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The Impact of Audit Committees, Independent Boards of Commissioners, and Institutional Ownership on Financial Distress

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ABSTRACT

The Property and Real Estate sector is important to national economic growth. However, its dependence on fixed assets and long-term financing exposes companies to high financial risks. These risks were intensified by the COVID-19 pandemic and economic uncertainty, contributing to declining demand, cash flow pressures, and increasing financial burdens. Although the sector has shown signs of recovery, some companies continue to experience financial difficulties that may lead to Financial Distress. Governance mechanisms are therefore important for mitigating financial risks and maintaining corporate stability. This study aims to analyze the effects of the audit committee, independent board of commissioners, and institutional ownership on Financial Distress among Property and Real Estate companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024. The study employs a quantitative method using secondary data from annual reports. The sample is selected through purposive sampling based on predetermined criteria. Financial Distress is measured using the Altman Z-Score, while the independent variables consist of the audit committee, independent board of commissioners, and institutional ownership. Panel data regression is employed to examine their effects on Financial Distress. Given inconsistencies in previous empirical findings, this study provides updated evidence reflecting the characteristics of the Indonesian Property and Real Estate sector. The findings are expected to contribute to academic literature and provide practical insights for corporate management, investors, and regulators in strengthening governance mechanisms, mitigating financial risks, and supporting financial stability.

1. Introduction

Financial distress has become one of the most critical issues in corporate finance because it reflects a deterioration in a company's financial health before bankruptcy occurs. A company experiencing financial distress is generally unable to fulfill its financial obligations due to declining financial performance, limited liquidity, and weakening operational conditions (Altman, 1968). This condition may affect companies of various sizes and industries and is often caused by both internal and external factors. Internal factors include ineffective corporate management, inappropriate managerial decisions, and weaknesses in organizational control systems, while external factors may arise from economic uncertainty, market fluctuations, and changes in regulatory environments (Brigham & Houston, 2019). Furthermore, inadequate supervision of corporate financial conditions can accelerate the occurrence of financial distress, particularly when company resources are not allocated according to operational and strategic priorities (Mulansari & Setiyorini, 2019). Consequently, financial distress is often characterized by declining business performance, decreasing

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firm value, and reduced investor confidence (Wardoyo et al., 2022).

From a theoretical perspective, Agency Theory provides a relevant framework for understanding the emergence of financial distress. Jensen et al. (1976) explain that conflicts of interest may arise between shareholders as principals and managers as agents because managers possess greater access to information and control over corporate resources. In situations where monitoring mechanisms are weak, managers may engage in opportunistic behavior, such as manipulating financial information, pursuing personal interests, or concealing unfavorable financial conditions. Such actions can ultimately weaken corporate performance and increase the likelihood of financial distress. Therefore, effective governance mechanisms are essential to reduce agency conflicts and strengthen organizational accountability.

One of the most widely recognized governance mechanisms is Good Corporate Governance (GCG), which aims to promote transparency, accountability, responsibility, independence, and fairness in corporate management. The implementation of GCG is expected to improve monitoring effectiveness, reduce managerial opportunism, and maintain corporate financial stability. Previous studies suggest that governance mechanisms, including audit committees, independent commissioners, and institutional ownership, play important roles in preventing financial distress by strengthening oversight and improving decision-making quality (Ayu et al., 2024; Rendragraha & Santoso, 2024).

The relevance of financial distress becomes increasingly important in the property and real estate sector. This sector plays a strategic role in national economic development because it is closely linked to construction activities, building material industries, banking services, and employment creation. According to the Indonesia Stock Exchange Industrial Classification (IDX-IC), property and real estate companies are categorized under sector code H, encompassing property developers, real estate management companies, and commercial property service providers. However, the performance of this sector is highly sensitive to macroeconomic conditions, particularly interest rates, purchasing power, and government policies.

During the 2020–2024 period, Indonesia's property and real estate sector experienced considerable challenges following the COVID-19 pandemic. Although the sector gradually entered a recovery phase, market performance remained volatile due to weakening purchasing power, increasing financing costs, and tighter monetary policies. According to Bank Indonesia's Residential Property Survey, residential property sales contracted by 6.59% year-on-year in the third quarter of 2023 and further declined by 15.09% year-on-year in the fourth quarter of 2024. This decline reflects weakening market demand despite moderate increases in residential property prices. Furthermore, the increase in Bank Indonesia's benchmark interest rate since 2022 has increased borrowing costs and reduced housing affordability, thereby exerting additional pressure on property developers and investors.

The deterioration of market conditions has increased the financial vulnerability of property and real estate companies. The industry is characterized by high capital intensity, long investment horizons, and substantial dependence on debt financing. Consequently, rising interest rates have increased debt servicing obligations and refinancing risks, particularly among firms that rely heavily on external funding. In addition, concerns regarding mortgage loan quality and liquidity pressures have continued to emerge amid economic uncertainty and declining property demand. These conditions have increased the likelihood of financial distress among property companies, especially those with highly leveraged capital structures and long-term development projects financed through short-term liabilities.

During the last five years, especially following the COVID-19 pandemic, property and

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real estate companies in Indonesia have faced significant financial challenges. The increase in Bank Indonesia's benchmark interest rate since 2022 has increased financing costs and weakened mortgage demand, thereby placing substantial pressure on corporate cash flows. Companies relying on short-term financing to support long-term projects have become increasingly vulnerable to debt maturity mismatches and default risk. In addition, commercial property businesses have experienced rising vacancy rates and refinancing difficulties, leading to debt-funding gaps across the Asia-Pacific region, including Indonesia. These conditions have created substantial financial pressures that threaten corporate sustainability.

Several high-profile cases illustrate the severity of these challenges. PT Forza Land Indonesia Tbk (FORZ) was declared bankrupt by the Central Jakarta Commercial Court in 2022 (Decision No. 25/Pdt.Sus-Pembatalan Perdamaian/2022). Similar circumstances occurred at PT Cowell Development Tbk (COWL), which was declared bankrupt in 2020, and PT Hanson International Tbk (MYRX), which experienced debt payment failures before eventually entering bankruptcy proceedings. Furthermore, major listed firms such as PT Modernland Realty Tbk (MDLN) and PT Agung Podomoro Land Tbk (APLN) reportedly faced liquidity pressures due to declining sales performance and increasing interest expenses during the pandemic period. These cases demonstrate that financial distress represents a significant threat within the Indonesian property and real estate sector and highlight the need to identify governance mechanisms capable of mitigating such risks.

Previous studies examining the relationship between Good Corporate Governance and financial distress have produced inconsistent findings. Regarding audit committees, prior research suggests that characteristics such as committee size, independence, meeting frequency, and expertise can improve monitoring effectiveness and reduce the likelihood of financial distress (Masak & Noviyanti, 2019; Gustiawaty Dewi et al., 2024). However, the effectiveness of audit committees may vary across organizational and industrial contexts. Similarly, findings concerning independent commissioners remain inconclusive. Deviacita (2012) found that independent commissioners negatively and significantly influence financial distress, whereas Nurcahyani (2018) reported no significant effect due to the symbolic nature of monitoring activities. Contradictory findings are also evident in studies of institutional ownership. Santoso et al. (2022) found that institutional ownership reduces financial distress risk through stronger monitoring, while Syuliswati et al. (2023) and Utami and Dirman (2022) concluded that institutional ownership does not significantly affect financial distress because many institutional investors focus primarily on short-term investment returns.

The inconsistency of previous findings indicates the existence of a significant research gap. Although numerous studies have examined the influence of corporate governance mechanisms on financial distress, empirical evidence remains inconclusive, particularly within the property and real estate sector. Moreover, limited studies have investigated these relationships during the post-pandemic period, when companies faced unprecedented financial pressures arising from rising interest rates, refinancing difficulties, and declining market demand. Given the unique characteristics of the property and real estate industry, including high capital intensity and long investment horizons, further investigation is required to understand the effectiveness of governance mechanisms in mitigating financial distress.

Based on the foregoing discussion, the research problem addressed in this study is whether audit committees, independent commissioners, and institutional ownership significantly influence financial distress among property and real estate companies listed on the Indonesia Stock Exchange. Accordingly, this study aims to examine and analyze the effects of

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audit committees, independent commissioners, and institutional ownership on financial distress in property and real estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

This study is expected to make both theoretical and practical contributions. Theoretically, it contributes to the development of Agency Theory and the Good Corporate Governance literature by providing updated empirical evidence regarding the effectiveness of governance mechanisms in reducing financial distress risk. Practically, the findings may assist corporate management in strengthening governance practices and enhancing internal monitoring systems to improve financial resilience. In addition, investors and other stakeholders may use the findings as a reference in evaluating governance quality and financial risk when making investment decisions within the property and real estate sector.

The novelty of this study lies in its focus on the combined effects of audit committees, independent commissioners, and institutional ownership on financial distress within Indonesian property and real estate companies during the 2020–2024 period. This period represents a unique economic context characterized by post-pandemic recovery, increasing financing costs, and heightened liquidity pressures. Consequently, the study provides updated evidence regarding the effectiveness of Good Corporate Governance mechanisms in mitigating financial distress risk within one of Indonesia's most economically significant sectors.

2. Literature Review

2.1 Conceptual and Theoretical Foundations

2.1.1 Agency Theory

Agency Theory provides the primary theoretical foundation for understanding corporate governance mechanisms and organizational control systems. The theory was comprehensively introduced by Jensen et al. (1976) in their seminal work *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*. According to this theory, the relationship between shareholders (principals) and managers (agents) is contractual in nature, whereby principals delegate decision-making authority to agents to operate the firm on their behalf. While such delegation enhances organizational efficiency, it also creates the potential for conflicts of interest because agents may possess objectives, motivations, and information that differ from those of principals.

These conflicts primarily arise from information asymmetry, a condition in which managers have greater access to internal company information than shareholders. This imbalance limits the ability of principals to fully observe managerial actions and may encourage opportunistic behavior, such as maximizing personal compensation, pursuing short-term performance objectives, or manipulating financial reports. Jensen et al. (1976) identified this phenomenon as the agency problem.

To mitigate agency problems, Jensen et al. (1976) introduced the concept of agency costs, which consist of monitoring costs, bonding costs, and residual loss. Monitoring costs refer to expenditures incurred by principals to supervise managerial behavior through mechanisms such as audits, internal reporting systems, and oversight committees. Bonding costs are incurred by agents to assure principals that their actions are aligned with shareholders' interests. Residual loss represents the remaining inefficiencies that persist even after monitoring and bonding mechanisms have been implemented. Consequently, organizations continuously face the challenge of designing efficient governance structures capable of minimizing conflicts between owners and managers.

Eisenhardt (1989) further expanded Agency Theory by emphasizing that the theory not only addresses conflicts of interest but also explains how incentive systems and contractual arrangements can align the interests of principals and agents. Eisenhardt identified two major streams within Agency Theory: the

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positivist approach and the principal–agent approach. The positivist perspective focuses on situations where conflicts of interest are evident and require monitoring mechanisms such as independent boards, audit committees, and ownership structures. In contrast, the principal–agent perspective concentrates on designing optimal contracts based on risk preferences, performance measurement, and environmental uncertainty. According to this perspective, outcome-based contracts, such as performance-based compensation, are more effective when managerial behavior is difficult to observe, whereas behavior-based contracts are preferable when monitoring is feasible.

