

Research Article

The Effect of Good Corporate Governance on Financial Distress

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Abstract

This research aims to examine the influence of Good Corporate Governance as proxied by 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 companies, one of which is the transportation sector 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 with Spss Version 25 software. This research shows that overall, the size of the Board of Directors, Independent Commissioners, Audit Committee, and Institutional Ownership variables partially or simultaneously influence Financial Distress. This research can guide companies to understand the importance of mitigating financial risks by implementing strong GCG principles. It can include debt management, monitoring financial policies, and making wise investment decisions. The implications of this research can guide investors and creditors in assessing the risks and return potential associated with well-managed companies in terms of governance. The implication is that external stakeholders can use this information to support their investment decisions.

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

JEL Classification: G01, G34, G38

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1. Introduction

Financial Distress is a condition of a company that shows that its financial performance experiences a continuous decline before experiencing bankruptcy. Financial Distress is an early indication of a company before insolvency or bankruptcy occurs. According to Rahayu & Sopian (2017), Financial Distress is when a company experiences financial difficulties and is threatened with bankruptcy.

Companies experiencing Financial distress conditions are usually marked by several events such as decreased production, delays and even delays in the delivery of goods, and delays in paying bank bills. This description indicates that Financial Distress can be viewed from financial reports, namely the financial position report, profit and loss report, and cash flow report. If a company fails to overcome financial difficulties, it can be said to have poor corporate governance. A company's poor financial condition will bring difficulties for the company because the company will lose customers and suppliers and lose new projects. After all, management only concentrates on resolving financial difficulties (Financial Distress) (Zahrawani & Sholikhah, 2021).

Many factors can determine Financial Distress. There are three conditions in which Financial Distress can be suffered. These three conditions are a lack of additional capital, a debt burden that is too high, and the company posting losses for several periods. Lack of additional capital can make it difficult for a company to maintain its liquidity. A high debt burden can disrupt a company's cash flow and make it difficult to meet financial obligations. Sustained losses can reduce a company's capital and make it vulnerable to Financial Distress (Carolina et al., 2018).

Financial distress arises from various situations until companies face economic difficulties. Based on financial conditions, three conditions cause financial distress, including lack of capital, debt burdens that are too large, and experiencing continuous losses. Each aspect is related so that balance needs to be maintained so that the company can avoid financial distress and bankruptcy.

Apart from internal aspects, financial distress is also caused by external aspects, where, in recent years, the world economic condition has remained vulnerable and full of risks. This condition is caused by the economic slowdown in the second-largest economy in the world, namely China. The economic slowdown occurred due to the continuous decline in commodity and oil prices. 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 Indonesia's biggest challenge and threat to achieving its economic growth targets (Sutra & Mais, 2019).

As a company is experiencing a decline in its financial condition, it enters a phase of financial distress. It is feared that the company will have difficulty obtaining sources of financing, will not be able to fulfill its obligations or debts, and the company's performance will be poor, which will trigger conditions of Financial Distress leading to bankruptcy (Pundi et al., 2022). Therefore, being aware of conditions is one of the actions that can be taken by analyzing the company's financial reports using financial ratios. This financial ratio analysis gives the analyst an idea of the good and bad of financial performance.

The researcher chose a transportation sector services company listed on the Indonesian Stock Exchange. The service industry is one of the highest mainstays in recovering the economic sector. This was developed as a research object because service companies are large-scale companies compared with other companies so comparisons can be made between one company and another. The growth in users of transportation modes indicates that the transportation business climate is very promising, thus increasingly encouraging transportation companies to increase their asset capabilities to improve future performance. However, the growth in transportation users only affects some elements of the transportation company. The Indonesian Stock Exchange released on September 23, 2020, that 6 issuers were experiencing Negative Equity, dominated by transportation sector companies (Siahaan et al., 2021).

A company with Negative Equity status is affected by liabilities greater than total assets and operational losses. Financial distress is when an entity faces financial difficulties that are generally temporary and can lead to liquidity problems if not addressed immediately. If not treated quickly, this condition can worsen, leading to business failure or bankruptcy (Putri, 2021).

