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# CAN FINANCIAL FLEXIBILITY ENHANCE A COMPANY'S VALUATION DURING CHALLENGING PERIODS: AN ANALYSIS DURING THE VUCA SITUATION

## ABSTRACT

This study investigates how financial flexibility can enhance corporate value, especially in a VUCA (volatility, uncertainty, complexity, and ambiguity) environment such as the COVID-19 pandemic. A corporation that has financial flexibility in the form of internal cash reserves and unused borrowing capacity will be better prepared to face unexpected exogenous shocks because it can obtain alternative funding as needed. In volatile situations, adaptability will allow organizations to avoid the challenge of sudden cash shortages during uncertainty, allowing them to postpone or change investments without compromising operational continuity. This study investigates the effect of financial flexibility on business value. This study uses panel data regression to analyze 234 companies listed on the Indonesian Capital Market during the epidemic period. This article uses multiple proxies for financial flexibility, such as access to internal and external resources, as well as dividends, interest, and taxes, as elements that reduce flexibility. The results show that firm value is substantially affected by financial flexibility and profitability, while debt levels and business size have no effect. Firms with good financial flexibility can be more agile in changing their capital structure and financing strategies, thereby maintaining operations and increasing shareholder value, especially during crises. This study shows that companies with more aggressive dividend policies will face challenges in maintaining financial flexibility, because large dividend payments of almost all profits will hinder reinvestment initiatives. This article suggests that organizations should prioritize financial flexibility, especially during periods of market instability or external disruptions. This is the only method to maintain their market value and operational efficiency.

**Keywords:** financial flexibility, corporate performance, corporate value, VUCA, COVID-19, panel data

**JEL Classification:** G31, G32, G53

## INTRODUCTION

Financial flexibility provides an alternative funding mechanism, enabling companies to address cash flow shortages, particularly during unforeseen shocks (Fahlenbrach et al., 2021; Teng et al., 2021). Many businesses faced various and very real VUCA (volatility, uncertainty, complexity, and ambiguity) conditions during the COVID-19 pandemic. The VUCA conditions faced by businesses included cash flow fluctuations and operational costs caused by restrictions on operational activities, interest rate volatility, commodity prices, or exchange rates. Long-term financial planning becomes riskier when there is uncertainty because a global crisis can cause revenue and expenditure projections to change drastically. Financial flexibility is an important asset for companies when they face VUCA situations, characterized by volatility, uncertainty, complexity, and ambiguity. A flexible financial structure consists of adequate cash reserves, access to various external funding sources, and the capacity to adjust the capital structure that allows the company to respond to market fluctuations quickly and effectively. In unstable conditions, financial flexibility helps companies reduce sudden liquidity pressure when faced with uncertainty, allowing businesses to postpone or modify investments without sacrificing operational continuity.

Corporations that demonstrate substantial financial flexibility will more easily address cash flow challenges when facing VUCA situations. Conversely, companies that lack financial flexibility must allocate resources to secure funding in response to exogenous shocks such as the global crisis and the COVID-19 pandemic. These companies often incur higher costs to obtain funds while financial systems are strained, and if unable to secure financing, they are forced to adopt alternative measures to generate cash flow, such as suboptimal cost reductions and cuts to investment programs (Fahlenbrach et al., 2021). Consequently, less financially flexible firms experience greater equity value losses compared to financially flexible peers

Financial flexibility is an established notion in business management. Conventional corporate finance ideas about capital structure, including the (POT) pecking order theory, dividend policy, and cost of capital, emphasize that flexibility in terms of finances is really important for enhancing firm performance. Financial flexibility aligns with corporate financial objectives, particularly in preventing expensive financial distress and insufficient investment during crises. It is considered a crucial instrument to address market challenges, especially when access to external funding is constrained (Ang & Smedema, 2011). Companies with enhanced financial flexibility are less prone to underinvestment and have financial trouble, such as financial distress (Bonaimé et al., 2014). The literature also provides evidence that financially resilient companies—those that can independently finance their investment needs—demonstrate robustness during crises (Agrawal, 2020).

