Determinants Moderators of Financial Distress: An Evidence Affiliation Group and Political Connection

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Abstract

There is a theoretical gap in the research during the research period, so it is necessary to reconcile the findings, which is expected to be useful for all parties, academics, practitioners and related companies. The analysis used in this research is the Smart PLS tool. The population in this study are all manufacturing industrial companies listed on the Indonesia Stock Exchange for the 2017-2020 period. The sample of this study amounted to 144 companies. Tax aggressiveness shows results that do not affect the capital structure of manufacturing companies. Investment decisions affect the increase in capital structure in manufacturing companies. The capital structure shows a strong influence on financial distress in manufacturing companies. The results of the indirect effect test explain that tax aggressiveness has no significant effect on financial distress through capital structure. The results of the indirect effect test explain the substantial impact of investment decisions on financial distress through capital structure. The results of the moderating effect test show that the capital structure has no significant effect on financial distress with group affiliation moderation. The results of the moderating effect test explain the significant effect of capital structure on financial distress by moderating political connections.

Keywords: capital structure; financial distress; group affiliation; political connections

INTRODUCTION

Over the last few decades, the financial literature has addressed the issue of financial distress and the continuing inability of firms to cover their costs. So it is not surprising that the existing literature focuses primarily on the best form of predicting financial distress in an entity. The novelty of this research is to design a research model on the effect of tax aggressiveness and investment decisions on capital structure and financial difficulties by moderating opportunistic behaviour, namely forming groups and political connections. This research is exciting because there is an interesting Covid-19 phenomenon to explore during this period. It will contribute directly and indirectly to considering negative social and economic impacts on the economy. Because in previous studies, there was no such phenomenon. Of course, companies that experience financial distress (financial distress)
have a terrible effect on the company because of conditions. It indicates that the company cannot fulfil its obligations and finances as they fall or do so with difficulty. In preventing the occurrence of financial distress conditions, of course, companies need reasonable management control to maintain and achieve their business goals. The management control that can be done is related to the company's capital structure policy. The substitution of the use of debt is referred to as tax avoidance which can be interpreted as tax avoidance can be a substitute for the benefit of debt. Therefore, if a company does not utilize or use debt in funding, it will cause high taxes on the company. The relationship between ETR and Capital Structure has a statement that there is a significant effect.

The research found (Kenourgios et al., 2020) revealed that tax avoidance affects capital structure with positive results. However, according to a study (Pratheepan & Weerakon Banda, 2016), tax avoidance harms capital structure. If the company takes tax avoidance, in this case, it will be able to have a positive or negative influence that may occur. It can be seen as positive when viewed from the side as the ability to do tax planning, tax efficiency, and also the risk that is owned is small, has a negative effect when viewed from non-compliance because these activities have risks that will incur high costs and affect the value of the company will decrease. (Crocker & Slemrod, 2005) observing the risk of tax avoidance shows that the company can control the effective tax rate; that is, it can be calculated from the current income tax burden and then divided by the company's profit before tax as a comparison of yield before tax with income tax expense.

**H1:** There is a negative relationship between tax aggressiveness and capital structure.

Investment is an investment for one or more assets owned, usually for an extended period, in the hope of getting profits in the future. The implementation of investment decisions is strongly influenced by the availability of funds within the company that comes from internal and external funding sources. The investment activities carried out by the company will determine the profits to be obtained by the company and the company's performance in the future. If the company is wrong in choosing an investment, then the company's survival will be disrupted, which will undoubtedly affect investors' assessment of the company. Therefore, in making decisions, it is necessary to determine the composition of the ideal capital structure for the company. Capital structure is integral to making financial decisions because it is related to other decision variables. This means that the higher the PER (per earning ratio), the higher the debt ratio. Supported by research by (Sutomo et al., 2020) where it can be concluded that capital structure influences investment decisions.

**H2:** There is a positive relationship between investment decisions and capital structure.

Internal financing sources certainly have an impact on the condition of the company. This is supported by the pecking order theory, which states that companies that use internal funding sources, namely retained earnings, reflect that the company's condition is good because it is characterized by high profitability. Companies with high profitability reflect that the company can achieve the economic goals of its business, namely maximizing profit. High profits or profits can help companies to finance their operational activities. In addition, gains can help companies fulfil their obligations so that the risk of default is lower. Thus, companies with high profitability can minimize the potential for financial distress (Pandey, 2009). (Forsaith, D. M., & Mcmahon, 2002) conducted a study aiming to identify various funding sources that affect their companies' growth conditions. This study shows that
internal equity increases the company's growth rate, reflecting good conditions. Good growth and conditions are profitable for the company, which can result in a low possibility of financial distress. Based on this, the higher the comparison value of long-term debt to a company's capital, the higher the risk borne by the company, so the higher the probability of the company experiencing financial distress. Research (Nurhasanah, S., & Sumardi, 2018) supports that capital structure positively and significantly affects financial distress.