Table 1. List of transportation sectors with Negative Equity in 2020 (IDR)

| No | Stock Code | Total assets | Total Liabilities | Net profit/loss |
|----|------------|-------------------|-------------------|-----------------|
| 1. | BBR | 37.213.358 | 30.022.368 | (11.172.452) |
| 2. | BLT | 66.073.093 | 38.158.141 | (817.144.000) |
| 3. | CANI | 534.747.379.567 | 713.996.784.980 | (1413.277.00) |
| 4. | GIAA | 10.789.980.407 | 12.733.004.654 | (2.203.059.625) |
| 5. | MIRA | 317.032 | 101.678 | (18.036) |
| 6. | CMPP | 2.613.070.074.932 | 2.410.942.815.607 | (2.754.692.00) |

Source: www.idx.co.id

Internal factors influencing financial distress include Good Corporate Governance, Institutional Ownership, Proportion of Independent Commissioners, Audit Committee, and Size of the Board of Commissioners. Potential investors often use these factors to assess a company's ability in its business to determine whether the company is experiencing financial distress. Because in company assessment, each factor is related to financial distress.

From the explanation above, the problem of this research can be formulated, namely whether the internal factors above can influence financial distress in transportation service companies. This research also aims to find out whether these internal factors influence financial distress in transportation service companies.

2. Literature Review and Hypothesis

Several factors can influence financial distress. The first factor includes Good Corporate Governance, which is a process and structure used by the company's organs (Shareholders/Owners, Commissioners/Supervisory Board, and Board of Directors) to enhance business success and accountability while still considering the interests of other stakeholders, based on legal regulations and ethical values (Anjani & Hariyanto, 2018). According to Pratiwi & Bahari (2020), Good Corporate Governance is a structure and process (Regulations, Systems, and Procedures) to ensure that TARIF Principles migrate into culture, guiding and controlling the company to achieve sustainable growth, increasing added value while still considering the interests of stakeholders in line with healthy corporate principles and applicable legal regulations.

According to the Corporate Governance Perception Index (CGPI) by Saputro & Hermanto (2018), implementing Good Corporate Governance is beneficial for reducing agency costs, which are the costs borne by shareholders due to delegating authority to management. It also reduces the cost of capital due to good company management, leading to lower interest rates on funds or resources borrowed by the company. It can also increase the company's stock value and create stakeholder support.

The benefits of implementing Good Corporate Governance, according to Darmawati et al. (2017), are:

- Protecting the rights and interests of non-shareholder stakeholders.
- Enhancing the value of the company and its shareholders.
- Increasing the efficiency and effectiveness of the board of directors or Board of Directors and company management.
- Enhancing the relationship quality between the Board of Directors and the company's senior management.

The benefits obtained from the application of Corporate Governance aim to improve the company's future by increasing confidence from investors, improving company performance, minimizing financing in the company, and increasing investor confidence to invest their capital in the company.

Another factor influencing financial distress is the board of directors. The board of directors is the company organ authorized and fully responsible for managing the company for the company's

interests under the company's purpose and objectives and representing the company both in and outside the court according to the articles of association (Zatira et al., 2023). The Republic of Indonesia Law Number 40 of 2007 Concerning Limited Liability Companies defines the board of directors as the company organ authorized and fully responsible for managing the company for the company's interests, following the purpose and objectives of the company and representing the company both in and outside the court according to the full articles of association. As a company organ, the board of directors has the collective responsibility of managing the company. Each board of directors member can carry out tasks and make decisions under their assigned tasks and authorities. The positions of each board of directors member, including the Managing Director, are equivalent. The company's management function by the board of directors includes five main tasks: management, risk management, internal control, communication, and social responsibility.

