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Research Article

Improving Financial Stability: How Good Corporate Governance Can Prevent Financial Distress

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Abstract
This research aims to examine the influence of Good Corporate Governance as proxied by the size of the Board of Directors, Independent Commissioners, Audit Committee and Institutional Ownership on Financial Distress partially or simultaneously. The research method used is quantitative and uses secondary data, namely service firms, one of which is the transportation sector, which is listed on the Indonesia Stock Exchange. The sample used was 7 issuers and the results were obtained using a purposive sampling method. The analytical method used is multiple linear regression analysis techniques. The results of this research show that overall, the size of the Board of Directors, Independent Commissioners, Audit Committee and Institutional Ownership variables partially or simultaneously influence Financial Distress. Managerial Implications for the study on the effect of good corporate governance on financial distress highlight the critical role of robust governance practices in mitigating financial risks and ensuring organizational stability. Implementing strong governance mechanisms such as effective board oversight, transparent financial reporting, and adherence to regulatory requirements can significantly reduce the likelihood of financial distress.

Keywords: Financial Distress, Good Corporate Governance, Institutional Ownership, Proportion of Independent Commissioners, Audit Committee, Size of the Board of Directors

JEL Classification: G34, G33, G32

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1. Introduction

Financial distress refers to a situation in which a firm's financial performance steadily declines, potentially leading to bankruptcy. It can be considered an early warning sign of impending insolvency (Subing & Apriansyah, 2024). Financial distress occurs when a firm faces significant financial difficulties that put it at risk of bankruptcy.

In income statement reports, users can observe the firm's net profit. If a firm consistently incurs losses over multiple periods without any improvement, it may indicate that the organization is facing financial challenges. Moreover, when analyzed through the lens of the financial position report and cash flow, significant liabilities or debts coupled with cash inflows that are less than cash outflows further suggest that the firm is in a state of financial distress (Ummah, 2021).

This research on financial distress seeks to explore the impact of short-term, temporary, and long-term financial difficulties on service firms, particularly within the transportation subsector, that are listed on the Indonesia Stock Exchange. The study builds upon previous research that employed various measurement methods, further developing the findings of Kristiana and Susilawati (2021).

If a firm fails to overcome financial difficulties, it can be said that it has poor corporate governance. A firm's poor financial condition will bring difficulties because it will lose customers and suppliers and lose new projects because management only concentrates on resolving financial distress (Febriyanti et al., 2024)(Zahrawani & Sholikhah, 2021).

Lack of additional capital can make it difficult for a firm to maintain its liquidity. A high debt burden can disrupt a firm's cash flow and make it difficult to meet financial obligations. Sustained losses can reduce a firm's capital and make it vulnerable to Financial Distress (Carolina et al., 2018). Each aspect is related so that balance needs to be maintained so that the firm can avoid financial distress and bankruptcy.

Apart from that, there is a policy by the United States Central Bank that gradually increases interest rates. This will worsen global economic conditions and impact world countries, including Indonesia. This phenomenon is the biggest challenge and threat for Indonesia to achieve its economic growth targets (Sutra & Mais, 2019). As a firm is experiencing a decline in its financial condition, then it enters a phase of financial distress. It is feared that the firm will have difficulty in obtaining sources of financing, will not be able to fulfill its obligations or debts, and the firm's performance will be poor, which will trigger conditions of Financial Distress leading to bankruptcy (Pundi et al. 2022).

The researcher chose a transportation sector services firm listed on the Indonesian Stock Exchange because the service industry is one of the mainstays in efforts to recover the economic sector. The current transportation system aims to improve mobility services for people and other resources that can support rural economic and social growth (Saputri & Santoso, 2023; Iswardhana & Arisanto, 2022).

The main issue faced in this context is how leverage, profitability, audit committee, and implementation of Corporate Social Responsibility (CSR) affect firm value, considering that firms often face pressure to maintain optimal firm value amidst intense competition and sustainability demands. This study aims to explore the relationship between these factors and firm value, thereby providing in-depth insights into effective corporate management strategies. The contribution of this study lies in a better understanding of how these variables can be optimized to improve firm performance while providing benefits to managers, investors, and policymakers in designing relevant and strategic policies.

