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Corporate Governance and Financial Distress: Empirical Evidence of Energy Sector Companies on the Indonesia Stock Exchange

Dea Niken Debora[1]*, Intan Zoraya[2]
Universitas Bengkulu, Indonesia
Corresponding Author: Dea Niken Debora ndebora563@gmail.com

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ABSTRACT

The present paper is an empirical analysis of the impact of corporate governance on financial distress in companies listed on the Indonesia Stock Exchange (IDX) over the period from 2016 to 2023. Financial distress is measured by the Altman Z-score model. Variables of corporate governance include institutional ownership, managerial ownership, the ratio of independent commissioners, and board size. The sample consisted of 107 companies. Multiple linear regression was used to analyze the data. The results proved that institutional ownership and managerial ownership do not significantly affect financial distress. On the other hand, it was found that independent commissioners and board size have a considerable negative impact to, while the board of commissioners has a positive impact. Among the control variables, Leverage is negatively significant, whereas firm size is highly significant.

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INTRODUCTION

From an economic point of view, the main purpose of setting up a business is to make a profit. However, in the process of achieving these goals, companies often face various problems. One of the most worrying problems is when the company's profits decline, and the money available is not enough to pay the debts that must be paid at the specified time. This situation is called financial distress (Sumani, 2019).The risk of bankruptcy can be high when a business entity is in a difficult financial situation, because financial distress can cause a company to experience bankruptcy or liquidation (Samanta & Johnston, 2019). The phenomenon of bankruptcy due to financial distress has been experienced by several large companies in Indonesia such as PT Sariwangi and Mrs. Meneer's company.

Financial difficulties, if not handled seriously, can cause various problems for businesses and companies, which can push them into the brink of bankruptcy. Younas et al., (2021) revealed that financial difficulties can cause various problems for companies, such as low sales, high costs, inappropriate budgets, and unrealistic pricing, lack of liquidity for ongoing operations, inadequate account balances, and poor debt management. Problems that arise due to financial difficulties will affect the company's performance which can determine the success or failure of a company. Furthermore Black et al., (2006) And Hodgson et al., (2011) It is stated that good corporate governance practices can enhance the performance of business entities. Simultaneously, these practices also safeguard companies against the risks associated with financial problems (Parker et al., 2002). In addition, according to agency theory, Financial performance can be boosted by delineating the ownership and control structure. since shareholders are unable to enforce or even monitor managerial decisions at all when their shares are widely dispersed among minority shareholders, creating a principle-agent conflict. Therefore, good corporate governance implementation helps to reduce the agency problem between principal and agent hence less chance of bankruptcy for the company (Agung & Krisyadi, 2021).

The energy sector is a sector that exists on the IDX that has significant potential because of its very important role. However, from the delisting data from 2020-2024, the energy sector is the sector that experienced the most forced delistings, because the survival of the company and its financial condition are doubtful. Such as companies with the codes CKRA, BORN, and ITTG.

Table 1. Delisting Companies 2020 - 2024

Year	Code	Reason for Delisting	Sector
2020	GREN	Force Delisting	Industrial
	CKRA	Force Delisting	Energy
	SCBD	Voluntary delisting	Property & real estate
	APOL	Bankruptcy	Transportation & logistics
	ITTG	Force Delisting	Energy
	BORN	Force Delisting	Energy
2021	FINN	Force delisting	Finance
2022	-	-	-
2023	TURI	Go private	Transportation & logistics
2024	RMBA	Voluntary delisting	Industrial

Source:Indonesia Stock Exchange (IDX)

In addition, the corporate governance system of mining companies which are part of the energy sector is considered bad. This was revealed by a number of facts such as corruption that occurred at PT Timah Tbk, which amounted to Rp 271 trillion, then the corruption case at PT Antam Blok Mandido, where the Southeast Sulawesi High Prosecutor's Office confiscated cash worth IDR 79 billion as evidence, the evidence was launched from kompas news and antara news. From the existing cases, if a company is proven to be unable to make the right decisions in its management, the company is at risk of facing financial problems. Therefore, it is very important for companies listed on the IDX, especially in the energy sector, leading to principal-agent conflicts in assessing their financial situation for the likelihood of a firm being delisted or getting financially constrained.