Independent commissioners are the next variable that can affect financial distress. The Independent Commissioner Board is a board of commissioners from outside the company. The number of Independent Commissioners must be able to ensure that the supervisory mechanism runs effectively and in accordance with legal regulations. One of the Independent Commissioners must have a background in accounting or finance (Novia et al., 2021). The Indonesian Stock Exchange Regulation No. I-A Kep-00001/BEI/01-2014 concerning General Provisions for the Listing of Securities states that the presence of Independent Commissioners is mandatory for listed companies, with the condition that the number of Independent Commissioners is at least 30% of the total number of commissioners. A board with a larger number of Independent Commissioners has strong control over managerial decisions. The Independent status is focused on protecting shareholders, especially Independent shareholders, from fraudulent practices or committing crimes in the capital market.

The next variable that can affect financial distress is the audit committee. The Financial Services Authority (OJK) outlines the audit committee, which issued Circular Letter No. 32/SEOJK.04/2015, dated November 17, 2015, regarding the definition of the Audit Committee, which is a committee formed by and responsible to the Board of Commissioners in assisting in carrying out the effective tasks and functions of the Board of Commissioners. This section states that in the context of implementing good company management, companies listed on the Indonesia Stock Exchange (formerly Jakarta Stock Exchange) must have Independent Commissioners, audit committees, company secretaries, transparency, and financial report standards per sector.

According to Rahmawati, I.A., Rikumahu, Brady., and Dillak (2017), the Audit Committee has the authority to conduct and approve investigations into issues within the scope of its responsibilities. The audit committee consists of Independent Commissioners and is independent of day-to-day management activities, with the primary responsibility of assisting the Board of Commissioners, especially in matters related to company accounting policies, internal control, and financial reporting systems.

Institutional ownership is the next factor that can affect financial distress. According to Saifi (2019), institutional ownership is important in minimizing agency conflicts between managers and shareholders. Institutional investors' presence is considered an effective monitoring mechanism in every decision made by managers. A high level of institutional ownership will lead to greater monitoring efforts by institutional investors, thereby preventing managers' opportunistic behavior and minimizing management misconduct, which will lower the company's value (Ainiyah & Astuti, 2022).

Based on the explanation of the interrelation of the variables mentioned above, referring to theory and supported by previous research, good corporate governance, board of directors, independent commissioners, audit committees, and institutional ownership can influence financial distress. Therefore, the variables of good corporate governance, board of directors, independent commissioners, audit committee, and institutional ownership impact financial distress.

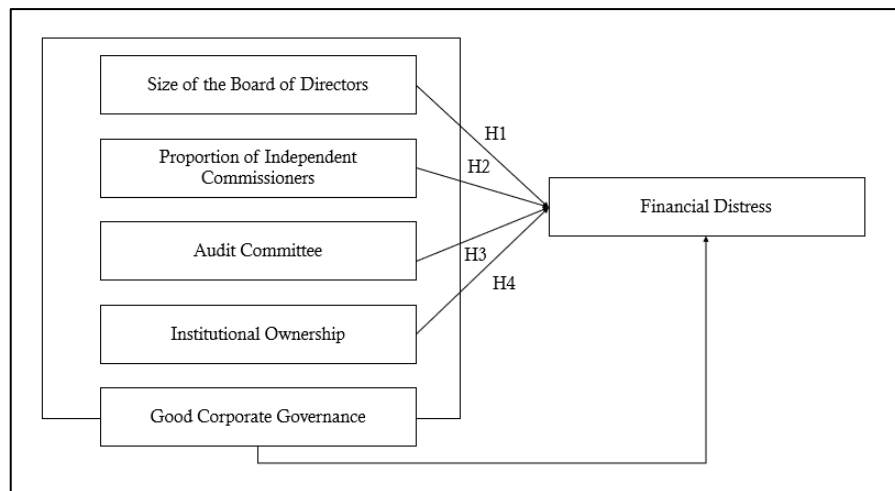


Figure 1. Research Framework

The Influence of Board Size on Financial Distress

The board of directors in a company determines the policies and strategies for the company in both the short and long term. Increasing the size and diversity of the Board of Directors benefits the company by creating a network with external parties and ensuring the availability of resources. This finding is supported by Hanafi & Breliastiti (2017), whose research results indicate that the larger the Board of Directors, the higher the likelihood of the company experiencing financial pressure or financial distress. This indicates that a liquid company usually performs well and will protect the company from financial distress. To maintain the company in a liquid state, it must have assets greater than its current liabilities.