2. Literature Review and Hypothesis

Literature Review

Signaling Theory

According to Alfian (2020), the signal theory is how management's signals of success or failure are conveyed to owners. Signal theory explains that management provides signals to reduce asymmetric information. Meanwhile, Aldi et al. (2020) and (Narwastu & Rusli, 2023), signal theory explains how a firm should provide signals to users of financial reports. Signals can be in the form of promotions or other information that states that the firm is better than other firms. Therefore, to respond to these problems and reduce the information asymmetry that occurs, what can be done is to provide signals to external parties, which is done through firm financial reports that contain credible or trustworthy firm financial information and will provide certainty regarding sustainability prospects. firm in the future. Pertiwi (2018) states that signaling theory elucidates the actions undertaken by firm management to communicate relevant information to investors and creditors regarding the firm's current conditions. Firms in a strong financial position are generally more transparent with their financial reports compared to those facing financial challenges (Restianti & Agustina, 2018). However, if a firm does not see a rise in profits and its total assets fall short of its total liabilities, it may struggle to meet its obligations. This situation can lead to financial difficulties or distress, which may be perceived negatively by investors (Pebriyanti et al., 2020). Nevertheless, investors may not immediately accept this information, necessitating firms to effectively convey these signals.

Financial Distress

Financial distress is characterized by a firm's negative earnings per share (EPS). A positive EPS during a specific period generally reflects strong firm growth, while a negative EPS indicates poor earnings prospects. Such adverse indications can lead to a decline in investor interest, making it challenging for the firm to secure funding. This scenario is often a precursor to financial distress.

Financial distress refers to a situation in which a firm encounters significant financial challenges, rendering it incapable of meeting its obligations. A firm may enter this state when its operating cash flow is insufficient to cover short-term responsibilities, including the payment of overdue interest on loans (Santosa et al., 2020). Developing an early warning system to anticipate financial distress is crucial, as it can greatly benefit both internal and external stakeholders. With timely alerts, the firm's internal parties can take proactive measures to enhance its financial condition before facing bankruptcy (Kurniasanti & Musdholifah, 2018).

Further, Sihabuddin et al. (2018) describe financial distress as a deterioration in financial conditions that precedes bankruptcy or liquidation. This process typically begins with an inability to meet obligations, particularly short-term liabilities related to liquidity, and extends to solvency obligations as well.

Good Corporate Governance

States that corporate governance is a system that regulates the relationship between the role of the board of commissioners, the role of the board of directors, shareholders and other stakeholders. Good Corporate Governance is a set of regulations and efforts to improve systems and processes in organizational management by regulating and clarifying the relationships, authority, rights and obligations of all stakeholders, including the General Meeting of Shareholders (GMS), the Board of Commissioners and the Board of Directors. The Indonesian Institute for Corporate Governance defines Good Corporate Governance (GCG) as the process and structure implemented in running a firm with the main aim of increasing shareholder value in the long term while still paying attention to the interests of other stockholders. This certainty is provided by the Good Corporate Governance system (Anjani & Hariyanto, 2018). According to Anjani and Hariyanto (2018), Good Corporate Governance is a process and structure used by firm organs (Shareholders/Capital Owners, Commissioners/Supervisory Board, and Directors) to increase business success and firm accountability to continue paying attention to the interests of other stakeholders, based on statutory regulations and ethical values (Santosa et al., 2022).