Results from the research revealed continue to show varied findings of the relationship between corporate governance and financial distress. For example, research by Hakim et al., (2020) reveals that institutional ownership does not affect financial distress, contrary to the findings by Desy et al., (2022) which show a positive relationship. ResearchDesy et al., (2022) revealed that managerial ownership positively influences financial distress, which differs from the current findings Damayanti & Kusumaningtias, (2020) which found no effect (2021) found that independent commissioners and board size did not influence financial distress, this is different from the findings Desy et al., (2022) And Mariano et al., (2020) which shows a positive influence. This inconsistency therefore leaves the author with no choice but to further probe the effect of corporate governance on financial distress. It is this gap that the study hopes to be able to help fill.

The uniqueness of this study lies in its utilization of data covering the years 2016–2023, thus ensuring a comprehensive analysis of pre- and post-economic recession due to the Covid-19 pandemic. Consequently, this study will focus primarily on the effect of corporate governance on financial distress among energy sector companies listed on the IDX for the period 2016–2023. The following five indicators are used to measure corporate governance: institutional ownership, managerial ownership, independent commissioners,

board size, and the board of commissioners. Leverage and firm size are also included as control variables to determine whether other finance-related governance mechanisms have an impact on financial distress. The model used in this study to determine financial distress is based on the Altman Z-Score model. The reason for using the Altman model for bankruptcy analysis is because the Altman model is more effective than other models such as the Ohlson, Springate, and Zmijewski models. ResearchWidyastuti & Rahayu, (2018) which predicts the potential for bankruptcy in pharmaceutical companies listed on the IDX indicates that the Altman Z-Score model has a higher accuracy, achieving 27.5%, in comparison to the Ohlson model, which has an accuracy of only 10%. Meanwhile, researchThe Great, (2018) also revealed that the Altman Z-Score model has the highest accuracy, with a coefficient of determination of 72.2%, outperforming the Springate and Zmijewski models. Consequently, it can be said that the Altman Z-Score model is one of the most effective bankruptcy prediction models. In addition, the advantages of the Altman Z-score model according to BAPEPAM (2005) in Nurcahyani, (2015) Among them are easy to apply, combining financial ratios together, and being able to better describe the company's condition in accordance with reality.

LITERATURE REVIEW

Agency Theory

Agency Theory explains the relationship between the owner (principal) and the manager (agent) within a company, where the separation between the two often causes conflict. This conflict arises due to differences in interests, where managers tend to prioritize their personal interests. Jensen and Meckling (1976) highlight the significance of aligning the interests of owners and managers to mitigate conflicts. One effective approach to achieving this alignment is through the application of GCG principles, which can enhance performance, address agency problems, and reduce information asymmetries.

Agency theory states that conflict between management and shareholders can cause agency costs, which are costs incurred to maintain a good relationship between the two. In this case, good corporate governance is present as an effort to minimize the occurrence of agency conflict (Maryam & Yuyetta, 2019). This aims to create a positive work environment and reduce the occurrence of conflict. Therefore, the company seeks to reduce agency conflict by implementing good corporate governance mechanisms, which are expected to minimize problems that arise within the organization.(Manan & Sri Hasnawati, 2022).

Corporate Governance

Daily et al., (2003) explains that corporate governance serves as a general guideline for regulating the use of resources and resolving conflicts within the organization. In this context, corporate governance acts as a mechanism for resolving conflicts within the organization. The basic objective of corporate governance is to increase shareholder value over the long term by improving management accountability and organizational performance. By implementing appropriate corporate structures, processes, and mechanisms, agency problems

can be overcome so that the managers' wishes can be aligned with those of the shareholders (Fan, 2004). GCG depends on several factors such as the existence of an independent board of commissioners and an audit committee, and the level of institutional ownership and managerial ownership (Saputra & Kuang, 2022). According to agency theory, the cornerstone of corporate governance is the board of directors (Tao & Hutchinson, 2013). IThe position that holds an important place in corporate governance is the board of directors since it is directly responsible for supervising the performance of the company (Sumayyah & Sulistiyantoro, 2022).

