



## The Effect of Financial Performance and Ownership Structure on Financial Distress with Good Corporate Governance as a Moderating Variable in Non-Regional Government Conventional Banks

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**ABSTRACT:** This study aims to analyze the effect of financial performance and ownership structure on financial distress, with Good Corporate Governance (GCG) as a moderating variable in non-regional government conventional banks in Indonesia during the 2019-2024 period. Employing a quantitative approach with panel data regression analysis on 17 banks listed on the Indonesia Stock Exchange, the results indicate that financial performance has a significant effect on financial distress, while ownership structure does not have a significant effect. Furthermore, GCG is proven to moderate the relationship between financial performance and financial distress; however, it does not moderate the effect of ownership structure on financial distress. These findings emphasize the importance of implementing GCG principles in strengthening financial performance and mitigating the risk of financial distress in the conventional banking sector.

**KEYWORDS:** Conventional Banking, Financial Performance, Financial Distress, Good Corporate Governance, Ownership Structure.

### INTRODUCTION

The banking industry plays a crucial role in the economy as an intermediary institution that collects and distributes public funds to support economic activity (Alqahtani & Mayes, 2020). Therefore, healthy financial performance and an effective ownership structure are crucial factors in maintaining the sustainability of bank operations and the stability of the national financial system.

In recent years, a number of conventional banks in Indonesia have faced the risk of financial distress, as reflected in rising non-performing loan (NPL) ratios, with some banks even exceeding the 5 percent limit set by the Financial Services Authority (OJK, 2022). High NPLs indicate increasing non-performing loans, which can depress banks' financial performance and undermine public confidence in the banking industry. This situation underscores the need to analyze the factors influencing financial distress. Therefore, this study presents data on conventional banks' financial ratios for the 2019–2024 period as a basis for analyzing the financial condition of the banking industry in Indonesia.

**Table 1.1 Conventional Bank Financial Ratio Data in Indonesia (2019-2024)**

Bank	Year	NPL (%)	ROA (%)	ROE (%)	LDR (%)
PT Bank Mandiri	2019	1.5	2	14	80
PT Bank Mandiri	2020	2	1.8	12	82
PT Bank Mandiri	2021	2.5	1.5	11	84
PT Bank Mandiri	2022	3	1.2	10	86
PT Bank Mandiri	2023	2.3	1.6	11.8	83
PT Bank Rakyat Indonesia	2024	2.4	1.5	11.2	84
PT Bank Rakyat Indonesia	2019	2	1.8	12.5	85
PT Bank Rakyat Indonesia	2020	2.8	1.5	10.5	87



Bank	Year	NPL (%)	ROA (%)	ROE (%)	LDR (%)
PT Bank Rakyat Indonesia	2021	3.5	1.2	9	89
PT Bank Rakyat Indonesia	2022	4.2	0.9	7.5	91
PT Bank Negara Indonesia	2023	3.1	1.4	9.88	88
PT Bank Negara Indonesia	2024	3.4	1.2	9.22	89
PT Bank Negara Indonesia	2019	2.2	2.2	15	78
PT Bank Negara Indonesia	2020	3	1.9	13	80
PT Bank Negara Indonesia	2021	3.8	1.6	11	82
PT Bank Negara Indonesia	2022	4.5	1.3	9	84
PT Bank Negara Indonesia	2023	3.4	1.8	12	81
PT Bank Tabungan Negara	2024	3.7	1.6	11.3	82
PT Bank Tabungan Negara	2019	1.8	1.7	12	83
PT Bank Tabungan Negara	2020	2.5	1.4	10	85
PT Bank Tabungan Negara	2021	3.2	1.1	8.5	87
PT Bank Tabungan Negara	2022	3.8	0.8	7	89
PT Bank Tabungan Negara	2023	2.8	1.3	9.38	86
PT Bank Mandiri	2024	3.1	1.1	8.72	87
PT Bank Mandiri	2019	3	1.5	10	88
PT Bank Mandiri	2020	4	1.2	8	90
PT Bank Mandiri	2021	5	0.9	6.5	92
PT Bank Mandiri	2022	6	0.6	5	94
PT Bank Rakyat Indonesia	2023	4.5	1.1	7.38	91
PT Bank Rakyat Indonesia	2024	4.9	0.9	6.72	92

Source: Processed data, 2025

Based on data from five major banks in Indonesia for the period 2019 to 2024, the Non-Performing Loan (NPL) ratio showed a general upward trend until 2022, then began to decline in 2023 before rising slightly again in 2024. Bank Tabungan Negara (BTN) recorded the highest NPL among the five banks, increasing from 3% in 2019 to a peak of 6% in 2022, then decreasing to 4.5% in 2023 before rising slightly to 4.9% in 2024.

A similar pattern was also seen at Bank Mandiri, BRI, and BNI, which experienced an increase in NPLs from 2019 to 2022, then a decrease in 2023, but then rose again in 2024. In contrast, Bank Central Asia (BCA) had the lowest and most stable NPL, although it continued to rise from 1.5% in 2019 to 3% in 2022, then decreased to 2.3% in 2023 and slightly increased to 2.4% in 2024. This indicates that during the pandemic and post-pandemic period, credit quality declined due to economic pressures, but began to improve after 2022 as the economy recovered. According to research conducted by Alqahtani and Mayes (2020), an increase in NPLs during an economic crisis is common, as many customers experience difficulty in meeting their credit obligations. This research confirms that economic crises, such as the COVID-19 pandemic, significantly impact the quality of banking assets in various countries.