H1: The board of directors influences financial distress.

The Influence of Independent Commissioners on Financial Distress

Independent Commissioners are commissioners who are not affiliated with or have business and family relationships with controlling shareholders, members of the board of directors, other commissioners, and the company. With the presence of Independent Commissioners, not only is there oversight of management decision-making by the board of commissioners, but there is also oversight by independent external parties to ensure that decisions are correct and to keep the company from the possibility of financial difficulties.

States that the proportion of Independent Commissioners has a significant influence with a negative relationship towards Financial Distress, indicating that the more Independent Commissioners in a company, the smaller the potential for Financial Distress. Based on the above description, the hypothesis is as follows:

H2: Independent commissioners influence financial distress.

The Influence of the Audit Committee on Financial Distress

The audit committee is a Corporate Governance mechanism assumed to reduce agency problems that arise in a company, which, if continuous, can lead to Financial Distress. In Indonesia, the guidelines for the effective establishment of an audit committee explain that the members of the audit committee of a company must consist of at least three people, chaired by an Independent commissioner of the company with two external individuals who are Independent of the company and have expertise and background in accounting and finance. The requirement for the audit committee to have more than one member is intended to enable the committee to hold meetings and exchange opinions with each other.

States that the Audit Committee significantly influences companies experiencing Financial Distress. If the Audit Committee functions effectively, control over the company will be better because it can assist the board of commissioners and advise management on corrective actions for risk deviations from decisions made, as financial decision-making risks can be minimized. Losses

can be detected before they occur.

H3: The Audit committee influences financial distress.

The Influence of Institutional Ownership on Financial Distress

Institutional ownership is the proportion of a company's shares owned by institutions, businesses, or organizations. Ownership by institutional investors leads to a focus on company performance. Institutional investors' presence is considered an effective monitoring mechanism in every decision made by managers. This is because institutional investors are involved in strategic decision-making, making them less likely to trust manipulative actions related to profit.

According to research conducted by Putri & Kristanti (2020), Institutional Ownership has a significant influence with a negative relationship towards Financial Distress, which means that the larger the Institutional Ownership in a company, the smaller the likelihood of the company experiencing Financial Distress. High ownership by institutional investors will encourage monitoring activities because the strength of their voting power will influence management. Thus, based on the above description, the hypothesis is as follows:

H4: Institutional ownership influences financial distress.

The Simultaneous Influence of Board Size, Proportion of Independent Commissioners, Audit Committee, and Institutional Ownership on Financial Distress

The joint influence of independent variables on the dependent variable is also known as the F-Test. The F-test is used to simultaneously test the overall significance of independent variables on the dependent variable. The variables of Board Size, Proportion of Independent Commissioners, Audit Committee, and Institutional Ownership significantly influence Financial Distress. Therefore, the hypothesis formulation is as follows:

H5: Board size, proportion of independent commissioners, audit committee, and institutional ownership collectively influence financial distress.

3. Data and Method

Based on the analytical approach, this research employs a quantitative method. Quantitative research explains the relationships between variables by analyzing numerical data using statistical methods through hypothesis testing. The numerical data collected is then analyzed and described to draw accurate conclusions (Utami & Pardanawati, 2017).

Sugiyono (2017) states that a population is a generalization area consisting of objects or subjects with specific qualities and characteristics defined by the researcher for the study and subsequent conclusions. According to Pongoh (2019), a sample is a subset of the population units. This study selected a sample of 7 transportation sector service companies listed on the Indonesia Stock Exchange (BEI) using purposive sampling. Purposive sampling is a non-random sampling technique where the researcher first defines specific characteristics that align with the research objectives, aiming to address the research questions.