Financial Distress

Companies experiencing financial difficulties can be caused by various factors including agency conflicts between principals and agents.(Rahim et al., 2024). Financial distress refers to a situation where a corporation faces serious financial problems and is threatened with bankruptcy. This situation can cause a drastic decline in the company's financial capacity (Abdu, 2022). Financial distress can be temporary and recovery can depend on early identification of financial problems and successful implementation of recovery strategies, so that the company goes bankrupt and cannot survive, resulting in company failure (Sewpersadh, 2020). Therefore, important to detect the signs of insolvency in order to provide early warning of a company's possible insolvency. The earlier these signs are detected, the easier it is for management to take corrective action.

Institutional Ownership

Institutional ownership refers to the percentage of shares owned by institutions. GCG depends on several factors, For example, institutional ownership. If the proportion of institutional ownership increases in the company, then it will increase the monitoring of management.The heightinstitutional ownership can help reduce the risk of financial distress through tighter oversight of management (Saputra & Kuang, 2022). Institutional ownershipplay a role in reducing agency problems because institutional shareholders are responsible for helping to supervise management so that it does not take actions that are detrimental to shareholders (Agung & Krisyadi, 2021). Research by Khoiruddin & Rahmawati, (2017) It implies that institutional ownership has a negative relationship with financial distress, as it encourages companies to communicate transparently, so that information can be clearly accessed by interested parties.This is in line with research (2021) Therefore, more efficient companies use their assets at higher levels. Accordingly, the possibility of financial problems emerging from the firm is minimized.
H1: Institutional ownership mattersnegativeagainst financial distress

Managerial Ownership

Apart from institutional ownership, GCG is also supported by managerial ownership. Managerial ownership, dinterpreted as a condition that shows that managers have interests as well as shareholders in the company (Agung & Krisyadi, 2021). If managers have stocks in the firm, they will act

prudently in decision-making processes and, hence, feel the firm is theirs too, thereby improving the company's performance. As expressed byWidhiadnyana & Dwi Ratnadi, (2019) that Management ownership encourages managers to be more careful in decision making and business management. Managerial ownership by the board of commissioners and directors can instill the feeling of ownership which in turn could positively trickle down to firm performance since the higher level of responsibility created directly correlates with business success (Saputra & Kuang, 2022). With the presence of managerial ownership, a company will be able to overcome the problem of managerial agency. If managerial ownership in the company is greater, it will avoid bankruptcy (Nilasari, 2021). Besides that,Study Widhiadnyana & Dwi Ratnadi, (2019), It proves there is a negative impact of management ownership on financial problems. As there is an increase in the percentage of shares that are owned by the board of directors and the supervisory board, the less likely it is for the company to experience financial distress.

H2: Managerial Ownershiphas a negative impact on financial distress

Independent Commissioner

The independent commissioner is to be elected by members of the Board of Commissioners to supervise the Board of Directors in implementing the system of corporate governance. Independent commissioners are recruited from outside the organization, with the primary focus on evaluating the performance of the organization as a whole. Independent commissioner, being from outside the firm, evaluates the functioning of the firm. It creates a balancing factor in the decision-making process. This is especially to safeguard the interests of minority shareholders and other related parties (Permatasari et al., 2019). Research conducted by Ramdani & Wijaya, (2019) It indicates that the presence of independent supervisory directors has a negative influence on financial problems, suggesting that a high level of independence can enhance management oversight, thereby preventing actions that may lead to financial difficulties for the company.

H3: Independent commissioners have a negative effect on financial distress

Board Size

In agency theory, the board of directors is a central element of corporate governance, as they play a crucial role in monitoring business performance (Sumayyah & Sulistiyantoro, 2022). Raising the share of non-executive commissioners and members of the audit committee would improve the monitoring of corporate bodies and as such lower the financial distress risk (Saputra & Kuang, 2022). The results of Prasetya & Hindasah, (2023) reveal that board size has a significant negative impact on financial distress. In other words, this study means that a larger board is probability share lesser financial distress since the probability of making better decisions is enhanced through sharing and exchanging ideas among the members. This exchange of information allows each managing director to understand their respective interests, as well as the pros and cons in the decision-making process, so that the decisions taken by the company are more optimal.

