Jurnal Akademi Akuntansi, Vol. 7 No. 4, p. 553-568

Website:
ejournal.umm.ac.id/index.php/jaa

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DOI: 10.22219/jaa.v7i4.36049

Citation:
Fachrunnisa, Z, H., Azizah, I, N. (2024). Does good corporate governance predict financial distress?. Jurnal Akademi Akuntansi, 7(4), 553-568.

Article Process
Submitted:
August 29, 2024

Reviewed:
October 14, 2024

Revised:
November 5, 2024

Accepted:
November 28, 2024

Published:
November 30, 2024

Office Address:
Accounting Department
University of Muhammadiyah Malang
Joint Lecture Building 3rd Floor. Tlogomas Street 246, Malang, East Java, Indonesia

P-ISSN: 2715-1964
E-ISSN: 2654-8321

Article Type: Research Paper

Does good corporate governance predict financial distress?

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ABSTRACT

Purpose: The primary materials sector is critical as the main foundation for most industries; this sector provides raw materials and basic materials essential for producing various products. This study aims to determine non-financial factors, especially corporate governance factors, that can influence the occurrence of financial Distress in Raw Materials sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021.

Methodology/approach: This research uses secondary data, with 90 samples from 30 companies. The sampling technique applied was purposive sampling, and data analysis was carried out through logistic regression using SPSS version 26.

Findings: The study's results showed that good corporate governance (GCG) and corporate social responsibility (CSR) disclosure did not affect financial distress. At the same time, institutional ownership has a positive effect on it.

Practical and Theoretical contribution/Originality: The novelty of this study is to examine financial distress in the basic materials sector by analyzing the combined impact of good corporate governance (GCG), corporate social responsibility (CSR) disclosure, and institutional ownership.

Research Limitation: Data collection techniques for this research variables, such as good corporate governance and CSR disclosure, are based on the researcher's subjectivity in index assessment. The next suggestion from researchers is that there needs to be a reviewer to reduce subjective assessments.

Keywords: Corporate Social Responsibility Disclosure,; Financial Distress; Good Corporate Governance; Institutional Ownership.

INTRODUCTION

The financial stability of a company is a primary concern for various parties, considering that the sustainability of a company's operations is very dependent on its financial condition. If there is instability in the company's financial condition could lead to bankruptcy (Radinda et al., 2023). Companies also experience ups and downs in financial conditions due to increasingly tight competition, so companies must be better at creating or implementing new strategies to maintain and achieve greater profits (Amanda et al., 2019). A company's low ability to face competition can result in continuous losses so that the company may experience financial difficulties. Maintaining the sustainability and financial health of the company is very important and requires serious attention. Financial distress is the decrease in a company's financial position experienced before the company goes bankrupt or undergoes liquidation (Widhiari & Merkusiwati, 2015). Financial distress is when a company does not have enough cash flow to cover its obligations and tries to avoid bankruptcy by restructuring assets and liabilities (Cardoso et al., 2019). Companies need to anticipate early if financial difficulties occur by taking any action that can anticipate losses and bankruptcy (Muslimin & Bahri, 2022). A company management that cannot manage finances well can hurt its financial condition if it is not addressed immediately. Companies also have demands for competitive advantages that are not only based on the quantity and quality of the company but also include a variety of sound financial management.

Financial distress can occur due to poor or weak corporate governance (Cinantya, 2021). The risk of failure can be triggered internally and by supervisors in the organizational structure (Cardoso et al., 2019). External factors such as fluctuations in commodity prices and the global economic situation can be the primary triggers that influence the possibility of financial distress in the basic materials industry sector and the financial performance of the companies in it. The Covid-19 pandemic caused market instability, which can be seen from the IHSG during the pandemic. On 26 March 2020, the IHSG was corrected due to the Covid-19 pandemic by 10.19%. Then, the IHSG fluctuated from the end of March to the end of September, ranging from -5.01% to 4.76% (Fatmasita, 2021). Market instability can cause financial instability for companies, including the primary materials sector. The existence of unexpected shadows in the IHSG value illustrates instability and potential economic pressure that can affect the company's financial health, giving rise to the risk of financial distress. The basic materials sector is crucial in maintaining financial stability and continuity in an economy. As the primary foundation for most industries, this sector provides raw and essential materials for producing various products and building infrastructure that supports daily life (Sudirman, 2023). Every company does not experience bankruptcy; the company needs to establish good corporate governance, including good corporate governance (GCG), disclosure of corporate social responsibility (CSR), and institutional ownership.