Meanwhile, according to Pratiwi and Bahari (2020), Good Corporate Governance is a structure and process (Regulations, Systems and Procedures) to ensure that the TARIFF Principle migrates into a culture, directing and controlling the firm to realize sustainable growth, increasing added value while still paying attention to the interests of relevant stakeholders, in accordance with healthy corporate principles and applicable laws and regulations. According to Wijayanti & Merkusiwati (2017) said that supervision of firm management, namely the policies that will be taken, will be stricter if there is share ownership by firm management. This will make management more careful in managing the firm (Perdana et al., 2017). According to Situmorang & Simanjuntak (2019), the implementation of Good Corporate Governance in public organizations, banks and BUMN is expected to restore public trust, to anticipate intense competition in the free market era, corporate social responsibility and business ethics (Ataay, 2018).

The Effect of Board of Directors Size on Financial Distress
The board of chiefs in a firm will decide the arrangements to be taken or the firm's short-term and long-term methodology. Expanding the measure and differing qualities of the Board of Chiefs will give benefits for the firm by making systems with parties exterior the firm and guaranteeing the accessibility of assets (Setyanto et al., 2024). Inquire about states that the more prominent the number of the Board of Executives, the higher the plausibility of the firm encountering money related push. This demonstrates that fluid firms as a rule have great execution and will anticipate the firm from the plausibility of budgetary trouble. To be able to preserve a firm in a fluid condition, the firm must have current stores that are more prominent than its current obligation (Kurniasanti & Musdholifah, 2018). In any case, diverse comes about happened in investigate by Nasiroh & Priyadi (2018), which expressed that the bigger the number of the Board of Executives, the littler the potential for monetary troubles. Based on the contentions over, the theory detailing is as takes after:
H1: The Board of Directors Influences Financial Distress

The Effect of the Proportion of Independent Commissioners on Financial Distress
Free Commissioners are sheets of commissioners who don't come from partnered parties or parties who have trade or family connections with controlling shareholders, other individuals of the board of executives and board of commissioners, as well as with the firm (Candradewi, 2019). With the presence of an Autonomous Commissioner, separated from observing administration decision-making by the board of commissioners, supervision is additionally carried out by an autonomous outside party so that the choices taken are rectify and keep the firm absent from the plausibility of money related challenges. Inquire about conducted by Ramadhan (2017) states that the extent of Autonomous Commissioners encompasses a noteworthy impact on the course of a negative relationship on Budgetary Trouble, in this way appearing that the more noteworthy the number of Free Commissioners in a firm will diminish the potential for Money related Trouble to happen, while agreeing to inquire about by Maryam & Yuyetta (2019) and Mulansari & Setiyorini (2019) expressed that the extent of Autonomous Commissioners has no critical impact on the event of Monetary Trouble. Based on the contentions over, the taking after theory can be defined:
H2: The proportion of Independent Commissioners influences Financial Distress

The Effect of the Audit Committee on Financial Distress
The review committee may be a Corporate Administration instrument that's expected to be able to decrease office issues that emerge in a firm, which, on the off chance that they happen persistently, can cause Monetary Trouble within the firm (Nasiroh & Priyadi, 2018). In Indonesia, the rules for shaping an viable review committee (Candradewi, 2019) clarify that the review committee individuals claimed by a firm comprise of at slightest three individuals, chaired by the firm's Free Commissioner with two outside individuals who are free of the firm and ace and have a foundation in bookkeeping and back. The number of review committee individuals, which must be more than one individual, is aiming so that the review committee can hold gatherings and trade conclusions with each other. Inquire about conducted by Nasiroh and Priyadi (2018) states that the Review Committee contains a critical impact on firms encountering Money related Trouble conditions. In any case, investigate conducted by Khairani (2019) and Setiyani (2017) states that there's an inconsequential impact between the Review Committee and Monetary Trouble. The individuals of the Review Committee now and then make it more troublesome to concur on choices with respect to its execution. Based on the contentions over, the taking after speculation can be defined:
H3: The Audit Committee Influences Financial Distress

