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Meta Analysis the Effect of Financial Distress on Good Corporate Governance Practices

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Abstract

Financial distress is a condition of unhealthy company financial performance due to financial difficulties. To avoid financial distress, companies implement good corporate governance practices, known as Good Corporate Governance (GCG). The purpose of this study is to examine the role of financial distress in the context of good corporate governance, based on the observed phenomenon. This research was conducted using a meta-analysis method from previous research using 24 journals with different types of business sectors that examined the effect of financial distress on good corporate governance. The results showed that the mechanism of good corporate governance through the proxy of the audit committee, managerial ownership, number of commissioners, number of directors, leverage, cash flow, and sales growth, has a significant relationship with financial distress. However, the results of good corporate governance through proxies. liquidity, institutional ownership, and the proportion of commissioners. independent related insignificantly. Other results also show that financial distress can be predicted by good corporate governance mechanisms through financial ratio analysis and macroeconomic factor analysis.

Keywords: *Financial Distress, Good Corporate Governance*

INTRODUCTION

Measuring financial performance is one of several parameters that is useful in estimating financial difficulties that may occur in a company. For a company, financial performance is a necessity that must be maintained and improved so that the company remains well-known and liked by investors, this is reflected in the financial reports (Hwihanus & Ramadhani, 2019). Meanwhile, the corporate governance system (GCG) should be practiced as a whole throughout the organization, so that with good governance results in good financial conditions can also be achieved (Saputra et al., 2022).

Good corporate governance is capable make the company's strategy biased to avoid financial difficulties. The relationship between corporate governance and the risk of potential financial distress has made it an important focus of corporate governance studies, especially after the financial crises of 1998 and 2008. IICG (The Indonesian Institute for Corporate Governance) is corporate governance as a set of mechanisms aimed at regulating and controlling companies with the hope that the company can act in the interests of shareholders.

Several studies on Financial Distress are related to Good Corporate Governance with various research results. Previous research by (López-Gutiérrez et al., 2015) revealed that financial difficulties are one of the obstacles for companies to make investments, so that they are not in line with the wishes of shareholders which is the directional mechanism of GCG. Financial difficulties will be an important problem that companies must face, because companies refuse all debt or similar contracts, such as paying dividends, as well as selling large company assets, this is also not in accordance with GCG principles (López-Gutiérrez et al., 2015)

Practice Good corporate governance can help companies in crisis situations, financial risk management, and can be a factor that has a significant influence on financial difficulties (Pristiana & Istiono, 2020). In addition, companies that implement GCG practices are also better able to fulfill their social responsibilities and maintain good relations with stakeholders all stakeholders are seriously considering investing financial resources to develop policies that encourage each component level of social behavior to contribute globally (Rodriguez-Fernandez, 2016)

To overcome financial distress, companies need to strengthen their Good Corporate Governance practices. To avoid financial difficulties, companies can adopt various strategies, and one effective strategy is implementing GCG practices. Several actions that can be taken by a company include increasing transparency and accountability, strengthening supervision by the board of directors, by implementing good corporate governance, stakeholder trust in the company's sustainability performance will increase (Tjahjadi et al., 2021).

This research aims to examine the role of financial distress in the context of good corporate governance, based on observed phenomena. The aim of this research is to identify and examine the relationship between financial difficulties and the implementation of GCG in the business environment. Internal variables this research uses indicators financial distress which researchers estimate will influence Good Corporate Governance based on empirical studies that researchers have reviewed previously through previous journals.

LITERATURE REVIEW

Financial management

According to Munirah Ira et al., (2012) are all company activities aimed at obtaining company assets with minimal cost and effort to use and distribute these funds effectively, while according to Prawironegoro (2014), financial management is the owner's activity companies and management to succeed in obtaining capital as cheaply as possible and using effective, efficient and active methods to gain profits. Jatmiko (2017), said financial management refers to all aspects of planning, monitoring, organizing and allocating a company's financial resources.