The relevance of Agency Theory remains significant in contemporary corporate environments, including Indonesian firms. Although both principals and agents seek to maximize corporate value, their interests do not always align, thereby creating potential agency conflicts if adequate governance mechanisms are absent (Wardoyo et al., 2021). Therefore, effective monitoring systems are essential to minimize conflicts between shareholders and management.

Information transparency also plays a crucial role in reducing agency conflicts. Wardoyo and Utami (2024) argue that transparent and positive corporate disclosures can reduce information asymmetry and enhance investor confidence. Consequently, transparency serves not only as a communication mechanism but also as a governance tool consistent with the principles of Agency Theory.

Furthermore, Utami (2024) highlights that governance mechanisms such as audit committees and institutional ownership play essential roles in maintaining effective oversight. Audit committees are responsible for ensuring the fairness of financial reporting and the effectiveness of audit processes, while institutional investors possess the capacity to influence managerial decisions and discipline underperforming management teams. The study found that firms with stronger governance mechanisms are more capable of avoiding Financial Distress, thereby supporting the Agency Theory perspective that effective monitoring reduces risk and enhances transparency.

In financially distressed firms, agency conflicts may become more pronounced because managers may attempt to conceal unfavorable conditions or undertake excessive risk-taking to preserve their positions. Under such circumstances, governance mechanisms become increasingly important. Active audit committees, competent independent commissioners, and vigilant institutional investors can help reduce moral hazard behavior and ensure that information disclosed to shareholders remains reliable and transparent.

2.1.2 Financial Distress

Financial Distress refers to a condition of financial difficulty experienced by a company prior to bankruptcy, resulting from its inability to fulfill financial obligations and effectively manage its financial resources (Wahyu Hidayat, 2024). It reflects a deterioration in a firm's financial capacity, typically characterized by declining profitability, cash flow constraints, and increasing dependence on debt financing. Financial Distress is therefore considered an early stage of financial failure during which corrective actions may still be implemented to restore financial stability (Senbet et al., 2012).

At this stage, firms face a growing risk of default if they fail to adjust their financing and operational strategies. Previous studies suggest that financial performance is closely associated with Financial Distress, although empirical findings are not always consistent (Adrian & Supriyanto, 2024). Among financial indicators, leverage has demonstrated a relatively consistent relationship with Financial Distress. Firms with higher debt burdens tend to be more vulnerable to financial difficulties than firms with balanced capital structures. This indicates that excessive reliance on debt financing significantly increases the likelihood of financial distress, particularly when operational

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performance is insufficient to support debt obligations.

Sudaryanti and Dinar (2019) argue that Financial Distress can be predicted using key financial ratios, including profitability, liquidity, leverage, and cash flow ratios. Their findings reveal that declining profitability and inadequate operating cash flows signal a weakening ability to meet financial obligations. Additionally, high leverage ratios increase the risk of Financial Distress by imposing greater debt repayment burdens, particularly when liquidity conditions are unfavorable. Therefore, these financial indicators serve as important early warning signals for identifying potential financial difficulties.

Similarly, Fitriani et al. (2023) demonstrate that operating cash flow, profitability, liquidity, and solvency significantly influence Financial Distress. Firms characterized by low operating cash flow and declining profitability are more susceptible to financial pressure. Moreover, weak liquidity and solvency indicate limitations in maintaining financial stability and fulfilling both short-term and long-term obligations. Consequently, these financial ratios provide valuable tools for assessing a firm's vulnerability to Financial Distress.

2.1.3 Good Corporate Governance

Good Corporate Governance (GCG) constitutes a fundamental framework for ensuring that firms are managed effectively, transparently, and accountably. The implementation of GCG is closely associated with efforts to minimize conflicts of interest arising from the separation of ownership and control. Through effective monitoring mechanisms, GCG reduces information asymmetry and encourages management to act in accordance with shareholders' interests (Claessens & Yurtoglu, 2013).

Companies that effectively implement GCG principles generally demonstrate more stable performance, higher investor confidence, and lower operational risk exposure (Brown & Caylor, 2006). Within the GCG framework, internal monitoring mechanisms play a central role in ensuring accountability and integrity in corporate management.

One of the most important governance mechanisms is the audit committee, which plays a strategic role in safeguarding the quality of financial reporting, strengthening internal control systems, and ensuring regulatory compliance. An effective audit committee reduces opportunities for information manipulation and enhances transparency in the reporting process. Previous studies indicate that audit committees contribute significantly to overall governance quality by serving as an intermediary between the board of commissioners and the external auditing process (Hermawan, 2011).

Institutional ownership also represents a critical component of effective corporate governance. Institutional investors generally possess greater monitoring capabilities than individual shareholders because they have superior resources, expertise, and incentives to oversee managerial actions. Higher levels of institutional ownership are often associated with stronger managerial discipline, more effective oversight, and a reduced likelihood of opportunistic behavior (Claessens & Yurtoglu, 2013). Consequently, institutional investors contribute to ensuring that firms operate efficiently and in accordance with sound governance principles.

In addition, independent commissioners strengthen governance effectiveness by providing objective oversight and protecting the interests of both majority and minority shareholders. Their independence enables them to evaluate managerial decisions impartially and contribute to greater accountability and transparency.

Collectively, audit committees, independent commissioners, and institutional ownership function as complementary governance mechanisms within the GCG framework. Audit committees enhance financial reporting transparency, independent commissioners promote objective oversight, and institutional investors provide external

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monitoring pressure that encourages managerial accountability. The integration of these mechanisms helps reduce information asymmetry, limit managerial opportunism, and balance the interests of shareholders and management. Firms that effectively implement these governance mechanisms are generally better positioned to achieve sustainable growth and long-term value creation (Brown & Caylor, 2006; Hermawan, 2011; Wardhani, 2007).

2.1.4 Audit Committee

The audit committee is a strategic governance mechanism that enhances the effectiveness of oversight over financial reporting and managerial performance. An effective audit committee is expected to reduce managerial misconduct and improve the quality of financial information disclosed to stakeholders. In the context of Financial Distress, the monitoring function of the audit committee becomes particularly important because unreliable financial reporting may increase decision-making errors and worsen a firm's financial condition (Zabrina, 2022).

According to Financial Services Authority Regulation (POJK) No. 55/POJK.04/2015, public companies are required to establish an audit committee consisting of at least three members, including one independent commissioner serving as chairperson and two external members. Zabrina (2022) argues that the presence of an audit committee enhances the effectiveness of supervision over operational activities and financial reporting. Improved monitoring is expected to minimize various risks, including financial difficulties, by ensuring that business activities comply with applicable regulations and governance principles.

In this study, the audit committee variable is measured by the total number of audit committee members within a company, as follows:

Audit Committee = Σ Total Audit Committee Members

(Trisetyo & Amanah, 2019)

The number of audit committee members reflects the committee's monitoring capacity and intensity. A larger committee is expected to improve oversight effectiveness through better distribution of responsibilities and expertise. This measurement follows the approach adopted by Trisetyo and Amanah (2019).

2.1.5 Independent Board of Commissioners

The Independent Board of Commissioners consists of board members who have no affiliation with controlling shareholders, management, or other parties that may compromise their objectivity. Independent commissioners are responsible for overseeing management activities, ensuring compliance with Good Corporate Governance principles, advising directors, and protecting shareholder interests, including those of minority shareholders (Maryanti & Magfiroh, 2024).

Apriliani (2023) emphasizes that independent commissioners play a critical role in promoting Good Corporate Governance by fostering objective oversight, protecting fairness between majority and minority shareholders, and enhancing transparency and accountability in corporate decision-making processes. Their independence enables them to provide unbiased evaluations free from managerial or shareholder influence.

The effectiveness of independent commissioners is commonly measured by their proportion within the board structure, using the following formula:

Independent Board of Commissioners = Total Independent Commissioners / Total Commissioners

(Trisetyo & Amanah, 2019)

A higher ratio indicates a greater proportion of independent commissioners, suggesting stronger oversight and more effective implementation of Good Corporate Governance principles.

2.1.6 Institutional Ownership

Institutional ownership refers to the proportion of company shares held by

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professional institutions such as investment companies, pension funds, banks, insurance firms, mutual funds, and other financial institutions. Institutional investors generally possess superior analytical capabilities and monitoring resources, enabling them to strengthen corporate governance and managerial oversight (Darma & Sijabat, 2022).

Institutional ownership contributes significantly to managerial monitoring because institutional shareholders actively supervise operational performance and strategic decision-making. Given their substantial investments, institutional investors tend to discourage earnings manipulation and other opportunistic managerial behaviors. Higher levels of institutional ownership are therefore associated with stronger monitoring efforts and reduced agency conflicts (Kusnanto et al., 2022).

Overall, institutional ownership serves as an external governance mechanism that strengthens corporate governance effectiveness. Through enhanced monitoring capabilities, institutional investors can reduce managerial opportunism, improve organizational discipline, and encourage firms to operate efficiently and responsibly.

The institutional ownership variable is measured as follows:

Institutional Ownership = (Institutional Shares Owned / Total Outstanding Shares) × 100%

(Kusnanto et al., 2022)

A higher percentage indicates a stronger institutional presence within the ownership structure and greater monitoring effectiveness.

2.1.7 Altman Z-Score Model

The Altman Z-Score model is one of the most widely used methods for evaluating corporate financial health and predicting the likelihood of bankruptcy. The model combines several key financial ratios that collectively reflect a firm's financial performance and stability (Ardiansyah, 2025).

The Altman Z-Score is designed to assess a company's financial condition and estimate the probability of bankruptcy over the short to medium term. The model incorporates financial indicators representing liquidity, profitability, leverage, and asset utilization efficiency. Altman (1968) developed the model using stepwise multivariate discriminant analysis (MDA), a statistical technique that distinguishes between financially healthy and distressed firms (Primasari, 2017).

The original Altman Z-Score model is expressed as:

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

where:

X_1 = Working Capital / Total Assets

X_2 = Retained Earnings / Total Assets

X_3 = Earnings Before Interest and Taxes / Total Assets

X_4 = Market Value of Equity / Book Value of Debt

X_5 = Sales / Total Assets

The resulting score is classified into three categories. Firms with a score above 2.99 are considered financially healthy, while firms with a score below 1.81 are classified as financially distressed and potentially bankrupt. Scores ranging from 1.81 to 2.99 fall within the *gray area*, indicating moderate financial distress risk (Primasari, 2017).

Although initially developed for publicly listed companies, the Altman Z-Score model has subsequently been adapted and applied to non-public firms, making it one of the most widely accepted tools for predicting Financial Distress across various organizational contexts.

2.2 Review of Empirical Studies

2.2.1 Good Corporate Governance and Financial Distress

The relationship between Good Corporate Governance (GCG) and Financial Distress has received considerable attention in corporate governance literature. GCG is generally regarded as a mechanism that enhances managerial accountability, improves transparency, and reduces agency conflicts, thereby lowering the likelihood of financial difficulties. Effective governance structures facilitate better monitoring of managerial decisions and promote prudent financial

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management, which ultimately contributes to corporate sustainability.