H3: There is a positive relationship between capital structure and financial distress.

According to trade-off theory, the first order of company funding is through debt (debt) so that companies with less internal cash will look for other funding alternatives, namely through debt. Research by (Locorotondo et al., 2014) stated that companies belonging to affiliated groups tend to hold lower cash reserves than non-affiliated companies because they can access the internal capital market within the group. Research (Chang & Hong, 2000) also says that companies in affiliated groups benefit through sharing intangibles and financial resources with group members. This ability to access the internal capital market in the group makes it easier for affiliate groups to obtain funding in the form of debt. Despite having a large amount of debt and taking on significant risks, this could cause the value of the affiliated company not to decrease if it is followed by good investment ability and because there are still waivers provided by other companies that are still members of one affiliated group if at any time the company experiencing financial difficulties, thus tending to reduce investor concerns. Supported by the findings in Akmalia (2020)'s research, the greater the number of assets owned by the company, the less likely the occurrence of financial distress will be. Based on this explanation, as follow:

H4: The fourth hypothesis can be formulated, namely the existence of a positive relationship between group affiliation moderating the effect of financial distress capital structure.

In the political cost theory, the hypothesis explains why companies choose accounting policies to minimize the income tax burden. Income tax is a political cost, so companies tend to take opportunistic actions in choosing accounting policies to reduce taxable income. By this theory, companies can minimize political expenditures in the form of tax burdens through political connections owned by the company. The presence of state officials or party politicians in the company will lead to a profitable relationship (Machado et al., 2009). The advantages of companies that have these connections, such as the ease of obtaining capital loans, receiving project contracts from the government (Butje & Tjondro, 2014), the low possibility of tax audits and reductions in tax sanctions, and increasing the company's involvement in tax avoidance activities (Zhang et al., 2016) states that political connection improves company performance and gains tax advantages. (Faccio, 2006) explain that a company is considered to have political connections if at least one of the major shareholders or one of the company's leaders, be it the CEO, president, vice president, or secretary, is a member of parliament, minister or person associated with a politician or party. Political (Wulandari, 2018) states that the politically connected board of commissioners contributes positively to the company despite its position as an independent board of commissioners. Companies with strong political connections tend to have several advantages, such as more accessible access to loans from banks as additional capital and more straightforwardness in
getting contracts from the government. When experiencing financial distress, the government will be easier to bail out (Chaney et al., 2011). Thus, the fifth hypothesis can be formulated, namely that there is a positive relationship between political connections that moderate the effect of capital structure on financial distress. In this study, the manufacturing industry was chosen because it has a large number of companies compared to other sectors where to find out the empirical condition of the company's financial distress and has complete business activities. This is related to taxation and is also related to group affiliations, and political connections.

Figure 1. Research Model

RESEARCH METHOD
This study was designed as an explanatory research model to explain the effect of tax aggressiveness, investment decisions, capital structure, group affiliation, and political connections on financial distress. The analytical tool used to test the hypothesis is the Smart Partial Least Square (SmartPLS) version 3.0 software. Research data used in the calculation process is quantitative data, namely data from secondary data. Namely, the financial statements of manufacturing companies in 2017-2020. The manufacturing industry was chosen in this study because it has many companies compared to other sectors that are very diverse to determine the empirical condition of the company's financial distress and have complete business activities starting from purchasing raw materials and processing them. Into finished goods and sold to the market. It deals with taxation as well as with group affiliation and political connections. The population in this study are all manufacturing industrial companies listed on the Indonesia Stock Exchange from 2017 to 2020 because a phenomenon known as Covid-19 has rocked all industries throughout this period.