On Return on Assets (ROA), a consistent downward pattern was observed from 2019 to 2022 across all banks, reflecting a decline in the efficiency of asset utilization to generate profits due to the COVID-19 pandemic. For example, BCA recorded a



decline in ROA from 2% in 2019 to 1.2% in 2022, but improved to 1.6% in 2023 before declining again to 1.5% in 2024. A similar pattern occurred at Bank Mandiri, BRI, BNI, and BTN, where ROA declined during 2019–2022 and only slightly recovered in 2023 before stagnating or declining again in 2024. This reflects that the recovery of banking profitability takes longer, even though credit burdens are starting to be controlled. This explanation aligns with research by Dietrich et al. (2020), which shows that decreased efficiency in asset utilization is one of the impacts of increasing NPLs, where banks are forced to allocate larger funds to address non-performing loans. The declining ROA also indicates challenges to banking profitability during uncertain economic conditions.

Return on Equity (ROE) also showed a downward trend from 2019 to 2022 across all banks, as profitability declined due to rising non-performing loans. For example, BRI recorded a ROE decline from 15% in 2019 to just 9% in 2022, but improved to 12% in 2023 before declining slightly to 11.3% in 2024. A similar pattern was seen for BCA, Mandiri, BNI, and BTN. Despite ROE recovery in 2023, the 2024 figures indicate banks are still struggling to maintain return on equity performance amidst intense competition. This aligns with Bourke's (2021) analysis, which asserts that rising NPLs can impact net income, which in turn reduces shareholder returns.

In Loan to Deposit Ratio (LDR), all banks consistently maintained a ratio above 80% throughout 2019–2024. BTN recorded the highest LDR, rising from 88% in 2019 to 94% in 2022 before declining to 91% in 2023 and returning to 92% in 2024. BRI, Mandiri, and BNI also showed a gradual increase in LDR, while BCA remained relatively stable at around 80–86%. The high LDR indicates that large banks remain aggressive in disbursing credit despite facing increased NPL risks during the pandemic. Furthermore, research by Olokoyo (2019) shows that a high LDR increases liquidity risk, especially in situations of economic instability. This can reduce banks' resilience to sudden requests for deposit withdrawals.

Overall, financial ratio data for 2019–2024 shows that five major banks in Indonesia faced significant pressure during the pandemic, reflected in rising NPLs and declining ROA and ROE through 2022, followed by a moderate recovery in 2023, although this recovery has not fully continued into 2024. Banking strategies are more focused on credit distribution (high LDR), although they need to continue strengthening risk management to maintain asset quality. These trends indicate an increase in financial distress in the Indonesian conventional banking sector during 2019–2024.

Rising non-performing loans (NPLs), declining profitability, tightening liquidity, and weakening capital are key indicators of this problem. This is due to deteriorating financial performance due to various interconnected economic and global factors. The deteriorating financial performance of Indonesia's conventional banking sector during this period was caused by various factors. Unstable global economic conditions, including slowing global economic growth, fluctuating commodity prices, and geopolitical uncertainty, put pressure on the banking sector (Wilson, 2020).

Poor financial performance is one of the main factors that causes financial distress. Banks with low profitability, inadequate liquidity, and weak capitalization tend to be more vulnerable to external and internal financial pressures (Jiang and Lim, 2022). Low profitability indicates a bank's inability to generate sufficient profits from its operations, while inadequate liquidity means the bank does not have enough liquid assets to meet its short-term obligations. Weak capitalization reflects a bank's inability to withstand unexpected losses, which can exacerbate the situation Financial distress (Patel et al., 2022).

Research on financial distress the banking sector has undergone several significant changes compared to previous studies. Early research, such as that conducted by Jiang and Lim (2022), focused primarily on analyzing traditional factors such as profitability, liquidity, and capitalization. However, recent research has broadened its scope by considering modern factors relevant to current conditions.

For example, recent studies have focused more on the impact of the COVID-19 pandemic on banks' financial health, with declining credit demand, increasing non-performing loans, and liquidity pressures being key topics analyzed (Jones & Smith, 2021; Patel et al., 2022). Furthermore, developments in financial technology (fintech) and banking digitalization have also become a major focus of contemporary research. These studies examine how the adoption of digital technology affects bank operational efficiency, profitability, and risk management (Garcia & Martinez, 2020; Lee, 2021).

Recent research has also increasingly paid attention to regulatory and policy changes post-global financial crisis, with a focus on evaluating the effectiveness of regulation in reducing financial distress (Wilson, 2020). In addition, there is increasing attention to the impact of climate change and environmental risks on bank financial performance. This study seeks to understand how environmental risks can affect bank financial stability and increase vulnerability to financial distress (Thompson & Green,



2020; Roberts et al., 2021). This indicates a significant shift from traditional factor analysis to exploring modern factors that are more relevant to current economic and technological dynamics.

In addition to poor financial performance, ownership structure also plays a significant role in determining a bank's financial health. Overly concentrated share ownership or the presence of a controlling shareholder can lead to agency problems, namely conflicts of interest between majority and minority shareholders, as well as between shareholders and management (Jensen & Meckling, 1976). These agency problems can negatively impact a bank's strategic and operational decision-making, ultimately affecting financial performance and increasing financial distress.

In addition to financial performance factors and ownership structure, the implementation of GCG is believed to moderate the relationship between these two factors and Financial distress & GCG can improve supervision and accountability in bank management, thereby mitigating risks Financial distress (Roberts et al., 2021). With an effective GCG mechanism, bank management can be more responsive to changing market conditions and better manage risks. GCG principles such as transparency, accountability, responsibility, independence, and equality are crucial in creating an environment that supports sound and sustainable decision-making.