Financial flexibility denotes an organization's capacity to acquire and restructure its finances with minimal costs involved during periods of negative revenue shocks, while also capitalizing on investment opportunities (Ang & Smedema, 2011; Steffen et al., 2014). Businesses with financial flexibility enjoy enhanced access to financial markets and possess the capacity to raise funds more effectively, and can raise money at less expense to support prospects for future expansion (Arslan-Ayaydin et al., 2014; Teng et al., 2021). This perspective highlights two key benefits that make financial flexibility valuable for companies. First, it mitigates underinvestment issues when access to capital is limited (Teng et al., 2021; Yi, 2020). Second, it helps avoid costs associated with financial distress (Fahlenbrach et al., 2021; Gamba & Triantis, 2008; Steffen et al., 2014). Financial flexibility capabilities are viewed as one of the most essential financial policies considered by managers during crises (Meier et al., 2013; Bancel & Mittoo, 2011) and recessions (Conti et al., 2020). The advantages of financial flexibility are anticipated to enhance corporate value, which is crucial for shareholders as it reflects their wealth. Hence, it is essential for companies to maintain financial health to ensure business continuity.

This study investigates the relationship between financial flexibility and corporate value, which has been conducted in prior research, yet there remains variability in the proxies used to measure financial flexibility, with no agreed-upon standard proxy. Measurements of financial flexibility proxies are categorized into internal funding access, relying solely on cash (Abdel Fattah Al-Slehat, 2019), external funding access, focusing solely on unused debt capacity (Bilyay-Erdogan, 2020; Yousefi & Yung, 2022), or a combination of both (Teng et al., 2021). Moreover, there is an absence of agreement regarding the proxies for financial flexibility; inconsistent results have been found when evaluating the impact of financial flexibility on corporate value (Asrul Jaya et al., 2021; Chao & Huang, 2022; Teng et al., 2021; Yousefi & Yung, 2022). Moreover, some studies have been limited by short observation periods (Fahlenbrach et al., 2021; Teng et al., 2021).

This study adopts a proxy for financial flexibility that combines internal funding access and external funding access, specifically unused debt capacity, while including dividends as a component that reduces flexibility. The initial proxy proposed by DeAngelo & DeAngelo (2007) excluded dividends, as they were considered to diminish a company's financial flexibility. However, this study incorporates dividends, recognizing that in practice, companies often include dividends as part of their policies to signal specific information about their condition to shareholders. This study covers an observation period on companies in Indonesia when facing the VUCA situation, namely during the COVID-19 pandemic.

## LITERATURE REVIEW

### *Financial Flexibility*

Corporate management has long known about financial flexibility. In relation to dividend policy, trade-off capital structure, pecking order theory (POT), and cost of capital, conventional corporate finance theories place significant emphasis on financial flexibility in improving company performance. Financial flexibility fits corporate financial goals, especially in terms of avoiding expensive financial pain and minimizing underinvestment during crises. It is acknowledged as a necessary instrument to solve market challenges, particularly in cases when outside financing is limited (Ang & Smedema, 2011). Corporations that possess strong financial flexibility are more adept at circumventing financial challenges and inadequate investment (Bonaimé et al., 2014). Additionally, the literature provides evidence that companies with self-reliant financial systems, capable of financing their investment needs independently, demonstrate resilience during crises (Agrawal, 2020).

One of the main limitations of traditional capital structure theories (Durand, 1952; Modigliani & Miller, 1965) lies in their assumption that a firm's overall value and discount rate are independent of the debt-to-equity ratio. This perspective fails to explicitly incorporate liquidity buffers as a response to unexpected shocks, which are key determinants of capital structure. DeAngelo & DeAngelo (2007) introduced a financial flexibility theory of capital structure, emphasizing that uncertainty regarding future earnings, investment opportunities, and the cost of capital incentivizes managers to adopt financial policies that provide flexibility in responding to unexpected shocks in these factors. Their perspective suggests that financial flexibility represents a crucial gap that needs to be addressed, addressing the shortcomings of the pecking order theory (POT) in explaining the prevalence of equity issuance. Moreover, it questions the lack of consideration given by the trade-off theory for the reasons businesses do not raise leverage following significant stock price increases, reasons why numerous profitable companies sustain minimal debt levels despite the availability of tax shields with minimal financial distress risk, and why leverage rebalancing is rarely detected—or when it is, why it occurs with unreasonable delays explained by adjustment costs. Under the financial flexibility theory, firms maintain unused debt capacity today to maintain their capacity to react when the value of prospective investments is distorted. This approach avoids exceeding the previous value of tax benefits (DeAngelo & DeAngelo, 2007). In general, the long-term objective leverage of a company is contingent upon the specific value of its financial flexibility, characterized by unused debt capacity that can be utilized when equity costs rise, in relation to the tax advantages associated with debt.