The sampling technique was done randomly using the proportional cluster sampling technique. The sample of this study amounted to 144 companies based on the formula (Levy & Lemeshow, 1997). The criteria for this research sample are as follows:
1. The criteria for determining the sample companies are companies that have been listed on the IDX since 2017 and are still active until 2020,
2. Submit financial reports for five consecutive years.
3. The sample of companies that have been selected based on information from the Indonesian Capital Market Directory 2020 and was delisted in 2020,
4. Companies that do not submit financial statements for three consecutive years, namely in 2017-2020, are excluded from the company sample and replaced with companies that meet the criteria above.

<table>
<thead>
<tr>
<th>No</th>
<th>Manufacturing Sub-Industry</th>
<th>Number of companies</th>
<th>Number of samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Food and Drink</td>
<td>39</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>Tobacco/Cigarette Products</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Clothing and other textile products</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>4</td>
<td>Paper and supporting products</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>Chemicals and supporting products</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>6</td>
<td>Plastic products and packaging</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>7</td>
<td>Cement</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>Metal products</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>9</td>
<td>Machinery and heavy equipment</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>10</td>
<td>Cable</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>11</td>
<td>Electronic</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>12</td>
<td>Automotive and components</td>
<td>14</td>
<td>11</td>
</tr>
<tr>
<td>13</td>
<td>Drugs</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>14</td>
<td>Household appliances</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>15</td>
<td>Other Manufacturing</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Number of companies</td>
<td>190</td>
<td>144</td>
</tr>
</tbody>
</table>

Source: Indonesia Stock Exchange, IDX-Financial, ICMD, 2022

Variable Measurement

The variables in this study are classified above; the dependent variable (dependent variable), in this study, there is 1, namely financial distress. The financial distress prediction method is measured using three proxies as the size of the financial distress model, namely:

1. Altman Z-score
   Prediction of financial difficulties using the Altman Z-Score method is determined by the formula (Maryana, 2021):
   \[
   Z = 0.717 \times X_1 + 0.847 \times X_2 + 3.107 \times X_3 + 0.420 \times X_4 + 0.998 \times X_5
   \]
   Desc:
   \(X_1\) = working capital/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 liabilities
   \(X_5\) = sales/total assets
   \(Z\) = overall indeks

2. Springate Calculation
   Calculate the Z-Score of each company based on the Springate model as follows (Maryana, 2021):
Z = 1.03X_1 + 3.07X_2 + 0.66X_3 + 0.4X_4 \quad (2)

Desc:
X_1 = Working Capital/Total Assets
X_2 = Earning Before Interest and Tax/Total Assets
X_3 = Earning Before Taxes/Current Liabilities
X_4 = Sales/Total Assets

3. Zmijewski's Calculations
Calculate the Z-Score of each company based on the Zmijewski model as follows (Meryana, 2021):
X = -4.3 - 4.5X_1 + 5.7X_2 - 0.004X_3 \quad (3)

Desc:
X = Keseluruhan Index
X_1 = Net Income/Total Assets (ROA)
X_2 = Total Liability / Total Assets (Debt Ratio)
X_3 = Current Assets / Current Liability (Current Ratio)

(independent variable), in this study, there are two independent variables, namely

4. Tax aggressiveness measurement in this study uses proxies: Book-tax Difference (BTD) and Effective Tax Rate (ETR) (Heru, Tjaraka and Tjahjadi, 2019) as follows.

\[ ETR = \frac{Total \ tax \ expense}{tax \ income} \quad (4) \]

\[ BTD = \frac{Accounting \ Profit - fiscal \ profit}{Total \ net \ assets} \]

5. Investment decisions in this study are measured by FAR (Fixed Asset Ratio)
\[ FAR = \frac{Fixed \ assets}{total \ Asset} \times 100 \quad (5) \]

Intervening variable (intervening variable), in this study, there is one intervening variable, namely capital structure. Indicators measure the model structure:

a. Debt to Total Asset Ratio/Debt Ratio
The formula used to find DAR (Kasmir, 2016) is as follows:
\[ Debt \ to \ Asset \ Ratio = \frac{Total \ debt}{total \ Asset} \times 100 \quad (6) \]

b. Long-Term Debt to Equity Ratio
The formula that can be used to find DER is the ratio between debt and total equity (Kasmir, 2016):
\[ DeLong \ term \ debt \ equity \ Ratio = \frac{Long \ term \ debt}{total \ debt} \times \frac{total \ debt}{total \ equity} \times 100 \quad (7) \]