The selection of conventional non-regional government banks as the research object is based on the consideration that these banks make a significant contribution to the national financial system and reflect the dynamics of the banking industry more comprehensively than regional banks or Islamic banks. Conventional non-regional government banks generally have large business scales, extensive loan portfolios, and high exposure to macroeconomic risks and intense industry competition. Furthermore, the transparency of information and the availability of data from large non-regional government banks allows for more accurate and in-depth analysis.

The period from 2019 to 2024 is also a highly dynamic timeframe, encompassing the pre-pandemic, pandemic, and post-pandemic periods. Therefore, it is an opportune moment to evaluate the resilience and adaptive strategies of large banks in facing the crisis and economic recovery. Therefore, focusing on conventional non-regional government banks during this period is not only relevant but also crucial for generating applicable recommendations for the stability of the national financial system.

This study aims to analyze the impact of financial performance and ownership structure on financial distress, as well as the role of Good Corporate Governance as a moderating variable in conventional banking companies in Indonesia during the 2019–2024 period. This period was chosen to evaluate the impact of various economic and regulatory dynamics, including the economic crisis caused by the COVID-19 pandemic, which significantly impacted the banking sector. By understanding the relationship between financial performance, ownership structure, and GCG implementation, it is hoped that effective ways to mitigate risk can be identified. Financial distress and improve the stability and performance of the banking industry in Indonesia.

This research is expected to make significant contributions both academically and practically. Academically, this research will add to the literature on the relationship between financial performance, ownership structure, and financial distress in the context of conventional banks in Indonesia. Practically, the results of this study can provide guidance for bank management, regulators, and investors in making better decisions regarding financial risk management and GCG implementation. The findings of this study can also provide input for policymakers in formulating regulations that support financial stability and the sustainability of the banking sector. Based on this, this study was conducted under the title "**The Effect of Financial Performance and Ownership Structure on Financial Distress with Good Corporate Governance as a Moderating Variable in Non-Regional Government Conventional Banks**".

## THEORETICAL FOUNDATION

### AGENCY THEORY

In the framework of this research, agency theory becomes important to explain how ownership structure and financial performance can influence the level of financial distress In conventional banking companies, when managers are more self-interested, such as pursuing short-term bonuses, without adequate control and oversight from owners or the board, decision-making tends to neglect the company's long-term health (Roberts et al., 2021).

### SIGNALING THEORY

Signaling theory is an important approach to explaining information communication behavior between internal and external parties in a company. This concept was first introduced by Spence (1973) in the context of the labor market, but has since been widely



developed in the fields of finance and corporate governance. Signaling theory emphasizes the role of information as a communication tool between parties with more information (management/companies) and those with less information (investors, creditors, and the public). Under conditions of information asymmetry, the market relies on "signals" sent by companies to assess the fundamental quality and prospects of the company (Bafera, 2023). In modern corporate practice, these signals emerge through reported financial performance, ownership composition, distribution policies (e.g., dividends), and published governance mechanisms. The strength and credibility of the signals determine the extent to which external parties respond to this information in making economic decisions, including assessing the likelihood of financial distress.

## STEWARDSHIP THEORY

In the context of research on the influence of financial performance and ownership structure on financial distress, with Good Corporate Governance as a moderating variable, Stewardship Theory plays a crucial role. If managers behave as stewards, they will strive to maintain the company's financial health, not only for short-term profits but also for long-term sustainability. In such situations, the application of GCG principles will strengthen management's moral commitment and responsibility to avoid financial distress. Conversely, if stewardship behavior is not established, even if the ownership structure and GCG system appear formally strong, they may not function effectively in maintaining the company's financial stability.

Recent research also shows that stewardship behavior can be strengthened through the implementation of quality GCG. Riyadi and Lestari (2023) found that board independence and audit committee effectiveness strengthen management's sense of responsibility towards minority shareholders.

## FINANCIAL DISTRESS

According to Wati, et al. (2022), a company's financial situation is one in which it is unable to meet its previously established financial obligations. In this situation, the company experiences difficulty paying its debts, both short-term and long-term, which can lead to bankruptcy if not addressed promptly.

In research conducted by Wulandari, et al. (2021), the factors that influence financial distressing manufacturing companies in Indonesia were analyzed. They found that leverage, high and low profitability are the main indicators that can predict Financial distress. This study highlights the importance of debt management and increasing profitability to avoid financial distress. Financial distress.

Wati, et al (2022) examined the influence of corporate governance to Financial distress in financial sector companies. The research results show that good governance practices, such as transparency and accountability, can reduce the financial distress. They also found that an independent board of directors plays a crucial role in monitoring and controlling financial risks. This finding underscores the importance of effective corporate governance in preventing financial financial distress.

## FINANCIAL PERFORMANCE

Financial performance significantly impacts financial stress, as evidenced by various studies based on agency theory. Agency theory states that the conflict between principals (shareholders) and agents (managers) can influence a company's financial health. For example, profitability, measured by return on assets (ROA), and liquidity, measured by the current ratio (CR), have been shown to positively influence financial stress, suggesting that higher profitability and liquidity can reduce financial stress (Sindy & Sutrisno, 2023).

On the contrary, leverage, measured by the debt-to-equity ratio (DER), has a significant negative effect on financial distress, indicating that leverage. Higher levels of leverage increase the risk of financial distress (Sindy & Sutrisno, 2023). Furthermore, corporate governance mechanisms, such as audit committee effectiveness and board size, play a crucial role in mitigating financial distress. Effective audit committees and larger, gender-diverse boards are better at monitoring and managing risks, thereby reducing financial distress (Dirgantara & Tauchita, 2022) and (Riesanti & Wikko, 2022).