The Effect of Institutional Ownership on Financial Distress
Regulation proprietorship is the extent of firm offers claimed by educate, commerce substances, or organizations. Possession by regulation speculators comes about in administration that centers on firm execution (Candradewi, 2019). The presence of organization financial specialists is considered competent of being a successful observing instrument in each choice taken by supervisors. Agreeing to investigate conducted by Putri and Kristanti (2020) and Affiah & Muslikh (2018), Organization Possession features a critical influence with a negative relationship on Money related Trouble,

which implies that the more noteworthy the Regulation Proprietorship in a firm, the less likely it is that the firm will involvement Money related Trouble. Tall possession by regulation speculators will empower checking exercises since their expansive voting control will impact administration. In the meantime, inquire about conducted by Setiyoharini and Taufiqurahman (2022) states that Organization Possession has an immaterial impact on Budgetary Trouble. Based on the contentions over, the theory definition is as takes after:
H4: Institutional Ownership Influences Financial Distress

Research Conceptual Framework
The thinking framework is a conceptual model of theory related to various important problem factors. The framework of thought also becomes a temporary explanation of various phenomena that are the object of research. The independent variables in this research are the size of the Board of Directors, Independent Commissioners, Audit Committee, and Institutional Ownership, and the dependent variable is Financial Distress. The following is an image of the framework for this research:

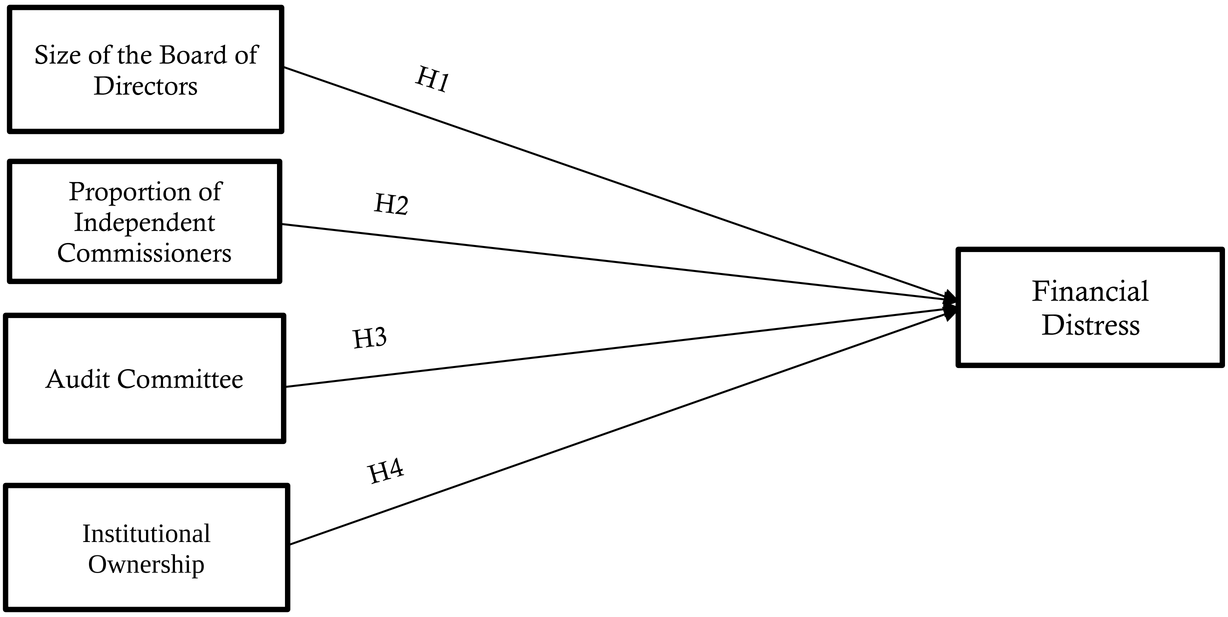

Figure 1. Conceptual Framework

3. Data and Method

Data Types and Data Sources
The sort of information utilized in this investigation is quantitative information in numerical frame. The inquiry about information utilized in this investigation is auxiliary information, meaning it comes from firm records and examinations that have been already distributed within the media. This inquiry about information was collected from inspected money related reports (yearly reports) from 2017 to 2021 (Uma & Bougie Roger, 2017). The information source utilized in this investigate comes from examined yearly monetary report information for the 2017-2021 period for each firm gotten to and downloaded by means of the Indonesia Stock Trade (BEI) site or each firm's site, www.idx. co.id.