According to Myers and Majluf (1984), in their ideas about the pecking order theory (POT), firms establish a specific hierarchy in sourcing their financial needs. This hierarchy arises because of information asymmetry due to limited access. In situations where there is no informational symmetry between managers and investors, executives tend to favor internal financing. These theories have been criticized for their lack of flexibility and for disregarding investment opportunities as well as the capacity of a company to invest. Researchers have found that new and high-growth companies are more likely to maintain their debt capacity.

### ***Hypothesis Development***

According to DeAngelo & DeAngelo (2007), firms maintain financial flexibility by preserving unutilized debt capacity in preparation for upcoming investment requirements. In general, long-term goal leverage is based on the extent to which a firm or company prioritizes its financial flexibility, particularly through unused debt capacity that can be utilized when equity costs rise, in comparison to the tax advantages associated with debt financing. Financial flexibility equips companies with the necessary skills to manage unforeseen events or capitalize on unexpected opportunities at low cost. Flexible firms can meet funding needs arising from unexpected revenue shortages, thus avoiding poor performance (Arslan-Ayaydin et al., 2014; Bilyay-Erdogan, 2020).

Previous research has examined the role of financial flexibility in ensuring corporate resilience, particularly in the context of the COVID-19 pandemic, and has identified its critical role in overcoming challenges (Abdel Fattah Al-Slehat, 2019; Ho et al., 2022; Teng et al., 2021). The availability and adequacy of funding during unexpected circumstances like COVID-19 offer companies a chance to endure and send positive signals to shareholders about the firm's stable condition, preserving market value. Financial flexibility comprises two main components: cash reserves and unused debt capacity. Cash reserves originate from profits set aside by the corporation, reflecting the corporate's ability to generate earnings. This indicates a positive correlation between profitability and the establishment of financial flexibility. High profitability enhances public trust, particularly among investors, resulting in increased corporate value, as supported by previous research findings (Jihadi et al., 2021; Susbiyani et al., 2023).

The trade-off theory proposes that companies alter their capital composition or structure to reach an optimal level that increases market value (Rehman et al., 2024). Various studies have investigated the factors influencing the structure or composition of capital adjustment decisions in times of market instability, including adjustment costs and financial constraints (Pianeselli & Zaghini, 2014). The COVID-19 pandemic, regarded as an external shock, amplified economic risk and uncertainty, thereby elevating financial costs. Numerous studies indicate that the expenses associated with debt financing often rise in times of heightened credit risk, thereby diminishing investor confidence (Tran, 2021). Thus, companies may need equity financing to raise funds (Acharya & Steffen, 2020). However, an overdependence on debt above permissible thresholds might paradoxically elevate a corporate total cost of capital and send negative signals to the market. Following this discussion, the suggested hypotheses are described here:

- **H1:** Financial Flexibility is positively correlated with corporate value.
- **H2:** Profitability is positively correlated with corporate value.
- **H3:** Debt influences are positively correlated with value.
- **H4:** Firm size is positively correlated with corporate value.

## METHODS

### Data and Sample

This research focuses on companies registered on the Indonesian Capital Market that routinely submitted financial reports from 2019 to 2022, totaling 668 firms. The sample selection criteria include two requirements: first, the issuer must be non-financial; second, the debt must not exceed equity, as recorded on the Indonesian Capital Market. A total of 234 issuers satisfied these criteria and were incorporated into the study. The financial data utilized in this research were obtained from Refinitiv to identify each variable component in the study, namely financial flexibility, profitability, leverage, size, and corporate value.

The data analysis conducted in this study employed the Pooled Least Squares method, also referred to as the Common Effect Model, using EVIEWS software. This analytical tool was chosen because it is suitable for panel data models that integrate time series and cross-sectional data. Model testing helped the Pooled Least Squares processing start to choose among the (CEM) Common Effect Model, (FEM) Fixed Effect Model, or (REM) Random Effect Model the most suitable strategy. A test of classical assumptions was then carried out, including heteroscedasticity tests to confirm that variance differences among individuals were missing and multicollinearity tests to guarantee that no strong linear relationship exists among independent variables.