Free cash flow (FCF) also significantly impacts financial distress, with higher FCF targets leading to increased financial distress due to reduced payments to suppliers, which disrupts intercompany payment networks (Remy & Jenny, 2019). Furthermore, financial performance, as measured by Tobin's Q, is influenced by corporate governance practices, which in turn influence financial distress. Good corporate governance practices can mitigate financial distress by aligning the interests of managers and shareholders (Elviana & Hapzi, 2022). However, several studies have shown that financial performance is not always directly correlated with



financial distress, as other factors such as company size and earnings management also play a role (Felicia & Suhartono, 2022) and (Eddy & Pratana, 2023).

Overall, the interaction between financial performance and financial distress is complex and multifaceted, with agency theory providing a robust framework for understanding these dynamics (Felicia & Suhartono, 2022) and (Eddy & Pratana, 2023). Based on the previous explanations, the following research hypotheses can be formulated for this study:

## **H1: Financial performance has an effect on Financial distress**

### **OWNERSHIP STRUCTURE**

The influence of ownership structure on financial distress can be comprehensively understood through the lens of agency theory, which highlights the conflict between management and shareholders. Various studies have shown that different ownership structures significantly impact financial distress. For example, ownership diversity, measured using the Herfindahl-Hirschman Index, has been found to increase financial distress due to higher agency costs associated with monitoring diverse shareholders (Muhammad & Koalawala, 2022). Conversely, managerial ownership generally has a negative effect on financial distress, as managers with ownership stakes are more aligned with shareholder interests, reducing agency conflicts (Lintang & Yeterina, 2022) and (Aisyah & Mayar, 2022).

Institutional ownership presents mixed results; while some studies suggest it reduces financial stress by providing effective monitoring (Lintang & Yeterina, 2022), others suggest it can increase financial stress due to potential conflicts of interest and short-term focus (Aisyah & Mayar, 2022).

The role of independent boards and directors is also important, as their presence tends to reduce financial stress by improving oversight and reducing institutional conflict (Wulan & Mohamad, 2021). Gender diversity on boards has been shown to have a negative effect on financial stress, suggesting that diverse boards are better at risk management (Dirgantara & Tauchita, 2022).

Furthermore, capital structure, influenced by ownership, plays a significant role; firms with higher managerial and institutional ownership tend to have lower debt levels, reducing the risk of financial distress (Peilouw & Bintang, 2022) and (Dam & Supriyanto, 2022). However, ownership concentration, such as family or government ownership, can have varying impacts on firm performance and financial distress, depending on the specific firm context and dynamics (Muhammad, 2021).

Overall, the interaction between different ownership structures and their monitoring mechanisms significantly influences financial distress, with agency theory providing a robust framework for understanding this relationship (Riesanti & Wikko, 2022). Based on the above explanation, it can be concluded that ownership structure can improve financial distress for an entity. As initial evidence of this conclusion, the following research hypothesis can be formed:

## **H2: Ownership structure has an effect on Financial distress**

### **GOOD CORPORATE GOVERNANCE**

Good Corporate Governance (GCG) plays a crucial role in moderating the influence of financial performance on financial distress, as explained through the lens of agency theory. Agency theory states that conflicts of interest between management and shareholders can lead to inefficiencies, which GCG mechanisms aim to mitigate. Various studies have shown mixed results regarding the effectiveness of GCG in this moderating role (Angela, 2022).

For example, the presence of an independent board of directors and an audit committee has been found to significantly reduce financial distress by aligning management actions with shareholder interests. However, other elements such as institutional and managerial ownership do not show a significant impact on financial distress. Financial performance indicators such as leverage, net profit margin, and liquidity are very important in predicting financial distress, and GCG can moderate these effects, especially through managerial ownership (Ira, 2023).

Board size and diversity also play a role, with larger and more diverse boards being more effective in mitigating financial distress (Yuli, 2023) and (Riesanti & Wikko, 2022). Interestingly, gender diversity on risk committees has been shown to negatively impact financial distress, suggesting that women may be better at managing risk. Profitability, often measured by ROA, ROE, and ROI, consistently impacts financial distress, and GCG mechanisms such as boards of directors and audit committees can moderate this effect (Etti, 2022).



In addition, intellectual capital can strengthen the moderating effect of GCG on financial distress (Angela, 2022). However, the effectiveness of GCG can vary based on ownership structure, such as state-owned versus non-state-owned enterprises, which can alter the impact on liquidity and leverage on financial distress (Yuli, 2023). Overall, while GCG mechanisms can significantly moderate the relationship between financial performance and financial distress, their effectiveness is influenced by various factors, including board characteristics, ownership structure, and the specific financial metrics considered (Yuli, 2023), (Andi, et al., 2023), (Dirgantara & Tauchita, 2022), (Riesanti & Wikko, 2022), (Angela, 2022) & (Etti, 2022).

Furthermore, GCG also plays an important role in moderating the influence of ownership structure on financial stress, as explained through the lens of Agency Theory. Agency Theory states that conflicts of interest between principals (owners) and agents (managers) can cause financial difficulties if not managed properly (Gwala & Pfano, 2023).

Various studies have shown mixed results regarding the impact of ownership structures such as managerial ownership, institutional ownership, and board characteristics on financial distress. For example, managerial ownership has been found to reduce conflicts of interest but does not significantly affect financial distress (Etti, 2022) & (Zulvanya & Taswan, 2023). Similarly, institutional ownership and audit committees, which are part of the GCG mechanism, do not significantly impact financial distress directly but increase oversight of management, potentially reducing distress indirectly (Etti, 2022).

