6 indicated a F value of 39.618 and a significance level of 0.000, which is below 0.05, signifying that the regression model is appropriate for further study. Consequently, the model satisfies the feasibility test criteria and is deemed adequate for elucidating the link between the examined variables.

Table 6
Model Feasibility Test (F Test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	289.913	3	96.638	39.618	0.000
Residual	195.139	80	2.439		
Total	485.053	83			

The t-test (Table 7) is employed to assess the individual impact of each independent variable on the dependent variable, with a significant threshold of 0.05 (Sahir, 2022). If the significance value of t is ≤ 0.05 , the independent variable exerts a significant influence; conversely, if it exceeds 0.05, there is no significant effect. The CSR variable exhibits a significance value of 0.500, suggesting it does not significantly influence financial distress. The capital structure variable possesses a significance value of 0.000, demonstrating its substantial impact on financial distress. The interaction variable between CSR and audit quality has a significance value of 0.811, showing that audit quality does not attenuate the effect of CSR on financial distress. The interaction variable between capital structure and audit quality has a significance value of 0.000, signifying that audit quality can mitigate the impact of capital structure on financial distress. The outcomes of the data analysis reveal the subsequent moderation regression equation: $FD = 3.056 - 1.096 CSR - 2.740 CS + 0.190 CSR* AQ + 1.362 CS* AQ$

Table 7
Partial Significance Test (T-Test)

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	3.056	0.670		4.564	0.000
CSR	-1.096	1.618	-0.045	-0.677	0.500
CS	-2.740	0.255	-1.149	-10.735	0.000
CSR* AQ	0.190	0.790	0.022	0.240	0.811
CS* AQ	1.362	0.337	0.539	4.042	0.000

The impact of CSR on financial distress

The CSR variable exhibits a coefficient of -1.096, signifying a negative impact on financial distress; nonetheless, it lacks statistical significance ($p = 0.500$). This suggests that the execution of CSR by corporations has not substantially alleviated financial distress levels. Consequently, the first hypothesis in this investigation is dismissed. This study's results contradict the findings of Rahman et al. (2023), Khan et al. (2021), Boubaker et al. (2020), Kamalirezaei et al. (2020), and Zheng et al. (2019), while aligning with the research of Farooq & Noor (2021) and Tarighi et al. (2022). Results may vary based on sample size, duration of observation, or the industry sector examined.

In the transportation and logistics sector, disparities may arise when CSR initiatives have not been prioritized as a core strategy that directly influences financial performance, but rather serve a symbolic purpose or fulfill regulatory requirements. Companies in this industry frequently prioritize operational efficiency and the management of physical assets, such as fleets and infrastructure, resulting in the lack of strategic integration of CSR to mitigate distress risk. For investors and creditors, CSR information frequently fails to deliver a robust financial signal, rendering it irrelevant for evaluating the risk of business bankruptcy. In certain instances, the financial impact of inadequately strategized CSR initiatives can exacerbate fiscal pressures, particularly amid global logistics cost volatility and intense competition within the sector.

The Impact of Capital Structure on Financial Distress

The capital structure variable possesses a coefficient of -2.740, signifying a negative and statistically significant impact on financial distress ($p = 0.000$). This suggests that a more appropriate capital structure owned by the corporation correlates with a reduced incidence of financial troubles encountered. Consequently, we endorse the second hypothesis in our investigation. The findings of this study align with the studies of Yaman & Korkmaz (2022), Erawati et al. (2024), and Ali et al. (2020), demonstrating that capital structure influences financial distress, indicating that a rise in corporate debt elevates the probability of financial distress. Expanding upon prior research, a subsequent study emphasized the significance of these findings, demonstrating that an optimal capital structure, specifically the appropriate balance of debt and equity, impacts a company's capacity to manage market risk, thereby influencing its reliance on hedging strategies (Huang et al., 2018).