c. Times Interest-Earning (TIE)
The formula can calculate Time Interest Earned (Fahmi, 2015):
\[ Time \ Interest \ Earning = \frac{Earning \ before \ interest \ and \ tax \ (EBIT)}{Bank \ Interest} \times 100 \quad (8) \]
Moderating variables, in this study, group affiliation and political connections, are the two variables that moderate the capital structure relationship with financial distress, which is measured by using a dummy variable. For group affiliation, Group groups, Businesses that do not have banks and finance companies are given a score of 1, and Business groups that have banks and finance companies are given a score of 0. As for political connections, political connections are measured using a dummy variable where 0 (zero) means there is no political connection through the board of directors. The company and 1 (one) stated a political relationship through the board of directors, the board of commissioners, and the company's audit committee (Butje & Tjondro, 2014).

Control Variable

1. Company size
   The total assets of the company measure the size of the company. Then it will be transformed into a natural logarithm to equalize the value with other variables because the company's total assets are relatively large compared to other variables in this study. Company size can be calculated using the ratio (Kasmir, 2016):
   \[ \text{Company size} = \ln (\text{Total Assets}) \] (9)

2. Profitability
   Profitability is a ratio to measure how effectively the company generates returns on assets owned by the company. Profitability measurement is calculated by (Kasmir, 2016):
   \[ \text{Profitabilitas} = \frac{\text{Net Profit}}{\text{Total Asset}} \] (10)

3. Asset growth
   Asset growth can increase the size and activity of the company in the long term. This happens because the higher the total asset growth of a company, the higher the company's ability to manage investment assets effectively and efficiently so that the prospects for developing the company's activities in the future will be higher. As a result, the probability of financial distress in the company will be reduced. The formula can calculate this ratio (Kasmir, 2016):
   \[ \text{Asset growth} = \frac{\text{Total asset}_t - \text{Total asset}_{t-1}}{\text{Total asset}_{t-1}} \] (11)

RESULTS AND DISCUSSION

Descriptive statistics and hypothesis testing
The results of descriptive statistical tests in this study are presented in Table 2, which will display information about descriptive statistics for each variable.
## Table 2. Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ETR</td>
<td>568</td>
<td>-8.03</td>
<td>16.25</td>
<td>-1.452</td>
<td>1.02026</td>
</tr>
<tr>
<td>BTD</td>
<td>568</td>
<td>-1.18</td>
<td>.12</td>
<td>-0.0127</td>
<td>.02625</td>
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<tr>
<td>FAR</td>
<td>568</td>
<td>.00</td>
<td>1.46</td>
<td>.3960</td>
<td>.20723</td>
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<tr>
<td>DAR</td>
<td>568</td>
<td>-7.21</td>
<td>1.85</td>
<td>.4752</td>
<td>.62550</td>
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<tr>
<td>LONG DER</td>
<td>568</td>
<td>-7.69</td>
<td>66.66</td>
<td>.6908</td>
<td>4.59140</td>
</tr>
<tr>
<td>TIE</td>
<td>568</td>
<td>-321053.68</td>
<td>10940.19</td>
<td>-934.5974</td>
<td>14030.39821</td>
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<tr>
<td>Affiliate-G</td>
<td>568</td>
<td>.00</td>
<td>1.00</td>
<td>.2799</td>
<td>.44936</td>
</tr>
<tr>
<td>K-Politics</td>
<td>568</td>
<td>.00</td>
<td>1.00</td>
<td>.0845</td>
<td>.27839</td>
</tr>
<tr>
<td>Altman</td>
<td>568</td>
<td>-24.53</td>
<td>121.37</td>
<td>2.0826</td>
<td>5.68350</td>
</tr>
<tr>
<td>Springate</td>
<td>568</td>
<td>-28.59</td>
<td>15.66</td>
<td>.6586</td>
<td>2.42091</td>
</tr>
<tr>
<td>Zmijewski</td>
<td>568</td>
<td>-6.88</td>
<td>51.30</td>
<td>-1.3787</td>
<td>4.02197</td>
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<tr>
<td>Size</td>
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<td>.00</td>
<td>31.51</td>
<td>23.1098</td>
<td>5.46927</td>
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<tr>
<td>Profitability</td>
<td>568</td>
<td>-1.37</td>
<td>8.44</td>
<td>.0752</td>
<td>.38370</td>
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<tr>
<td>Asset Growth</td>
<td>568</td>
<td>-1.00</td>
<td>3.28</td>
<td>.0634</td>
<td>.28337</td>
</tr>
</tbody>
</table>