Data collection technique
The information collection procedure utilized in this inquiry about is documentation. This strategy was utilized since this inquire about utilized auxiliary information. The information in this investigation was collected by collecting experimental information and conducting a writing ponder. The writing considers utilized a few sources, such as diaries, articles and other writing related to the discourse in this investigation.

Population
Populace could be a generalization range comprising of objects or subjects that have certain qualities and characteristics determined by analysts to be examined and after those conclusions drawn (Sugiyono, 2018). The populace in this inquire about is all transportation firms recorded on the Indonesia Stock Trade in 2017-2021, to be specific 76 populaces.

Sample
The test is a portion of the population's number and characteristics (Sugiyono, 2018). Deciding the test employs the purposive inspecting strategy, to be specific deciding the test from the existing populace based on the criteria craved by the analyst. Typically done so that the information gotten is for inquire about purposes and can be compared with the comes about of past investigate.

Multiple Linear Regression Analysis
This analysis is to determine the direction of the relationship between the independent variable and the Dependent variable, whether each independent variable is positively or negatively related and to predict the value of the Dependent variable if the value of the independent variable increases or decreases.

$$Y = \alpha + \beta 1\ SBD + \beta 2\ PIC + \beta 3\ AC + \beta 4\ IO + e \tag{1}$$

4. Results

Data Description
Descriptive statistics can provide an overview or description of data seen from the average (mean), maximum, minimum and standard deviation values of each variable. The results of descriptive statistical calculations can be seen in Table 1 below:

Table 1. Data Description Results

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Distress	35	-61.56	382	-12.85	18.527
Size of the Board of Directors	35	1.00	6.00	3.60	1.518
Proportion of Independent Commissioners	35	0.27	0.40	0.32	0.029
Audit Committee	35	1.00	4.00	3.00	.727
Institutional Ownership	35	42.80	76.87	58.56	11.485
Valid N (listwise)	35				

Source: Processed Data (2023)

The descriptive statistics in Table 1 provide an overview of the variables used in the study. Financial Distress, measured for 35 observations, has a minimum value of -61.56, a maximum value of 382, a mean of -12.85, and a standard deviation of 18.527, indicating significant variation in the financial distress levels among the sampled firms. The Size of the Board of Directors ranges from 1.00 to 6.00, with an average size of 3.60 and a standard deviation of 1.518, reflecting moderate variability. The Proportion of Independent Commissioners shows a narrow range between 0.27 and 0.40, with a mean of 0.32 and a standard deviation of 0.029, suggesting consistency in the proportion of independent oversight.

Normality test
The normality test is carried out to determine whether the confounding or residual variables in the regression model have a normal distribution. To test the normality of the data, graphic analysis is carried out, namely, by looking at the normal p-plot curve.

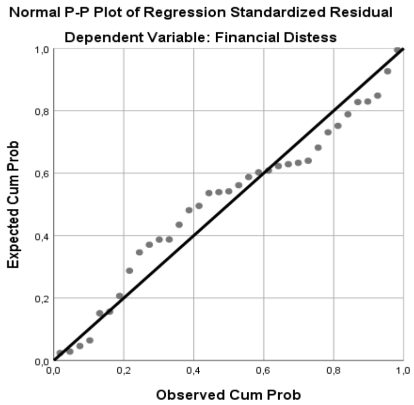

Figure 2. Normality Test

Based on Figure 2 above, the points are spread around the diagonal line and the distribution follows the direction of the diagonal line. This shows that the regression model in this study has met the normality assumption.

Multicollinearity Test

The multicollinearity test was carried out to test whether, in the regression model, a correlation was found between the independent variables. A good regression model is one where there is no correlation between the independent variables (Ningsih & Dukalang, 2019).

