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The Influence of GCG On Financial Distress Of State-Owned Companies On The IDX In 2021-2024

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Abstract

The purpose of this study is to examine the influence of GCG (Good Corporate Governance), consisting of institutional ownership, managerial ownership, independent board of commissioners, board of directors, and audit committee variables on financial distress. This study is descriptive quantitative. The type of data used is secondary data, including the financial statements of state-owned enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024, obtained through the IDX website at www.idx.co.id. Data were collected using documentation techniques. The research sample consisted of state-owned enterprises listed on the Indonesia Stock Exchange from 2021 to 2024, selected using a purposive sampling method , resulting in a sample size of eight companies. The results of the study show that institutional ownership and independent board of commissioners variables partially have no effect on financial distress, and managerial ownership, board of directors, and audit committee partially have an effect on financial distress.

Keywords : GCG, Financial Distress, SOEs

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INTRODUCTION

Good Corporate Governance (GCG) is a principle that regulates business practices rooted in compliance with applicable legal regulations and ethical standards. GCG first emerged due to a conspiracy that occurred at various managerial levels in large companies in developed countries such as Australia, the United States, the United Kingdom, and others in the 2000s era, triggered by actions that tended to be greedy, focused on the needs of individuals, while ignoring the concerns of others, rules and business ethics. The main cause is related to the agency problem, where there is a conflict of interest between the principal and agent, where in the practice of company management, company managers behave and act in a way that is not in accordance with the interests of the owner. Conflicts arise because of different interests that must be managed so as not to cause losses to both parties, so that the separation between principals and agents in company operations is necessary. Agency problems can be reduced by the effective implementation of GCG.

According to (Daniri, 2005) GCG which is known as a good corporate governance system is a pattern of relationships, systems and processes used by parts of the company including the Board of Directors, Board of Commissioners, General Meeting of Shareholders in order to provide added value to shareholders and continuously in the long term while still paying attention to other stakeholders based on applicable laws and regulations and norms. The concept of GCG is a system that regulates and controls the company to create added value for all stakeholders. There are 2 important things emphasized in the concept of GCG, namely the right of shareholders to obtain correct, accurate, and timely information and the company's obligation to disclose accurately, timely and transparently all information about the company's performance, ownership and stakeholders. The implementation of good GCG creates a positive signal for investors and other stakeholders, because GCG increases the transparency and reliability of the company, so that management can convey relevant information (signals) to overcome information asymmetry and convince investors about the company's future prospects. Signaling theory explains that every information announcement contains content that can serve as a signal to investors and stakeholders in making economic decisions (Scott, 2015). Signaling theory emphasizes that companies need to convey appropriate signals to users of financial statements, both owners and other external parties, in the form of disclosures of the company's condition through financial statements, audit reports, or other information that demonstrates management performance. Investors as potential shareholders will be increasingly encouraged to analyze how well the company's operations have been run. This is done to ensure that investment decisions taken do not incur losses. The implementation of GCG can reduce agency problems that, if not immediately addressed, can impact operational activities disrupted and the company will experience financial distress.

An independent board of commissioners is a board that has no ties to management or major shareholders (Tanto, 2021). The larger the number of independent commissioners, the better protected the company will be from the risk of financial distress, given that oversight of management implementation will be given greater attention by independent parties. An independent board of commissioners acts as an agent, assisting in the oversight and control of actions taken by the board of directors and management related to opportunistic behavior intended to gain personal gain. The presence of an independent commission will increase the effectiveness of GCG implementation in accordance with shareholder needs.

The board of directors is responsible for implementing all of a company's operational activities and is responsible for establishing business rules and strategies, both short-term and long-term. The board of directors serves as a crucial mechanism for implementing GCG to improve company performance (Tanto, 2021).

An audit committee is a professional and independent committee formed by the board of commissioners and tasked with assisting the board of commissioners in carrying out its duties. The board of commissioners is tasked with carrying out the financial reporting process, risk management, audit implementation, and the implementation of corporate governance of a company (Fathonah, 2016). Based on Bapepam-LK regulation No. IX.I.5, companies are required to form an audit committee of at least three people, one of whom is an independent commissioner. Based on signal theory, financial reports must provide information that reflects the company's financial condition, so the audit committee must ensure that the information presented in the financial reports is correct and valid. Financial reports provide information about the company's condition so that it can be determined whether the company is healthy or not. The audit committee must carry out its duties properly in reviewing financial reports and financial information so that the resulting financial reports are easy to understand and present information that does not mislead users of financial reports. The fewer the number of audit committees in a company, the company will avoid financial difficulties (Damayanti & Kusumaningtias, 2020)