Profit management

Yahaya et al., (2020) stated that profit management is a tactic used by management to manipulate or control financial reports using special accounting approaches, speeding up expenditure or income transactions, as well as through other strategies designed to influence short-term profits. The actions taken by managers in the decision-making process related to financial reporting and transaction arrangements aim to change the level of profit with the aim of influencing the company's economic performance or the results of agreements (contracts) based on the resulting data.

Financial Distress.

Financial Distress according to (Pratiwi et al., 2023), is a condition where a company experiences financial difficulties which is proven to have a risk of destruction. Financial distress is a situation where a company needs additional funds to avoid bankruptcy due to a decrease in income (Crespí-Cladera et al., 2021).

Financial Distress (FD) A situation where a company faces difficulties, one of which is credit risk as a result of financial distress (Sadaa et al., 2023). Meanwhile, according to (Nopayanti & Ariyanto, 2018) conditions of financial difficulty have an influence on the audit report lag, a company experiencing financial difficulties usually experiences a long delay in the audit report because the probability of bankruptcy affects the audit delay. There are several factors that influence the occurrence of financial difficulties, including profitability, liquidity, leverage, operational capacity, sales growth and operational cash flow.

Good Corporate Governance

Good Corporate Governance is the basis of the market economic system, because it is closely related to public trust in companies. In an external context, Good Corporate Governance implemented by companies tends to gain more trust from investors. Based on the Organization for Economic Cooperation and Development (OECD), GCG is a form of framework that aims to determine the vision and mission of an organization or company, provide guidelines for achieving these targets, and enforce a supervision mechanism for the performance of the organization or company. The Good Corporate Governance system is designed with the aim of generating more value for all parties involved, with efforts to prevent conflicts between agents and principals which have the potential to cause increased agency costs (Pristiana & Istiono, 2020).

Within the scope of this research, the governance system studied in this research includes institutional ownership, management ownership, directors, commissioners and independent commissioners. The GCG system is divided into two areas of control, namely internal and external. Good internal governance mechanisms are part of controlling the company's internal activities, including the implementation of general shareholder meetings (GMS), part of its internal processes and management meetings. Internal mechanisms are the responsibility of senior management, such as the Audit Committee, Board of Directors, Prosecutor's Office and Ownership Structure. At the same time, external mechanisms refer to the way a company influences internal systems involving market surveillance as well as the company's legal framework.

METHOD

This research uses the meta-analysis method as an analytical approach. Meta-analysis is a valid, objective and scientific method for analyzing and combining different results (Ahn & Kang, 2018). This means that meta-analysis is a technique used to re-analyze research results by collecting and processing primary data that has been previously collected. Study it explores the influence of financial difficulties on governance manage the company.

Study carried out using the method meta-analysis of previous research using 24 journals with research from different types of business sectors that examined the influence of financial distress on good corporate governance. A literature search based on academic data was carried out to look for literature related to related research results (Sailer & Homner, 2020), So we looked for literature as research material on the topic of financial distress and good financial governance (GCG).

RESULTS AND DISCUSSION

Influence Good Corporate Governance against Financial Distress

The influence of GCG on FD can be viewed from several types of industry or business. The research results of the types of companies operating in the financial sector are different from manufacturing companies and also companies operating in other fields. This is caused by industry characteristics, business scale, capital structure and the quality of implementation of good corporate governance mechanisms implemented in each type of industry.

Study results the influence of GCG on financial distress in the financial sector industry shows the results have a significant effect when implementing the mechanism GCG is not implemented with Good. (Abugri, 2022) in the results of his study explained that GCG had a significant effect on Registered bank FD on the Ghana Stock Exchange caused by the number of boards directors and board managerial experience directors. But results different across studies (EL Putri et al., 2018), GCG has no significant effect against financial difficulties if used to predict Commercial Banks and National Sharia in Indonesia.