Recent empirical studies have consistently highlighted the importance of governance mechanisms in mitigating financial distress risk. Ayu et al. (2024) found that firms implementing stronger governance practices exhibited lower probabilities of experiencing Financial Distress due to improved monitoring and decision-making processes. Similarly, Rendragraha and Santoso (2024) reported that governance mechanisms, including audit committees, independent commissioners, and institutional ownership, significantly contributed to maintaining financial stability and reducing corporate risk exposure.

Despite the general consensus regarding the beneficial role of GCG, previous studies have reported varying magnitudes of influence across different industries and institutional settings. Such inconsistencies suggest that the effectiveness of governance mechanisms may depend on contextual factors, including ownership structures, regulatory environments, and sector-specific characteristics. Nevertheless, the majority of empirical evidence supports the argument that effective governance serves as an important preventive mechanism against Financial Distress.

2.2.2 Audit Committee and Financial Distress

The audit committee is widely recognized as one of the most important governance mechanisms for reducing Financial Distress risk. Through its oversight function, the audit committee enhances the quality of financial reporting, strengthens internal control systems, and ensures compliance with regulatory requirements. These functions are particularly important in preventing the deterioration of financial conditions that may eventually lead to Financial Distress.

Tran (2025) found that both audit committee independence and audit committee size exert a significant negative effect on Financial Distress. Companies with stronger audit committee structures were less likely to experience financial difficulties because effective oversight reduced the likelihood of financial mismanagement and reporting irregularities. These findings support the view that audit committees play a critical role in monitoring corporate financial health.

Furthermore, Rusmita et al. (2023) demonstrated that the effectiveness of audit committees is influenced not only by their existence but also by their internal characteristics, including members' educational backgrounds and meeting frequency. Their study revealed that audit committees with accounting or financial expertise and regular meetings were more capable of identifying financial risks at an early stage, thereby reducing the probability of Financial Distress.

Similarly, Mulansari and Setiyorini (2019) emphasized that effective audit committees function as significant financial risk control mechanisms. Through continuous monitoring of financial performance and regulatory compliance, audit committees help organizations identify and address emerging financial problems before they escalate into severe financial difficulties. Collectively, these studies suggest that audit committees contribute substantially to financial stability and organizational resilience.

2.2.3 Independent Board of Commissioners and Financial Distress

The Independent Board of Commissioners serves as an essential governance mechanism that provides objective oversight of managerial decisions. Independent commissioners are expected to evaluate corporate policies impartially and prevent management from engaging in excessively risky behavior that may threaten organizational sustainability.

Empirical evidence supports the importance of independent commissioners in mitigating Financial Distress. Tron et al. (2023) found that active and independent board oversight significantly reduced the likelihood of managerial decisions that could jeopardize financial stability. Their findings suggest that

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independent commissioners contribute to maintaining liquidity and ensuring that firms can meet their financial obligations.

The effectiveness of independent commissioners also depends on their expertise and professional experience. Rusmita et al. (2023) reported that firms with competent independent commissioners possessing managerial or financial expertise were better able to detect financial problems before they developed into severe financial difficulties. Such expertise enables commissioners to critically evaluate financial reports, investment decisions, and operational strategies.

Consistent with these findings, Mulansari and Setiyorini (2019) concluded that strong governance mechanisms, including independent commissioners, contribute significantly to corporate risk management. By strengthening accountability and internal oversight, independent commissioners help reduce the probability of Financial Distress and support long-term organizational sustainability.

2.2.4 Institutional Ownership and Financial Distress

Institutional ownership represents an important external governance mechanism capable of reducing Financial Distress risk through enhanced monitoring of managerial behavior. Institutional investors typically possess substantial resources, expertise, and incentives to supervise management and influence strategic corporate decisions.

Mulansari and Setiyorini (2019) found that institutional ownership has a significant negative effect on Financial Distress. Firms with higher levels of institutional ownership demonstrated a lower likelihood of experiencing financial difficulties because institutional investors actively monitored managerial performance and encouraged prudent financial decision-making.

Institutional investors also contribute to greater transparency and accountability within organizations. They often demand accurate financial reporting, effective governance practices, and rational business strategies. As a result, management is subjected to stronger external monitoring and is less likely to engage in opportunistic behavior. Tran (2025) further demonstrated that institutional investors help reduce the probability of Financial Distress by discouraging excessive risk-taking and promoting adherence to sound governance principles.

Overall, the empirical literature suggests that institutional ownership functions not only as a source of capital but also as an effective governance mechanism that strengthens corporate control systems. Firms characterized by substantial institutional ownership tend to exhibit stronger governance structures and lower financial distress risk.

2.3 Identification of the Research Gap

Although previous studies have extensively examined the relationship between corporate governance mechanisms and Financial Distress, several research gaps remain.

First, prior empirical findings have produced inconsistent results regarding the effectiveness of governance mechanisms in preventing Financial Distress. While studies such as Mulansari and Setiyorini (2019), Rusmita et al. (2023), Tron et al. (2023), and Tran (2025) generally report significant negative relationships between governance mechanisms and Financial Distress, the magnitude and significance of these relationships vary across different contexts and industries. These inconsistencies indicate that further investigation is necessary to understand how governance mechanisms operate under different organizational conditions.

Second, much of the existing literature has focused on manufacturing, financial, and general listed companies, while relatively limited attention has been devoted to the property and real estate sector. This sector possesses unique characteristics, including high capital intensity, substantial debt dependence, long project cycles, and vulnerability to macroeconomic fluctuations. These

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characteristics may alter the effectiveness of governance mechanisms in mitigating Financial Distress.

Third, previous studies often examine governance variables separately rather than considering them as interconnected components of a broader Good Corporate Governance framework. Consequently, there remains a need for research that simultaneously investigates the effects of audit committees, independent commissioners, and institutional ownership as complementary governance mechanisms.

Fourth, despite the growing importance of corporate governance in emerging markets, empirical evidence from Indonesia remains relatively limited compared with developed economies. Differences in regulatory environments, ownership concentration, investor protection, and governance practices may influence the relationship between governance mechanisms and Financial Distress.

Accordingly, this study seeks to address these gaps by examining the influence of Good Corporate Governance, represented by audit committees, independent commissioners, and institutional ownership, on Financial Distress among property and real estate companies listed on the Indonesia Stock Exchange (IDX). By focusing on this sector and integrating multiple governance mechanisms within a single analytical framework, the study contributes to extending the existing literature and providing updated empirical evidence from an emerging market context.

2.4 Development of the Conceptual Framework

Agency Theory suggests that conflicts of interest arise due to the separation of ownership and control within corporations (Jensen et al., 1976; Eisenhardt, 1989). These conflicts may increase managerial opportunism and weaken financial performance, thereby increasing the likelihood of Financial Distress. Consequently, governance mechanisms are necessary to monitor managerial actions and align managerial interests with those of shareholders.

Good Corporate Governance serves as a monitoring and control system designed to reduce information asymmetry and agency conflicts. Within this framework, audit committees, independent commissioners, and institutional ownership represent complementary governance mechanisms that enhance oversight effectiveness and improve financial decision-making.

Audit committees contribute to financial stability by strengthening financial reporting quality and internal control effectiveness. Independent commissioners provide objective supervision and reduce the likelihood of risky managerial decisions. Institutional ownership enhances external monitoring and encourages management accountability. Collectively, these governance mechanisms are expected to reduce the probability of Financial Distress.

Based on the theoretical arguments and empirical evidence discussed above, the conceptual framework proposes that Good Corporate Governance and its components—namely audit committees, independent commissioners, and institutional ownership—negatively influence Financial Distress.

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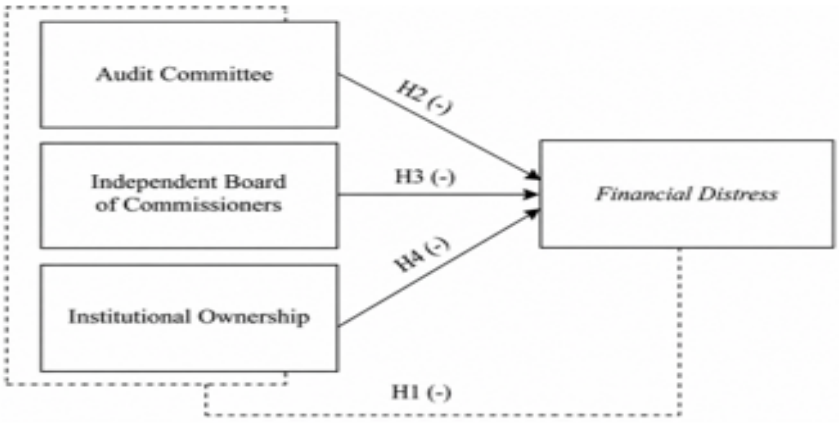

Fig 1. Conceptual Framework

2.5 Hypotheses or Research Propositions

2.5.1 Good Corporate Governance and Financial Distress

Agency Theory argues that effective governance mechanisms are necessary to reduce agency conflicts arising from the separation of ownership and control (Jensen et al., 1976; Eisenhardt, 1989). Through enhanced monitoring and accountability, Good Corporate Governance (GCG) can mitigate managerial opportunism, improve decision-making quality, and strengthen financial performance. Effective governance mechanisms also promote transparency and reduce information asymmetry between management and shareholders, thereby lowering the probability of financial deterioration.

Financial Distress often emerges when managerial decisions fail to adequately address operational and financial risks. In this context, governance mechanisms function as preventive controls that ensure management acts in the best interests of shareholders. Ayu et al. (2024) argue that firms implementing stronger governance practices are generally better equipped to manage risks and maintain financial stability. Similarly, Rendragraha and Santoso (2024) found that governance mechanisms significantly contribute to corporate financial resilience by improving oversight and strengthening organizational accountability.

Within the Good Corporate Governance framework, audit committees, independent commissioners, and institutional ownership collectively serve as complementary monitoring mechanisms. Their combined effectiveness is expected to enhance managerial discipline, reduce agency costs, and improve financial sustainability. Consequently, firms with stronger governance structures are less likely to experience Financial Distress. Based on the theoretical arguments and empirical evidence discussed above, the following hypothesis is proposed:

H1: *Good Corporate Governance, represented by audit committees, independent commissioners, and institutional ownership, has a negative effect on Financial Distress among property and real estate companies listed on the Indonesia Stock Exchange.*

2.5.2 Audit Committee and Financial Distress

The audit committee plays a critical role in strengthening corporate governance through oversight of financial reporting, internal controls, and compliance processes. According to Agency Theory, effective monitoring mechanisms reduce agency problems by limiting managerial discretion and increasing accountability (Jensen et al., 1976).

An effective audit committee enhances the reliability of financial information and facilitates early detection of financial risks. Through regular monitoring activities, audit committees can identify weaknesses in financial management and recommend corrective actions before financial problems escalate into

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Financial Distress. Consequently, firms with stronger audit committees are expected to possess better financial control systems and lower financial risk exposure.