The size and composition of the board of commissioners, including independent commissioners, have shown mixed results; larger boards tend to improve financial condition, while the proportion of independent commissioners often shows no significant effect (Yuli, 2023). Furthermore, the presence of an effective audit committee and an independent board of directors can reduce earnings management practices, aligning the company's objectives with those of shareholders, and thus potentially mitigating financial distress (Andi, et al., 2023).

Financial performance, profitability, and operating cash flow are also important factors that interact with GCG mechanisms to influence financial distress. For example, profitability consistently influences financial distress, and operating cash flow has a significant negative effect on financial distress, indicating that better financial performance can reduce risk (Etti, 2022) & (Yuli, 2023). Furthermore, GCG can moderate the effects of GCG on financial distress. leverage and liquidity in financial distress, although its moderating role on other financial metrics such as net profit margin and sales growth is limited (Ira, 2023).

Overall, while GCG mechanisms alone may not directly prevent financial distress, they play a significant moderating role by improving oversight and aligning management actions with shareholder interests, thereby mitigating the adverse effects of ownership structure on financial distress (Ira, 2023), (Etti, 2022), (Yuli, 2023), & (Riesanti & Wikko, 2022). As initial evidence for the results of these studies, the following research hypotheses can be formulated:

**H3: Good Corporate Governance can moderate the influence of Financial Performance on Financial distress**

**H4: Good Corporate Governance can moderate the influence of Ownership Structure on Financial distress**

## RESEARCH METHODS

The approach used in this research is a quantitative approach. This study uses financial report data from conventional non-regional government banks in the form of numbers, which are then analyzed using financial ratios to determine the company's financial performance. The population of this study is all conventional non-regional government banking companies operating in Indonesia. According to the Central Bureau of Statistics, there are 69 conventional non-regional government banking companies operating in Indonesia. The research sample uses the technique purposive random sampling. Technique purposive random sampling is a sampling technique with certain considerations (Sekaran and Bougie, 2021).

In this regard, the sample for this study consists of companies selected based on several criteria. These criteria are:

1. Conventional non-regional government banking companies that actively operated during the period 2019 to 2024, namely banks that were not owned by the regional government and carried out operational activities consistently during that period.
2. Conventional non-regional government banking companies included in the BUKU 2, BUKU 3, or BUKU 4 Bank groups based on the OJK classification, namely banks with a minimum core capital of IDR 1 trillion, which reflects a medium to large business scale, and submits annual financial reports consistently during the 2019–2024 period.
3. A conventional non-regional government banking company designated by the government and registered on the Indonesia Stock Exchange (IDX) as a Primary Dealer, namely a bank that has received an official assignment to support auction



activities, distribution, and buying and selling transactions of Government Securities (SBN) in the primary and secondary markets.

Based on these criteria, 17 of the 69 conventional banking companies passed the criteria. Therefore, the sample in this study was Annual Reports of 17 Banking Companies Conventional in Indonesia operating from 2019 to 2024. Thus, there are 17 x 6 Years = 102 Annual Reports from 17 Conventional Banking Companies that are the sample for this study. The companies in question are:

**Table 4.1 Conventional Banking Companies Registered in BEI from 2019 to 2024**

No	Code Bank	Company name
1	002	PT Bank Rakyat Indonesia
2	008	PT Bank Mandiri
3	008	PT Bank Negara Indonesia
4	200	PT Bank Tabungan Negara
5	087	PT Bank HSBC Indonesia
6	011	PT Bank Danamon Indonesia
7	013	Bank Permata Tbk
8	014	Bank Central Asia Tbk
9	016	Bank Maybank Indonesia Tbk
10	019	Pan Indonesia Bank Tbk
11	022	Bank CIMB Niaga Tbk
12	028	Bank OCBC NISP Tbk
13	061	Bank ANZ Indonesia
14	031	Citibank N.A.
15	032	JP Morgan Chase Bank N.A.
16	050	Standard Chartered Bank
17	067	Deutsche Bank AG

Source: idx.co.id, 2024

This study will use Eviews 10 software to conduct several regression tests. This is based on the use of panel data. Panel data can be defined as data collected from multiple objects over time (Sugiyono, 2021).

**DESCRIPTIVE STATISTICS**

According to Ghozali (2016), descriptive statistics provide an overview or description of data seen from the minimum, maximum, average values (mean), and standard deviation. To provide an overview of the following descriptive analysis, it will be explained in table 5.2 as follows:

**Table 5.2 Descriptive Statistical Analysis Results**

	ROA (X1.1)	ROE (X1.2)	Ownership Structure (X2)	NPL (Y1.1)	LDR (Y1.2)	Good Corporate Governance (Z)
Mean	1.461129	9.258667	18.99417	2.324701	79.34838	87.80072
Median	1.350000	8.970000	10.60000	2.380000	83.00000	88.70000
Maximum	4.700000	19.00000	47.20000	6.650000	121.9400	98.14500
Minimum	-0.420000	1.000000	1.200000	0.170000	49.00000	69.69500



Std. Dev.	0.973170	3.733617	16.00256	1.347458	13.43725	7.264592
Skewness	1.338291	0.404876	0.674411	0.425482	-0.242359	-0.697636
Kurtosis	5.371850	3.015744	1.739023	3.012731	3.184018	2.410539
Jarque-Bera	54.35648	2.787773	14.48989	3.078285	1.142458	9.750559
Probability	0.000000	0.248109	0.000714	0.214565	0.564831	0.007633
Sum	149.0352	944.3840	1937.405	237.1195	8093.535	8955.673
Sum Sq. Dev.	95.65299	1407.930	25864.27	183.3801	18236.53	5330.204
Observations	102	102	102	102	102	102

Source: Processed Data Eviews 10, 2025

The company's financial performance in this study was measured using two main indicators, namely Return on Assets (ROA) and Return on Equity (ROE). The average ROA was recorded at 1.461%, with a minimum value of -0.420% and a maximum of 4.700%. This indicates that companies are generally able to generate returns on their total assets, although some companies experienced negative performance. The standard deviation of 0.973 indicates moderate variation between companies in generating returns on assets.

