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Corporate Governance and Financial Distress: A Comprehensive Analysis of Indonesian Manufacturing Companies

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Authors' contributions

This work was carried out in collaboration among all authors. Author SRA designed the study, performed the statistical analysis, wrote the protocol, and wrote the draft of the manuscript. Authors EH and SH as examiners of this research work. All authors read and approved the final manuscript.

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ABSTRACT

Aims: This study aims to find empirical evidence and analyze the effect of institutional ownership, managerial ownership, independent commissioner, board of directors, audit committe on financial distress**.** In addition, this research can also be used as a reference for further researchers as well as a reference for stakeholders (investors, creditors, and the government) in making relevant and reliable decisions.
Study Design: The method used is quantitative research with secondary data taken from the company's financial statements with data collection techniques using purposive sampling.
Place and Duration of Study: The study was conducted on 19 manufacturing companies listed on the Indonesia Stock Exchange for the period 2010 – 2021.
Methodology: The method used in this research is explanatory with a quantitative approach and the sampling used is purposive sampling. Explanatory analysis is used to explain the relationship between variables Institutional ownership, Managerial Ownership, Independent Commissioners, Board of Directors, Audit Committee.

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Results: The results of this study indicate that: (1) Institutional Ownership have a negative effect on Financial Distress. (2) Managerial Ownership have a negative effect on effect on Financial Distress. (3) Independent Commissioners have a negative effect on effect on Financial Distress. (4) Board of Directors has a negative and significant effect on Financial Distress. (5) Audit Committee have no effect on Financial Distress.

Conclusion: Based on the conclusion of the effect of good corporate governance on financial distress, it can be seen that GCG implementation can improve company performance, especially financial performance and reduce the risk of financial distress and in general GCG implementation can increase investor confidence. Conversely, the implementation of low Corporate Governance will reduce investor confidence and can be a factor that prolongs the economic crisis.

Keywords: Financial distress; institutional ownership; managerial ownership; independent commissioners; board of directors; audit committee.

1. INTRODUCTION

Running business activities does not always meet the expectations of company owners, because companies have a life cycle that at some point will experience financial decline and can lead to bankruptcy. As long as the company experiences financial distress, the company will face various unfortunate changes and will eventually lead to bankruptcy. Financial distress is a stage where financial conditions decline before bankruptcy or liquidation [1]. Bankruptcy indicators as one of the causes of a company being delisted. The development of companies that were delisted or indicated bankruptcy from 2010-2021 continued to fluctuate. Most delisting occurred in 2010 due to the recovery of the United States economy from the crisis which caused the rupiah currency to deteriorate. This condition shows that exports and export commodity prices are decreasing in the world market. Indonesia's unfavorable conditions show that several national companies are experiencing financial distress, including manufacturing companies. Based on data from the Central Statistics Agency (BPS), the performance of the manufacturing industry began to decline significantly in April 2020 due to the spread of the covid 19 virus which was marked by a weakening Manufacturing PMI (Purchasing Managers' Index) figure.

The graph above shows a significant decline in the manufacturing sector from 51.9 to 27.5 in April 2020. The Ministry of Industry stated that some manufacturing sectors experienced a decrease in production capacity of up to 50 percent. By analyzing financial performance, companies can detect financial distress and can anticipate as early as possible in order to overcome or even avoid the risk of bankruptcy that will occur. To determine a financially healthy company, a measurement is needed to predict the financial distress of a company. In this study, we will use the Altman Z-score model to determine the criteria for companies experiencing financial distress.

According to Michalkova et al. [2] the factors that affect financial distress are cash flow difficulties, the amount of debt, losses in company operations, weak management and governance. Weak governance is an issue that causes financial difficulties and is starting to be widely discussed. Based on a survey conducted by Asian CG Watch, Indonesia ranks last among countries Thailand, Japan, Malasyia, China, Philippine in the implementation of good corporate governance, this shows that companies are still lacking in improving governance in the internal company. There are many cases of violations in the management of companies such as corruption, as well as manipulation of financial statements.