Table 2. Multicollinearity test results

Model		Collinearity Statistics	
		Tolerance	VIF
1	Size of the Board of Directors	.018	4.579
	Proportion of Independent Commissioners	.035	1.069
	Audit Committee	.026	4.428
	Institutional Ownership	.040	1.191

Source: Processed Data (2023)

Based on table 2 above shows that all TOL values are > 0.10 and VIF < 10, so it can be concluded that there is no multicollinearity between individuals in this model.

Heteroscedasticity Test

The heteroscedasticity test is carried out to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another observation. A good regression model is a model where heteroscedasticity or homoscedasticity does not occur.

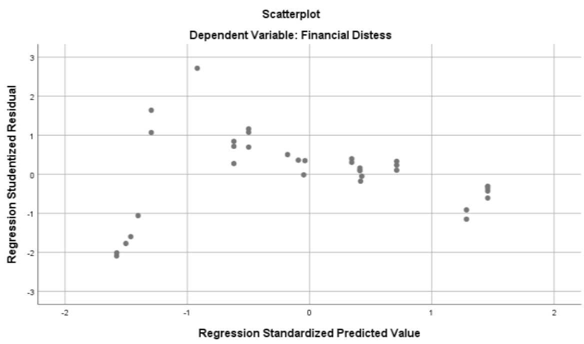

Figure 3. Heteroscedasticity Test

Multiple Linear Analysis
To test the model of the influence and relationship of more than two independent variables on the dependent variable, a multiple linear regression equation (multiple linear regression method) is used. In this research, we examine the influence of independent variables, namely the size of the board of directors, the proportion of independent commissioners, audit committee, and institutional ownership on financial distress, which can be seen in the table below:

Table 3. Results of Multiple Linear Analysis

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Model	B	Std. Error	Beta		
1	(Constant)	-72.417	38.901		-1.862	.072
	Size of the Board of Directors	3.132	3.936	.257	1.796	0.032
	Proportion of Independent Commissioners	64.028	98.756	.101	2.648	0.022
	Audit Committee	9.104	8.077	.358	1.827	0.009
	Institutional Ownership	0.931	.265	.577	3.508	0.001

Source: Processed Data (2023)

The results of the regression analysis show that several aspects of Good Corporate Governance (GCG) significantly reduce the risk of financial difficulties. Board size has a positive coefficient of 3.132 (p = 0.032), indicating that a larger board contributes to better risk management.

5. Discussion

The Effect of Board of Directors Size on Financial Distress
Based on the comes about of the t-test over, the t-table tally and esteem are noteworthy. So, H01 is rejected or Ha1 is acknowledged, which suggests the estimate of the board of chiefs impacts money related trouble. The coefficient esteem of the variable Measure of the Board of Executives implies that the Estimate of the Board of Executives encompasses a positive impact on Budgetary Trouble. These come about are in line with investigation from Maydah & Serly (2019), which appears that the huge number of Board of Chiefs can impact budgetary conditions since each choice made by the firm comes from the results of the Board of Directors' choices. Companies confronting critical budgetary weight by and large ought to consider their budgetary circumstance through the eyes of the executives. The capacity of the Board of Chiefs to oversee the firm and oversee administration can increase the firm's chances of overcoming monetary trouble.

The Effect of the Proportion of Independent Commissioners on Financial Distress
Based on the comes about of the t-test over, the t-count and esteem are noteworthy. So, H02 is rejected, or Ha2 is acknowledged, which suggests that the extent of Autonomous Commissioners impacts Budgetary Trouble. The coefficient esteem of the client capacity variable is 64.028, so it can be concluded that Organization Proprietorship includes a positive impact on Monetary Trouble. The extent of Autonomous Commissioners features a critical impact on Budgetary Trouble. This implies that anything the extent of Autonomous Commissioners in a firm, the plausibility of the firm encountering money related weight is the same. The comes about of this inquire about bolster the research results of Khairani (2019), Wijaya (2022), and Muslih (2020), which state that the extent of free commissioners in a firm incorporates a noteworthy impact on the course of a negative relationship, which suggests the more noteworthy the extent of autonomous commissioners in a firm. This will diminish the firm's involvement in Monetary Trouble conditions.