The data source used in this research is secondary data extracted from the financial reports of transportation sector service companies listed on the Indonesia Stock Exchange, accessed through the www.idx.co.id website for 2017-2021. The type of data used in this study is quantitative. The data collection method employed in this research is documentation involving the collection, recording, and examination of secondary data from the official websites of the respective companies.

This research was conducted on transportation sector service companies listed on the Indonesia Stock Exchange. The research data was obtained through the www.idx.co.id website. The study covers the past five years, specifically from 2017 to 2021, as these were the most recent years, and data collection was easily accessible.

Data analysis includes tests for normality, classical assumption tests such as multicollinearity, heteroskedasticity, and autocorrelation, and hypothesis testing using t-tests, F-tests, and the coefficient of determination (R²).

The analytical technique used to determine the influence of Board Size, Proportion of Independent Commissioners, Audit Committee, and Institutional Ownership on Financial Distress is an econometric analysis model as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \quad (1)$$

Explanation:

Y : Financial Distress
 A : Constant Value
 B : Coefficient
 X₁ : Board Size
 X₂ : Proportion of Independent Commissioners
 X₃ : Audit Committee
 X₄ : Institutional Ownership
 E : Error

4. Results and Discussion

Descriptive statistical analysis in this research provides information regarding the independent variables, such as the Board of Directors, Independent Commissioners, Audit Committee, and Institutional Ownership. This research includes 35 observations from the total number of panels or samples of 7 companies, which are multiplied by the research period, namely five years from 2017 to 2021. The descriptive statistics are in the following table:

Table 2. Descriptive Statistics

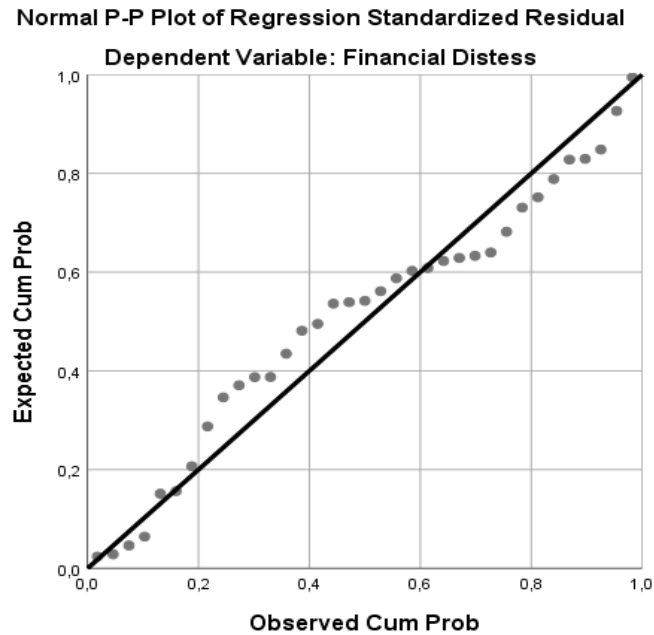
| | N | Minimum | Maximum | Mean | Std. Deviation |
|-----------------------------------------------|----|---------|---------|--------|-------------------|
| Financial Distress | 35 | -61.56 | 382 | -12.85 | 18.527 |
| Size of the Board of Directors | 35 | 1.00 | 6.00 | 3.60 | 1.518 |
| Proportion of 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 total size of the board of directors has a minimum value of 1 and a maximum value of 6. Also, the average value of the size of the board of directors is 3.60, with a standard deviation of 1.518. The Total Proportion of Independent Commissioners has a minimum value of 0.27 and a maximum value of 0.40, and the average value is 0.32 with a standard deviation of 0.029. The total Audit Committee has a minimum value of 1 and a maximum value of 4, and the average value is 3.00 with a standard deviation of 0.727. Total Institutional Ownership has a minimum value of 42.80 and a maximum of 76.87. Also, the average value is 58.56, with a standard deviation of 11.485. Total Financial Distress has a minimum value of -61.56 and a maximum of 382. Also, the average value of Financial Distress is -12.85 with a standard deviation of 18.527.