This study aims to empirically examine the effect of corporate governance on financial distress on financial distress. The corporate governance mechanism used refers to previous research by Helena and Saifi [3]. One of the factors that companies experience financial distress can be caused by the ownership structure [4]. Large institutional ownership (more than 5%) indicates the ability to monitor the company. Greater institutional ownership indicates that the use of company assets becomes more efficient, thereby minimizing the potential for financial distress. Previous test results show that there is a negative influence between institutional ownership and financial distress [5,6,7]. According to Mariano et al. [8] that the higher the number of shares owned by managers, the better the efficiency. Based on research conducted by Ramachandran et al. [9] states that managerial ownership in the company can save the company from financial distress.

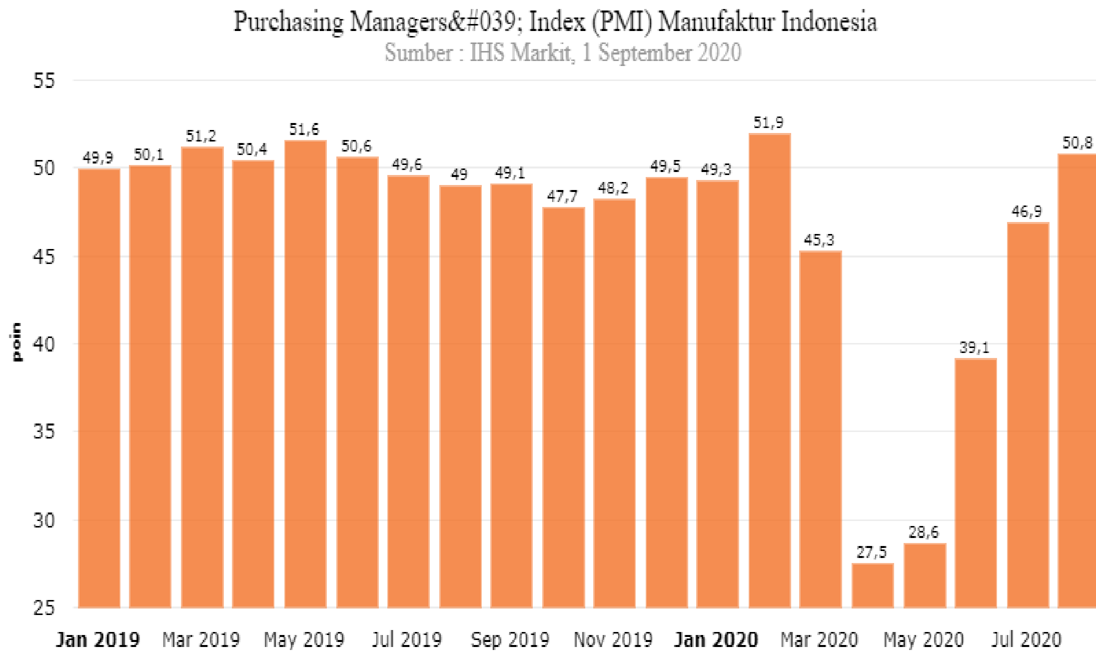

Fig. 1. The performance of the manufacturing industry of Indonesia began to decline significantly in April 2020

Companies in running their business have a board of commissioners whose job is to oversee company management. A larger independent commissioner will minimize the possibility of the company experiencing financial distress and can reduce the cost of capital in a company [10]. The board of directors is one of the most important mechanisms in corporate governance, its existence determines the performance of the company. Based on the resource dependency perspective, a large board of directors means more external connections or contacts, as well as diversification of skills and abilities that can protect the company from financial distress. Based on research conducted by Luqman et al. [7] stated that the Board of Directors has a negative effect on financial distress. The audit committee is included in the corporate governance mechanism that is able to prevent financial distress so that if the audit committee does not run well it will cause financial distress in the company.

The article in predicting bankruptcy only looks at the elements of the financial statements presented by the company, but in this article investors can see the role of the corporate governance function in overseeing company management. The novelty of this research is that in testing bankruptcy predictions, it does not only look at the financial ratio factors inherent in the company's financial statements, but also the supervisory function of corporate governance. In order to explain the phenomenon more optimally and have higher statistical power, this study uses Leverage, Growth, Operating Cash Flow and Firm Size as control variables.

2. LITERATURE

2.1 Good Corporate Governance

Good Corporate Governance or also known as corporate governance theory is a theory used to control a company or organization and ensure that the management process runs well. According to The Indonesian Institute for Corporate governance (IICG) defines Corporate governance as a process and structure applied in running a company, with the main objective of increasing shareholder value in the long term while taking into account the interests of other stakeholders.