The Effect of the Audit Committee on Financial Distress

Based on the comes about of the t-test over, the t-count and esteem are critical. So, H03 is rejected, or Ha3 is acknowledged, which implies that the Review Committee impacts Money related Trouble. The coefficient esteem of the instruction and preparing factors means that the Review Committee contains a positive impact on Monetary Trouble. The viability of the Review Committee will increase if the estimate of the committee increments, since the committee has more assets to handle the issues confronted by the firm. Theis trusted that the presence of a Review Committee with individuals who have higher and more suitable information and work involvement will be able to control the firm's operational and budgetary conditions. The comes about of this inquire about bolster the comes about of past investigate conducted by Irmayanti & Almurai (2020), Nadjib (2018), and Sukawati & Wahidahwati (2020), which expressed that the Review Committee in a firm features a critical impact on Monetary Trouble.

The Effect of Institutional Ownership on Financial Distress

Based on the comes about of the t-test over, the t-count and esteem are critical. So, H04 is rejected or Ha4 is acknowledged, which implies that regulation possession impacts monetary trouble. The coefficient esteem of the instruction and preparing variables suggests that Organization Possession includes a positive impact on Monetary Trouble. Agreeing to Wardhani et al. (2017), this may happen since tall proprietorship by organization speculators will energize checking exercises. After all, their expansive voting control will impact administration. Educate professionally screen the advancement of their speculations and the level of control at the administration level is exceptionally tall so that the potential for fraud can be smothered. With huge regulation proprietorship, control over the firm is additionally more noteworthy. Supervision by these teachers can make strides administrative execution so that firms dodge monetary trouble. These come about back inquiries conducted by Septiani & Dana (2019) and L. W. Kristiana & Annisa (2018), which said that Regulation Proprietorship contains a noteworthy impact with a negative relationship towards Money related Trouble. In any case, the comes about of this ponder don't bolster past inquiries about conducted by Syifa et al. (2017), which expressed that Regulation Possession in a firm has an inconsequential impact on Money related Trouble. Share possession by huge teach is the lion's share and centralized proprietor, where lion's share share proprietorship will result in decreased straightforwardness within the use of firm stores (Septiani & Dana, 2019).

6. Conclusion

Based on the comes about of information examination, theory testing, and dialog with respect to the Impact of Great Corporate Administration on Money related Trouble, the taking after conclusions can be drawn: Based on the comes about of the t-test over, it can be concluded that the measure of the Board of Executives includes a positive impact on Money related Trouble. Based on the comes about of the t-test above, it can be concluded that Regulation Possession contains a positive impact on Financial Distress. Based on the t-test comes about over, it can be concluded that the Review Committee features a positive impact on Budgetary Trouble. Based on the comes about of the t-test over, it can be concluded that Regulation Proprietorship encompasses a positive impact on Monetary Trouble. In this investigate, it can be concluded that all free factors, which incorporate Organization Possession, Extent of Autonomous Commissioners, Review Committee, and Estimate of the Board of Chiefs, at the same time (together) impact Budgetary Distress. Managerial suggestions from inquire about on the impact of Great Corporate Administration (GCG) on monetary challenges appear that actualizing great GCG can altogether decrease the chance of a firm's money related troubles. Supervisors ought to center on fortifying corporate administration components, counting straightforwardness, responsibility and security of shareholder rights, to extend speculator certainty and budgetary steadiness.

Recommendation

For future analysts, it is trusted that the inquire about can include factors that are still related to other Great Corporate Administration. This investigates \employments Profit Per Share (EPS) to degree Money related Trouble. For encourage investigate, it is best to utilize a few other estimations, such as Z-score examination or calculating the Intrigued Scope Proportion (ICR).

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