### Variable Measurement

This research utilizes corporate value as the variable that is influenced (dependent variable), quantified by the company's market capitalization, which indicates the market's valuation of the corporate assets in relation to their replacement cost. The value of a firm is mostly assessed by the Tobin Q ratio, which is usually regarded as an excellent indicator of the influence of diverse corporate actions on a company's actual market value (Choi & Yoo, 2022). Tobin's Q is determined by dividing the firm's total market value by its total asset value. A Tobin's Q ratio above one suggests that the market value exceeds the replacement cost, suggesting the company might be overvalued or has significant intangible assets (Besim, 2023). Conversely, a Tobin's Q ratio < 1 point suggests that the firm may be underpriced or has outdated assets since the market value is less than the replacement cost (Marchica & Mura, 2010; Ullah et al., 2023).

The independent variables in this research paper include financial flexibility, profitability, and leverage, along with firm size as a control variable. Two financial indicators—cash levels and debt—are used in measuring financial flexibility (Bilyay-Erdogan, 2020; Teng et al., 2021). It involves estimating excessive cash holdings and reserve debt capacity, which are then reduced by dividends, interest, and taxes to reflect available cash. The term "cash flexibility" describes a firm's ability to maintain cash reserves higher than the industry average and directly utilize them during critical future circumstances. The firm's ability to reserve cash ensures that cash resource demands are met effectively, mitigating risks caused by environmental uncertainty (Tang & Wang, 2017). Debt financing flexibility reflects the firm's capability to secure external funding opportunities, assessed by unused debt capacity as indicated by the corporate debt-to-equity ratio.

Profitability denotes a company's capacity to produce earnings, acting as an indicator of its performance. Robust performance is frequently characterized by enhanced profitability. This is assessed using the return on assets (ROA) ratio, with a greater ROA indicating superior performance. Leverage is quantified by the debt ratio, reflecting the degree of debt used in the company's capital structure. The size of the firm, utilized as a control variable, is quantified as the log of the natural logarithm of the firm's total assets. Based on the variables used, the study's regression model can be expressed as follows:

$$\text{TOBINQ} = \alpha + \beta\text{FF} + \beta\text{ROA} + \beta\text{DEBT} + \beta\text{SIZE}.$$

**Table 1. Variable Measurement.**

Variable	Proxy
Financial Flexibility (FF)	FF = Cash Flexibility + Debt Flexibility – Dividend – Tax – Interest Cash Flexibility = (cash + cash equivalent) / total assets. Debt Flexibility = $\frac{(1 - \text{debt equity ratio}) \times \text{total equity}}{\text{total asset}}$ (Abdel Fattah Al-Slehat, 2019; Teng et al., 2021) Dividend = dividend / total asset, Tax = tax / total asset, Interest = interest / total asset
Return on Assets (ROA)	ROA = net profit / total asset (Jihadi et al., 2021)
DEBT (DEBT)	DEBT = total debt / shareholder equity (Ding et al., 2021)

(continued on next page)

**Table 1.** Continued.

Variable	Proxy
SIZE (SIZE)	Log natural total asset (Teng et al., 2021)
Corporate Value (TOBINQ)	$\text{TOBINQ} = \frac{(\text{MVE} + \text{DEBT})}{\text{TA}}$ (Buachoom, 2018; Helfaya et al., 2023) <i>MVE: Market-valued shares outstanding; DEBT: The aggregate valuation of the organization's liabilities; TA: Total value of company assets</i>

## RESULTS

### Model Testing

The Common Effect Model (CEM), also named as Pooled Least Squares (PLS), is the most straightforward model as it integrates both cross-sectional datasets and time series. The estimation of the Pooled Least Squares (PLS) model produces a constant intercept and slope on panel data that lacks change among people (cross-section) or over time (time series). This approach assumes that the behavior of the data across objects remains consistent within the given time frame.

**Table 2. Common Effect Model Test Result.**

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.154645	(4,11)	0.0589
Cross-section Chi-square	15.282768	4	0.0041

The Chi-Square test results for the (CEM) Common Effect Model show a probability value of 0.0041, which is below the 1% significance level (0.01). This represents the null hypothesis's rejection, indicating the existence of substantial cross-sectional effects in this model. Therefore, the investigation advances by evaluating the (FEM) Fixed Effect Model.

The Fixed Effect Model (FEM) is applied to address the limitations of panel data analysis under the Pooled Least Squares (PLS) method. FEM accounts for individual-specific constants that do not change over time. Temporal data variations are aggregated, disregarding differences across time. Similarly, the regression coefficients remain constant over time. FEM is characterized by varying intercepts across subjects (cross-sections) while maintaining unchanged slopes over time (Gujarati et al., 2012). The model aims to estimate panel data issues, assuming that individual effects differ across the observations.