H4: Board Size has a negative effect on financial distress

Board of Commissioners

The important role that the board of commissioners plays is to ensure that agency problems between company managers and shareholders are resolved, as well as to align the interests of the two parties. Another role is that the board of commissioners must carry out a careful monitoring of managerial decisions. This then restricts the scope of action that can be taken by managers. Hence through effective monitoring by the board of commissioners, management is expected to make more suitable and judicious decisions thereby contributing to the firm's stability and lessening the chances of financial distress. Therefore, it is not only important to have a board of commissioners for accountability but also for the company's long-term financial health. Decisions taken with careful consideration and supported by good supervision will minimize the possibility of financial problems, so that the company can operate optimally (Napitupulu & Suryandari, 2021).

H5: The Board of Commissioners has a negative influence on financial distress

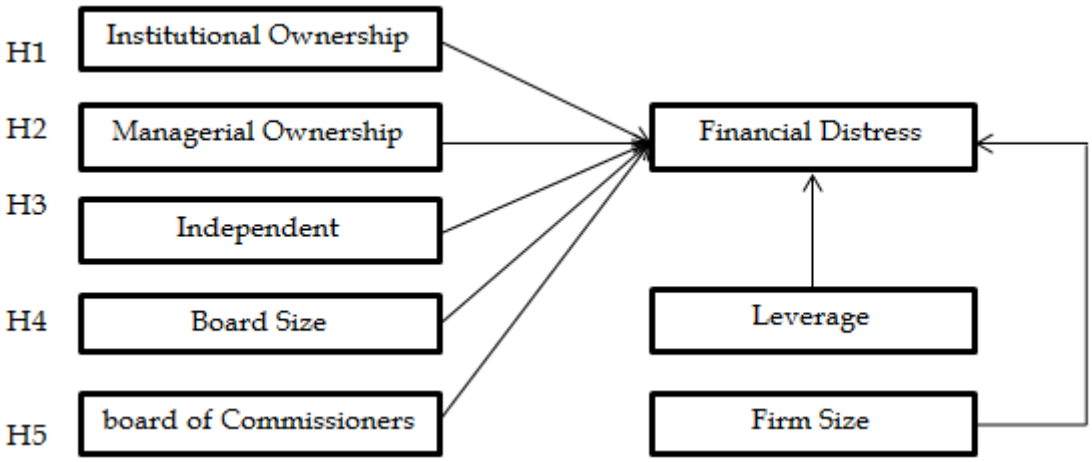


Figure 1. Conceptual Framework

METHODOLOGY

This study applies a quantitative descriptive method applied to secondary data taken from the financial reports of the companies in the energy sector for the years 2016 to 2023. The data are available from the official website of IDX and that of the respective companies. The population under study in this research constitutes all companies in the energy sector that are listed by the Indonesia Stock Exchange for the period 2016 to 202. Purposive sampling was conducted, determining several specific criteria for sample selection namely: registered as an energy sector company on the IDX during the period 2016 - 2023, publishing annual financial reports continuously from 2016 to 2023, having managerial and institutional ownership, and providing complete data related to the information needed for the study.

The technique of data analysis employed in this study is descriptive statistics supported by multiple linear regression. The data that has been collected will be analyzed using SPSS software. With the following model:
Financial_Distress = β0 + β1 Institutional_Ownership + β2 Managerial_Ownership + β3 Independent_Commissioner + β4 Board_Size + β5 Board_Commissioner + β6 Leverage + β7 Firm_Size +Error

Operational Definition of Variables
Variable Y: Measured using the Altman Z-Score model

- Financial Distress : Z – Score = 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4

Where:
X1 = Total assets/ Working capital
X2 = Total assets/ Retained earnings
X3 = Earnings before interest and taxes / Total assets
X4 = Liabilities/ Book value of equity
If the Z – Score value: Z – Score < 1.1 = Distress Zone; 1.1 < Z – Score < 2.60 = Gray Zone; Z > 2.60 = Safe Zone

Variable X = The formula for variable x is as follows, (Ibrahim, 2019):

- Institutional Ownership $=\frac{Number\ of\ institutionally\ owned\ shares}{\text{Number of outstanding shares}}$
- Managerial Ownership $=\frac{\text{Number of managerial owned shares}}{\text{Number of outstanding shares}}$
- Independent Commissioner $=\frac{\text{Number of independent commissioners}}{\text{Number of Board of Commissioners}}$
- Board Size = measured by calculating the total number of directors in a company
- Board of Commissioners = calculated as the number of commissioners in the company

Control Variables:

- Leverage = $\frac{\text{Total Debt}}{\text{Total Aset}}$; Firm Size = Ln (Total Assets)