With maximum implementation, good corporate governance (GCG) can improve financial performance and minimize financial difficulties. Companies that are weak in governance can experience more significant financial difficulties; on the contrary, companies that have good governance will avoid financial difficulties (Muslimin & Bahri, 2022). GCG is determined by an entity so that the entity can become a strong foundation for competition and play an important role in economic development (Fathya & Kristanti, 2023). Systems, governance structures, and company mechanisms can be used to identify financial difficulties early so that companies can avoid financial distress earlier. Governance, such as the composition of the board of directors, influences financial distress, and the decline in top management performance is a determining element of company failure (Cardoso et al., 2019).

CSR positively impacts internal factors such as employee commitment to the organization and external factors such as brand building, company reputation, consumer purchasing intensity, company value, and competitive advantage (Balon et al., 2022). Corporate Social Responsibility (CSR) is an obligation to account for the consequences of the company's operational activities to benefit the environment around the company and society. Companies that carry out social responsibility will generally disclose their social responsibility activities. This disclosure is carried out through annual reports and sustainability reporting (Nugrahanti, 2021). Transparent and consistent CSR disclosure can influence a company's level of financial distress. When a company clearly and consistently discloses its responsible business practices and social responsibilities to stakeholders, its reputation can be strengthened (Purwaningsih & Aziza, 2019). Corporate Social Responsibility (CSR) influences financial distress, where minimal CSR disclosure reflects the company's lack of commitment to social and environmental responsibility, which can cause distrust from customers, investors and other stakeholders, which in turn can damage the company's reputation (Heryanto & Juliarto (2017). Distrust and a bad reputation can lead to reduced revenues, decreased investor interest, and increased risk of termination of business relationships.

Institutional ownership is the total number of shares owned by institutions or institutions in the total number of shares outstanding. Institutional ownership is important in monitoring company performance and encouraging transparency in financial management. However, when their focus is limited to the financial aspects of the company alone, without paying attention to broader management, this can lead to a situation where company management may make high-risk or less operationally sustainable decisions. Institutional ownership that is not involved in management supervision can lead to a lack of control over strategic decisions, which could impact financial distress in the future (Utami & Taqwa, 2023). Institutional shareholders sometimes only care about their profits without considering the long-term sustainability of the company, their actions such as forcing high dividends, forcing disproportionate savings, and increasing excessive risk to gain quick profits, which can be detrimental to the company's long-term financial stability if these policies are not In line with the sustainability of the company's business, the risk of financial distress will arise (Nur & Yuyetta, 2019). Institutional ownership positively affects financial distress, as institutional ownership is only self-interested (Irving et al., 2018). Institutional ownership in companies tends to only monitor funding and investment issues, and they do not have sufficient ability to control management; the potential for management to make decisions that can cause financial distress to the company increases (Feanie S, 2021). Management cannot influence managerial decision-making when ownership concentration is high (Cardoso et al., 2019).

Previous research has not thoroughly examined financial distress through the lens of governance in various aspects. While financial distress has been widely studied in prior works, several studies have explored this topic, such as those by Purwaningsih & Aziza (2019), Cinantya (2021), Muslimin & Bahri (2022), and Utami & Taqwa (2023). These investigations have provided valuable insights into financial distress but have not delved deeply into the particularities of the basic materials sector.

The novelty of this study lies in its comprehensive approach to examining financial distress in the raw materials sector. Unlike many previous studies, this study investigates multiple governance dimensions to provide a holistic understanding of the factors influencing financial stability. Specifically, this study investigates the interplay between good corporate governance (GCG), corporate social responsibility (CSR), and institutional ownership, offering a nuanced analysis of how these governance aspects collectively influence Financial Distress.

Based on the description that has been explained, this research aims to contribute to the field of financial distress, especially in terms of corporate governance. In this case, the research will analyze the influence of Good Corporate Governance (GCG), Corporate Social Responsibility (CSR) Disclosure, and institutional ownership on financial distress conditions in basic materials sector companies listed on the Indonesia Stock Exchange (BEI) in the 2019-2021 period. This research was also carried out considering that financial distress is a crucial thing to research in basic materials sector companies because the basic materials sector is a company that sells products and services that are used by other industries as raw materials for producing final goods.