Source: primary data processed, 2022

## Table 3. Result of t statistic test and p-value

<table>
<thead>
<tr>
<th></th>
<th>Original Sample (O)</th>
<th>Sample Mean (M)</th>
<th>Standard Deviation (STDEV)</th>
<th>T Statistics (O/STDEV)</th>
<th>P Values</th>
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</thead>
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<tr>
<td><strong>Direct Influence:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Aggressiveness -&gt; Capital Structure</td>
<td>0.064</td>
<td>0.021</td>
<td>0.126</td>
<td>0.505</td>
<td>0.614</td>
</tr>
<tr>
<td>Investment Decision -&gt; Capital Structure</td>
<td>0.100</td>
<td>0.094</td>
<td>0.049</td>
<td>2.027</td>
<td>0.043**</td>
</tr>
<tr>
<td>Capital Structure -&gt; Financial Distress</td>
<td>-0.808</td>
<td>-0.576</td>
<td>0.361</td>
<td>2.236</td>
<td>0.026**</td>
</tr>
<tr>
<td><strong>Moderation Effect:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moderation 1 -&gt; Financial Distress</td>
<td>-0.022</td>
<td>-0.026</td>
<td>0.045</td>
<td>0.494</td>
<td>0.621</td>
</tr>
<tr>
<td>Moderation 2 -&gt; Financial Distress</td>
<td>0.186</td>
<td>0.135</td>
<td>0.083</td>
<td>2.231</td>
<td>0.026**</td>
</tr>
<tr>
<td><strong>Indirect Influence:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Aggressiveness -&gt; Financial Distress</td>
<td>-0.052</td>
<td>-0.008</td>
<td>0.082</td>
<td>0.628</td>
<td>0.530</td>
</tr>
<tr>
<td>Investment Decision -&gt; Financial Distress</td>
<td>-0.081</td>
<td>-0.056</td>
<td>0.041</td>
<td>1.965</td>
<td>0.050**</td>
</tr>
</tbody>
</table>

Source: primary data processed, 2022
The Effect of Tax Aggressiveness on Capital Structure

Partial testing with a t-test to determine the effect of the tax aggressiveness variable on capital structure obtained a significance value (sig) t value of 0.505. This value is smaller than the t table (1.960) and has a p-value of 0.505, which is greater than 0.05 (P>0.05), so the hypothesis is rejected. Tax aggressiveness has no significant effect on the company's capital structure, meaning that the level of debt in the capital structure tends to be high. The benefits of tax savings caused by the use of debt will not be maximized if a company's debt level is too high. The trade-off theory states that the company will increase its obligation to its optimal point, and then the level of debt exceeding the optimal threshold increases the risk of company bankruptcy, so it does not maximize the benefits of tax savings. The higher the company's income or profits, the higher the taxes because income tends to be directly proportional to the taxes paid, and vice versa because the company tends to minimize tax payments. Still, it does not affect the magnitude of the increase or decrease in a company's capital structure. That the company's value in the eyes of investors will be high, and investors tend not to see how much tax the company pays, so they do not consider tax avoidance by the company. Profit is regarded as a good signal most often seen by investors, who expect companies with profits that tend to increase and are stable.

Tax aggressiveness by investors is not seen as an opportunity to increase profits through tax savings but as a risk for the company. Another thing that causes tax aggressiveness not to affect capital structure is that companies' practice of tax avoidance is not visible in the financial statements. Hence, investors prefer to consider other information that affects their investment decisions.

According to (Dincergok B. & Yalciner, 2011), the trade-off theory explains that low-risk companies will choose to use high debt, while high-risk companies must minimize the use of debt (low target debt ratio). (Syakura, 2009), states that a person's behaviour is influenced by the paradigm of benefits, costs, and risks that arise from each chosen course of action. It can be interpreted that in making decisions, investors will consider three aspects, namely what and how much benefit is obtained, how much is the cost, and how likely the risk to be borne (Damayanti & Prastiwi, 2017). The company's bad reputation due to tax aggressiveness causes new investors to hesitate to buy company shares, so the demand for company shares will decrease, and there will be a decrease in the value of the company in the future. Based on data obtained by researchers in manufacturing sector companies, it was found that none of the companies did tax avoidance as indicated by the value of tax payments above 25%, which is the tax rate set by tax laws and regulations.