According to Sewpersadh [10], the habit of apathetic behavior of the owners causes the company to experience financial distress, resulting in a failure of governance. The role of the board of directors as part of the governance mechanism aims to strengthen internal control and maximize the interests of shareholders [11]. Good governance can help improve company

performance by 30% and also provide security for shareholders. One way to keep governance good and in accordance with company principles is to use the disclosure level of the governance index. The corporate governance mechanism is based on clear rules and procedures in regulating the relationship between the parties involved in a corporation. the internal mechanism of a corporate governance system.

2.2 Institutional Ownership

Institutional ownership, corporate entity, or organization is the number of shares of the company it owns. Institutional ownership is one of the factors that affect the performance of a company. Organizations can be more effective in using assets as corporate capital in their activities thanks to the supervisory role played by institutional owners.

When institutional ownership in the company is large, this situation will encourage more effective supervision, because institutions are professionals who have the ability to evaluate company performance. The greater the ownership by financial institutions, the greater the voting power and encouragement of financial institutions to supervise management and as a result will provide a greater impetus to optimize firm value so that Financial Distress will not occur.

2.3 Managerial Ownership

The percentage of shares owned by management who are actively involved in making company decisions, such as commissioners and directors, is known as managerial ownership [12]. Managerial share ownership can equalize the interests of shareholders and managers, because managers directly benefit from the decisions taken and managers who bear the risk if there are losses incurred as a consequence of making the wrong decisions.

According to Jensen [13], the greater the proportion of management ownership in the company will be able to unite the interests between managers and shareholders. The higher managerial ownership will further increase management's efforts to bring the company to a better direction that is more profitable for the owner and avoid financial distress, where the management is the owner of the company concerned.

2.4 Independent Commissioners

Commissioners are the supervisory board in the company whose job is to oversee management behavior in implementing the company's strategy. The board of commissioners as a company organ is collectively responsible for supervising and advising the board of directors and ensuring that the company implements good corporate governance.

The Indonesian Good Corporate Governance General Guidelines provide rules that the number of independent commissioners must be able to ensure that the supervisory mechanism runs effectively and in accordance with the laws and regulations and one of the independent commissioners must have an accounting or finance background.

2.5 Board of Directors

Directors are individuals who have the power and responsibility for various activities related to the company. responsibility for various activities related to the company. The board of directors of a company is a core element of the corporate governance mechanism. Determining the strategic direction of the company is the responsibility of the board of directors who also oversees the management of the company, the Board of Directors is considered an important variable in determining the long-term performance of the company.

According to the general guidelines for good corporate governance in Indonesia, the number of members of the board of directors must be adjusted to the complexity of the company while taking into account the effectiveness in decision making.

2.6 Audit Committee

The audit committee according to the Indonesian Audit Committee Association is a committee that works professionally and independently formed by the board of commissioners and is tasked with assisting and strengthening the board of commissioners. The board of commissioners forms committees under it in accordance with the needs of the company and applicable laws and regulations to assist the board of commissioners in carrying out its responsibilities and authority effectively.

The task of the audit committee is to assist the board of commissioners to oversee the company's performance with the risks faced. The existence of an audit committee is very important as one of the main tools in implementing good corporate governance. The more the number of audit committees in the company will make the company avoid financial distress [14].

2.7 Hypothesis Development

2.7.1 Effect of institutional ownership in predicting financial distress

Institutional ownership has a relationship with the mechanism of good corporate governance, gcg theory can protect an outside investor against takeovers by management or internal companies. High institutional ownership in the company makes more and more supervision carried out on management which will have an impact on management performance.The results of Joshua & Pamungkas [15,16], show that institutional ownership has a negative effect on financial distress, it is possible that this can happen because the greater the institutional ownership, the greater the monitoring carried out on the company which in turn will encourage the higher quality of the company which is described by its increasing productivity and increasingly avoiding the threat of financial distress.

H1: Institusional ownership has a negative effect on financial distress.

2.7.2 Effect of manajerial ownership in predicting financial distress

Manajerial ownership has a negative effect on financial distress, it is possible that this can happen because the greater Corporate governance theory says that managerial ownership is an important issue, because it can be proven to more often bring together the interests of management and shareholders. Managerial ownership has an impact on monitoring management and company policies and helps reduce financial distress.