Financial distress (Arifin, 2018), is a condition where the company's operating cash flow is insufficient to pay the company's obligations. According to (Altman, E. I., Hotchkiss, E., & Wang, 2019), financial distress indicates a situation of financial difficulty experienced by a company because the cash flow it has is insufficient to meet company obligations. Financial distress arises from internal and external influences on the company. Internal factors include cash flow difficulties, high debt levels, and losses resulting from the company's operational activities over several years. External factors include government policies that can increase the company's burden. Increasing interest rates can lead to increased interest expenses. If this condition continues, it will be detrimental to the company. Implementing GCG can provide a solution to improve this condition. Several factors can reduce the occurrence of financial distress. According to the Regulation of the Minister of State-Owned Enterprises Number Per-01/MBU/2011, which regulates the implementation of Good Corporate Governance in State-Owned Enterprises, it has been revised by the Regulation of the Minister of State-Owned Enterprises Per-09/MBU/2012. The implementation of GCG aims to anticipate risks arising from internal company problems. These risks are generally caused by inappropriate managerial decisions, where managers prioritize personal interests over the interests of the company and shareholders. Based on data until the end of 2024 there are 47 SOEs where as many as 85% or as many as 40 SOEs are in healthy condition, while the remaining 15% as many as 7 SOEs are experiencing losses, namely PT Krakatau Steel Tbk, PT Bio Farma, PT Wijaya Karya Tbk, PT Waskita Karya Tbk, PT Asuransi Jiwasraya, Perum Perumnas, and Perum Percetakan Negara Republik Indonesia(Uly, Yohana Artha; Setiawan, 2024). The causes of losses faced by SOEs include inefficient management, high debt burdens, corruption cases, and the impact of the Covid 19 pandemic. Efforts to improve this condition include improving corporate governance through transparency and stricter supervision, and appointing professional directors and commissioners who have a good track record and are free from various conflicts of interest.

Research (Handriani et al., 2021) shows that institutional ownership, company size, profitability, and independent board of commissioners influence financial distress, while board size has no effect. Research (Hanafi & Breliastiti, 2016) shows that board size and ownership influence financial distress, institutional ownership has no effect, and the influence of independent commissioners is inconclusive. Research (Fiolina, Allisa;Yuyetta, 2024) shows that managerial ownership and institutional ownership influence financial distress, while foreign ownership, board of commissioners, independent commissioners, and board of directors have no effect.

Based on the phenomenon of losses experienced by 7 State-Owned Enterprises (BUMN) and the gap in research results related to the implementation of GCG and financial difficulties, the researcher encourages this study to conduct further research on the influence of GCG factors including institutional ownership, managerial ownership, independent board of commissioners, board of directors and audit committee on financial distress in BUMN companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period.

RESEARCH METHODS

This research is a quantitative descriptive study. The data used are secondary data. The data consist of financial and annual reports of state-owned enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) for the period 2021 to 2024, obtained through the IDX website at www.idx.co.id. Data were collected using documentation techniques. The study population was state-owned enterprises listed on the Indonesia Stock Exchange from 2021 to 2024, and the sample was selected using a purposive sampling method with the criteria of companies presenting financial reports and annual reports and companies having managerial and institutional ownership. Based on the established criteria, eight company samples were obtained: PT. Waskita Karya Tbk, PT Wijaya Karya Beton TBK, PT PP Properti TBK, PT PP Presisi TBK, PT Waskita Beton Precast TBK, PT Dayamitra Telekomunikasi Indonesia Tbk, PT. Garuda Maintenance Facility Aero Asia TBK, and PT Indofarma Tbk.

RESULTS AND DISCUSSION [Constantia, 12, normal], space 1

1. Analysis of problem findings

1. Descriptive Statistical Analysis

The following are the results of the descriptive statistical analysis that the researcher presents in table 1 below:

Table 1. Descriptive Statistical Analysis

	IO	MO	IBC	BD	AC	FD
Mean	.13291068280	.8513	.4409	4.63	3.22	.1569
Std. Deviation	.24878775804	.43681	.10816	1.1129	.555	2.35481
Minimum	.0000005286	.29	.25	2	2	-8.18
Maximum	.8248110274	2.06	.60	7	5	2.72