Effect of Investment Decision on Capital Structure

Partial testing with a t-test to determine the effect of investment decision variables on capital structure obtained a significance value (sig) t value of 2.027. This value is more significant than the t table (1.960) and has a p-value of 0.043, which is smaller than 0.05 (P>0.05), so the hypothesis is accepted. It means that the investment decision variable directly has a significant effect on the financial distress variable. The regression test results show that the investment decision coefficient is positive. That is, every increase in changes in investment decisions affects increasing the capital structure of manufacturing companies. Investment decisions are decisions regarding the allocation of funds from inside and outside the company in various forms of investment. The capital structure is essential for the company
because a good or lousy capital structure will directly impact the company's financial position, which will affect the rise or fall of financial distress.

This is based on agency theory; shareholders are tempted to substitute assets by increasing the company's risk if the debt-to-share ratio is relatively high. The increased risk will benefit investors; however, creditors avoid risk because the interest received remains the same, regardless of the company's profits. To prevent this, creditors charge higher interest rates by increasing the amount owed. The results of this study are supported by research by (Sutomo et al., 2020), where it can be concluded that capital structure influences investment decisions. It is to the agency theory of Wahyudi (2020), which states that capital structure is an essential problem for companies because the good or bad of the capital structure will have a direct effect on the company's financial position, especially with the existence of huge debts that will burden the company. The results of this study are not in line with (Sutomo et al. (2020), which shows that it does not affect investment decisions. The results of this study, which was also carried out by (Sutomo et al., 2020), showed that it did not affect investment decisions.

**Effect of Capital Structure on Financial Distress**

Partial testing with a t-test to determine the effect of capital structure variables on financial distress obtained a significance value (sig.) t value of 2.236. This value is more significant than the t table (1.960), and with a p-value of 0.026, which is smaller than 0.05 (P>0.05), then the hypothesis is accepted. Based on the results of this study, capital structure has a negative and significant effect on financial distress. So it can be interpreted that the lower the comparison value of long-term debt to the capital of a company, the lower the risk borne by the company, so the lower the level of financial distress experienced by the company.

Trade-off theory argued that the company would adjust slowly towards the optimal debt ratio. The amount of interest and principal expenses that arise as a result of the company's high debt causes a more significant potential for financial distress in the company so that the optimal capital structure can be found by balancing the benefits of using debt with bankruptcy costs and capital costs, which is called static-trade off.

The results of this study are also supported by the trade-off theory in (Akmalia, 2020), which shows that in companies that increase their debt level above a certain point, the level of financial distress will also begin to grow. High debt will increase the risk of financial distress that the company will experience. The results of this study are the same as research conducted by (Nurhasanah & Sumardi, 2018). Capital structure has a positive and significant effect on financial distress. It happens because the higher the ratio of long-term debt to the capital of a company, the higher the risk borne by the company, so the higher the level of financial distress experienced by the company. The results of this study are consistent with this study by Amanda & Muslih (2020), which states that capital structure has a positive effect on financial distress.

**The effect of investment decisions on financial distress by intervening capital structure**

The test results show that the relationship between investment decision variables and financial distress with capital structure intervention leads to a path coefficient of -0.081 with a t-value of 1.965. This value is smaller than the t table (1.960), and the p-value of 0.05 is equal to 5% (P<0.05). This result means that the capital structure mediates the effect of investment decisions on financial distress. This means that the hypothesis is accepted.
This study focuses on the effect of financial distress on the company's investment decisions by considering investment opportunities that can condition the company's investment behaviour in distress. In the case of firms with fewer investment opportunities, if the firm expects that the investment performance is insufficient to avoid bankruptcy, then the firm has a solid incentive to reject the project even with a positive net present value. On the other hand, companies with more significant investment opportunities will allow the company to avoid financial distress if the investment is successful. Because automatically the company's capital structure is getting stronger, the company's debt, both short-term maturing or long-term debt, which is also due in the short term, the company can pay it off without having to sell assets or others, the better the company's capital structure, the lower risk for financial distress from the company.

Agency theory states that capital structure is essential for the company because a good or lousy capital structure will directly affect the company's financial position. Companies can make risky investments even though they have negative net present values. The increased risk will benefit investors; on the contrary, the risk is avoided by creditors because the interest received remains the same, regardless of the company's profits; this is because the company will benefit from success while creditors will bear the costs of failure. Because a substantial debt will burden the company, management minimizes the use of debt by implementing reduced costs and maximizing value. In research by (Roya Ahmadi, 2018), they found that companies with low investment opportunities tend to invest less, while companies experiencing financial distress with more significant investment opportunities tend to increase investment. Not much different, the study of (López-Gutiérrez et al., 2015) found that companies that are in trouble with low chances have a significant tendency to under-invest, while companies that are in a situation with extensive options do not show differences in investment behaviour from healthy companies.