RESEARCH RESULT
Descriptive Statistical Test

Table 2. Results of Descriptive Statistical Tests

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
FINANCIAL DISTRESS	107	-7.10	14.37	2.6670	3.87261
INSTITUTIONAL OWNERSHIP	107	.32	1.01	.6478	.17569
MANAGERIAL OWNERSHIP	107	.00	.36	.0434	.07307
INDEPENDENT COMMISSIONER	107	.20	1.00	.4064	.11504
BOARD SIZE	107	4.00	17.00	8.8224	2.60556
BOARD OF COMMISSIONERS	107	2.00	8.00	4.2336	1.48311
LEVERAGE	107	.11	1.29	.5674	.23853
FIRM SIZE	107	12.70	24.13	18.8726	2.92286
Valid N (listwise)	107				

Source: Data Processed by SPSS

Figure 2 presents 107 observations from energy sector companies listed on the IDX from 2016 to 2023. The average financial distress score is 2.6670, with a standard deviation of 3.87261, suggesting that, on average, the companies are in the safe zone. The average institutional ownership is 64.78%, while managerial ownership is only 4.34%. The average independent commissioner is one person (mean 0.4064), the board size in the company consists of eight to nine people (mean 8.8224), and the average board of commissioners is four people (mean 4.2336). For the control variables, the average leverage is 0.5674 indicating that 56.74% of total assets are financed through debt, while the mean firm size is 18.8726, indicating the average total assets of the company.

Classical Assumption Test

a. Normality Test

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			107
Normal Parametersa,b	Mean		.0000000
	Std. Deviation		1.18273604
Most Extreme Differences	Absolute		.075
	Positive		.075
	Negative		-.059
Test Statistics			.075
Asymp. Sig. (2-tailed)c			.165
Monte Carlo Sig. (2-tailed)d	Sig.		.144
	99% Confidence Interval	Lower Bound	.134
		Upper Bound	.153
a. Test distribution is Normal.			
b. Calculated from data.			
c. Lilliefors Significance Correction.			
d. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 2000000.			

Source: Data Processed by SPSS

The normality test was done at a 0.05 level of significance. Figure 3 demonstrates the point that Asymp sig value (2-tailed) is 0.165, which happens to be greater than 0.05. Therefore, the conclusion about the distribution of residual data from this study would be that it is normally distributed.

b. Test Multicollinearity

Table 4. Multicollinearity Test Results

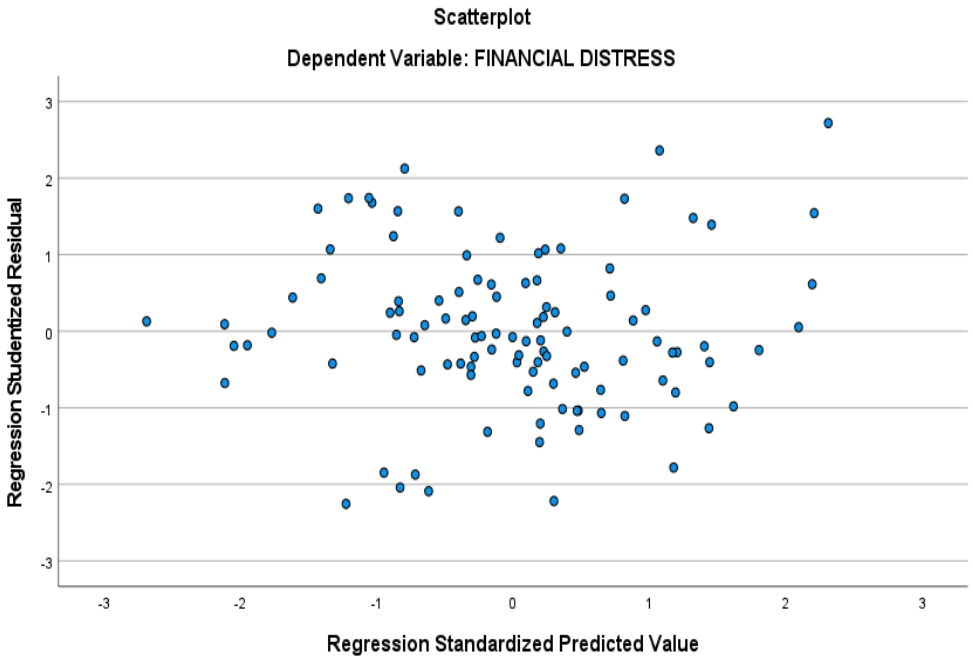
Coefficientsa			
Model		Collinearity Statistics	
		Tolerance	VIF
1	INSTITUTIONAL OWNERSHIP	.363	2,753
	MANAGERIAL OWNERSHIP	.269	3,719
	INDEPENDENT COMMISSIONER	.704	1,421
	BOARD SIZE	.269	3,722
	BOARD OF COMMISSIONERS	.307	3.262
	LEVERAGE	.659	1,517
	FIRM SIZE	.477	2,096
a. Dependent Variable: FINANCIAL DISTRESS			