**Table 3. Fixed Effect Model Test Result.**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.618580	4	0.0133

The probability value is 0.0133, which is below the 5% significance level (0.05); it is possible to reject the null hypothesis, which states that the random effect model is suitable. This result indicates the presence of significant cross-sectional (individual entity) effects that cannot be adequately captured by the random effect model. Therefore, the Fixed Effect Model (FEM) is more suitable for use in the analysis, as it allows for controlling heterogeneity across individuals or entities.

### Classical assumption tests

In panel data analysis, tests of classical assumptions consist of the heteroscedasticity test and the multicollinearity test. In a regression model, the multicollinearity test investigates the general relationship among all the independent variables or their linear regression model (Gujarati et al., 2012). An effective regression model should not demonstrate significant correlations among its independent variables, as this can distort the interpretation of the model's results.

**Table 4. Multicollinearity Test Result.**

	DEBT	FF	ROA	DEBT
DEBT	1.000000	-0.044845	0.164139	0.792515
FF	-0.044845	1.000000	-0.005756	-0.078773
ROA	0.164139	-0.005756	1.000000	0.090268
DEBT	0.892515	-0.078773	0.090268	1.000000

The correlation between DEBT and FF is -0.044845, which is exceedingly faint and approximates zero, signifying an absence of a substantial linear relationship between these variables. The correlation between DEBT and ROA is 0.164139, which is also weak, showing a low positive relationship. The correlation between FF and ROA is -0.005756, nearly zero, meaning there is no linear relationship between these variables. For DEBT, its correlation with itself is 0.792515, which is still below the threshold of 0.85 but suggests a potential multicollinearity risk. These results indicate that, overall, there are no strong linear relationships among the independent variables, though caution should be applied in interpreting potential multicollinearity involving the DEBT variable.

The heteroskedasticity test arises when the residual values from a model do not exhibit constant variance. This indicates that each observation possesses differing reliability owing to underlying circumstances not accounted for in the model (Gujarati et al., 2012). Such phenomena are often observed in cross-sectional data, making heteroskedasticity tests essential for panel data analysis. The identification of heteroskedasticity involves comparing the probability value with the significance level. Probability < significance level ( $\alpha = 0.05$ ) shows the presence of heteroscedasticity. If Probability > significance level ( $\alpha = 0.05$ ): Suggests the absence of heteroskedasticity.

**Table 5. Heteroskedasticity Test Result.**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.772896	3.770577	1.796249	0.0926
DEBT	2.365357	2.408349	0.982149	0.3416
FF	0.317768	0.238401	1.332912	0.2025
ROA	1.298469	0.892310	1.455176	0.1662
SIZE	-0.509151	0.306463	-1.661378	0.1174

The probability value (p-value) of each constant variable (C) is  $p = 0.0926$ . Although it is quite close to the threshold of 0.10, at the conventional significance level of 5% (0.05), it is not considered significant. DEBT: p value = 0.3416, FF: p value = 0.2025, ROA: p value = 0.1662, SIZE: p value = 0.1174. All of these p-values are far above 0.05, meaning that there is no strong evidence that these variables individually contribute to the variability of the error variance. Since there are no significant coefficients (all p-values > 0.05), it is proven that the data meet heteroscedasticity.

### Regression Results

The findings of the panel regression test can be ascertained by the t-test, which analyzes the individual impact of each independent variable on the variance of the dependent variable (Gujarati et al., 2012). The t-test seeks to ascertain the acceptance or rejection of the research hypothesis. This procedure utilizes the t-test to ascertain which of the proposed hypotheses is corroborated by the data.

**Table 6. Regression Result Test.**

Variable	Coefficient	Std. Error	t-Statistic	P-Value	Sig
C	13.62738	7.565098	1.801348	0.0918	
DEBT	7.233252	4.831991	1.496951	0.1552	Not Sig
FF	1.257381	0.478316	2.628766	0.0190	Sig
ROA	5.026055	1.790287	2.807402	0.0133	Sig
SIZE	-1.047448	0.614873	-1.703520	0.1001	Not Sig
R-squared			0.572521		
Adjusted R-squared			0.458526		
F-statistic			5.022351		
Prob (F-statistic)			0.009029		

