ABSTRACT

This study aims to analyze the influence of business strategies, namely cost leadership, differentiation, and Environmental, Social, and Governance (ESG), on financial distress risk. In this study, the cost leadership strategy is measured using the Asset Turnover (TATO). The business differentiation strategy is measured using the Profit Margin (PM) proxy. Meanwhile, ESG is proxied through the ESG Disclosure Score, and financial distress risk is proxied by the Altman Z-Score.

The sample used in this study comprises manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2022. A total of 30 sample companies were selected using the purposive sampling technique. This study applies the panel data regression method using Eviews 12 software. Data analysis was conducted through the stages of selecting the best regression model, classical assumption tests, and resulting in the random effect model as the best model for the study.

The research results show that the business strategy variables cost leadership (TATO) and differentiation (PM) have a positive and significant effect on the Altman Z-Score. On the other hand, ESG performance shows a negative and insignificant relationship with the Altman Z-Score. This means that business strategies, both cost leadership and differentiation, have an influence, play an important role in improving financial performance, and are able to minimize the risk of financial distress. On the other hand, ESG performance does not show any influence on the risk of financial distress.

Keywords: Business Strategy, Cost Leadership, Differentiation, ESG, Financial Distress