Research conducted by Mariano et al. [8] found that managerial ownership has a negative effect on the possibility of Financial Distress, this shows that the higher the managerial share ownership, the more careful managers are in making decisions, because they are also affected by losses when the company experiences financial distress.

2.7.3 Effect of Independent commissioners in predicting financial distress

Independent Commissioners help make more objective decisions and lead the company's performance in a better direction. The higher the percentage of independent commissioners, the better the commissioner's function can be carried out to oversee the company and ensure that the company avoids poor performance and financial distress. The results of this study support [17] which shows that the greater the number of independent commissioners in the company, the more the company avoids the threat of financial distress because the supervision of the implementation of company management is more supervised by independent parties.

H3: Independent Commissioners negatively affects financial distress

2.7.4 Effect of board of Directors in predicting financial distress

The board of commissioners is a good corporate governance mechanism that can minimize financial difficulties. Companies experiencing financial distress will certainly really need consideration from the board of directors, the number of boards of directors can reduce the potential for financial distress in a company due to more supervision within the company. the larger the board, the greater the reduction in opportunistic behavior of leaders observed empirically. Research conducted by Younas et al. [5] shows that the Board of Directors has a negative effect on financial distress.

H4: Board of Directors negatively affects financial distress.

2.7.5 Effect of audit committee in predicting financial distress

The audit committee is a good corporate governance mechanism that can avoid financial problems because the existence of an effective audit committee can change different policies in achieving accounting profits in the next few years. A large audit committee improves the quality of financial reporting, as its effectiveness increases with the presence of experienced and knowledgeable members. The greater the number of audit committees can reduce the possibility of the company experiencing financial distress. he results of research conducted by Khalid et al. [18] stated that the audit committee has a negative effect on financial distress.

H5: Audit Committee negatively affects financial distress.

3. METHODOLOGY

The method used in this research is the explanatory analysis method with a quantitative approach. The explanatory analysis method is to explain the relationship between a variable and another variable or how a variable affects another variable. In this study, the explanatory analysis method with a quantitative approach is used to test whether there is an influence between institutional ownership, managerial ownership, independent commissioners, the board of directors, and the audit committee on financial distess and test the theory by testing the hypothesis whether accepted or rejected.

Testing in this study was carried out from 2010 to 2021 as the most actual condition with the research time. The population used in this study after conducting the initial elimination stage is all manufacturing companies listed on the Indonesia Stock Exchange in the 2010-2021 period. Based on calculations using the purposive sampling method, the number of samples taken was 19 companies per year.

In this study, testing was carried out by multiple linear regression analysis, which is a statistical method commonly used to examine the relationship between a dependent variable and several independent variables.

The regression model used is as follows:

$$FD = a + b1.INST_{OWN} + b2.\mathrm{MAN_{OWN}} + b3.\mathrm{KOM_{IND}} + b4.\mathrm{DIR_{SIZE}} + b5.\mathrm{AUD_{KOM}} + b6.\mathrm{LEV} + b7.\mathrm{GROWTH} + b8.\mathrm{OCF} + b9.\mathrm{SIZE}$$

Description

FD = *Financial Distress*
α = Konstanta
INST_OWN = Institutional Ownership
MAN_OWN = Managerial Ownership
KEP_IND = Komisaris Independen
DIR_SIZE = Board of Directors
AUD_KOM = Committee Audit
LEV = *Leverage*
GRWTH = *Growth*
OCF = *Operating Cash Flow*
SIZE = *Firm Size*
b1–b7=regression coefficient of each independent variable
e = error or other variables that affect

4. RESULTS AND DISCUSSION

In this section, we will present the results of the study, summarize the descriptive statistics, and present the regression model of the study. It also presents a discussion of the summary of the hypothesis test results for each variable.

4.1 Descriptive Statistics

1. Financial distress in this study uses the Altman zscore measuring instrument. Based on Table.1, the minimum Z Score value is -0,88 owned by PT Asia Pacific Fibers Tbk in 2020. The maximum value is 3.62 owned by PT Yanaprima Hastapersada Tbk in 2010. Overall from Table.1 the average (mean) Z score value is -0.88, this shows that the overall average Z score is in the distress category during the observation period, it is proven that the Z score value is 1,35 <1.81. The prediction of financial distress is influenced by the size of the financial ratios. The average (mean) shows that the financial ratios used get a negative value, so it is likely that the company is prone to financial distress. The standard deviation value of Z Score is 3.62.