The probability value of DEBT ( $p = 0.1552$ ) is greater than 0.05, so this variable (DEBT) is not statistically significant. The probability value of FF ( $p = 0.0190$ ) is less than 0.05, so this variable (FF) is statistically significant at the 95% confidence level. The probability value of ROA ( $p = 0.0133$ ) is less than 0.05, making this variable statistically significant (ROA) significant. The probability value of SIZE ( $p = 0.1091$ ) is greater than 0.05, so this variable (SIZE) is not statistically significant. The regression equation from the results of the linear regression coefficients and constants is as follows:

$$\text{TOBINQ} = 13.62 + 7.23 \cdot \text{DEBT} + 1.25 \cdot \text{FF} + 5.02 \cdot \text{ROA} - 1.04 \cdot \text{SIZE}$$

The equation shows how different independent variables affect the company's value, as measured by Tobin's Q. The intercept value of 13.62 means that the company's value is 13.62 when all of the independent variables (DEBT, Financial Flexibility, ROA, and SIZE) are equal to zero. The DEBT coefficient of 7.23 means that a one-unit increase in debt is expected to raise the company's value by 7.23 units. However, the regression test results reveal that debt is not important in this model. Financial Flexibility, on the other hand, contributes to the company's worth with a coefficient of 1.25. This means that every one-unit increase in financial flexibility is expected to raise the company's value by 1.25. In the same way, ROA (Return on Assets) has a large positive effect on a company's worth, with a coefficient of 5.02. This means that for every one-unit increase in profitability compared to assets, the company's value goes up by 5.02 units. The company's size (SIZE) has a negative effect on its value, with a coefficient of -1.04. This means that for every one-unit increase in company size, the company's value is projected to drop by 1.04 units. However, this conclusion is not statistically significant. The regression results reveal that financial flexibility and ROA have a big positive effect on the value of a firm, but the size of the firm has a small negative effect in this model.

The R-squared value of 0.572521 indicates that the model accounts for approximately 57.25% of the variability in the dependent variable. A greater R-squared indicates superior model performance in data explanation. The Adjusted R-squared value of 0.458526 considers the number of variables in the model. A result of 45.85% signifies that a majority of the variability is explained by the independent factors. The F statistical probability value of 0.009029 is less than 0.05, signifying that this model is statistically significant at the 95% confidence level. At least one independent variable significantly influences the dependent variable.

## DISCUSSION

Companies that prioritize building financial flexibility over others are better equipped to endure difficult periods due to their alternative funding strategies. Financial flexibility is achieved by implementing conservative debt financing strategies. This aligns with prior studies demonstrating that financial flexibility positively impacts corporate value (Asrul Jaya et al., 2021; Bilyay-Erdogan, 2020; Yousefi & Yung, 2022). Conservative policies involve maintaining debt levels below certain thresholds to preserve long-term debt reserves and accumulating cash as internal reserves. Firms with strong financial flexibility are expected to seize profitable investment opportunities (Ferrando et al., 2017; Marchica & Mura, 2010). These reserves allow firms to engage in capital expenditures aimed at improving long-term performance. External funding reserves also help companies avoid overinvestment and effectively manage risks, contributing to the preservation or enhancement of corporate value (Chin-Fang et al., 2023). Companies with good financial flexibility can avoid excessive reliance on short-term debt or expensive external financing during times of crisis or uncertainty. Financial flexibility allows companies to use internal funding (such as retained earnings) to finance their investments or operations, avoiding the use of more expensive external funding sources such as debt and, moreover, the issuance of new shares that impose high capital costs (Saona et al., 2024). Flexibility enables companies to avoid high capital costs by providing room for better financial planning and more efficient resource use (Rapp et al., 2014).

The results of data processing show that the financial flexibility hypothesis has an effect on the company's value and is accepted. Financial flexibility impacts a company's value because it allows a company to adjust its capital structure and financing in dynamic conditions. Companies with high financial flexibility will be better able to face VUCA situations, which are uncertain economic conditions such as crises and recessions. This is because the company has easier access to external financing sources, such as loans or the issuance of new shares. This condition allows the company to maintain sufficient liquidity to reduce financial difficulties and to survive and thrive in market challenges. This study establishes financial flexibility through a combination of internal funding flexibility (cash flexibility) and external funding flexibility (debt flexibility), while also factoring in elements that reduce flexibility, such as dividends, taxes, and interest payments. Aggressive dividend policies force firms to distribute a larger proportion of earnings as dividends, leaving less retained earnings for capital expenditures or cash reserves. Additionally, debt financing carries the burden of interest payments. While interest

payments reduce tax liabilities, they also diminish cash availability since interest is paid directly from the company's cash reserves (Aljamaan, 2018).