Empirical evidence supports this argument. Tran (2025) found that audit committee independence and committee size significantly reduce the likelihood of Financial Distress. Likewise, Rusmita et al. (2023) demonstrated that audit committees with financial expertise and frequent meetings are more capable of identifying financial risks at an early stage. Furthermore, Mulansari and Setiyorini (2019) emphasized that audit committees serve as effective mechanisms for controlling financial risk and improving financial stability.

Therefore, the presence of a larger and more effective audit committee is expected to reduce the probability of Financial Distress. Based on the above discussion, the following hypothesis is formulated:

H2: *Audit committee size has a negative effect on Financial Distress among property and real estate companies listed on the Indonesia Stock Exchange.*

2.5.3 Independent Board of Commissioners and Financial Distress

Independent commissioners are responsible for providing objective oversight of managerial activities and ensuring that corporate decisions are aligned with shareholder interests. Agency Theory suggests that independent monitoring mechanisms help reduce conflicts of interest and managerial opportunism, thereby improving organizational performance and reducing risk (Jensen et al., 1976; Eisenhardt, 1989).

Independent commissioners contribute to corporate financial stability by supervising strategic decisions, evaluating management performance, and ensuring compliance with governance principles. Their independence enables them to assess managerial actions objectively and discourage excessive risk-taking behavior that may jeopardize financial sustainability.

Empirical studies provide evidence supporting this relationship. Tron et al. (2023) reported that active independent boards significantly reduce the likelihood of managerial decisions that may lead to financial instability. Similarly, Rusmita et al. (2023) found that firms with competent independent commissioners are better able to identify and address financial problems before they develop into severe financial difficulties. Mulansari and Setiyorini (2019) further concluded that independent commissioners contribute substantially to corporate risk management and financial sustainability.

Accordingly, a higher proportion of independent commissioners is expected to strengthen governance effectiveness and reduce the risk of Financial Distress.Based on these arguments, the following hypothesis is proposed:

H3: *The proportion of independent commissioners has a negative effect on Financial Distress among property and real estate companies listed on the Indonesia Stock Exchange.*

2.5.4 Institutional Ownership and Financial Distress

Institutional ownership represents an external governance mechanism capable of enhancing managerial monitoring and reducing agency conflicts. Institutional investors generally possess greater expertise, resources, and incentives to supervise managerial actions compared with individual investors (Darma & Sijabat, 2022).

From an Agency Theory perspective, institutional investors function as effective monitoring agents because they actively evaluate managerial performance and influence strategic corporate decisions. Their presence discourages opportunistic managerial behavior and encourages prudent financial management. As a result, firms with higher institutional ownership are expected to demonstrate stronger governance quality and lower financial risk.

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Empirical evidence consistently supports this argument. Mulansari and Setiyorini (2019) found that institutional ownership significantly reduces Financial Distress risk by strengthening monitoring effectiveness. Similarly, Tran (2025) reported that institutional investors help improve transparency and accountability while discouraging excessive risk-taking behavior. Through continuous monitoring and active engagement, institutional investors contribute to maintaining corporate financial stability.

Therefore, higher levels of institutional ownership are expected to reduce the likelihood of Financial Distress. Based on the foregoing discussion, the following hypothesis is formulated:

H4: *Institutional ownership has a negative effect on Financial Distress among property and real estate companies listed on the Indonesia Stock Exchange.*

3. Research Methods

3.1 Research Design

Research methodology is a scientific approach used to obtain data for achieving specific research objectives and benefits. In this context, four essential elements must be considered, namely scientific procedures, data, objectives, and usefulness. Scientific procedures indicate that research activities must be based on scientific principles that are rational, empirical, and systematic. Rational means that the research is conducted through procedures that are logically acceptable and explainable. Empirical indicates that the methods employed can be observed and verified through sensory observation, allowing others to understand and examine the research process. Systematic means that the research is conducted through logically structured and organized stages (Sugiyono, 2021).

This study employs a quantitative research method. According to Sugiyono (2021), quantitative methods are recognized as traditional research methods because they have long been widely used and developed as a common research approach. This method is grounded in positivist philosophy, emphasizing the application of scientific principles in the research process. Quantitative methods are categorized as scientific methods because they fulfill empirical, objective, measurable, rational, and systematic scientific standards. Furthermore, they are often referred to as discovery methods because they facilitate the development of new knowledge and technology. Quantitative research emphasizes the use of numerical data analyzed through statistical techniques to derive research conclusions.

This study is positioned as a quantitative explanatory research study rather than a case study. The explanatory design is appropriate because the study aims to examine the causal relationships between Good Corporate Governance mechanisms, namely Audit Committee, Independent Board of Commissioners, and Institutional Ownership, and Financial Distress. The study uses an empirical, structured, and hypothesis-driven approach based on numerical secondary data obtained from publicly listed companies.

The study uses panel data as the analytical data structure because the observations involve multiple companies observed repeatedly over several years. Panel data combine cross-sectional observations across different companies with time-series observations over successive periods. In this study, the cross-sectional dimension consists of 24 property and real estate companies, while the time-series dimension covers five years from 2020 to 2024, resulting in 120 firm-year observations. The use of panel data regression is therefore appropriate because it enables the analysis to account for both differences across companies and changes within companies over the observation period. This approach provides more informative empirical evidence than analyzing the cross-sectional or time-series dimension separately and is consistent with the structure of the data used in this study.

The unit of analysis consists of group-level data obtained from property and real

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estate companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.

The study investigates causal relationships among variables, where one variable functions as a factor influencing or causing changes in another variable. The independent variables consist of Audit Committee, Independent Board of Commissioners, and Institutional Ownership, while Financial Distress serves as the dependent variable (Sugiyono, 2021).

The study utilizes secondary data in the form of annual reports from property and real estate companies listed on the Indonesia Stock Exchange during 2020–2024. The resulting dataset has a panel structure consisting of 24 companies observed annually for five consecutive years, producing 120 firm-year observations. Accordingly, panel data regression is employed to estimate the relationships between the independent variables and Financial Distress while utilizing both the cross-sectional and temporal dimensions of the dataset. Based on the time dimension of data collection, this study applies panel data, which combines time-series and cross-sectional data. Time-series data involve repeated observations of the same variables over specific periods (Sekaran & Bougie, 2017), whereas cross-sectional data are collected from one or more research objects at a particular point in time using similar or different instruments (Sugiyono, 2021).

Furthermore, this study is conducted in a non-contrived setting, meaning that the research takes place in a natural environment where the observed organizations operate normally without any artificial intervention from the researcher (Sekaran & Bougie, 2017).

3.2 Research Context and Setting

The research was conducted in the property and real estate sector in Indonesia. The focus was on companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. This sector was selected because several companies experienced indications of Financial Distress during the observation period, making it relevant for examining the effectiveness of Good Corporate Governance mechanisms in mitigating financial difficulties.

The study investigates the influence of Good Corporate Governance mechanisms, particularly Institutional Ownership, Independent Board of Commissioners, and Audit Committee, on Financial Distress among publicly listed property and real estate companies.

3.3 Population and Sample / Research Participants

Population refers to a generalized scope consisting of objects or subjects possessing specific qualities and characteristics determined by the researcher for investigation, enabling conclusions to be drawn from them. Population encompasses not only individuals but also objects and other natural entities, including all characteristics and attributes associated with those objects or subjects (Sugiyono, 2021).

The sample represents a portion of the population reflecting its characteristics and attributes. When the population is too large to be studied comprehensively due to limitations of time, resources, or cost, a representative sample may be selected (Sugiyono, 2021).

This study employs purposive sampling. Purposive sampling refers to the selection of information sources based on specific objectives or predetermined considerations to ensure relevance to the research purpose (Yusuf, 2014).

The sampling criteria are as follows:

a. Property and real estate companies listed on the Indonesia Stock Exchange during 2020–2024.
b. Property and real estate companies that consistently published financial statements and annual reports throughout 2020–2024

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Table 1. Sample Selection Criteria

No	Sample Criteria	Number
1	Property and real estate companies listed on IDX during 2020–2024	92
2	Companies not consistently listed on IDX during 2020–2024	(15)
3	Companies experiencing trading suspension during 2020–2024	(22)
4	Companies not consistently publishing financial statements and annual reports during 2020–2024	(14)
5	Companies identified as having outlier data	(17)
	Final sample companies	24
	Total observations (24 × 5 years)	120

Source: Processed data (2025)

Based on these criteria, 24 companies were selected as research objects, resulting in 120 firm-year observations.

3.4 Data Sources and Data Collection

This study utilizes quantitative secondary data. According to Sugiyono (2021), secondary data are research data obtained indirectly through other parties or documented sources. Sekaran and Bougie (2017) explain that secondary data may originate from statistical bulletins, government publications, internal and external company records, case studies, library documents, previous research, and online sources.

Two data collection techniques were employed:

3.4.1 Documentation

Documentation was used to obtain secondary data from annual financial reports of property and real estate companies listed on the Indonesia Stock Exchange during 2020–2024. These reports were collected from the official IDX website (www.idx.co.id) and the official websites of the sampled companies.

3.4.2 Literature Study

Literature study involved reviewing and analyzing theories and previous studies relevant to the research topic. Sources included textbooks, theses, scientific journal articles, and internet-based information related to the variables and research problem.

3.5 Measurement of Variables and Research Instruments

3.5.1 Dependent Variable

a. Financial Distress (Y)

Financial Distress refers to a condition of financial difficulty experienced before a company reaches bankruptcy and does not necessarily end in liquidation (Senbet et al., 2012).

The measurement follows the Altman Z-Score model:

$$Z\text{-}Score = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1.0X_5$$

Where:

X_1= Working Capital / Total Assets

X_2= Retained Earnings / Total Assets

X_3= Earnings Before Interest and Taxes / Total Assets

X_4= Market Value of Equity / Book Value of Debt

X_5= Sales / Total Assets

(Altman, 1968)

Measurement scale: Ratio.

3.5.2 Independent Variables

a. Audit Committee (X_1)

The Audit Committee plays a strategic role in corporate governance by enhancing the effectiveness of oversight over financial reporting and managerial performance. An effective audit committee is expected to reduce managerial misconduct and improve the quality of financial information disclosed to stakeholders (Zabrina, 2022).

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$$Audit\ Committee = \sum Total\ Audit\ Committee\ Members$$

(Trisetyo & Amanah, 2019)
Measurement scale: Ratio.

b. Independent Board of Commissioners (X_2)

Independent commissioners oversee management and ensure that the company operates according to Good Corporate Governance principles, provide advice to directors, and protect shareholder interests, including minority shareholders (Maryanti & Magfiroh, 2024).

$$Independent\ Board\ of\ Commissioners = \frac{Total\ Independent\ Commissioners}{Total\ Commissioners}$$

(Trisetyo & Amanah, 2019)
Measurement scale: Ratio.

c. Institutional Ownership (X_3)

Institutional ownership refers to the proportion of company shares owned by institutions or professional investors such as investment firms, pension funds, banks, insurance companies, mutual funds, and other financial institutions (Darma & Sijabat, 2022).

$$Institutional\ Ownership = \frac{Institutionally\ Owned\ Shares}{Total\ Outstanding\ Shares} \times 100\%$$

(Kusnanto et al., 2022)
Measurement scale: Ratio.