2. The Institutional Ownership in Table 2 has a minimum value of 0.23 (23%) owned by PT Langgeng Makmur Industri Tbk in 2017 and a maximum value of 0.93 (93%) owned by PT Pelat Timah Nusantara Tbk in 2015. Overall from Table 1 the average value (mean) of institutional ownership is 0.64 (64%), this shows that most manufacturing companies in Indonesia have their shares owned by institutions. A high institutional level will lead to greater supervisory efforts by institutional investors and the greater the impetus from the institution to oversee management performance in order to avoid financial distress. The standard deviation value of institutional ownership is 0.17.

3. The descriptive statistical results of Managerial Ownership based on Table 1 have a minimum value of 0.02 (2%) owned by PT Krakatau Steel (Persero) Tbk and a maximum value of 0.68 (68%) owned by Langgeng Makmur Industri Tbk in 2017. Overall, most of the management in manufacturing companies in Indonesia owns a small number of company shares,

this is indicated by the sample average value of 0.24 (24%) This relatively small value indicates the possibility of company management to make decisions that benefit personal interests even though these decisions have a great risk for the company. The standard deviation obtained is 0.12.

4. The descriptive statistical results of the Independent Commissioner based on Table 1 have a minimum value of 1.00 (1) and a maximum value of 3.00 (3). Overall from Table 4.1 the average value (mean) of the Independent Commissioner is 1.56, this is due to the unbalanced proportion of the board of independent commissioners, which on average only has 1 independent commissioner. The standard deviation obtained is 0.55.

5. The descriptive statistical results of the Board of Directors based on Table 1 have a minimum value of 1.00 (1) and a maximum value of 7.00 (7). Overall from Table 1 the average value (mean) of the Board of Directors is 3,00, this shows that the number of boards of directors of manufacturing companies is 4,00. The standard deviation obtained is 1.17.

6. The descriptive statistical results of the Audit Committee based on Table 1 have a minimum value of 2.00. The maximum value is 4.00, which means that the largest number of audit committees from sample companies is 4 people. The average value (mean) of the Audit Committee is 3,00, this shows that the average sample company has followed the decision letter of the Board of Directors of the Jakarta Stock Exchange Number Kep315 / BEJ/06 / 2000 and the Financial Services Authority Regulation Number: 55 / POJK.04 / 2015 concerning the Establishment and Implementation Guidelines for Committee Work, namely audit committee members consisting of at least 3 (three) members. The standard deviation obtained is 0.29.

7. Based on Table 1, the minimum leverage value is -6.47 owned by PT Multistrada Arah Sarana Tbk in 2021, the maximum value is 5.17 owned by PT Asia Fibers Tbk in 2017. The average value (mean) of Leverage is 0.96, this indicates that the company has a debt of 98% of its total capital, which means that the company has less debt than its current capital. Companies tend to use less debt for funding and avoid the risk of financial distress due to difficulty paying debt. The standard deviation obtained is 1.06.

8. Based on Table 1, the minimum Sales Growth value of -1.00 is owned by PT Alumindo Light Metal Industry Tbk in 2019, the maximum value of 8.37 is owned by PT Eterindo Wahanatama Tbk in 2019. The average value (mean) of Sales Growth is 0.27, this indicates that the company has total sales as a whole of 0.27 if, growth increases, the company is able to run and achieve company targets because the percentage of sales increases from year to year. The standard deviation obtained is 1.12.

9. Based on Table 1 the minimum Operating Cash Flow value of -1.25 is owned by PT Indal Aluminum Industry Tbk in 2014. The maximum value of 1.60 is owned by PT Indal Aluminum Industry Tbk in 2015. The average value (mean) of Operating Cash Flow of 0.06 has a positive value, which means that on average the company experienced an increase in operating cash flow in the 2010-2021 period. The standard deviation obtained is 0.23.

10. Based on Table 1, the minimum Firm Size value of 13.75 (Ln Total Assets) or in currency of Rp. 1,599,714,563,450 is owned by PT SLJ Global Tbk in 2013. The maximum value of 29.01 or in currency of IDR. 3,988,442,112,390 is owned by PT Argo Pantes Tbk in 2021. The average value (mean) of Firm Size is 22.67, this shows that companies with large total assets will increase the firm size so that company management will be better. The standard deviation obtained is 48.71.