This study strengthens the role of financial flexibility that contributes to financial theories such as the pecking order theory and trade-off theory. Financial flexibility supports the Trade-Off Theory by giving companies the ability to adjust their capital structure according to changing market conditions. Companies that have flexibility have the option to increase debt when the cost of debt is low or reduce debt and switch to equity when there is a situation of uncertainty (VUCA) in the market (Fahlenbrach et al., 2021). Companies that have flexibility are expected to reduce the cost of capital and minimize the risk of bankruptcy during uncertain situations (Gamba & Triantis, 2008). According to the pecking order theory, organizations that can be flexible with their money will be able to avoid relying on equity by issuing new shares, which usually lowers the value of the company. Companies with a lot of financial flexibility, on the other hand, can use their cash reserves to pay for investment initiatives without having to borrow money from other sources at a high cost. Overall, financial flexibility makes both capital structure theories stronger by allowing organizations to better handle debt and equity, lower capital expenses, and lower financial risks when things are uncertain (VUCA).

The results of data processing show that Return on Assets (ROA) has an effect on company value in this study, which means the hypothesis is accepted. During crises or unpredictable situations, such as the COVID-19 pandemic, organizations exhibiting high Return on Assets (ROA) have the ability to generate greater profits with fewer assets, indicating superior resource management capabilities. The ability to survive during a crisis is an advantage because companies often face declining market demand, cost fluctuations, and liquidity difficulties, so the ability to maximize the profitability of existing assets is a key factor in maintaining company value. Companies that are able to maintain high levels of profitability during a crisis tend to be more stable and have a better ability to survive, which in turn increases investor confidence and the company's stock value (Teng et al., 2021). By having a high ROA, companies can show that they have successfully managed the crisis and generated profits even in conditions of uncertainty. This makes the company more attractive to investors and stakeholders, who view profitability as a key indicator of a company's financial health in the midst of a crisis.

The results of the study show that debt does not have a significant impact on corporate value, which means the hypothesis is rejected. High debt levels can limit a company's flexibility in making strategic decisions or pursuing new investments. Investors may perceive this as a weakness, resulting in stable or unchanged corporate value. The effects of debt usage on corporate value are highly dependent on economic and industry conditions. In stable industries, debt may offer clear benefits, but during unstable economic conditions — such as the COVID-19 pandemic—the impact may be insignificant. This study captures data from the COVID-19 period, during which revenue dropped drastically and fluctuated. Companies facing such conditions may not benefit from leverage due to greater financial risks, such as default, outweighing potential gains (Jihadi et al., 2021).

The hypothesis that company value influences corporate value is rejected. In the context of the COVID-19 period, the value of a corporation is not dictated by the size of the firm, as the effects are determined by industry classification rather than company size. In typical circumstances, the scale of a firm is a determining factor in obtaining external financing, as it is influenced by factors such as information asymmetry, seasonality, and risk perception. However, this was not applicable during the pandemic (Ashraf et al., 2025). Both small and large companies faced operational difficulties due to restrictions and reduced purchasing power in certain industries, such as infrastructure, real estate, and transportation. However, industries such as healthcare, technology, and consumer goods demonstrated resilience, as their products and services were essential during the pandemic.

It has been shown that financial flexibility has a big beneficial effect on the value of the company. This means that organizations that can readily change how they get their cash, or have a lot of financial flexibility, are worth more. Companies can handle risks and take advantage of investment possibilities when their capital structure isn't too restrictive. These results also support the idea that organizations that can get cash from a variety of sources, both debt and equity, depending on what the market needs, are better at creating value. Companies can change with the market if they have financial flexibility and keep their debt ratio low. This makes the company more valuable in the long run.

## CONCLUSIONS

This paper examines the determinants of corporate value, especially after external shocks that cause VUCA situations, such as during the COVID-19 era. The findings indicate that corporate that can provide financial flexibility are more adept at increasing their value. Financial flexibility and return on assets (ROA) have been proven to have a significant impact on company value, indicating that companies capable of managing their finances well and generating high profits from their assets tend to have higher market values. On the other hand, this model does not demonstrate any meaningful influence