Source: Processed Data, 2025

Based on Table 1, the IO variable has a mean value of 0.13291068280, a Std deviation of 0.24878775804, a minimum value of 0.0000005286 and a maximum value of 0.8248110274. The MO variable has a mean value of 0.8513 , a Std deviation of 0.43681, a minimum value of 0.29 and a maximum value of 2.06. The IBC variable has a mean value of 0.4409 , a Std deviation of 0.10816 , a minimum value of 0.25 and a maximum value of 0.60. The BD variable has a mean value of 4.63, a Std deviation of 1.1129, a minimum value of 2 and a maximum value of 7. The AC variable has a mean value of 3.22, a Std deviation of 0.555 , a minimum value of 2 and a maximum value of 5. FD has a mean value of 0. 1569, Std deviation of 2.35481, minimum value of -8.18 and maximum value of 2.72

2. Multiple Linear Regression Analysis

The results of the multiple linear regression analysis are presented in Table 2 below:

Table 2. Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9.979	3.777		-2.642	.014
	IO	6.340	3.679	.670	1.723	.097
	MO	-6.054	1.901	-1.123	-3.184	.004
	IBC	4.896	3.304	.225	1.482	.150
	BD	1.177	.401	.564	2.939	.007
	AC	2.126	.593	.499	3.583	.001

Source: Processed Data, 2025

Based on Table 2, the multiple linear regression equation is obtained as follows:

FD = -9,979 + 6,340IO – 6,054MO + 4,896IBC + 1,177BD + 2,126AC

Note :

FD : Financial Distress

IO : Institutional Ownership

MO : Managerial Ownership

IBC : Independent Board of Commissioners

BD : Board of Directors

AC : Audit Committee

3. Analysis of Multiple Correlation Coefficient and Determination Coefficient

Table 3. Analysis of Multiple Correlation Coefficient and Determination Coefficient

Model	R	Adjusted R Square
1	.745[a]	.469

Source: Processed Data, 2025

Based on Table 3, the R square value is 0.745, which means there is a sufficient correlation between the independent variable and the dependent variable. The Adjusted R Square value of 0.469 concludes that the contribution of the influence of the independent variable on the dependent variable simultaneously is 46%, the remaining 54% can be influenced by other variables.

4. **F Test**

The results of the F test are presented in the following table 4:

Table 4. F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	95.408	5	19.082	6.486	<.001[b]
	Residual	76.492	26	2.942		
	Total	171.899	31			

a. Dependent Variable: FD

b. Predictors: (Constant), AC,BD,IBC,MO,IO

Source: Processed Data, 2025

5. T Test

Based on the T-test results in Table 2, it shows that institutional ownership has no effect on financial distress. Institutional ownership is only passive, not actively involved in managerial decision-making, and not all institutional investors are concerned with company efficiency, for example, only short-term oriented. The presence of independent commissioners in a company is often only to comply with applicable regulations and does not function properly, resulting in a condition where the independent commissioner's supervisory function does not function properly. In state-owned companies, the majority of shares are owned by the government, either directly or through state institutions. Institutional ownership tends to be passive, because strategic decisions are often influenced by political, social, or economic nationalist interests. Meanwhile, in private companies, institutional owners are usually professional investors (e.g., mutual funds, pension funds) who have an interest in long-term returns, thus encouraging efficiency and stronger managerial control. This research aligns with research by (Hanafi & Breliastiti, 2016), (Dianova & Nahumury, 2019), and (Fiolina, Allisa;Yuyetta, 2024), where institutional ownership has no effect on the occurrence of financial distress. However, this research differs from research by (Handriani et al., 2021) and (Hanafi & Breliastiti, 2016) which states that institutional ownership has no effect on the occurrence of financial distress.

Managerial ownership influences financial distress. Agency theory explains that agents can act outside the interests of the company or shareholders. This is due to the agent's desire to enrich themselves, so controls are needed to ensure that the agent acts in their own interests by granting shares to company management. Granting shares to management is expected to create a greater sense of ownership in the company, thereby reducing the occurrence of financial distress. Managers who also act as shareholders of the company will tend to be more responsible in managing financial risks, and managerial ownership encourages the alignment of management interests with the company, thereby reducing the likelihood of financial distress. This research aligns with research by (Hanafi & Breliastiti, 2016) and (Fiolina, Allisa;Yuyetta, 2024), where managerial ownership influences the occurrence of financial distress. However, this research is not in line with research (Alexandra et al., 2022) and (Dianova & Nahumury, 2019), which states that managerial ownership does not influence the occurrence of financial distress.