The transportation and logistics business is a capital-intensive industry dependent on substantial investments in fixed assets, including fleets, warehouses, ports, distribution systems, and information technology. Substantial capital requirements necessitate that organizations have a robust capital structure to ensure liquidity and operational continuity. Maintaining an equitable capital structure between debt and equity is essential for enhancing financial resilience, alleviating interest obligations, and bolstering investor and creditor confidence. An imbalanced capital structure, particularly with an excessive debt ratio, might elevate the risk of financial difficulty, especially during market volatility and increasing operational costs. Consequently, capital structure management is an essential strategic element for ensuring the stability and sustainability of enterprises within the transportation and logistics industry.

The impact of CSR on financial distress is influenced by the quality of audits

The interaction variable between CSR and audit quality has a coefficient of +0.190 and is statistically insignificant ($p = 0.811$). This indicates that audit quality does not

significantly influence the association between CSR and financial difficulty. Consequently, this study disavows the third theory. This study's findings contradict those of Rahman et al. (2023), which indicate that auditor attributes, particularly the reputation of Big 4 KAP auditors, may attenuate the association between CSR and financial distress.

Within the transportation and logistics industry, the study's findings indicate that the existence of high-quality auditors does not substantially enhance or diminish the impact of CSR on the company's financial status. The CSR report's narrative nature lacks measurable quantitative indicators, rendering the information insufficient to impact the auditor's evaluation of the company's financial risk. In a sector that prioritizes operational efficiency and asset management, auditors typically emphasize tangible financial and operational elements over social responsibility initiatives that lack strategic integration into the financial reporting framework. Consequently, elevated audit quality has failed to substantiate the significance of CSR concerning the risk of financial distress in organizations within the transportation and logistics sector.

Audit quality moderates the impact of capital structure on financial distress

The interaction variable between capital structure and audit quality has a coefficient of +1.362 and is statistically insignificant ($p = 0.000$). The positive value of this coefficient signifies that audit quality mitigates the adverse impact of capital structure on financial distress. Consequently, this investigation dismisses the fourth theory. The findings of this study contradict the research by Santosa et al. (2020), which indicates that the moderation of audit quality can enhance the impact of leverage or capital structure on financial distress, since superior audit quality can more correctly disclose financial distress. This study also indicates that a company's financing method, whether through debt or equity, affects its dividend payment decisions and the perceived risk by investors; a suboptimal capital structure elevates risk, thus diminishing the company's value (Wata & Gularso, 2023). Alternatively, as illustrated in the research by Sitorus & Pardede (2019), the findings of this study can be interpreted through a lens where financial distress is pertinent, as firms experiencing significant financial strain exhibit heightened sensitivity to market fluctuations and are inclined to employ hedging strategies as a risk mitigation mechanism. However, such distress may also undermine the correlation between profitability and stock prices if investor confidence is compromised.

Transportation and logistics companies typically require substantial cash to finance fixed assets like fleets and supporting infrastructure, resulting in a reliance on a high capital structure. A robust capital structure may mitigate the risk of financial crisis; yet, high audit quality can diminish this beneficial impact. Esteemed auditors, including those from the Big 4, deliver financial statements with objectivity and conservatism, so rendering previously obscured financial dangers more apparent. Consequently, debt obligations and possible trouble are more apparent in the financial statements, notwithstanding the company's operating stability. Consequently, in this setting, audit quality serves more as a risk indicator than as a facilitator of the relationship between capital structure and diminished financial distress.

CONCLUSION

This study examines the impact of CSR and capital structure on financial distress, as well as the role of audit quality in this relationship, across transportation and logistics firms listed on the IDX from 2021 to 2023. The study's findings demonstrate that capital structure adversely and significantly influences financial distress, whereas CSR exerts no meaningful impact on financial distress. Audit quality strongly moderates the association between capital structure and financial distress in a negative direction, but does not moderate the relationship between CSR and financial distress. These findings underscore the significance of effective capital structure management and the necessity of incorporating CSR into financial risk management techniques. High-quality audits can enhance transparency but may restrict management's flexibility in presenting financial statements aligned with the company's internal interests. It is advisable to conduct additional studies utilizing quantitative metrics for audit quality, including audit tenure, audit fees, and auditor rotation, while also broadening the industries and observation periods to achieve more complete outcomes.

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