Source: Data Processed by SPSS

It can be observed in Figure 4 that the Tolerance value reads something greater than 0.1 and the VIF value reads something less than 10. From these values, it may be inferred that there is no serious multicollinearity concern in this study.

c. Heteroscedasticity Test

Table 5. Scatterplot graph



Source: Data Processed by SPSS

As shown in Figure 5, the points in the scatterplot are randomly dispersed above and below zero and the y-axis, with no discernible pattern. Therefore, it can be concluded that heteroscedasticity is absent in this study.

d. Autocorrelation Test

This test is useful to identify whether there is a correlation between the disturbance errors in this period and in the previous period. The researcher applies the Durbin Watson method with the criteria dU < DW < (4 - dU).

Table 6. Correlation Test Results

Model Summaryb					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.232a	.054	-.024	2.37051	2.162

Source: Data Processed by SPSS

From Figure 6, the DW value is 2.164, N (107). With a significance of 5% in the Durbin Watson Figure, dU value 1.8261, thus Equation 1.8261 < 2.164 < 2.1739 can be written which means that it is in accordance with the criteria and it can be concluded that in this study there is no autocorrelation so that the regression model is suiFigure for use.

Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Analysis

Coefficientsa				
Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	5,000	2.434	
	INSTITUTIONAL OWNERSHIP	-.958	1.123	-.043
	MANAGERIAL OWNERSHIP	-5,740	3.137	-.108
	INDEPENDENT COMMISSIONER	-3.185	1.232	-.095
	BOARD SIZE	-.391	.088	-.263
	BOARD OF COMMISSIONERS	1.162	.145	.445
	LEVERAGE	-13,546	.614	-.834
	FIRM SIZE	.320	.059	.242
a. Dependent Variable: FINANCIAL DISTRESS				

Source: Data Processed by SPSS

From the image above, the multiple linear regression equation can be arranged as follows:

Financial_Distress = 5,000 – 0.958 (Institutional_Ownership) – 5,740 (Managerial_Ownership) – 3,185 (Independent_ Commissioner) – 0.391(Board_ Size) + 1,162 (Board_of Commissioners) – 13,546 (Leverage)+ 0.320 (Firm_Size) + Error

The explanation of the results of the regression equation above is as follows:

a. The constant value (a) of 5,000 means that with the independent variable being zero, the estimated financial distress will be 5,000.
b. The regression coefficient for institutional ownership is -0.958, indicating that with a 1% increase in institutional ownership, financial distress will decrease by 0.958, holding all other variables constant.

c. The regression coefficient for managerial ownership is -5.740, indicating that a 1% increase in managerial ownership leads to a decrease in financial distress by 5.740, assuming other factors remain constant.
d. The regression coefficients for independent commissioners and board size are -3.185 and -0.391, respectively. In practical terms, a 1% rise in these variable halves the financial distress associated with the firm.
e. Whereas, in the case of board size, a 1% increase in this variable reduces financial distress by 0.391—provided other variables are held constant.
f. The regression coefficient for the board of commissioners is 1.162, which indicates that a 1% increase in the board of commissioners raises financial distress by 1.162, assuming other variables do not change.
g. The regression coefficient for leverage is -13.456, signifying that a 1% increase in leverage decreases financial distress by 13.456, assuming the other variables remain constant.
h. Thus, the regression coefficient of firm size is 0.320. Consequently, a 1% increment in firm size is hypothesized to raise financial distress by 0.320, ceteris paribus.