The Effect of Tax Aggressiveness on Financial Distress with Capital Structure Intervening

The test results show that the relationship between the tax aggressiveness variable and financial distress with the intervening capital structure variable leads to a path coefficient of -0.052 with a t-value of 0.628. This value is smaller than the t (1.960), and the p-value of 0.530 is smaller than 5% (P> 0.05). This result means that the capital structure does not mediate the effect of tax aggressiveness on financial distress. This means that the hypothesis is not accepted. The results of this study indicate that financial distress has no significant impact on tax aggressiveness in a negative direction. That is, the higher the level of financial distress experienced by the company, the lower the level of tax aggressiveness. Financial distress is when the company cannot pay its obligations when they fall due. However, the company can still carry out its operational activities (Richardson et al. in (Ikpesu & Eboiyehi, 2018). Companies experiencing financial distress tend to face increasing costs, decreasing access to sources of funds, and the inability to pay credits when they fall due, thus affecting the company's capital structure. It supports the Trade-off theory, which is a model capital structure that has the assumption that the company's capital structure is a balance between the benefits of using debt with the costs of financial distress (financial difficulties) and agency costs (agency costs), which is based on a trade-off (exchange) between the advantages and disadvantages of using debt. (Dincergok, B., & Yalciner, 2011). The trade-
off theory explains that low-risk companies will choose to use high debt, while high-risk companies should minimize the use of debt (low target debt ratio). So that makes managers tend to look for solutions by doing tax aggressiveness. This is because tax costs are cash outflows that can be utilized by managers when the company faces the risk of financial difficulties (Nugroho et al., 2020).

(Permata et al., 2021) The results of this study indicate that financial distress significantly affects tax aggressiveness in a negative direction. That is, the higher the level of financial distress experienced by the company, the lower the level of tax aggressiveness. This study is in line with (Jalan et al., 2016), who state that companies with high bankruptcy risk due to financial distress negatively affect tax aggressiveness. This is due to stricter supervision from stakeholders. Investors as stakeholders consider tax aggressiveness a high-risk action that can harm the company's financial condition. The company does not want to add additional costs if it takes the risk of tax aggressiveness to maximize the capital structure. The results of the study indicate that it turns out that shareholders and management have aligned interests, namely considering tax aggressiveness when the company is experiencing financial distress as a high-risk action. Therefore, minimizing the tax burden by avoiding or evading taxes when experiencing financial distress is not the primary option for companies in Indonesia.

**Group Affiliation as Moderating Variable Influence of Capital Structure on Financial Distress**

Research by (Locorotondo et al., 2014) stated that companies belonging to affiliated groups tend to hold lower cash reserves than non-affiliated companies because they can access the internal capital market within the group. The test results show that the relationship between the capital structure variable and financial distress with group affiliation moderation leads to a path coefficient of -0.022 with a t-value of 0.494. This value is smaller than the t table (1.960), and the p-value of 0.621 is more significant than 5% (P > 0.05). This result means that group affiliation does not moderate the effect of capital structure on financial distress. It means that the hypothesis is not accepted.

Research Chang & Hong (2000) also says that companies in affiliated groups benefit through sharing intangibles and financial resources with group members. This ability to access the internal capital market within the group makes it easier for affiliate groups to obtain funding in the form of debt. This supports the trade-off theory where the first order of company funding is through debt (debt) so that companies with insufficient internal cash will look for other funding alternatives, namely through debt.

According to Change et al. (2008) in Amalia (2021), the greater the number of assets owned by the company, the smaller the possibility of financial distress. It is because the assets owned by the company can still cover the debt and interest that have been set. Bankruptcy that occurs in companies experiencing financial distress is caused by significant expenses. Therefore, companies experiencing financial distress tend to face various types of bankruptcy costs, such as the dependence of group companies on debt which increases more than stand-alone companies with an increase in size. Lower financial distress, bankruptcy risk, and other benefits of group affiliation allow large group companies to use debt more aggressively than their stand-alone counterparts, thereby maintaining control of the business. Despite having a large amount of debt and taking on significant risks, this could cause the value of the affiliated company not to decrease if it is followed by good investment ability.
and because there are still waivers provided by other companies that are still members of one affiliated group if at any time the company experiencing financial difficulties, thus tending to reduce investor concerns. Since the high capital structure is reflected in the high firm value, a possible explanation for this finding is that the capital structure of group firms is less sensitive to intangibles than independent firms because they have some unique benefits to support higher debt.