Agency theory explains the relationship between the agent (the party managing the company) and the principal (the owner), bound by a contract. In this case, the principal is responsible for evaluating information, while the agent is responsible for carrying out management activities and making decisions (Jensen & Meckling, 1976). Agency theory assumes that there is a conflict of interest between the principal and the agent, where the agent tends to act to maximize his interests, not the interests of the principal, so it is not uncommon for managers to show egoism in that managers tend to focus more on achieving company profits than on the welfare of shareholders. In contrast, the principal wants responsible management and good performance. Agency theory is used to explain the causes of financial distress experienced by the company.

In protecting investors' rights and increasing information transparency, securities market regulatory authorities and information intermediaries have made great efforts to promote corporate governance, thereby reducing adverse selection and agency problems resulting from information asymmetry. Corporate governance has been studied as a mechanism that influences corporate disclosure. Transparency, openness, and trust, which are integral to corporate governance, can provide pressure to improve financial performance (Alhazaimeh et al., 2014). Based on agency theory, as a step to reduce conflict between agents and principals, management as agents implements Good Corporate Governance (GCG), which includes the principles of transparency, accountability, and responsibility. Good GCG implementation can help minimize the risk of financial distress with increased trust from the principal. Good governance practices are a form of control that strengthens corporate control, leading to improved operations that produce higher profits for investors (Cardoso et al., 2019). The more effective the implementation of GCG in a company, the lower the probability of financial distress. Implementing GCG with the principles of transparency, accountability, credibility, independence, and fairness helps manage risk more effectively, increases stakeholder trust, and reduces the risk of financial Distress (Alexandra et al., 2022). Research conducted by (Alexandra et al., 2022); (Nugrahanti, 2021); (Muslimin & Bahri, 2022); (Fathya & Kristanti, 2023) shows that GCG has a positive effect on financial distress. Based on the results of several studies, the following hypotheses can be drawn:

H_1: Good Corporate Governance harms financial distress

Corporate Social Responsibility (CSR) is generally considered as the actions and strategies of a company to consider stakeholder expectations and maintain the triple bottom line, namely economic, social and environmental benefits under certain circumstances (Lei et al., 2022). The mandatory social investment agenda contributes to social progress in the community, improves social governance relations with the government, and adds company-specific benefits for the CSR-focused company, such as brand reputation and network strength. Since social policy considers company expenditures, the company's specific profits impact financial performance and competitive advantage (Balon et al., 2022). Accounting disclosures are very important for all stakeholders; they give them the information they need to reduce uncertainty and help them make appropriate economic and financial decisions (Alhazaimeh et al., 2014). Disclosure is an indicator of disclosure transparency and informativeness, and it was further found that long disclosure was associated with better economic results (Nazari et al., 2017). CSR (Corporate Social Responsibility) disclosure is a company's obligation to take responsibility for the consequences of company operations so that they benefit the environment around the company (Purwaningsih & Aziza, 2019). Companies that are transparent by publishing CSR reports try to meet agent expectations by communicating their social responsibilities. This can minimize agency costs and agency conflicts. Thus, companies that disclose CSR will avoid financial distress. Good CSR disclosure can include sustainability reports, communication with stakeholders, and transparency about the company's impact on society and the environment.

Strong CSR disclosure can provide long-term benefits for companies by reducing the risk of financial distress. Good CSR disclosure can build a positive company reputation, improve the company's image in the eyes of stakeholders, and strengthen relationships with shareholders, creditors, and consumers (Susilowati & Harsono, 2020). Companies have a higher opportunity to obtain additional funding from financial institutions, such as banks, to overcome potential financial difficulties that may arise. In addition, CSR disclosure positively impacts corporate resilience in both the first and second waves of COVID-19 (Bahari, 2023). Research conducted by (Purwaningsih & Aziza, 2019) (Nugrahanti, 2021) shows that CSR disclosure hurts financial distress. The more CSR disclosures made, the lower the company's level of financial distress. Based on the results of several studies, the following hypothesis can be drawn:

H_2: Corporate Social Responsibility Disclosure harms financial distress

High levels of intervention by institutional investors reduce management incentives and integrity. Low management integrity can influence poor acceptance of productivity and low company value (Buchanan et al., 2018). Based on agency theory, high institutional ownership will cause conflict between principals and agents, and the influence of institutional investors can reduce the value of the company if they impose private profits, and profits are not distributed to minority investors. The higher the institutional ownership, the potential risk of financial difficulties will arise because institutional shareholders have considerable power in influencing company policies and strategies (Hariyani & Kartika, 2021). Decisions or demands from institutional parties not aligned with the company's long-term interests can create financial instability, increase the risk of withdrawal of financial support, and, ultimately, increase the likelihood of financial difficulties (Utami & Taqwa, 2023). Although institutional shareholders' primary goal is to optimize their investment returns, they may pursue strategies or policy changes that could negatively impact the company's long-term financial stability. Strategic changes, restructuring, or financial policies demanded by institutional shareholders could trigger significant changes in a company's business direction, potentially negatively impacting its financial health (Nitami, 2020). High institutional ownership can also give rise to liquidity risks; if dominant institutional shareholders decide to withdraw their investments on a large scale, the company can experience serious financial pressure. Selling large shares can reduce share prices and create market uncertainty, which can trigger financial difficulties (Fathya & Kristanti, 2023). Research conducted by (Radinda, A., 2023) (Utami & Taqwa, 2023) shows that CSR disclosure has a negative effect on financial distress. Based on the results of several studies, the following hypothesis can be drawn:

H3: Institutional ownership has a positive effect on financial distress

The following is the conceptual framework in this study:

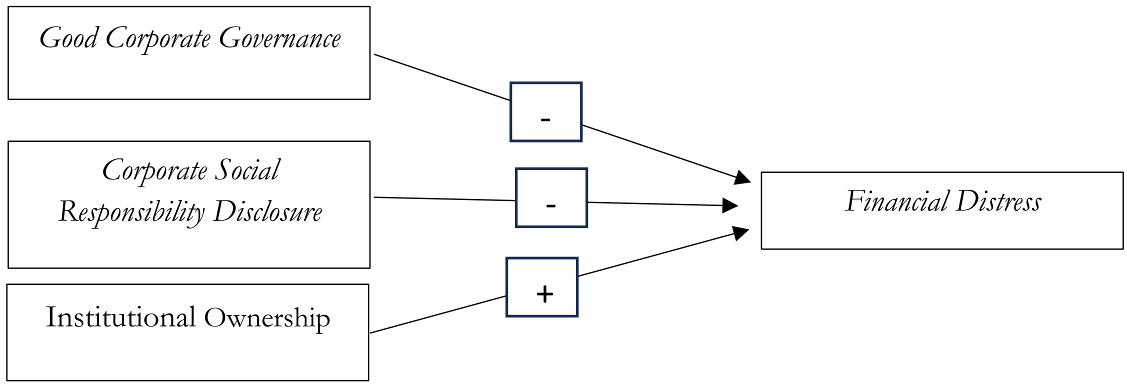

Figure 1. Conceptual Framework

Source: data proceed, 2023

Figure 1 above shows that Good Corporate Governance The more effective the implementation of GCG in a company, the lower the probability of financial distress. Implementing GCG with the principles of transparency, accountability, credibility, independence, and fairness helps manage risk more effectively, increases stakeholder trust, and reduces the risk of financial Distress (Alexandra et al., 2022). Corporate social responsibility disclosure can minimize conflicts of interest and strengthen relationships with shareholders and other stakeholders, thus avoiding the risk of financial difficulties (Nugrahanti, 2021). High institutional ownership can also give rise to liquidity risks; if dominant institutional shareholders decide to withdraw their investments on a large scale, the company can experience serious financial pressure. Selling large shares can reduce share prices and create market uncertainty, which can trigger financial difficulties (Fathya & Kristanti, 2023).