**SELECTION OF RESEARCH MODEL**

**A. Uji Chow**

**Table 5.3 Chow Test Results**

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

Effects Test	Statistic	d.f.	Prob.
Cross-section F	14.861227	(16,82)	0.0000
Cross-section Chi-square	138.813109	16	0.0000

Source: Processed Data Eviews 10, 2025

The Chow test aims to determine whether the panel data regression model with fixed effects (Fixed Effect) is significantly better than the model without fixed effects (Pooled OLS). Based on these results, the F statistic value obtained is 14,861 with degrees of freedom (16.82) and a probability value (p-value) of 0.0000. Because the p-value is smaller than 0.05, the decision taken is to reject the null hypothesis (H<sub>0</sub>) which states that the model without fixed effects is sufficient. In other words, the results of the Chow test indicate that the fixed effect model is significantly more appropriate than the pooled OLS model, so the regression model should use a fixed effect approach to capture variations that occur between cross-sections.



**B. Hausman test**

**Table 5.4 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	4.949365	3	0.0003

Source: Processed Data Eviews 10, 2025

Hausman Test Results (Correlated Random Effects - Hausman Test) above is used to choose between random models/effects and fixed effects in panel data regression analysis. In the output, the statistical Chi-Square values is 4.949365 with degrees of freedom (df = 3) and probability value (p-value) is 0.0003. Because the p-value is smaller than 0.05, the null hypothesis (H<sub>0</sub>) which states that the random effects model is the appropriate one is rejected.

Thus, the results of the Hausman Test show that there is a significant correlation between individual effects (random effect) and independent variables, so that the model fixed effects are more appropriate to use in this study. Model selection-fixed effects provide more consistent and unbiased estimates than random effects in that condition.

**C. Normality Test**

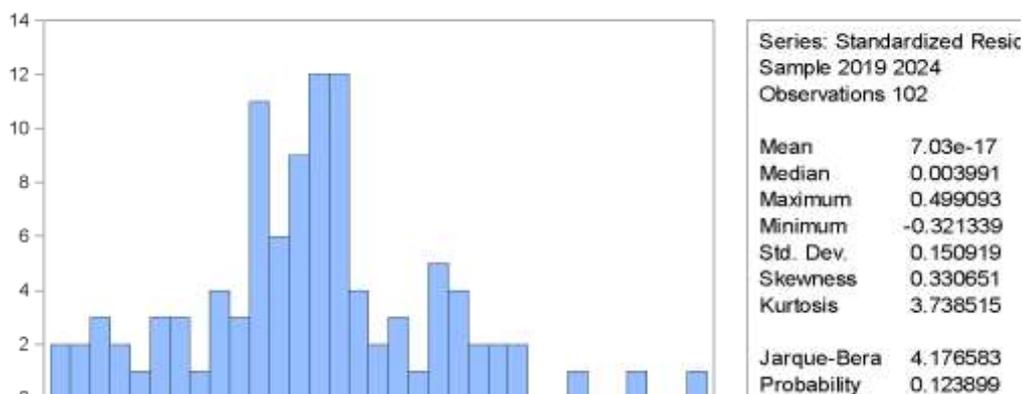


Figure 5.1 Normality Test Results

Based on the results of the normality test on the residuals of the regression model displayed through the histogram and Jarque-Bera statistics in the figure, it can be concluded that the residuals of the model are normally distributed.

**D. Heteroscedasticity Test**

**Table 5.5 Heteroscedasticity Test Results**

Panel Cross-section Heteroskedasticity LR Test

Equation: UNTITLED

Specification: Financial distress X2 Z

	Value	Df	Probability
Likelihood ratio	125.9834	17	0.1529

Source: Processed Data Eviews 10, 2025



Based on the results of the Panel Cross-section Heteroskedasticity Likelihood Ratio (LR) Test displayed, it can be seen that the panel regression model was tested to identify whether there is a heteroscedasticity problem, namely a non-constant residual variance between cross-sections. The statistical value of the likelihood ratio obtained is 125.9834 with a degree of freedom (df) of 17, resulting in a probability value (p-value) of 0.1529. Because the probability value is greater than the significance level of 0.05, the null hypothesis (H<sub>0</sub>) which states that there is no heteroscedasticity (meaning the residual variance is constant) cannot be rejected.

Thus, it can be concluded that the model does not experience heteroscedasticity between cross-sections, and the classical assumption of homoscedasticity has been met. This condition supports the panel regression model's stability in terms of error variance and statistical reliability of the estimation results.

**E. Multicollinearity Test**

**Table 5.6 Multicollinearity Test Results**

	Financial Distress	Financial performance	X2	Z
Financial Distress	1.000000	-0.241039	0.418790	0.238022
Financial performance	-0.241039	1.000000	0.005442	0.190058
X2	0.418790	0.005442	1.000000	0.487186
Z	0.238022	0.190058	0.487186	1.000000

Source: Processed Data Eviews 10, 2025

Based on the results of the multicollinearity test shown in the correlation matrix between variables, it can be concluded that there is no strong indication of multicollinearity in the regression model. This is indicated by the relatively low correlation values between the independent variables, with all correlation values below the general threshold of 0.80 or 0.90, which is commonly used as an indicator of multicollinearity.