Normality test

It can be seen that the dots are spread around the diagonal line, and the distribution follows the direction of the diagonal line. This result shows that the regression model in this study has met the normality assumption.



Source: Processed data, 2023

Figure 2. Normality Test Results

Apart from that, the normality test in this study also used Kolmogorov-Smirnov (K-S). Based on decision-making, if the significance value is > 0.05 , then the research data is considered normally distributed. If the significance is < 0.05 , then the research data is not normally distributed.

Multicollinearity Test

Table 3. Multicollinearity Test Results

| | | Coefficients | |
|-------|-----------------------------------------|-------------------------|-------|
| 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 3. 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

Table 4. Heteroscedasticity Test Results

| | | Coefficients | | | t | Sig. |
|-------|-----------------------------------------|-----------------------------|------------|---------------------------|--------|------|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -72.417 | 38.901 | | -1.862 | .072 |
| | Size of the Board of Directors | 3.132 | 3.936 | .257 | .796 | .432 |
| | Proportion of Independent Commissioners | 64.028 | 98.756 | .101 | .648 | .522 |
| | Audit Committee | -9.104 | 8.077 | -.358 | -1.127 | .269 |
| | Institutional Ownership | .931 | .265 | .577 | 3.508 | .021 |

Source: Processed data, 2023

Based on Table 4. shows that the significant value of the variable Size of the Board of Directors is $0.423 > 0.05$, so the variable Size of the Board of Directors does not have symptoms of heteroscedasticity. The significant value of the Proportion of Independent Commissioners variable is $0.522 > 0.05$ so that the Proportion of Independent Commissioners variable does not experience symptoms of heteroscedasticity. The significant value of the Audit Committee variable is $0.269 > 0.05$, so the Audit Committee variable does not have symptoms of heteroscedasticity. The significant value of the Institutional Ownership variable is $0.201 > 0.05$, so the Institutional Ownership variable does not have symptoms of heteroscedasticity. So, heteroscedasticity does not occur.

Autocorrelation Test

Table 5. Autocorrelation Test

| Model Summary | | | | | |
|---------------|-------------------|----------|-------------------|----------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .564 ^a | .318 | .078 | 16.28568 | 1.914 |

Source: Processed data, 2023

N=35 K=4

Table 6. Value Autocorrelation Test

| D | dL | dU | 4-d |
|-------|--------|--------|-------|
| 1.914 | 1.2221 | 1.7259 | 2.086 |

Source: Processed data, 2023

Based on the table above results, it states that $d > dU$ = so there is no positive autocorrelation, while $4-d > dU$ = so there is no negative autocorrelation.

Multiple Linear Analysis

$$Y = -72.413 + 3.132x_1 + 64.028x_2 + 9.104x_3 + 0.931x_4 \quad (2)$$

Information:

Y : Financial Distress

α : Constant Value

β : Direction number or regression coefficient which shows the number of increases or decreases in Y based on variable

X1 : Size of the Board of Directors

X2 : Proportion of Independent Commissioners

X3 : Audit Committee

X4 : Institutional Ownership

e : Error

T-test

Table 7. T-Test Results

| Coefficients | | | | | | |
|--------------|-----------------------------------------|-----------------------------|------------|---------------------------|-------|-------|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | 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

1. Effect of Board of Directors Size (X1) on Financial Distress (Y). Based on the results of the t-test above, it can be seen that $t_{count} (1.796) > t_{table} (1.696)$, and the significant value is $0.032 < 0.05$. So, H_0 is rejected, or H_a is accepted, which means the size of the board of

directors influences financial distress. The coefficient value of the variable Size of the Board of Directors is 3.132, so it can be concluded that the Size of the Board of Directors positively affects Financial Distress.