METHOD

The population in this research is companies in the basic materials subsector listed on the Indonesia Stock Exchange (BEI) in 2019-2021, a total of 103 companies. In this research, a sampling technique was used, namely purposive sampling, with criteria namely, a) Manufacturing companies in the Basic Materials subsector that consistently publish audited annual reports during the 2019 – 2021 research period, b) Present financial reports with losses for at least 1 year, c) Publish CSR disclosures, d) Present financial reports in a rupiah. The number of samples used in this research was 30 companies, with 90 sample data that met the specified criteria. Sample selection, as determined by the criteria, is shown in table 1:

Table 1. Sample Selection

Criteria	Amount
Criterion 1: Basic Materials subsector manufacturing companies that are consistently listed on the IDX during the 2019 - 2021 research period	309
Criterion 2: Manufacturing companies in the Basic Materials subsector that do not consistently publish audited annual reports during the 2019 - 2021 research period	(15)
Criterion 3: Present financial reports that have no losses for at least 1 year	(128)
Criterion 4: Companies that do not publish CSR disclosures	(24)
Criterion 5: Present financial reports not in rupiah currency	(52)
Total data sample	90

Source: Data Proceed (2023)

Avianty et al. (2020) stated that financial distress is when an entity faces financial challenges characterized by difficulty in managing cash flow to pay short- and long-term obligations. Financial Distress measurement with Z Score's Altman Model, the following is the formula:

$$\text{Z-score} = 1{,}2\ X1 + 1{,}4\ X2 + 3{,}3\ X3 + 0{,}6\ X4 + 1{,}0\ X5$$

Which,

X1 = Working capital: Total assets

X2 = Retained earnings balance: Total assets

X3 = Interest profit before tax: Total assets

X4 = Equity: Liabilities

X5 = Sales: Total assets

The Z value is the overall index of the multiple discriminant analysis function. According to Altman, there are cut-off numbers for the Z value that can explain whether a company will experience financial distress or not in the future, namely:

a. If the Z value <1.81, it is an unhealthy company with the potential to experience financial distress.
b. If the value is $1.81 \leq Z \leq 2.99$, it is in the grey area (it cannot be determined whether the company is healthy or experiencing financial distress).
c. If the Z value is > 2.99, it is a healthy company and has no potential for experiencing financial distress.

Thus, in this measurement, the number 1 to companies that meet score conditions and the number 0 to companies that meet score b or c conditions, according to the Z-Score value resulting from the Altman formula calculation (Dina et al., 2020).

GCG is usually used as a reference to improve a company's performance. Good Corporate Governance is measured using the Corporate Governance Perception Index (CGPI). In this research, Good Corporate Governance disclosure items are based on the decision of the chairman of BAPEPAM and Financial Institutions in the regulation board of commissioners, audit committee, and internal audit.

The CGI calculation is carried out by scoring one if an item is disclosed and 0 if it is not. After giving scores to all items, the scores are added to obtain an overall score for each company (Astuti, 2016).

CSR disclosure is guided by the fourth-generation Global Reporting Initiative (GRI) called G4. This research uses environmental and socioeconomic aspects. Corporate Social Responsibility Disclosure is calculated using a dichotomy approach; that is, each CSR disclosure item in the research is given a value of 1 if it is disclosed and a value of 0 if it is not disclosed (Karina D, 2020). Institutional ownership is share ownership owned by investors in a company, including investment companies, banks, insurance companies, and pension funds, which can maximize the monitoring of company performance (Irving et al., 2018). Institutional ownership is calculated by calculating the percentage of shares the institution owns.

This research is secondary research with secondary data obtained from annual reports published by the BEI in 2019-2021. Testing the data in this study used SPSS software version 26. This research used a logistic regression test with a dummy variable as the dependent variable. Ghozali (2018) explains that logistic regression analysis (logistic regression) is a regression approach that aims to test whether there is a probability of the occurrence of a dependent variable that can be predicted by the independent variable. The logistic regression model is presented in the following equation:

$$FDS = \beta_0 + \beta_1 GCG + \beta_2 CSR + \beta_3 INS + \varepsilon$$

Which,

FDS = Financial Distress

β_0 = Constant

β_1GCG = Good Corporate Governance coefficient

β_2CSR = Corporate Social Responsibility Disclosure Coefficient

β_3INS = Institutional Ownership Coefficient

ε = Error

RESULTS AND DISCUSSION

Descriptive statistics in this research are used to provide information regarding the characteristics of the research variables. The information provided can be seen in table 2, namely, the amount of research data, minimum value, maximum value, average value, and standard deviation with a total of 90 data.