4.2 Regression Model

The results of multiple regression processing on Eviews 12 software are presented in the table below:

Based on the research results above, the form of multiple linear regression equations is obtained as follows:

$$Y = -3{,}78 + 2.027INSTOWN - 1.17MANOWN - 0{,}51KOMIND - 0{,}37DIRSIZE - 0{,}011KOMAU - 1{,}75LEV + 0.0091\, GROWTH + 0{,}29\, OCF + 0{,}0024\, SIZE$$

Based on the above equation, it can be interpreted as follows:

The constant a of -3.78 states that if the variables of Ownership Institutional Ownership, Managerial Ownership, Independent Commissioner, Board of Directors, Audit Committee, Leverage, Sales Growth, Operating Cash Flow, Firm Size is constant, then the Financial Distress variable is -3.78.

The coefficient of Institutional Ownership regression of -2.027 means that every change in 1 Institutional Ownership value, the Financial Distress will decrease by -2.027 units. In this case other factors are considered constant.

The Managerial Ownership regression coefficient of -1.17 means that every change in 1 value of Managerial Ownership, Financial Distress will decrease by -1.17 units. decrease by -1.17 units. In this case other factors are considered constant.

The regression coefficient of the Independent Commissioner is -0.51, meaning that every change in 1 Independent Commissioner value, Financial Distress will decrease by -0.51 units. In this case other factors are considered constant.

The Board of Directors regression coefficient of -0.37 means that every change in 1 value of the Board of Directors, Financial Distress will decrease by -0.37 units. In this case other factors are considered constant.

The Audit Committee regression coefficient of -0.011 means that every change in 1 Audit Committee value, Financial Distress will decrease by -0.011 units. In this case other factors are considered constant.

Table 1. Descriptive statistics

Variable	n	Min	Max	Mean	Std. Deviation
Financial Distress	19	-0,88	2,55	1,35	3,62
Institutional Ownership	19	0,23	0,93	0,64	0,17
Managerial Ownership	19	0,02	0,68	0,24	0,21
Independent Commissioner	19	1,00	3,00	1,5	0,55
Board of Directors	19	2	7	3	1,17
Audit Committee	19	2	4	3	0,29
leverage	19	-6,65	5,17	0,98	1,06
Sales Growth	19	-1	8,37	0,27	1,12
Operating Cash Flow	19	-1,25	1,6	0,06	0,23
Firm Size	19	13,75	29,01	22,67	48,71

Table 2. Regression model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.784872	1.872656	-2.021126	0.0446
INST_OWN	-2.027762	1.062862	-1.907832	0.0378
MAN_OWN	-1.179211	1.018404	-1.157901	0.0248
KOM_IND	-0.514549	0.232987	-2.208487	0.0283
DIR_SIZE	-0.371902	0.128520	-2.893737	0.0042
AUD_KOM	-0.011672	0.200413	-0.058243	0.0001
LEV	-1.754701	0.154505	-11.35694	0.0000
GRWTH	0.009130	0.007788	1.172356	0.2424
OCF	0.299599	0.414352	0.723055	0.4705
SIZE	0.002495	0.000573	4.354577	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.886889	Mean dependent var		-0.305307
Adjusted R-squared	0.871619	S.D. dependent var		3.628502
S.E. of regression	1.300103	Akaike info criterion		3.477349
Sum squared resid	338.0535	Schwarz criterion		3.898497
Log likelihood	-368.4178	Hannan-Quinn criter.		3.647270
F-statistic	58.08056	Durbin-Watson		1.982048
Prob(F-statistic)	0.000000			

The Leverage regression coefficient of -1.75 means that every change in 1 Leverage value, Financial Distress will decrease by -1.75 units. In this case other factors are considered constant.

The Sales Growth regression coefficient of 0.0091 means that every 1 change in Sales Growth value, Financial Distress will increase by 0.0091 units. In this case other factors are considered constant.

Operating Cash Flow regression coefficient of 0.29 means that every change in 1 Operating Cash Flow value, Financial Distress will increase by 0.29 units. In this case other factors are considered constant.

Firm Size regression coefficient of 0.0024 means that every change in 1 Firm Size value, Financial Distress will increase by 0.0024 units. In this case other factors are considered constant.