3.6 Data Analysis Techniques

Data analysis was conducted after all research data had been collected. The process included data classification, tabulation, presentation, processing, and hypothesis testing.

This study employs panel data regression analysis, combining time-series and cross-sectional data, with data processing performed using EViews 12 software. The analytical procedures include:

3.6.1 Descriptive Statistics

Descriptive statistics were used to provide an overview of the characteristics of the research data. The analysis presents mean, minimum value, maximum value, standard deviation, and median for Audit Committee, Independent Board of Commissioners, Institutional Ownership, and Financial Distress.

3.6.2 Data Quality Tests

Before regression analysis, data quality tests were conducted, including:

a. Normality Test
b. Multicollinearity Test
c. Heteroscedasticity Test

These tests ensure that the data meet the assumptions required for regression analysis.

3.6.3 Panel Data Regression Model Selection

Three panel regression models were considered:

a. Common Effect Model (CEM)
b. Fixed Effect Model (FEM)
c. Random Effect Model (REM)

Model selection was conducted through:

a. Chow Test

- H_0: Common Effect Model is appropriate.
- H_1: Fixed Effect Model is appropriate.

Decision criterion:

- Prob. < 0.05 → FEM selected.
- Prob. ≥ 0.05 → CEM selected.

b. Hausman Test

- H_0: Random Effect Model is appropriate.
- H_1: Fixed Effect Model is appropriate.

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Decision criterion:
- Prob. < 0.05 → FEM selected.
- Prob. ≥ 0.05 → REM selected.

c. Lagrange Multiplier (LM) Test
- H_0: Common Effect Model is appropriate.
- H_1: Random Effect Model is appropriate.

Decision criterion:
- Prob. < 0.05 → REM selected.
- Prob. ≥ 0.05 → CEM selected.

3.6.4 Hypothesis Testing

1) Simultaneous Test (F-Test)

The F-test examines whether Audit Committee, Independent Board of Commissioners, and Institutional Ownership simultaneously influence Financial Distress.

$$H_0: \beta_{1,2,3} = 0$$
$$H_a: \beta_{1,2,3} \neq 0$$

Decision criterion:
- Prob. F-statistic < 0.05 → H_0 rejected.
- Prob. F-statistic ≥ 0.05 → H_0 accepted.

2) Partial Test (t-Test)

The t-test examines the individual effect of each independent variable on Financial Distress.

For Audit Committee:

$$H_{01}: \beta_1 = 0$$
$$H_{a1}: \beta_1 \neq 0$$

For Independent Board of Commissioners:

$$H_{02}: \beta_2 = 0$$
$$H_{a2}: \beta_2 \neq 0$$

For Institutional Ownership:

$$H_{03}: \beta_3 = 0$$
$$H_{a3}: \beta_3 \neq 0$$

Decision criterion:
- Prob. t-statistic < 0.05 → significant effect.
- Prob. t-statistic ≥ 0.05 → no significant effect.

3) Coefficient of Determination (R^2)

The coefficient of determination measures the ability of the regression model to explain variations in Financial Distress. Both R^2 and Adjusted R^2 are reported, with Adjusted R^2 considered more representative because it accounts for the number of independent variables included in the model.

3.7 Validity, Reliability, and Trustworthiness

Given that this study uses secondary financial data obtained from audited annual reports of publicly listed companies, data credibility is supported by the reliability of corporate disclosures and regulatory oversight. Furthermore, data quality is strengthened through normality, multicollinearity, and heteroscedasticity testing prior to panel regression analysis. The model selection process using Chow, Hausman, and Lagrange Multiplier tests further enhances the robustness and reliability of the empirical findings.

3.8 Ethical Considerations

This study exclusively uses publicly available secondary data obtained from annual reports and financial statements published by property and real estate companies listed on the Indonesia Stock Exchange. Therefore, no direct interaction with human participants was involved. Data were collected, processed, and reported solely for academic purposes while maintaining integrity, transparency, and compliance with research ethics standards.

3.9 Research Procedure

Following Sekaran and Bougie (2017), the research procedure consists of seven stages:

a. Problem Identification.
b. Problem Formulation.
c. Hypothesis Development.
d. Measurement Determination.
e. Data Collection.
f. Data Processing and Statistical Analysis.
g. Conclusion Drawing.

These stages were systematically implemented to examine the influence of Audit Committee, Independent Board of Commissioners, and Institutional Ownership on Financial Distress in property and real estate companies listed on the Indonesia Stock Exchange during 2020–2024.

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3.10 Methodological Limitations

Several limitations should be acknowledged. First, the study focuses exclusively on property and real estate companies listed on the Indonesia Stock Exchange, limiting the generalizability of findings to other sectors. Second, the analysis relies on secondary data obtained from annual reports, which may not fully capture internal governance practices. Third, Financial Distress is measured solely using the Altman Z-Score model, which may not encompass all dimensions of corporate financial difficulties. Future studies may incorporate alternative distress measures, additional governance variables, and broader industry coverage to enhance external validity and comprehensiveness.

4. Results and Discussion

4.1 Research Results

4.1.1 Sample Description and Descriptive Statistics

Descriptive statistics are used to provide a general overview of the characteristics of the research variable data. Descriptive statistical testing was conducted on the dependent variable (Financial Distress measured using the Altman Z-Score) and the independent variables (Audit Committee, Independent Board of Commissioners, and Institutional Ownership). The statistics presented include minimum, maximum, mean, median, and standard deviation values.

The descriptive statistics are based on 120 firm-year observations representing 24 property and real estate companies observed over five years from 2020 to 2024. The mean and median values indicate the central tendency of each variable, while the minimum and maximum values show the range of variation across the observations. The standard deviation indicates the extent to which the observations differ from their respective mean values. Therefore, these statistics provide an overview not only of the average characteristics of corporate governance and Financial Distress but also of the degree of variation among the sampled companies and observation years.

Table 2. Descriptive Statistics of Research Variables

	KA	DKI	KI	FD
Mean	2.958333	0.420516	0.732201	4.567700
Median	3.000000	0.400000	0.800000	4.290411
Maximum	4.000000	0.666667	0.995500	10.50840
Minimum	2.000000	0.333333	0.002300	1.142030
Std. Dev.	0.238899	0.106090	0.207977	2.239460
Skewness	-2.563740	1.002582	-1.035611	0.792887
Kurtosis	16.22963	2.969648	4.062694	3.081923
Jarque-Bera	1006.571	20.10803	27.09639	12.60695
Probability	0.000000	0.000043	0.000001	0.001830
Sum	355.0000	50.46189	87.86409	548.1240
Sum Sq. Dev.	6.791667	1.339361	5.147259	596.8066
Observations	120	120	120	120

Source: EViews 12 Output, processed by the author (2026)

Based on Table 2, the interpretation of the descriptive statistics can be explained as follows:

a. Audit Committee (X1)

The Audit Committee variable has a mean value of 2.958333, a median value of 3.0000, and a standard deviation of 0.238899. The minimum value of 2 and the maximum value of 4 indicate that the number of audit committee members in the sampled Property and Real Estate companies ranges from 2 to 4 individuals. The difference between the

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minimum and maximum values indicates that the audit committee structure varies across the 120 firm-year observations, although the range is relatively narrow. The median value of 3 indicates that at least half of the observations have an audit committee consisting of three members, while the mean value of 2.958333, which is very close to the median, indicates that the distribution is concentrated around three members. The standard deviation of 0.238899 is relatively small compared with the mean, indicating limited variation in the number of audit committee members across the sampled companies and observation years. The mean value, which is very close to 3, along with the small standard deviation, indicates that the majority of companies have 3 audit committee members, in accordance with the minimum requirement established by the Financial Services Authority (OJK). This condition indicates a high degree of uniformity in the establishment of audit committees within the property sector.

b. Independent Board of Commissioners (X2)

The Independent Board of Commissioners (IBC) variable shows a mean value of 0.420516, a median of 0.400000, and a standard deviation of 0.106090. The minimum value of 0.333333 and the maximum value of 0.666667 indicate that the proportion or percentage of independent commissioners in the sampled companies ranges from 33.33% to 66.67% of the total board of commissioners. The range of 33.33 percentage points indicates that the proportion of independent commissioners differs across the 120 firm-year observations. The median value of 0.400000 indicates that the middle observation has an independent commissioner proportion of 40%, while the mean value of 0.420516, or 42.05%, indicates that the average proportion is slightly above the median. The standard deviation of 0.106090 indicates a moderate degree of variation in the proportion of independent commissioners among the sampled companies and across the observation period. This variation suggests that although the companies generally maintain independent commissioners above the minimum regulatory proportion, the actual composition differs between companies and years. The average (mean) value of 42.05% indicates that, in general, the sampled property companies have fulfilled the minimum requirement of 30% independent commissioners in accordance with OJK Regulation Number 33/POJK.04/2014.

c. Institutional Ownership (X3)

The Institutional Ownership (IO) variable shows a mean value of 0.732201, a median value of 0.800000, and a standard deviation of 0.207977. The minimum value of 0.002300 and the maximum value of 0.995500 indicate a very wide variation in ownership structures among the sampled companies. The range from 0.23% to 99.55% demonstrates substantial differences in institutional ownership across the 120 firm-year observations. The median value of 0.800000 indicates that half of the observations have institutional ownership of at least 80%, while the mean value of 0.732201 indicates that the average institutional ownership is 73.22%. The difference between the mean and median suggests that several observations with relatively low institutional ownership reduce the overall average. The standard deviation of 0.207977 further indicates considerable dispersion around the mean, confirming that institutional ownership is substantially more heterogeneous across companies and years than the Audit Committee and Independent Board of Commissioners variables. The minimum value indicates that there are companies with a very low proportion of institutional ownership (0.23%), while the maximum value, which is close to 1, indicates that there are companies whose shares are almost entirely controlled by institutional investors (99.55%). The average value of 73.22% indicates that, in general, the property companies included in this study are dominated by a high proportion of institutional ownership.

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d. Financial Distress (Y)

The Financial Distress variable, measured using the Altman Z-Score, has a mean value of 4.567700, a median value of 4.290411, and a standard deviation of 2.239460. The minimum value of 1.142030 and the maximum value of 10.50840 indicate considerable variation in the financial conditions of the companies. The range of 9.366370 points between the minimum and maximum values demonstrates substantial variation in Financial Distress across the 120 firm-year observations. The median value of 4.290411 indicates that half of the observations have an Altman Z-Score below this value and half have a score above it, while the mean value of 4.567700 indicates that the average financial condition is higher than the median.