whatsoever from debt (DEBT) or company size (SIZE). Overall, this regression model reveals that the characteristics that are more flexible and efficient in creating profits have a larger role in affecting the value of a firm than the structure of the company's debt or the size of the organisation. Firms are able to endure crises and invest in projects that contribute to the value of the corporation when they have financial flexibility, which enables them to acquire alternative funds during hard times. Investors, particularly during times of crisis, consider this potential to be a favourable indication that they can take advantage of. A company's internal cash reserves, which are derived from the company's profits and unused debt capacity, are what allow for the establishment of financial flexibility. Maintaining debt capacity criteria is of the utmost importance for businesses, as it guarantees the availability of debt capital in the event that it is required during challenging times. Financial flexibility can be built by reducing the percentage of dividend payments from the company's profits. Excessive dividend payments require the company to distribute a large portion of profits to shareholders, which reduces the amount of cash available for operations and investments. As a result, the company will experience reduced liquidity, which can hinder its ability to meet urgent funding needs or face unexpected economic crises. Good financial flexibility allows a company to respond more effectively to investment opportunities or crises, but if cash is limited due to high dividend payments, the company may not be able to adapt well. During a VUCA situation like a pandemic, all companies were affected, rendering debt usage and firm size inconsequential in enhancing corporate value. The impact was industry-dependent rather than size-related—certain industries suffered greatly due to operational restrictions and decreased purchasing power (e.g., infrastructure, real estate, transportation), while others experienced revenue growth due to heightened demand (e.g., healthcare, technology).

The results also show that from the total population, only 30 percent of the samples meet the criteria. The rest do not meet the criteria because their financial flexibility has a negative value due to the high dividend burden that must be paid. Dividends, in the case of financial flexibility, are a burden because the demand for dividend payments causes the company to be unable to build its flexibility. This is because profits that can ideally be saved as cash must be given as dividends to shareholders. A higher dividend payment policy needs to be reconsidered, considering that VUCA situations, such as the crisis during the pandemic period, can occur again in other forms. This study has limitations, namely that the sample taken according to the criteria is only 30 percent of the total population. This indicates that organizations classified within the healthy category have financial flexibility. It is necessary to retest by including all populations for future comparisons, and this can include companies engaged in the financial and banking industries. In the future, it can add to the population across countries, not only in Indonesia.

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## ADDITIONAL INFORMATION

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### AUTHOR CONTRIBUTIONS

*All authors have contributed equally.*

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## ЧИ МОЖЕ ФІНАНСОВА ГНУЧКІСТЬ ПІДВИЩИТИ ОЦІНКУ КОМПАНІЇ В СКЛАДНІ ПЕРІОДИ: АНАЛІЗ СИТУАЦІЇ З VUCA

У цій роботі досліджено, як фінансова гнучкість може підвищити корпоративну вартість, особливо в умовах VUCA (волатильність, невизначеність, складність і неоднозначність), таких як пандемія COVID-19. Корпорації, які мають фінансову гнучкість у вигляді внутрішніх грошових резервів і невикористаних кредитних можливостей, будуть краще підготовлені до протистояння несподіваним екзогенним потрясінням, оскільки вони можуть отримати альтернативне фінансування за потреби. У нестабільних ситуаціях адаптивність дозволить організаціям уникнути проблеми раптової нестачі грошових коштів під час невизначеності, дозволяючи їм відкласти або змінювати інвестиції без шкоди для безперервності роботи. У цій роботі досліджено вплив фінансової гнучкості на вартість бізнесу. Використано регресію панельних даних для аналізу 234 компаній, зареєстрованих на ринку капіталу Індонезії протягом періоду епідемії. Використано кілька проксі для фінансової гнучкості, таких як доступ до внутрішніх і зовнішніх ресурсів, а також дивіденди, відсотки та податки як елементи, що знижують гнучкість. Результати показують, що на вартість фірми суттєво впливають фінансова гнучкість і прибутковість, водночас рівень заборгованості й розмір бізнесу не мають жодного впливу. Фірми з хорошою фінансовою гнучкістю можуть бути більш гнучкими в зміні структури свого капіталу й стратегій фінансування, тим самим підтримуючи діяльність і збільшуючи акціонерну вартість, особливо під час криз. Це дослідження показує, що компанії з більш агресивною дивідендною політикою зіткнулися з проблемами підтримки фінансової гнучкості, оскільки великі виплати дивідендів майже всього прибутку будуть перешкоджати ініціативам з реінвестування. Наголошено, що організаціям слід віддавати перевагу фінансовій гнучкості, особливо в періоди нестабільності ринку або зовнішніх збоїв. Це єдиний метод зберегти їхню ринкову вартість і операційну ефективність.

**Ключові слова:** фінансова гнучкість, корпоративна ефективність, корпоративна вартість, VUCA, COVID-19, панельні дані

**JEL Класифікація:** G31, G32, G53