4.2.1 Effect of institutional ownership to financial distress

The regression result for institutional ownership variable shows a negative influence between institutional ownership toward financial distress. The higher the institutional ownership, the tighter the monitoring that is carried out so that it can minimize a company, the possibility of experiencing unwanted circumstances such as financial distress. In accordance with the basic principles of GCG, institutional ownership encourages the implementation of accountability and fairness. The fulfillment of the principle of accountability is due to the demands of institutional investors to oversee management in the utilization of company assets so that there is no waste by management. In the principle of fairness due to the demands of institutional investors on managers to carry out healthy corporate practices so that the protection of stakeholder rights is fulfilled. The existence of accountability and fairness provides a positive company image in the eyes of investors so that it will increase demand for company shares and avoid financial distress.

The results of this study are in accordance with the research of Helena and Saifi [3,16,17] which state that institutional ownership has a negative effect on financial distress.

4.2.2 Effect of managerial ownership to financial distress

The regression result for Managerial variable shows a negative influence between institutional ownership toward financial distress. Based on GCG principles, the existence of managerial ownership encourages the implementation of responsibility where the management as well as the company's shareholders will carry out their duties properly and responsibly because it involves their welfare as shareholders of the company. Therefore, with managerial ownership, it can improve company performance so as to avoid financial difficulties.

Managerial ownership has an impact on monitoring management and company policies and helps reduce financial distress. With the implementation of good corporate governance, company managers will always take appropriate and selfless actions, and can protect company stakeholders. The higher the proportion of managerial ownership in a company helps align other interests and managers in reducing financial distress conditions. The results of this study are in accordance with the research of Mariano et al. [8,15,6].

4.2.3 Effect of independent commissioner to financial distress

The regression result for Independent Commissioner variable shows a negative influence between institutional ownership toward financial distress. Independent commissioners are tasked with creating effective company management that can reduce financial reporting fraud. In the principle of accountability, independent commissioners are held accountable through empowering the functions of the board of commissioners so that they can supervise and advise the board of directors effectively so that GCG in the company is achieved. In the principle of independence, independent commissioners are required to carry out their duties without influence or pressure from certain parties that can interfere with the decision-making process.

The higher the percentage of independent commissioners, the better the commissioner's function can be carried out to oversee the company and ensure that the company avoids poor performance and financial distress. The results of this study are in accordance with the research of Jodjana et al. [16,19].

4.2.4 Effect of board of directors to financial distress

The regression result for Board of Directors variable shows a negative influence between

institutional ownership toward financial distress. The board of directors is a good corporate governance mechanism that can minimize financial distress. institutional ownership encourages the implementation of GCG principles, namely accountability relating to the responsibility of the Board of Directors for decisions and results achieved in accordance with the authority delegated in carrying out the responsibility for managing the company, based on GCG principles the Board of Directors acts as part of the company's internal governance system. The size of the board of directors contained in a company can minimize the possibility of financial distress, and with the expertise and abilities of each board of directors can complement each other's information and knowledge needs in the company, so that decision making is more effective.

Thus, the larger the board, the greater the reduction in leader opportunistic behavior observed empirically. The results of this study are consistent with the research of Younas et al. [5,7,19].

4.2.5 Effect of audit committee to financial distress

The regression result for Audit Committee variable shows no influence on financial distress. The audit committee has no effect on making a decision that occurs in companies that experience or do not experience financial distress because the function of the audit committee is only to assist the board of commissioners in controlling and supervising the process of submitting financial reports. financial report submission process.

The audit committee is unable to avoid the possibility of financial distress in a company [3]. This can happen because some companies still have a number of audit committees that are less or more than three people companies still have less or more than three audit committees that are not in accordance with the established regulations of the Financial Services Authority No.55 / POJK.04 / 2015.

5. CONCLUSION

Based on the conclusion of the effect of good corporate governance on financial distress, it can be seen that the four variables used in this study have a negative effect and one variable has no effect, on manufacturing companies listed on the Indonesia Stock Exchange in 2010-2021. he purpose of implementing Good corporate governance is to create added value for all interested parties. These parties are internal parties of the company such as the board of directors, board of commissioners, employees, and external parties of the company which include investors creditors, government, society, and other interested parties (stakeholders). GCG implementation can improve company performance, especially financial performance and reduce the risk of financial difficulties and in general GCG implementation can increase investor confidence. Conversely, the implementation of low Corporate Governance will reduce investor confidence and can be a factor that prolongs the economic crisis.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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