2. Influence of the Proportion of Independent Commissioners (X2) on Financial Distress (Y). Based on the results of the t-test above, it can be seen that $t(2.648) > t\text{-table}(1.696)$, and the significant value is $0.022 < 0.05$. So, H_{02} is rejected, or H_{a2} is accepted, which means that the user's ability influences Financial Distress. The coefficient value of the user ability variable is 64.028, so it can be concluded that Institutional Ownership has a positive effect on Financial Distress.
3. Influence of the Audit Committee (X3) on Financial Distress (Y). Based on the results of the t-test above, it can be seen that $t(1.827) > t\text{-table}(1.696)$, and the significant value is $0.009 < 0.05$. So, H_{03} is rejected, or H_{a3} is accepted, which means the Audit Committee influences Financial Distress. The coefficient value of the education and training variable is 9.104, so it can be concluded that the Audit Committee positively influences Financial Distress.
4. Effect of Institutional Ownership (X4) on Financial Distress (Y). Based on the results of the t-test above, it can be seen that $t(3.508) > t\text{-table}(1.696)$, and the significant value is $0.001 < 0.05$. So, H_{04} is rejected, or H_{a4} is accepted, meaning institutional ownership affects financial distress. The coefficient value of the education and training variable is 0.931, so it can be concluded that Institutional Ownership positively affects Financial Distress.

F test

Table 8. F Test Results

| ANOVA ^a | | | | | | |
|--------------------|------------|----------------|----|-------------|-------|-------------------|
| | Model | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 3714.729 | 4 | 928.682 | 3.502 | .018 ^b |
| | Residual | 7956.701 | 30 | 265.223 | | |
| | Total | 11671.430 | 34 | | | |

Source: Processed data, 2023

After carrying out calculations using SPSS, an Fcount value of 3.502 was obtained. Ftable value is obtained by looking at $f_{table} = df \text{ numerator} (df = n-k): df \text{ denominator} (\text{number of variables } x)$ with a sample size of 35, then 32 ($n-k = 35-3$); 3 with ($\alpha = 0.05$). f_{table} obtained is 2.901. Thus, $F > F\text{-table}$ shows that all Independent variables, namely Institutional Ownership, Proportion of Independent Commissioners, Audit Committee, and Size of the Board of Directors are significant explanations for the Dependent Financial Distress variable. Therefore, it can be concluded that all Independent variables, which include Institutional Ownership, Proportion of Independent Commissioners, Audit Committee, and Size of the Board of Directors, simultaneously influence financial distress.

Coefficient of Determination Test (R2)

Table 9. Coefficient of Determination Test Results (R2)

| Model Summary | | | | |
|---------------|-------------------|----------|-------------------|----------------------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .564 ^a | .318 | .078 | 16.28568 |

Source: Processed data, 2023

Based on the table, it can be seen that the R2 value of Institutional Ownership, Proportion of Independent Commissioners, Audit Committee, and Size of the Board of Directors on Financial Distress is 0.78 or (78%). This finding shows that Institutional Ownership, Proportion of Independent Commissioners, Audit Committee, and Size of the Board of Directors have a role of 78% in determining Financial Distress in transportation subsector service companies. The remaining 22% is caused by other factors that can influence Financial Distress. This result shows that Institutional Ownership, Proportion of Independent Commissioners, Audit Committee, and Size of the Board of Directors contribute to Financial Distress.

Recommendation

In future research, it would be better to increase the number of samples over a longer period because this study only used 7 samples, and the length of the research was 5 years. In future research, it would be better to use a wider range of other companies to focus not only on transportation companies.

Limitations and avenue for future research

This research is only limited to observations for five years, namely from 2017 to 2021, sourced from the IDX, so its validity must be tested again for subsequent years. The objects of this research are limited to transportation companies listed on the Indonesian Stock Exchange.

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Ethics declarations

Availability of data and materials

Data sharing does not apply to this article as no new data were created or analyzed in this study.

Competing interests

The authors reported no potential competing interest.