Based on the results of the descriptive test above, it is stated that Good Corporate Governance (GCG) shows a minimum value of 0.74, which is from the company Satyamitra Kemas Lestari Tbk in 2019. The maximum value of 1 shown is the company Asiaplast Industries Tbk in 2020-2021, Berlina Tbk and Indo Komoditi Korpora Tbk in 2021, Fajar Surya Wisesa Tbk, Inter Delta Tbk, Central Omega Resources Tbk, Tirta Mahakan Resource Tbk, Waskita Beton Precast Tbk, Cemindo Gemilang Tbk and Timah Tbk in 2019-2021, with average values – mean 0.929, and standard deviation 0.065. This shows a difference in the value of good corporate governance (GCG), with an average value of 0.065. Corporate Social Responsibility (CSR) Disclosure shows a minimum value of 0.47 for Indo Komoditi Korpora Tbk in 2020. The maximum value of 1 is shown for the companies Asiaplast Industries Tbk, Saranacentral Bajatama Tbk, Yanaprima Hastapersada Tbk, Champion Pacific Indonesia Tbk, Optima Prima Metal Sinergi Tbk in 2021, Cemindo Gemilang Tbk in 2019-2021, Timah Tbk in 2021, with an average value of 0.798, and a standard deviation of 0.136. This shows a difference in the value of Corporate Social Responsibility (CSR) disclosure, with an average value of 0.136. Institutional ownership shows a minimum value of 0.02, which is from the Gunawan Dianjaya Steel Tbk company in 2019-2020, a maximum value of 1 is shown in the PAM Mineral Tbk company in 2019-2021 with an average value of 0.6740, and a standard deviation of 0.2540. This shows a difference in institutional ownership's value, with an average value of 0.2540.

	N	Minimum	Maximum	Mean	Std. Dev
GCG	90	0,74	1,00	0,929	0,065
CSRD	90	0,47	1,00	0,798	0,136
INS	90	0,02	1,00	0,6740	0,2540

Source: data proceed (2023)

Table 2. Descriptive Statistic

The frequency distribution in this research is used to facilitate and simplify the presentation of data so that it is easy to read and understand. The compilation starts from the smallest data to the largest and divides it based on certain groups or categories.

The frequency distribution representing Financial Distress can be seen in table 3 where there are two categories, namely 0 and 1. Category 0 has a frequency of 59 data, representing 65.6% of the total data, and 65.6% of the valid data. Category 1 has a frequency of 31 data, covers 34.4% of the total data, and 34.4% of the valid data.

The goal of using overall model fit is to determine whether all independent variables impact the dependent variable. In more detail, the statistics used are based on the Likelihood function. Probability (L) shows the possibility that the proposed model will fit the input data. Likelihood (L) values were converted to -2 log-likelihood to test the null and alternative hypotheses. The -2LL value in block number = 0 outperforms the -2LL value in block number = 1, so a decrease in value (- 2LogL) indicates an improvement in the regression model (Ghozali, 2018).

	Frequency	Per cent	Valid Percent	Cumulative Percent
Valid 1	59	65,6	65,6	65,6
0	31	34,4	34,4	100,0
Total	90	100,0	100,0	

Source: data proceed (2023)

Table 3. Frequency Distribution

Iteration		-2 Log likelihood
Step 0	1	115,918
	2	115,909
	3	115,909

Source: data proceed (2023)

Table 4. Blok 0

Table 5.
Blok 1

Iteration		-2 Log likelihood
Step 1	1	107,783
	2	107,275
	3	107,270
	4	107,270
	5	107,270

Source: data proceed (2023)

The results of the model feasibility test or Overall Model Fit can be seen in table 4, block 0, where the initial value is 115,918, while in table 5, block 1, the initial value is 107,783, so it shows that the comparison of the -2LL value in block 0 outperforms the comparison of the -2LL value in block 1, hence the decreased value (-2LogL) indicates that the regression model has improved. Thus, the overall model is fit.

The Hosmer and Lemeshow method was used to test the feasibility of the regression model; chi-square values were calculated to assess the null hypothesis, which evaluates the agreement between the data. Empirical with the model, or whether a large enough difference between the data and the model is acceptable (Ghozali, 2018). The established significance level is if the probability value (P-value) exceeds 0.05. This shows that the model agrees with the existing observation values. As a result, the Goodness of Fit test can effectively predict observed values.

In this study, the feasibility test of the regression model was evaluated using Hosmer and Lemeshow's method, which was assessed by calculating the chi square value. Table 6 shows the probability value 0.075 ≥ 0.05 (the specified significance level). This implies that the model is based on existing observation values. Thus, the Goodness of Fit test can predict observation values effectively.