**F. Hypothesis Testing**

**Table 5.7 Hypothesis Test Results**

Dependent Variable: Financial distress

Method: Panel Least Squares

Date: 06/15/25 Time: 23:24

Sample: 2019 2024

Periods included: 6

Cross-sections included: 17

Total panel (balanced) observations: 102

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	45.10983	2.027367	22.25045	0.0000
Financial performance	-0.606102	0.249838	-2.425985	0.0174
X2	-0.053945	0.074094	-0.728058	0.4686

Effects Specification

Cross-section fixed (dummy variables)



R-squared	0.805961	Mean dependent var	40.83654
Adjusted R-squared	0.763880	S.D. dependent var	7.081176
S.E. of regression	3.440898	Akaike info criterion	5.475759
Sum squared resid	982.7018	Schwarz criterion	5.964725
Log likelihood	-260.2637	Hannan-Quinn criter.	5.673758
F-statistic	19.15269	Durbin-Watson stat	1.835948
Prob(F-statistic)	0.000000		

Source: Processed Data Eviews 10, 2025

The constant value (C) in the model is 45.10983 with a significance value (p-value) 0.0000, indicating that the constant is statistically significant at the 95% confidence level. The Financial Performance variable has a coefficient of -0.606102 with a p-value of 0.0174, which is smaller than 0.05. This indicates that Financial Performance has a negative and significant effect on Financial distress. This means that increasing financial performance tends to decrease the value of Financial distress significantly. Meanwhile, the Ownership Structure variable has a coefficient of -0.053945 and a p-value of 0.4686, which is much greater than 0.05. Thus, Ownership Structure does not have a significant effect on Financial distress.

**Table 5.8 Results of Moderation Hypothesis Testing Using the Least Squares Panel Method**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
XZ_COMBINED	-0.006360	0.002622	-2.425985	0.0174
X2Z	-0.000566	0.000777	-0.728058	0.4686
C	45.10983	2.027367	22.25045	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.805961	Mean dependent var	40.83654
Adjusted R-squared	0.763880	S.D. dependent var	7.081176
S.E. of regression	3.440898	Akaike info criterion	5.475759
Sum squared resid	982.7018	Schwarz criterion	5.964725
Log likelihood	-260.2637	Hannan-Quinn criter.	5.673758
F-statistic	19.15269	Durbin-Watson stat	1.835948
Prob(F-statistic)	0.000000		

Source: Processed Data Eviews 10, 2025

Based on the results of testing the moderation hypothesis using the Panel Least Squares method with the approach cross-section fixed effects, this study analyzes the role of moderator variables Good Corporate Governance on the relationship between



Financial Performance and Ownership Structure on the dependent variable Financial distress through the interaction of moderating variables, namely XZ\_Combined (interaction of Financial Performance and Good Corporate Governance) and X2Z (interaction of Ownership Structure and Good Corporate Governance).

The estimation results show that the variable XZ\_Combined has a coefficient of -0.006360 with a significance value (p-value) of 0.0174, which is smaller than the significance level of 0.05. This indicates that the interaction between the Financial Performance and Good Corporate Governance has a negative and significant effect on Financial distress. Thus, it can be concluded that Good Corporate Governance moderates the relationship between Financial Performance and Financial distress significantly, where the existence of Good Corporate Governance weakens the influence of Financial Performance on Financial distress.

Meanwhile, the interaction variable X2Z has a coefficient of -0.000566 with a p-value of 0.4686, which is far above the significance threshold of 0.05. This means that the interaction between X2 and Good Corporate Governance does not have a significant effect on Financial distress, so there is no moderating effect of Good Corporate Governance in the relationship between X2 and Financial distress.

## RESEARCH DISCUSSION

### The Influence of Financial Performance on Financial distress

The results of this study indicate that Hypothesis 1 is accepted, namely that financial performance has a negative and significant effect on financial distress in conventional non-regional government banks. The negative coefficient indicates that the better a bank's financial performance, the less likely it is to experience financial distress. Financial performance in this study is proxied by Return on Assets (ROA) and Return on Equity (ROE), which reflect the efficiency of asset management and the company's ability to generate profits for shareholders. High ROA and ROE values indicate efficient operational conditions and good profitability, thereby strengthening the bank's financial resilience and reducing the risk of financial distress. This finding is consistent with several previous studies that state that profitability has a significant negative effect on financial distress in the banking and financial sector (Azizah & Lismawati, 2024; Pasaribu et al., 2025; Betari & Hanif, 2023; Ramadhani & Sari, 2023; Amalia & Hartono, 2021).

However, several studies have shown conflicting results and confirm that the influence of financial performance on financial distress is contextual and influenced by industry characteristics and the quality of corporate management. Research in the non-financial sector has found that profitability does not always significantly influence financial distress due to external factors such as commodity price volatility and weak risk management and debt structure (Mulyani & Rachmawati, 2022; Kurniawan & Sari, 2021). In the banking context, these differing findings indicate that good financial performance requires the support of effective GCG. The application of the principles of transparency, accountability, and adequate managerial oversight enables banks to maintain a strong internal control system, minimize excessive risk-taking, and maintain operational stability, thereby strengthening the negative relationship between financial performance and financial distress.