Hypothesis Test Results

a. Coefficient of Determination Test

Table 8. Determination Coefficient Test

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.952a	.907	.900	1.22384
Source: Data Processed by SPSS				

In Figure 8, the value of Adjusted R Square is 0.900. This means that 90% of the variability in financial distress can be justified by the independent and control variables as captured in the model. This means that the model is highly effective in accounting for the factors influencing financial distress, while the remaining 10% is attributed to other variables or factors not examined in this study.

b. T-Test (Partial Test)

Table 9. Partial Test

Coefficientsa				
Model		T	Sig.	Information
1	(Constant)	2,055	.043	-
	INSTITUTIONAL OWNERSHIP	-.853	.396	No effect
	MANAGERIAL OWNERSHIP	-1,830	.070	No effect
	INDEPENDENT COMMISSIONER	-2,586	.011	Negative Impact
	BOARD SIZE	-4.439	.000	Negative Impact
	BOARD OF COMMISSIONERS	8,026	.000	Positive Influence
	LEVERAGE	-22,067	.000	Negative Impact
	FIRM SIZE	5,440	.000	Positive Influence
	a. Dependent Variable: FINANCIAL DISTRESS			

Source: Data Processed by SPSS

From the figure above, a value less than 0.05 shows that there is a statistically significant positive effect of all the independent variables on the dependent variable which in this case is financial distress. The output highlights that institutional and managerial ownership do not seem to have much impact on financial distress. Meanwhile, independent commissioners and board size indicate a negative relationship with financial distress. Changes and increases in both independent commissioners and board size lead to a decrease in financial distress. On the other hand, board commissioners portray a positive effect on financial distress. That is to say that as such a factor grows, financial distress also grows. Furthermore, the control variable, leverage, negatively affects financial distress, while firm size has a positive impact. Therefore, it can be concluded that the first, second, and fifth hypotheses are rejected, while the third and fourth hypotheses are accepted.

c. F Test (Simultaneous Test)

Table 10. Simultaneous Test

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1441.412	7	205,916	137,481	.000b
	Residual	148,280	99	1,498		
	Total	1589.691	106			
a. Dependent Variable: FINANCIAL DISTRESS						
b. Predictors: (Constant), FIRM SIZE, INDEPENDENT COMMISSIONER, LEVERAGE, INSTITUTIONAL OWNERSHIP, BOARD OF COMMISSIONERS, MANAGERIAL OWNERSHIP, BOARD SIZE						

Source: Data Processed by SPSS

The significance value obtained from the F-test that was conducted is less than 0.05, specifically 0.000; therefore, the regression model can be used to predict financial distress. This implies that the model's assumptions are held since the independent and control variables of this study very effectively explain and forecast the dependent variable, which is an indication of both validity and relevance of the model in assessing financial distress among the companies studied.

DISCUSSION

The Influence of Institutional Ownership on Financial Distress

As per the results of the partial test, the variable of institutional ownership, which is measured by the ratio of institutional share ownership to total shares outstanding, shows a value of significance as much as 0.396, greater than the level of alpha, 0.05.

In other words, it is more explicit here that institutional ownership does not have any influence on financial distress in the energy sector companies listed in IDX; therefore, H1 stands rejected.

As a result, the amount of institutional ownership in a firm does not influence the financial performance of the firm and therefore, it does not affect financial distress. This is in line with research Hakim et al., (2020) This indicates that there is no influence between institutional ownership and financial distress,

suggesting that whatever the percentage of institutional ownership in a company, the likelihood of the company experiencing financial distress remains constant. In other words, the presence or amount of institutional ownership does not significantly affect the company's financial stability or risk of distress. In addition, according to Fich & Slezak, (2008) Institutional shareholders tend to pay more attention to deficiencies in the company rather than monitoring to ensure that management is performing well.

The Influence of Managerial Ownership on Financial Distress

From the partial test results, it can be seen that the variable of managerial ownership, which is measured by the proportion of shares held by the management to the total shares outstanding, provides a significance value of 0.070, which is greater than the acceptable alpha level of 0.05. Therefore, it is interpreted as no influence of managerial ownership on financial distress in energy sector companies listed at the IDX. Thus, the result is such that the level of managerial ownership does not have any significant influence on the level of financial stability or rather distress risk of these companies. Therefore, H2 is rejected.