The classification matrix has an important role in describing the ability of the regression model to predict potential financial difficulties in a company. There are accurate (correct) and inaccurate (incorrect) estimated values. From the classification table, we can evaluate the overall level of accuracy of the model that has been produced (Ghozali, 2018).

Table 6.
Feasibility of Regression Models

Step	Chi-square	df	Sig.
1	14,266	8	0.075

Source: data proceed (2023)

Table 7.
Classification Matrix

		Predicted		
		Financial Distress		Percentage Correct
Observed		0	1	
Step 1	Financial Distress 0	51	8	86,4
	1	21	10	32,3
	Overall Percentage			67,8

Source: data proceed (2023)

Based on the prediction in table 7, which shows that category 0 (healthy companies) consists of 59 companies, the observation results are only 51 companies, thus showing a classification accuracy of 86.4%. Category 1 (unhealthy companies) is 31 companies, while the observation results are only 10, showing an accuracy of 32.3%. Thus, the overall accuracy rate is 67.8%.

Logistic regression analysis is used to test whether there is a probability of occurrence of the dependent variable that can be predicted by the independent variable. The dependent variable in this research is financial distress, and the independent variables are Good Corporate Governance (GCG), Corporate Social Responsibility (CSR) disclosure, and institutional ownership. The results of the logistic regression analysis are shown in table 8 below:

The Wald test (t) aims to show the extent of the partial impact of the independent variable on the dependent variable. The test results can be seen in table 8, which shows that the Good Corporate Governance (GCG) results have a value of 0.106 > 0.05 and a beta coefficient value of 7.347, so the hypothesis is rejected. Thus, GCG does not have a significant impact on Financial Distress. Corporate Social Responsibility (CSR) Disclosure shows a value of 0.512 > 0.05 and a beta coefficient of -1.337, so the hypothesis was rejected. Thus, CSR does not have a significant impact on Financial Distress. Institutional ownership has a value of 0.030<0.05 and a beta coefficient value of 0.024, so the hypothesis is accepted. Thus, institutional ownership has a significant impact on Financial Distress. The coefficient of determination results is shown in the table above, where the Nagelkerke R Square figure is 0.126. The test result is 0.126, which means that the variability of the dependent variable can be explained by the variability of the independent variable of 12.6%.

Table 8. Partial T Test

	B	S.E.	Wald	Df	Sig.	Exp(B)
GCG	7,347	4,545	2,613	1	0,106	1551,81
CSRD	-1,337	2,040	0,429	1	0,512	0,263
INS	0,024	0,011	4,702	1	0,030	1,024
Constant	-8,089	3,735	4,690	1	0,030	0,000
Nagelker R Square	**0,126**					

Source: data proceed (2023)

The result of this research was corporate governance/GCG is usually static and cannot make many changes. Therefore, they cannot directly influence financial performance and position or reduce the company's risk of financial distress. The graph in figure 2 shows the growth of Good Corporate Governance in basic material sectors:

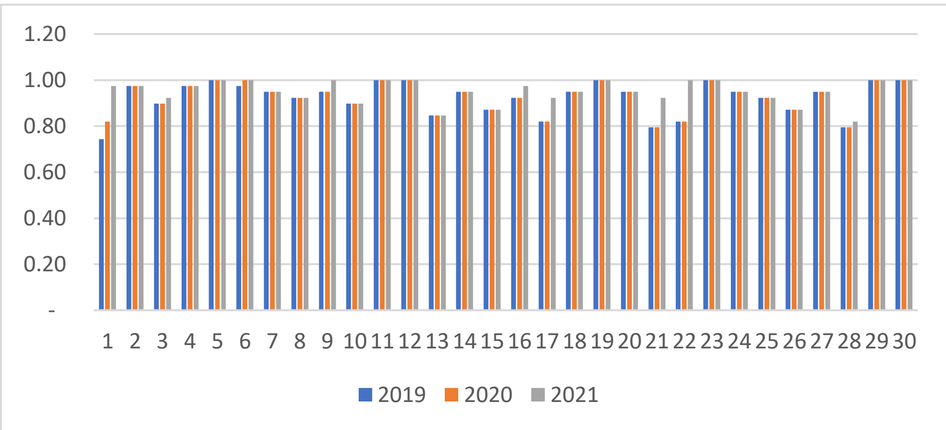

Figure 2. Growth of Good Corporate Governance

Source: data proceed, 2023

Companies sometimes focus on fulfilling formal GCG requirements such as regulations and guidelines without implementing them, so GCG only becomes formal compliance without substantial impact. CGC's compliance with the transparency of the board of commissioners, audit committee, and internal audit responsibilities does not provide added value in reducing the company's financial distress. The measures for CGC compliance on the board subcommittee aspect may not all effectively minimize agency costs. This may be because monitoring capabilities differ from committee to committee (Buchanan et al., 2018). The results of this research are aligned with research by Gilang (2019) and Mardahlia V (2021), which state that GCG has no effect and does not have significant influencencial distress.

The research results show that disclosure of corporate social responsibility (CSR) has an effect and does not significantly affect financial distress. CSR disclosure may not significantly impact the company's financial health, especially in the basic materials sector where this company operates. CSR disclosure in companies does not have a material impact on factors that directly contribute to financial distress, such as high debt levels, low operational performance, or unexpected macroeconomic factors. The company also considers that the conditions of a particular industry or economic sector also play an important role. Where the industry or sector does not depend on the public's perception of corporate social responsibility, CSR disclosures may not significantly impact the company's financial health. CSR disclosures may not be a determining factor in investment or credit decisions from external parties (Yasmine & Alvia, 2023). If external stakeholders do not value CSR disclosure highly in the context of their financial decisions regarding the company, then the impact on financial distress may be minimal. Investors may think CSR can act as insurance to cover bad company performance. CSR increases agency costs and puts companies in Distress (Lei et al., 2022). Thus, CSR reports have no role in investor decision-making. The results of this research are in line with the research of Purwaningsih & Aziza (2019) and Tampubolon et al. (2020), which revealed that Corporate Social Responsibility (CSR) disclosure does not have a significant effect on financial distress.

The research results show that institutional ownership significantly affects difficult financial conditions. The majority of shareholders in institutions will be more likely to side with and cooperate with management to protect their interests rather than minority interests. The results of this study are consistent with those (Kristanto, 2021), revealing that institutional ownership has a significant positive effect on unstable financial conditions. As institutional ownership increases, what should be more active supervision will turn into more passive and opportunistic supervision. This is an example of a bad signal that can disrupt business operations. Because of this action, investors will not be interested in investing capital, stock trading volume will decrease, and the company's share price will also decrease. As a result, the company will experience financial difficulties. The role of the board of directors in companies with majority shareholders may be important in aligning the interests of minority and large shareholders, leading to decision-making that can positively influence the likelihood of financial Distress (Buchanan et al., 2018). The results of this research are in line with those (Cinantya, 2021) (Utami & Taqwa, 2023), which reveal that institutional ownership has a positive and significant impact on stressed financial conditions.

CONCLUSION

Overall, CGC compliance does not provide added value in terms of reducing the company's financial difficulties, either through transparency in the board committee or CSR aspects. Meanwhile, increasing the ownership portion impacts the company's financial difficulties. So, it can be interpreted that corporate governance tends to be static and cannot significantly impact financial performance and position or reduce the risk of the company experiencing financial distress. The measures for CGC compliance on the board subcommittee aspect may not all effectively minimize agency costs. This may be because monitoring capabilities differ from one committee to another. Corporate Social Responsibility (CSR) Disclosure does not significantly influence financial distress in companies in the basic materials subsector in 2019-2021. This suggests that CSR disclosure may not have a material impact on factors directly contributing to financial distress, such as high debt, low operational performance, or unexpected macroeconomic factors. Institutional ownership positively and significantly affects financial distress in manufacturing companies in the basic materials subsector in 2019-2021. This shows that the higher the institutional ownership, the greater the possibility of financial distress. Institutional ownership tends to side with personal interests and collaborate with management, especially with majority ownership, which can be detrimental to minority interests. Thus, the impact can harm company operations and trigger financial distress. The implication is the need for special attention to the impact of institutional ownership, especially majority ownership, on the risk of financial distress. Strategic policies and actions must be designed to balance interests between institutional and minority shareholders, avoiding potential harm to company operations and potential financial distress. Data collection techniques for these research variables, such as good corporate governance and CSR disclosure, are based on the researcher's subjectivity in index assessment. The researcher's next suggestion is that there is a need for a viewer to reduce subjective assessments.

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