An independent board of commissioners has no effect on financial distress. The function of an independent commissioner in a company is to oversee the performance of the board of directors by controlling the company's financial affairs so that the board of directors does not take actions that could harm the company and avoid financial difficulties. If the existence of an independent board of commissioners is merely to fulfill formal regulatory requirements and does not consider actual quality, the independent board of commissioners' oversight role over management is ineffective. This can disrupt the company's operational activities and subsequently the company may experience financial difficulties both in the short and long term. Furthermore, there are factors that can cause the performance of independent commissioners to be poor, namely independent commissioners who do not have an accounting background, which can affect the oversight of the company's financial statements, making it ineffective. In state-owned companies, the existence of independent commissioners is often mandated by regulations (State-Owned Enterprise Law, POJK), but in practice, they are filled by affiliated or political parties. This oversight function tends to be weak. Meanwhile, in private companies, independent commissioners can be more objective and truly represent the interests of minority shareholders. This research aligns with research by (Dianova & Nahumury, 2019), (Alexandra et al., 2022) and (Fiolina, Allisa;Yuyetta, 2024), where the independent board of commissioners has no effect on the occurrence of financial distress. However, this research differs from research by (Handriani et al., 2021) and (Wayan et al., 2025) which states that the independent board of commissioners has an effect on the occurrence of financial distress.

The board of directors influences financial distress. A company's success is influenced by the policies or strategies adopted by the board of directors for the long or short term. Directors' consideration is necessary if the company is experiencing financial pressure. Companies experiencing financial distress will greatly require consideration from the board of directors, where the size of the board of directors influences the potential for the company to experience financial distress. Directors play a direct role in strategic and operational decision-making. Furthermore, the number of board members can indicate management strength, effective division of tasks, and risk mitigation capabilities. This research aligns with research by (Alexandra et al., 2022), (Hanafi & Breliastiti, 2016), and (Wayan et al., 2025) which found that the board of directors influences the occurrence of financial distress. However, this research differs from research by (Dianova & Nahumury, 2019) and (Fiolina, Allisa;Yuyetta, 2024) which states that the board of directors has no effect on the occurrence of financial distress.

The audit committee influences financial distress. An audit committee is a committee formed by the board of commissioners to work professionally and independently, tasked with assisting and strengthening the board of commissioners' duties. The board of commissioners is responsible for carrying out the financial reporting process, risk management, audit implementation, and corporate governance within a company. Based on signaling theory, financial reports can provide information regarding a company's financial condition, so the audit committee must be able to carry out its duties properly by ensuring that the information in the financial reports is included correctly. Financial reports contain information about the company's condition, so based on these financial reports, it can be determined whether the company is in a healthy condition or not. An effective audit committee can prevent financial report manipulation and improve internal controls, directly impacting the company's financial health, thereby reducing the risk of financial distress. This research aligns with research by (Damayanti & Kusumaningtias, 2020), (Rosita et al., 2024), and (Wayan et al., 2025) where the audit committee influences the occurrence of financial distress. However, this research differs from research by (Dianova & Nahumury, 2019) and (Alexandra et al., 2022) which states that the audit committee does not influence the occurrence of financial distress.

Institutional ownership, managerial ownership, an independent board of commissioners, a board of directors, and an audit committee influence financial distress. This is because these five variables are part of the Good Corporate Governance (GCG) mechanism, which collectively plays a role in creating a strong corporate internal control and oversight system. Institutional and managerial ownership encourage stricter oversight and alignment of interests between owners and management. The state, as the majority shareholder, can enforce governance standards, but political interests can undermine the effectiveness of financial controls. An independent board of commissioners provides objective oversight of corporate management. Effective oversight can reduce inefficiencies, corruption, and wasteful spending. Meanwhile, the board of directors, as a strategic decision-maker, plays a direct role in operational efficiency and risk management. The audit committee plays a crucial role in ensuring the reliability of financial reporting and effective internal control. If the five GCG variables are ineffective, this is due to the implementation of good corporate governance principles remaining formal and not being accompanied by substantial strengthening of governance quality. In practice, the roles of each GCG element are ineffective in carrying out their oversight, decision-making, and protecting the company's interests.:

CONCLUSION

Based on the results of the data analysis can be concluded that institutional ownership and an independent board of commissioners do not influence financial distress, while managerial ownership, the board of directors and the audit committee influence financial distress.

Based on the results of this study, suggestions for further research include Increasing the sample size and observation period so that the results reflect the true conditions of the determinants of financial distress in companies. Adding variables, including audit opinions, financial performance, and other variables that may influence financial distress in companies.

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