This is in line with research Agustin & Trisnawati, (2023) who found that there was no influence between managerial ownership and financial distress and stated that if management owns shares in the company, investors will expect the company to be managed optimally and the company's value to increase. Management's competence in managing the company determines the health of an entity, not the number of shares they own. Financial distress may not be affected by managerial ownership, most likely due to the relatively small proportion of managerial ownership. This is shown in the descriptive statistical test Figure which shows that the average managerial ownership is only 0.0434 or 4.34%. This means that when management's share ownership is low, this can have an impact on its role in decision making, so that its monitoring scheme also tends to be low.

The Influence of Independent Commissioners on Financial Distress

It revealed that the variable of independent commissioners in measure ratios of the number of total board members has a p-value of 0.011. This is less than the alpha level set at 0.05, thereby indicating that there is an effect of independent commissioners on financial distress. Results showed a significant negative impact by independent commissioners of the energy sector companies listed on the IDX regarding financial distress, thus supporting the acceptance of H3.

The development of the Existence hypothesis has been statedIndependent directors can act as a balancer of decision making, particularly in protecting the interests of minority shareholders and other related parties. The findings in this study coincide with a study previously done by Ramdani & Wijaya, (2019) which proved the fact that the existence of independent supervisory directors adversely affects financial problems signifying that a heightened level of independence will enhance and tighten control thereby averting actions that could lead to financial distress for the firm.

The Influence of Board Size on Financial Distress

A variable of board size in partial test results gives a significance value of .000, less than the a level of p .05, hence significant effect towards financial distress. It was recorded from the data that for energy sector companies listed on the IDX, increasing board size is associated with a significant decrease in financial distress. This finding suggests that a larger board may enhance oversight and decision-making processes, thereby contributing to improved financial stability, thereby supporting the acceptance of H4.

Within the agency theory literature, the board of directors is considered one of the internal corporate governance mechanisms. Summary of descriptive statistical tests is as follows: mean board size equals 8.8224, which means that, on average, energy sector companies listed on the IDX have boards consisting of 8–9 people. Firms with board sizes of more than nine members are less likely to face financial distress. High board size enhances decision quality due to greater interaction involving more directors. This is in line with research conducted bySumayyah & Sulistiyantoro, (2022), and research byAl Farooque et al., (2020) where the board of directors plays an important role in executive oversight to achieve corporate goals and stakeholder interests.

The Influence of the Board of Commissioners on Financial Distress

Thus, it can be concluded from this partial test that the variable board of commissioners has a significance value of .000, less than the alpha level of .05. Therefore, it can be inferred that there is a significant influence of the board of commissioners on financial distress at -specifically the results show a significant positive relationship thus rejecting H5.

This result means that a larger number of board of commissioners members has a positive relationship with the likelihood of financial distress. This could be because having a bigger board of commissioners may undermine the effectiveness of the supervisory function, and therefore diminish the performance of the board of directors who bear greater risks of financial difficulty in their companies. This is because the size of the board of commissioners, in terms of the number of members, affects how effective decision-making is, according to a study conducted by [Author] (2018). The larger the size, the lesser the efficacy recorded because many members will mean more time spent until a consensus is reached. In essence, when there are too many members, discussions may become cumbersome and less focused, leading to delays and inefficiencies in oversight. This inefficiency can ultimately contribute to a higher risk of financial distress as the board struggles to respond promptly and effectively to the company's challenges.. The significant research results with a positive direction support previous findings byMartin Lipton et al., (1992).

CONCLUSION AND RECOMMENDATIONS

It can be concluded, based on the results of multiple linear regression, that the independent variables (institutional ownership, managerial ownership, independent commissioner, board size, and board of directors), as well as control variables (leverage and firm size), simultaneously influence financial

distress. Partially, independent commissioner and board size have a significant negative influence. While the board of commissioners has a positive influence on financial distress. Meanwhile, the control variable leverage shows a significant negative influence and firm size shows a significant positive influence.

ADVANCED RESEARCH

These findings lead to several recommendations for further research: the correlation between the independent variables and financial distress can only be explained by 90%, so the remaining 10% comes from other variables. Further research is expected to use other more complex sectors so that the research results can be more optimal and add other variables with better measurements to increase the coefficient of determination in the study.

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