The standard deviation of 2.239460 is relatively large compared with the mean, indicating substantial dispersion in Financial Distress among the sampled companies and across the 2020–2024 observation period. This variation shows that the financial condition of the sampled companies is not homogeneous, with some firm-year observations exhibiting relatively strong financial conditions and others approaching or entering the distress range. Referring to Altman's criteria, a Z-Score above 2.99 indicates that a company is in a healthy condition (safe zone), a score between 1.81 and 2.99 falls within the grey zone, and a score below 1.81 indicates a distress condition. The mean value of 4.567700 indicates that, on average, the sampled property companies are in the healthy condition (safe zone). However, the minimum value of 1.142030 indicates that some firm-year observations fall below the 1.81 threshold and are therefore categorized as being in the distress zone, while observations between 1.81 and 2.99 may fall within the grey zone. Thus, the descriptive statistics indicate that although the average Financial Distress measure is within the safe zone, substantial differences exist in financial conditions across the sampled companies and observation years.

4.1.2 Data Quality and Preliminary Analysis

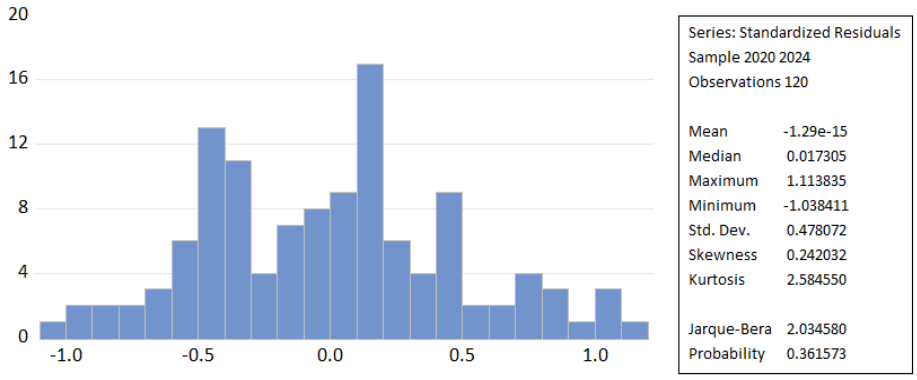
a. Normality Test

The normality test was conducted to examine whether the residuals of the regression model were normally distributed.

H_0: Residuals are normally distributed (Prob. ≥ 0.05)

H_1: Residuals are not normally distributed (Prob. < 0.05)

Table 3. Jarque-Bera Normality Test Results



Source: EViews 12 Output, processed by the author (2026)

Based on the results of the normality test using the Jarque-Bera method, the Jarque-Bera value was 2.034580 with a probability value of 0.361573. The probability value is greater than the significance level of 0.05 (0.361573 > 0.05). Therefore, it can be concluded that the residual data in this study are normally distributed.

b. Multicollinearity Test

The multicollinearity test was conducted to examine whether there is a high correlation among the independent variables in the regression model.

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Table 4. Multicollinearity Test Results

	KA	DKI	KI
KA	1.000000	0.157527	0.450976
DKI	0.157527	1.000000	-0.006247
KI	0.450976	-0.006247	1.000000

Variable	LOG_X1	SQRT_X2	SQRT_X3
LOG_X1	1.000000	0.022933	0.318017
SQRT_X2	0.022933	1.000000	-0.103106
SQRT_X3	0.318017	-0.103106	1.000000

Source: EViews 12 Output, processed by the author (2026)

Based on Table 4, all correlation values among the independent variables are below 0.80. The highest correlation value is between the AC (Audit Committee) and IO (Institutional Ownership) variables, amounting to 0.450976, which is categorized as a low correlation. Therefore, it can be concluded that there is no multicollinearity problem in the regression model of this study.

c. Heteroscedasticity Test

H_0: No heteroscedasticity exists (Prob. ≥ 0.05)

H_1: Heteroscedasticity exists (Prob. < 0.05)

Table 5. Heteroscedasticity Test Results

Dependent Variable: ABS_RES
Method: Panel EGLS (Cross-section random effects)
Date: 06/03/26 Time: 21:15
Sample: 2020 2024
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.527068	0.758505	-0.694877	0.4885
KA	0.335821	0.434795	0.772365	0.4415
DKI	0.248510	0.501853	0.495186	0.6214
KI	0.211659	0.204865	1.033163	0.3037

Source: EViews 12 Output, processed by the author (2026)

Based on the heteroscedasticity test results using the Glejser method, the probability values for the Audit Committee variable, Independent Board of Commissioners variable, and Institutional Ownership variable were 0.4415, 0.6214, and 0.3037, respectively. All probability values are greater than 0.05. Therefore, H_0 is accepted, indicating that there is no heteroscedasticity problem in the regression model of this study.

4.1.3 Main Analytical Results

a. Chow Test

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Table 6. Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.477011	(23,93)	0.0000
Cross-section Chi-square	114.746328	23	0.0000

Source: EViews 12 Output, processed by the author (2026)

Based on Table 6, the Chow Test results show a Cross-section F probability value of 0.0000, which is smaller than the significance level of 0.05. Therefore, H_0 is rejected and H_1 is accepted, indicating that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM).

b. Hausman Test

Table 7. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.815127	3	0.6116

Source: EViews 12 Output, processed by the author (2026)

Based on Table 7, the Hausman Test results show a Chi-Square probability value of 0.6116, which is greater than the significance level of 0.05. Therefore, H_0 is accepted, indicating that the Random Effect Model (REM) is more appropriate than the Fixed Effect Model (FEM).

c. Lagrange Multiplier Test

Table 8. Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one -sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	60.63354 (0.0000)	0.606608 (0.4361)	61.24015 (0.0000)
Honda	7.786754 (0.0000)	-0.778851 (0.7820)	4.955336 (0.0000)
King-Wu	7.786754 (0.0000)	-0.778851 (0.7820)	2.278276 (0.0114)
Standardized Honda	8.594346 (0.0000)	-0.538077 (0.7047)	1.754177 (0.0397)
Standardized King-Wu	8.594346 (0.0000)	-0.538077 (0.7047)	-0.315575 (0.6238)
Gourieroux, et al.	--	--	60.63354 (0.0000)

Source: EViews 12 Output, processed by the author (2026)

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Based on Table 8, the Breusch-Pagan Lagrange Multiplier Test for the cross-section shows a probability value of 0.0000, which is smaller than the significance level of 0.05. Therefore, H_0 is rejected, indicating that the Random Effect Model (REM) is more appropriate than the Common Effect Model (CEM).

Based on the results of these three tests, the Random Effect Model (REM) was selected as the best model for panel data regression analysis in this study because it was supported by two of the three tests conducted (Hausman Test and LM Test).

d. Panel Data Regression Equation

Table 9. Random Effect Model Estimation Results

Dependent Variable: FD
Method: Panel EGLS (Cross-section random effects)
Date: 06/03/26 Time: 21:24
Sample: 2020 2024
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.915961	1.285230	4.603035	0.0000
KA	-2.093798	0.697035	-3.003865	0.0033
DKI	-0.913285	0.954982	-0.956337	0.3409
KI	0.409299	0.326919	1.251986	0.2131
Effects Specification				
			S.D.	Rho
Cross-section random			0.373885	0.5543
Idiosyncratic random			0.335263	0.4457
Weighted Statistics				
R-squared	0.087837	Mean dependent var		0.772186
Adjusted R-squared	0.064247	S.D. dependent var		0.344806
S.E. of regression	0.333546	Sum squared resid		12.90534
F-statistic	3.723416	Durbin-Watson stat		1.275402
Prob(F-statistic)	0.013401			
Unweighted Statistics				
R-squared	0.123214	Mean dependent var		2.074629
Sum squared resid	27.73585	Durbin-Watson stat		0.593438

Source: EViews 12 Output, processed data (2026)

$Y = 5.915961 - 2.093798X_1it - 0.913285X_2it + 0.409299X_3it + \varepsilon$

Where:

Y = Financial Distress

α = Constant coefficient

X_1it = Audit Committee

X_2it = Independent Board of Commissioners

X_3it = Institutional Ownership

β = Regression coefficient of each independent variable

ε = Error term (other variables outside the research model)

The constant value of 5.915961 indicates that if the Audit Committee, Independent Board of Commissioners, and Institutional Ownership variables are assumed to be constant or equal to

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zero, the Financial Distress value is estimated to be 5.915961.

The regression coefficient of the Audit Committee is negative at -2.093798.

The regression coefficient of the Independent Board of Commissioners is negative at -0.913285.

The regression coefficient of Institutional Ownership is positive at 0.409299.

4.1.4 Hypothesis Testing Results / Key Findings

a. Simultaneous Test (F-Test)

Table 10. F-Statistic Test Results

R-squared	0.087837	Mean dependent var	0.772186
Adjusted R-squared	0.064247	S.D. dependent var	0.344806
S.E. of regression	0.333546	Sum squared resid	12.90534
F-statistic	3.723416	Durbin-Watson stat	1.275402
Prob(F-statistic)	0.013401		

Source: EViews 12 Output, processed data (2026)

Based on Table 10, the F-test results under the Random Effect Model indicate an F-statistic value of 3.723416 with a Prob(F-statistic) value of 0.013401. This probability value is smaller than the significance level of 0.05 (0.013401 < 0.05). Therefore, H_0 is rejected and H_1 is accepted.

b. Partial Test (t-Test)

Table 11. Partial Test Results (t-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.915961	1.285230	4.603035	0.0000
KA	-2.093798	0.697035	-3.003865	0.0033
DKI	-0.913285	0.954982	-0.956337	0.3409
KI	0.409299	0.326919	1.251986	0.2131

Source: EViews 12 Output, processed data (2026)

Based on Table 11, the following conclusions can be drawn:

1) The Effect of Audit Committee (X1) on Financial Distress

Based on the test results, the Audit Committee (AC) variable has a coefficient value of -2.093798, a t-statistic value of -3.003865, and a probability value of 0.0033. Since the probability value is less than 0.05 (0.0033 < 0.05), H_0 is rejected and H_1 is accepted. Therefore, the Audit Committee has a negative and significant effect on Financial Distress.

The negative regression coefficient indicates that an increase in the Audit Committee tends to reduce the Altman Z-Score. Since a lower Altman Z-Score indicates a higher risk of Financial Distress, these findings suggest that an increase in the Audit Committee is associated with a higher risk of Financial Distress among the sample companies. Thus, the hypothesis stating that the Audit Committee affects Financial Distress is accepted.

2) The Effect of Independent Board of Commissioners (X2) on Financial Distress

Based on the test results, the Independent Board of Commissioners (IBC) variable has a coefficient value of -0.913285, a t-statistic value of -0.956337, and a probability value of 0.3409. Since the probability value is greater than 0.05 (0.3409 > 0.05), H_0 is accepted and H_1 is rejected. Therefore, the Independent Board of Commissioners does not have a negative and significant effect on Financial Distress.

These results indicate that the presence or proportion of Independent Commissioners

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has not been able to significantly influence changes in the company's Financial Distress condition. In other words, the level of Independent Board of Commissioners within a company does not create a meaningful difference in the Financial Distress condition of Property and Real Estate sector companies included in the research sample. Therefore, the hypothesis stating that the Independent Board of Commissioners affects Financial Distress is rejected.

3) The Effect of Institutional Ownership (X3) on Financial Distress

Based on the test results, the Institutional Ownership (IO) variable has a coefficient value of 0.409299, a t-statistic value of 1.251986, and a probability value of 0.2131. Since the probability value is greater than 0.05 (0.2131 > 0.05), H_0 is accepted and H_1 is rejected. Therefore, Institutional Ownership does not have a positive and significant effect on Financial Distress.