**Political Connection as Moderating Variable Effect of Capital Structure on Financial Distress**

The test results show that the effect of the capital structure variable on financial distress with the moderation of political connections leads to the path coefficient value of 0.186 with a t value of 2.231. This value is greater than the t table (1.960), and the p-value of 0.026 is smaller than 5% (P< 0.05). These results mean that political connections positively moderate capital structure's effect on financial distress, meaning that the hypothesis is accepted. The results of this study show that political connections have a positive influence as a moderating variable. Politically connected companies generally only focus on achieving profit, not looking at other factors. This means that politically affiliated companies are not a problem for well-established manufacturing sector companies in Indonesia as the most significant profit contributor sector in Indonesia. The political connections owned by the directors of manufacturing companies will facilitate the company's opportunities to enter domestic and foreign markets, which will affect the company's profits and can also be used to obtain capital assistance and various benefits from the funding side. (Sadjiarto et al., 2019). The closeness of the company makes the company more careful in deciding to continue receiving government awards as a compliant taxpayer. Companies that comply often get awards from the government that can be said to improve the company's reputation. This encourages companies to always follow various government regulations issued.

This is in line with the concept of the political cost hypothesis theory, which can explain why companies choose accounting policies to minimize the income tax burden. Income tax is a political cost, so companies tend to take opportunistic actions in choosing accounting policies to reduce taxable income. So, opportunistic action is an action taken by the company in selecting a good accounting policy that maximizes the company's satisfaction. Taking advantage of proximity to political parties can indeed be said to provide several benefits for the company, but the company must consider the long-term impact. A lousy company reputation will have an effect in the long term so that it can reduce public trust and can cause losses for every business.

**CONCLUSION**

Research on the effect of tax aggressiveness on capital structure proves that the first hypothesis is not accepted. The results of testing the causal relationship between the determinants of capital structure and financial distress with the moderating role of group affiliation and political connections and the result of Tax aggressiveness show results that do not affect the capital structure of manufacturing companies. All dimensions of tax aggressiveness (ETR and BTD) do not contribute to the capital structure. Investation decisions affect the increase in capital structure in manufacturing companies. This finding confirms that the dimensions of investment decisions measured by the proportion of fixed
assets to all company assets provide a solid contribution to the increase in corporate assets capital structure, so the second hypothesis is accepted.

And then, the capital structure strongly influences financial distress in manufacturing companies. All dimensions of capital structure (debt-to-asset ratio, long-term debt-to-equity ratio, and times interest-earning) significantly contribute to manufacturing companies in suppressing financial distress. Financial distress is determined by the manufacturing company's ability to implement all dimensions of the capital structure. The author's results of the indirect test (indirect effect) explain that tax aggressiveness has no significant impact on financial distress through capital structure. The modal design does not provide a role in this research model because it weakens the indirect effect of the tax aggressiveness variable on financial distress. And then, the indirect test (indirect effect) results explain investment decisions' significant impact on financial distress through capital structure. Investment decisions have a tremendous direct influence on financial distress, as well as through capital structure. The role of the capital structure variable becomes crucial in this research model because it contributes to the indirect effect of investment decision variables on financial distress. After that, the author also found the moderating effect test results explain that capital structure does not significantly affect financial distress with group affiliation moderation. Group affiliation does not provide a role in the model. This research is because it gives a weak contribution to the effect of capital structure on financial distress.

Finally, the results of the moderating effect explain the capital structure's significant impact on financial distress with the moderation of political connections. Capital structure has a significant influence on financial distress with political connections. Role political connection variables become substantial in the model. This research contributes significantly to the effect of capital structure on financial distress. As for the suggestions in this study for future researchers, this study only uses manufacturing companies, so the results cannot be generalized to other types of companies. For further research, non-manufacturing companies can be added based on these limitations. It is hoped that further research can increase the research period so that the results achieved can be better. Furthermore, it is expected that further research can expand the scope of its research to maximize results.

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