### The Influence of Ownership Structure on Financial Distress

The results of this study indicate that Hypothesis 2 is rejected, meaning that ownership structure does not significantly influence financial distress in conventional non-regional government banking companies during the 2019–2024 period. Ownership structure is measured by the ratio of external share ownership to total outstanding shares, which reflects the degree of dominance of outside investors over company ownership. Empirically, high external ownership has not been proven to reduce the risk of financial distress in banks in the study sample. This finding is inconsistent with agency theory (Jensen & Meckling, 1976), which states that ownership structure can function as a monitoring mechanism to reduce conflicts of interest between management and owners. This discrepancy indicates that the external ownership mechanism has not been effective in the context of non-regional government banking in Indonesia, which is influenced by institutional characteristics, the level of investor protection, and transparency of corporate governance.

The results of this study align with those of Wijaya and Kartika (2022) and Putra and Dewi (2023), who concluded that external or institutional ownership has no significant effect on financial distress, particularly in highly regulated industries such as banking. Contrary findings were also found by Fauziah and Nugroho (2021) and Handayani and Yuliani (2024), who stated that institutional and managerial ownership can reduce the risk of financial distress through stricter oversight of management policies. These differences in results confirm that the influence of ownership structure on financial distress is contextual and highly



dependent on the effectiveness of GCG implementation. The insignificant influence of ownership structure in this study indicates that without the support of strong GCG principles, such as transparency, accountability, and board independence, external ownership cannot effectively function in controlling banking financial risk.

### **Good Corporate Governance in Moderating the Influence of Financial Performance on Financial Distress**

The results of Hypothesis 3 testing indicate that GCG significantly moderates the effect of financial performance on financial distress. This finding indicates that the implementation of GCG principles strengthens the negative effect of financial performance on financial distress. Therefore, the better corporate governance, the more effective financial performance is in mitigating the risk of financial distress. Financial performance, as measured by Return on Assets (ROA) and Return on Equity (ROE), reflects a company's ability to efficiently manage assets and capital, while GCG, as proxied by external ownership, reflects the level of managerial oversight and transparency. The combination of strong financial performance and effective GCG implementation makes a company more resilient in the face of financial distress.

These findings align with agency, stakeholder, signaling, and stewardship theories, which emphasize the role of corporate governance in mitigating conflicts of interest, increasing accountability, and strengthening stakeholder trust. The implementation of GCG encourages information transparency, objective decision-making, and managerial behavior oriented toward long-term sustainability, thereby strengthening corporate financial stability. The empirical results of this study are consistent with the findings of Wang et al. (2022), Chen and Lee (2020), and Situmorang and Prasetya (2023), which show that GCG acts as a protective mechanism against the impact of declining financial performance on the risk of financial distress, particularly in the banking sector. The differences between these results and several other studies indicate that the effectiveness of GCG is highly dependent on the quality of implementation and regulatory oversight, which in the Indonesian banking context is reinforced by the strict provisions of the Financial Services Authority (OJK) to maintain financial system stability.

### **Good Corporate Governance in Moderating the Effect of Ownership Structure on Financial Distress**

The results of Hypothesis 4 testing indicate that GCG is unable to significantly moderate the influence of ownership structure on financial distress. This finding indicates that GCG implementation neither strengthens nor weakens the relationship between ownership structure and the risk of financial distress. Ownership structure, which reflects the distribution of shares between internal and external parties, has not been effectively influenced by governance practices in reducing financial distress. This condition can be explained through the governance-effectiveness framework, which emphasizes that the effectiveness of GCG depends not only on its formal existence but also on the quality of implementation, organizational culture, and management commitment. When GCG is implemented solely for administrative purposes, its role in strengthening ownership mechanisms is empirically weakened. From an agency theory perspective, external ownership should function as a monitoring mechanism for management to suppress opportunistic behavior and the risk of distress. However, the results of this study indicate that this mechanism has not been functioning optimally in conventional non-regional government banks.

These findings align with stakeholder, stewardship, and institutional theories, which emphasize that governance effectiveness is largely determined by the integration of the values of transparency, accountability, independence, and the internalization of managerial ethics. The weak oversight function of the board of commissioners, the dominance of the majority shareholder, and the low independence in strategic decision-making prevent GCG from acting as a substantive control mechanism. This situation also explains why GCG implementation has not been a strong signal to investors regarding a company's financial health. Empirically, the results of this study are consistent with the findings of Putri and Sudarno (2021), Arifin and Kusuma (2020), and Rahmawati (2022), who concluded that GCG does not moderate the relationship between ownership structure and financial distress due to compliance-based governance practices. This contrasts with several other studies, indicating that the effectiveness of GCG as a moderating variable is contextual and highly dependent on the quality of regulations, the maturity of governance practices, and the institutional environment in which the company operates. In the context of Indonesian banking, the implementation of GCG, which is still oriented towards formal compliance with OJK regulations, means that its role in strengthening the relationship between ownership structure and financial distress has not yet been statistically significant.



## CONCLUSION

Based on the results of the research analysis entitled "The Effect of Financial Performance and Ownership Structure on Financial Distress with Good Corporate Governance as a Moderating Variable in Conventional Banking Companies of Non-Regional Governments", it can be concluded that financial performance has a negative and significant effect on financial distress, which indicates that the better the financial performance of a banking company, the lower the likelihood of financial distress. Meanwhile, ownership structure was not proven to have a significant effect on financial distress. The results also show that GCG is able to significantly moderate the relationship between financial performance and financial distress, so that the implementation of good GCG can strengthen the role of financial performance in reducing the risk of financial distress. However, GCG is not able to moderate the effect of ownership structure on financial distress in conventional banking companies of non-regional governments.

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