The positive regression coefficient indicates that an increase in Institutional Ownership tends to increase the Altman Z-Score. A higher Altman Z-Score reflects a healthier financial condition and a lower likelihood of experiencing Financial Distress. Therefore, these findings suggest that greater Institutional Ownership is associated with a lower risk of Financial Distress. However, because the effect is not statistically significant, the hypothesis stating that Institutional Ownership affects Financial Distress is rejected.

c. Coefficient of Determination (R^2)

Table 12. Coefficient of Determination (R^2) Test Results

R-squared	0.087837	Mean dependent var	0.772186
Adjusted R-squared	0.064247	S.D. dependent var	0.344806
S.E. of regression	0.333546	Sum squared resid	12.90534
F-statistic	3.723416	Durbin-Watson stat	1.275402
Prob(F-statistic)	0.013401		

Source: EViews 12 Output, processed data (2026)

Based on Table 12, the Adjusted R-squared value is 0.064247 or 6.42%. This indicates that the Audit Committee, Independent Board of Commissioners, and Institutional Ownership variables are able to explain 6.42% of the variation in Financial Distress, while the remaining 93.58% is explained by other variables outside the research model that were not examined in this study.

4.1.5 Visual Presentation of Results

To provide a clearer understanding of the research findings, the results can be presented visually through graphs illustrating the relationship between the independent variables and Financial Distress. The visualizations indicate that the Audit Committee variable has a negative and significant effect on Financial Distress, while the Independent Board of Commissioners and Institutional Ownership variables do not show a statistically significant effect.

In addition, a coefficient comparison graph can be used to summarize the regression results. The graph shows that the Audit Committee has the largest coefficient magnitude (-2.093798), followed by the Independent Board of Commissioners (-0.913285) and Institutional Ownership (0.409299). These visual findings support the results of the Random Effect Model (REM) analysis, which identified the Audit Committee as the only variable with a significant influence on Financial Distress.

4.2 Research Discussion

4.2.1 Interpretation of Key Findings

After conducting hypothesis testing and data analysis, this study obtained findings

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regarding the influence of the Audit Committee, Independent Board of Commissioners, and Institutional Ownership on Financial Distress. The discussion is structured based on the hypothesis testing results by linking the findings with theoretical perspectives and previous studies.

Based on the testing results presented in Table 10, the Audit Committee, Independent Board of Commissioners, and Institutional Ownership simultaneously influence Financial Distress in Property and Real Estate sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. This finding is particularly relevant to the characteristics of the Indonesian property and real estate sector, where companies generally operate with substantial capital requirements, long project development cycles, and significant dependence on external financing. These characteristics expose companies to risks associated with leverage, interest expenses, liquidity requirements, and changes in financing costs. Consequently, corporate governance mechanisms may become important in monitoring financial reporting, investment decisions, financing policies, and the management of financial risks. Based on the descriptive analysis results, the sample companies generally implemented Good Corporate Governance mechanisms, as reflected by the average number of audit committee members approaching three individuals, the proportion of independent commissioners meeting regulatory requirements, and relatively high levels of institutional ownership.

However, the relatively high implementation of these governance structures does not necessarily imply that all mechanisms operate with the same effectiveness in controlling financial risks. The results therefore need to be interpreted by considering the specific functions and monitoring capacity of each governance mechanism in the context of capital-intensive and financing-dependent property and real estate companies. This condition indicates that most companies have established adequate monitoring systems to support good corporate governance.

The findings further reveal that the Audit Committee significantly influences Financial Distress, while the Independent Board of Commissioners and Institutional Ownership do not significantly affect Financial Distress. The different results across the three governance mechanisms suggest that formal governance structures may have different practical relevance in monitoring the financial risks associated with property and real estate activities. In companies with long project cycles, substantial investment commitments, relatively high leverage, and exposure to financing costs, the quality of financial reporting and internal control may be particularly important because financial problems can accumulate over an extended project period before becoming visible in corporate performance.

These results indicate that not all Good Corporate Governance mechanisms contribute equally to reducing the risk of financial difficulties. In this study, the Audit Committee is the only governance mechanism that demonstrates a statistically significant relationship with Financial Distress, whereas the Independent Board of Commissioners and Institutional Ownership do not demonstrate statistically significant relationships. This distinction is important because it indicates that the effectiveness of governance mechanisms cannot be inferred solely from their formal presence or ownership proportion. Among the governance mechanisms examined, the Audit Committee appears to be the most effective governance instrument in influencing the financial condition of Property and Real Estate companies.

4.2.2 Comparison with Previous Studies

a. The Effect of Good Corporate Governance on Financial Distress

Based on the research framework, the Audit Committee, Independent Board of Commissioners, and Institutional Ownership represent Good Corporate Governance mechanisms designed to improve managerial

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oversight effectiveness. The presence of these mechanisms is expected to enhance transparency, reduce information asymmetry, and minimize conflicts of interest that may affect a company's financial condition. Through effective monitoring, companies are expected to identify financial risks at an early stage and make decisions that support business continuity.

The relevance of these governance mechanisms is particularly evident in the Property and Real Estate sector because corporate activities require substantial investment in land, buildings, construction, and other long-term assets. The relatively long period required to develop and monetize property projects can create a substantial gap between the initial financing of a project and the realization of operating or sales revenues. During this period, companies may remain exposed to leverage and financing costs, particularly when projects are funded through debt. Accordingly, effective governance is important for monitoring the quality of financial reporting, the use of financing, project-related expenditures, and management decisions that may affect the company's ability to meet its financial obligations.

These findings are consistent with Agency Theory proposed by Jensen et al. (1976), which explains that conflicts of interest between company owners (principals) and management (agents) can be minimized through effective monitoring mechanisms. Eisenhardt (1989) also argues that well-functioning governance mechanisms can align the interests of principals and agents, thereby reducing corporate risk. Furthermore, these findings support the Good Corporate Governance concept proposed by Claessens and Yurtoglu (2013), which states that effective corporate governance enhances monitoring effectiveness and reduces agency conflicts. The results are also consistent with the findings of Utami (2024), who demonstrated that strong corporate governance mechanisms can help companies reduce the risk of Financial Distress.

Thus, in the context of Indonesian Property and Real Estate companies, the role of Good Corporate Governance is not limited to ensuring compliance with governance requirements. Its relevance also lies in how governance mechanisms monitor decisions involving capital-intensive projects, leverage, long-term commitments, and financing costs. The different empirical results for the three governance mechanisms further indicate that the existence of a governance structure does not automatically produce the same monitoring effectiveness across mechanisms.

b. The Effect of the Audit Committee on Financial Distress

Based on the testing results in Table 11, the Audit Committee significantly influences Financial Distress in Property and Real Estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The findings indicate that the existence of an audit committee constitutes an important corporate governance mechanism capable of influencing a company's financial condition.

Based on descriptive analysis, the average sample company had nearly three audit committee members. This condition indicates that most companies have complied with audit committee formation requirements as part of their internal monitoring mechanisms. In the Property and Real Estate sector, this monitoring role is particularly relevant because companies manage substantial assets, long-term development projects, and financing commitments. The audit committee can contribute to the oversight of financial reporting, internal controls, compliance, and the recognition of financial risks associated with project development and financing activities. For companies exposed to leverage and financing costs, effective review of financial information may help identify deteriorating financial conditions before they become more severe. The presence of an audit committee enables companies to oversee financial reporting processes, internal controls, and regulatory compliance, allowing financial risks

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to be identified at an earlier stage.

These findings are consistent with Agency Theory proposed by Jensen et al. (1976), which explains that conflicts of interest between shareholders and management can be minimized through effective monitoring mechanisms. In this context, the audit committee functions as a monitoring mechanism that reduces information asymmetry and enhances financial reporting transparency. Eisenhardt (1989) further argues that effective governance mechanisms align the interests of principals and agents, thereby improving risk control.

The negative coefficient of the Audit Committee (-2.093798) requires careful interpretation because Financial Distress is measured using the Altman Z-Score, where a lower score represents a weaker financial condition and a higher likelihood of distress. Therefore, the negative coefficient indicates that a higher number of audit committee members is statistically associated with a lower Altman Z-Score in the sample. The result should not be interpreted as evidence that increasing audit committee size necessarily improves financial condition. Rather, it indicates that audit committee size is significantly associated with the Financial Distress measure in the observed companies. In the context of capital-intensive property and real estate companies, this relationship may reflect the importance of audit committee oversight in organizations facing complex financial reporting, substantial financing requirements, long project cycles, and exposure to financing costs.

The findings support the study conducted by Tran (2025), which reported that independent and competent audit committees reduce the likelihood of Financial Distress. Similarly, Rusmita et al. (2023) found that audit committee effectiveness, supported by member competence and meeting intensity, helps detect financial risks at an early stage. Mulansari and Setiyorini (2019) also emphasized that audit committees serve as an important mechanism for maintaining corporate financial stability through enhanced managerial oversight. Therefore, the significant relationship identified in this study suggests that audit committee characteristics are empirically relevant to Financial Distress in the sampled Property and Real Estate companies. However, because the model measures audit committee size rather than competence, meeting frequency, financial expertise, or independence, the result should be understood specifically as an association between audit committee size and Financial Distress rather than as evidence that all dimensions of audit committee effectiveness have the same effect. Therefore, the audit committee emerges as one of the most influential Good Corporate Governance mechanisms affecting Financial Distress.

c. The Effect of the Independent Board of Commissioners on Financial Distress

Based on the testing results in Table 11, the Independent Board of Commissioners does not influence Financial Distress in Property and Real Estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period. These results indicate that the presence of independent commissioners has not been able to significantly influence the financial distress condition of companies. Therefore, the hypothesis stating that the Independent Board of Commissioners negatively affects Financial Distress cannot be accepted.

Based on descriptive analysis, the sample companies generally maintained an Independent Board of Commissioners proportion that complied with applicable regulations. This indicates that independent commissioner oversight mechanisms have been implemented by most companies. However, the existence of independent commissioners does not necessarily reflect the effectiveness of their monitoring role in overseeing the company's financial condition. This finding may be particularly relevant in the Property and Real Estate sector because financial risks are often connected to long-term project decisions, capital allocation, leverage, and financing costs. Although independent commissioners are formally positioned to provide objective

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oversight, their proportion alone may not capture whether they are sufficiently involved in evaluating project feasibility, financing structures, debt exposure, liquidity pressures, or other financial decisions that develop over a long project cycle. In other words, compliance with the required proportion of independent commissioners may primarily serve regulatory purposes and may not be accompanied by effective oversight of managerial policies.

Within the research framework, the Independent Board of Commissioners is expected to reduce Financial Distress risk through objective oversight of management actions. This perspective is consistent with Agency Theory proposed by Jensen et al. (1976), which explains that conflicts between principals and agents can be minimized through effective monitoring mechanisms. Eisenhardt (1989) similarly argues that effective monitoring aligns the interests of shareholders and management, thereby reducing corporate risk. However, the findings of this study indicate that the Independent Board of Commissioners has not yet been able to perform its monitoring function optimally in reducing Financial Distress risk.

The results support the findings of Yuli Soesetio (2023), who concluded that the Independent Board of Commissioners does not have a significant influence on controlling Financial Distress. However, these findings contradict those of Mulansari and Setiyorini (2019), Rusmita et al. (2023), and Tron et al. (2023), who reported that independent commissioners can reduce Financial Distress risk through effective managerial oversight. These findings indicate that merely increasing the number of commissioners from outside the company does not guarantee healthier financial governance.

The non-significant result also indicates that differences in the proportion of independent commissioners within the observed range were not sufficient to produce statistically detectable differences in Financial Distress. This does not necessarily mean that independent commissioners have no governance function. Rather, the result suggests that the proportion-based measure used in this study may not adequately capture the quality, expertise, involvement, or effectiveness of independent oversight in managing the financial risks associated with capital-intensive projects, leverage, long project cycles, and financing costs.

Therefore, the existence of an Independent Board of Commissioners alone is insufficient to reduce Financial Distress risk unless it is supported by effective oversight quality, competence, independence, and active involvement in corporate decision-making processes. This finding highlights that monitoring effectiveness is more important than merely fulfilling the required number or proportion of independent commissioners within the corporate governance structure.

d. The Effect of Institutional Ownership on Financial Distress

Based on the testing results in Table 11, Institutional Ownership does not influence Financial Distress in Property and Real Estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period. These findings indicate that variations in institutional ownership levels do not constitute a Good Corporate Governance mechanism capable of significantly influencing a company's financial condition. Therefore, the hypothesis stating that Institutional Ownership affects Financial Distress is rejected.

Descriptive analysis indicates that institutional ownership levels among sample companies were relatively high. The mean institutional ownership of 73.22% and the median of 80.00% indicate that institutional investors represent a substantial ownership component in the sampled companies. Nevertheless, the wide range from 0.23% to 99.55% and the standard deviation of 20.80 percentage points demonstrate substantial variation in institutional ownership across the 120 firm-year observations. Despite this variation, the regression results show that such differences were not statistically associated

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with Financial Distress.

This finding is relevant to the characteristics of Property and Real Estate companies because institutional investors may face complex monitoring challenges when companies undertake capital-intensive projects with long development and revenue realization periods. Monitoring financial risk in such companies requires more than observing ownership proportions because the financial consequences of investment decisions, leverage, and financing costs may materialize over several reporting periods. Therefore, a high institutional ownership percentage does not necessarily indicate that institutional investors actively intervene in decisions concerning project financing, debt management, liquidity, or other long-term financial risks. However, substantial institutional investor involvement in ownership structures does not necessarily guarantee effective monitoring of managerial performance. Although institutional investors are theoretically expected to possess adequate resources, experience, and capabilities to conduct monitoring activities, such monitoring may not operate optimally in practice and may remain largely passive. Institutional investors may focus more on short-term dividend returns or delegate operational control entirely to management, thereby limiting managerial incentives to act cautiously in reducing financial distress risk.

From the perspective of Agency Theory proposed by Jensen et al. (1976) and Eisenhardt (1989), these findings provide an alternative perspective. Agency Theory argues that conflicts between principals and agents can be minimized through effective monitoring mechanisms that reduce information asymmetry. However, the findings suggest a monitoring failure, whereby the presence of substantial institutional investors does not automatically constrain opportunistic managerial behavior. Strategic decisions related to financial risk management remain predominantly influenced by managerial policies without significant intervention or control from institutional shareholders.

The findings support previous research conducted by Nopianti et al. (2023), which also found that Institutional Ownership does not have a positive and significant influence on Financial Distress. These findings demonstrate that the proportion of institutional share ownership cannot serve as a reliable indicator for detecting or preventing potential financial problems at an early stage. Conversely, the results contradict the findings of Mulansari and Setiyorini (2019) and Tran (2025), who reported that institutional investors play a role in reducing Financial Distress risk. In Property and Real Estate companies during the observation period, institutional ownership was unable to significantly improve transparency, accountability, or financial governance quality.

Accordingly, the non-significant result should not be interpreted to mean that institutional investors are irrelevant to corporate governance. Rather, the findings indicate that institutional ownership as measured by the proportion of shares held by institutions does not, by itself, explain differences in Financial Distress among the sampled companies. The absence of a significant relationship may reflect the distinction between ownership concentration and active monitoring, particularly in a sector where financial conditions are affected by long-term project commitments, leverage, and financing costs.

Therefore, Institutional Ownership within the sample companies appears to function primarily as a capital investment mechanism rather than as an effective external monitoring mechanism. Changes in institutional ownership levels do not create meaningful differences in maintaining financial stability or reducing Financial Distress risk.

4.2.3 Theoretical Contributions

This study contributes to the development of Agency Theory and Good Corporate Governance literature by demonstrating that governance mechanisms do

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not uniformly influence Financial Distress. The findings confirm the theoretical proposition of Jensen et al. (1976) and Eisenhardt (1989) that monitoring mechanisms are essential in reducing agency conflicts and financial risks. However, the results also extend the literature by showing that the effectiveness of governance mechanisms depends not only on their formal existence but also on the quality of their implementation.

The findings further contribute to the literature by demonstrating that the relevance of governance mechanisms should be interpreted in relation to the financial characteristics of the industry being examined. In the Property and Real Estate sector, where companies may face substantial capital commitments, leverage, long project cycles, and financing costs, governance effectiveness depends on the ability of monitoring mechanisms to address these sector-specific financial risks. The significant result for the Audit Committee, compared with the non-significant results for the Independent Board of Commissioners and Institutional Ownership, suggests that different governance mechanisms may have different empirical relevance in monitoring financial conditions.

Specifically, the significant role of the Audit Committee confirms the effectiveness of internal monitoring mechanisms, while the insignificant effects of the Independent Board of Commissioners and Institutional Ownership suggest that governance structures alone are insufficient without active and effective oversight. Consequently, this study enriches the Good Corporate Governance literature by emphasizing governance effectiveness rather than mere structural compliance.

4.2.4 Practical and Policy Implications

The findings provide practical implications for company management, investors, regulators, and policymakers. For corporate management, strengthening the competence, independence, and effectiveness of audit committees is crucial for preventing Financial Distress. This is particularly relevant for Property and Real Estate companies because audit committee oversight may need to address financial reporting and internal control issues arising from capital-intensive projects, long-term development commitments, leverage, and financing costs. For investors, governance assessments should focus not only on the existence of governance structures but also on their effectiveness in monitoring managerial decisions. For institutional investors in particular, ownership concentration should be complemented by active monitoring of financing decisions, leverage, liquidity, and long-term project risks rather than being viewed solely as an indicator of governance strength.

For regulators and policymakers, the findings suggest that governance regulations should emphasize the quality and effectiveness of governance mechanisms rather than merely requiring compliance with minimum structural requirements. Policies promoting competency development, active participation, and accountability among independent commissioners and institutional investors may enhance the effectiveness of corporate governance practices in reducing Financial Distress risk. For the Property and Real Estate sector, such efforts may also be directed toward strengthening oversight of financial reporting, project financing, leverage, and exposure to financing costs because these factors are closely connected to the sector's long-term and capital-intensive operating characteristics.

4.2.5 Integration with the Research Gap

This study addresses the inconsistency in previous empirical findings regarding the relationship between Good Corporate Governance mechanisms and Financial Distress. Previous studies reported mixed results concerning the effectiveness of audit committees, independent commissioners, and institutional ownership in mitigating financial difficulties. By focusing on Property and Real Estate companies listed on the Indonesia Stock Exchange during the 2020–2024 period, this study provides updated empirical evidence

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demonstrating that governance mechanisms have varying levels of effectiveness in reducing Financial Distress.

The findings also provide a more context-specific explanation of these differences by considering the financial characteristics of Property and Real Estate companies. The sector's capital-intensive activities, long project development cycles, leverage exposure, and sensitivity to financing costs create financial risks that may require governance mechanisms with sufficient monitoring capacity and involvement in financial oversight. The significant relationship identified for the Audit Committee, contrasted with the non-significant relationships for the Independent Board of Commissioners and Institutional Ownership, suggests that the effectiveness of governance mechanisms should be evaluated in relation to the specific financial risks faced by companies rather than solely through their formal structural presence.

The findings contribute to filling the research gap by identifying the Audit Committee as the most influential governance mechanism, while simultaneously demonstrating that the presence of Independent Commissioners and Institutional Ownership alone is insufficient to reduce Financial Distress risk without effective implementation and active monitoring.

4.2.6 Acknowledgement of Study Limitations

Several limitations should be considered when interpreting the findings. First, the study focuses exclusively on Property and Real Estate companies listed on the Indonesia Stock Exchange, which may limit the generalizability of the findings to other industrial sectors. Second, the governance variables examined are limited to the Audit Committee, Independent Board of Commissioners, and Institutional Ownership, whereas other governance mechanisms may also influence Financial Distress. Third, the findings primarily reflect governance conditions during the 2020–2024 observation period, which was characterized by unique economic and business conditions that may affect the relationship between governance mechanisms and Financial Distress. Therefore, caution is required when extending these findings to different contexts, industries, or periods.

5. Conclusion

5.1 Summary of Key Findings

The findings show that Audit Committee, Independent Board of Commissioners, and Institutional Ownership jointly influence Financial Distress. Individually, Audit Committee size has a significant negative effect on the Altman Z-Score (coefficient = -2.093798; p = 0.0033), indicating a significant relationship with Financial Distress. However, this result does not imply that increasing committee size necessarily improves financial condition. The Independent Board of Commissioners (coefficient = -0.913285; p = 0.3409) and Institutional Ownership (coefficient = 0.409299; p = 0.2131) have no significant individual effects.

5.2 Theoretical Contributions

This study contributes to the corporate governance and Financial Distress literature by demonstrating that governance mechanisms do not have uniform effects. The significant relationship involving the Audit Committee highlights the relevance of internal oversight, while the insignificant effects of Independent Boards of Commissioners and Institutional Ownership indicate that formal governance structures alone may not ensure effective monitoring. Governance effectiveness may depend on the quality and implementation of these mechanisms.

5.3 Practical and Policy Implications

Companies should strengthen Audit Committee effectiveness in financial reporting, internal control, and risk management. Independent commissioners should perform active and substantive oversight rather than merely satisfy regulatory requirements. Institutional investors should also strengthen their monitoring and engagement with

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management. Regulators may encourage governance practices that emphasize monitoring quality and accountability rather than ownership or structural characteristics alone.

5.4 Limitations

This study focuses on Property and Real Estate companies listed on the Indonesia Stock Exchange during 2020–2024, limiting generalizability to other sectors and institutional settings. It examines only three governance variables and measures Financial Distress using the Altman Z-Score.

5.5 Future Research

Future studies should incorporate additional determinants, including profitability, liquidity, leverage, firm size, managerial ownership, and board characteristics. Researchers may also examine other sectors or countries, employ alternative Financial Distress measures such as the Springate, Zmijewski, or Ohlson models, and use longer observation periods or alternative methodologies to capture changes in governance effectiveness and financial conditions over time.

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