Study results in manufacturing sector companies have that result varies, depending on the mechanism for implementing GCG in the company. The results have a significant effect regarding the relationship between the application of GCG principles and financial difficulties, as shown by several results studies (EL Putri et al., 2018), (Nasiroh & Priyadi, 2018), (Giarto & Fachrurrozie, 2020) and some of (Maryam & Yuyetta, 2019), GCG through committee proxies audit, ownership managerial, number of board of commissioners, number of directors, leverage, cash flow, sales Growth have a significant influence on Financial distress. The results presented by studies differ (Adi et al., 2022), (NWKA Putri & Merkusiwati, 2014) and some of (Maryam & Yuyetta, 2019), good corporate governance does not have a significant effect through liquidity proxies, institutional ownership and the proportion of independent commissioners.

Results of studies within the company in the infrastructure sector, consumer goods and others shown by the study (Fathi & Jean-Pierre, 2001), (Ria Murhadi et al., 2018), (Kusumayani et al., 2019), some of the findings (Pramudena & Marti, 2017) and some findings (Sastriana, 2013) shows that GCG has a significant influence on FD through independent director proxies, audit opinion, audit committee, size, type of ownership, financial reports, characteristics of the board of directors, commissioners and number of directors. However, there are differences in findings from (Mondayri & Tresnajaya, 2022), some of the findings (Pramudena & Marti, 2017) and some findings (Sastriana, 2013) If GCG proxy uses ownership institutional, ownership managerial and commissioner independent, good corporate governance no effect significant to financial distress.

Influence Financial Distress to Good Corporate Governance

Effect of FD on GCG shows that there is a relationship on these two variables. This research results from the types of companies operating in the financial sector which are different from manufacturing companies and also companies operating in other fields. Financial distress, that is refers to difficulties a company's finances, have a potentially damaging impact on the implementation and effectiveness of GCG in an organization.

The results of studies on companies in the financial sector discovered by (Hassan Al-Tamimi, 2012)shows that financial distress has a negative effect on good corporate governance practices in UAE national banks, this is supported by studies from (Muranda, 2006) which states that FD can be influenced significantly by internal GCG detect problems in financial or banking institutions in Zimbabwe. However, the results of the study presented by (Brédart, 2014), predicting financial distress through GCG mechanisms.by the size of the board of directors, ownership institutional, ownership management, board commissioners, and independent commissioners have no significant effect on GCG, but GCG does. Overall, it can increase the accuracy of prediction models in financial distress.

Results of studies of manufacturing companies by some (Pristiana & Istiono, 2020), financial distress has a significant effect on capital decisions, financial risk management, and GCG. This is supported by findings from (Yusra & Bahtera, 2021) revealed that financial distress can be predicted by the GCG mechanism through board size directors and committees audit with significant influence. However, some of the findings from (Pristiana & Istiono, 2020)also revealed that investment decisions do not have a significant effect on FD and GCG moderate the influence of investment decisions, capital decisions, and financial risk management on FD.

Results of company studies in the consumer sector goods, infrastructure and others reveal that FD does not have a significant influence towards GCG. According to the findings (Shahwan, 2015) which revealed that FD had no effect significant impact on predictions in good corporate practices governance at the company which is listed on the Egyptian stock exchange. This is also supported by findings from (Li et al., 2021), it is not enough for financial distress to be predicted only by good corporate governance, but the predictive power can be added to analysis of financial ratios and macroeconomic factors. Followed by findings

(Pratiwi et al., 2023), financial distress with company value which is moderated by GCG produces an insignificant effect on the company in the field of Food and Beverage.

CONCLUSION

Based on the results of the analysis of the twenty-four journals above, there are several findings that complement each other when viewed from several business sectors studied, such as finance, manufacturing, infrastructure, consumer goods and others.

The influence of poor GCG implementation can result in financial difficulties in financial companies, but GCG can be used to predict financial difficulties for financial companies. In the manufacturing, customer goods, infrastructure and other sectors, GCG is through committee proxies audit, ownership managerial, number of boards commissioners, number of directors, leverage, cash flow, sales growth have a significant influence on the occurrence of FD, but as a proxy for liquidity, ownership institutional and proportion. Independent commissioners have no influence significant but can be taken into consideration.

The influence of financial distress on GCG in the financial sector has an influence negative, and overall GCG can increase the accuracy of prediction models in financial distress. In the manufacturing sector, financial distress can be predicted by the GCG mechanism through board size directors and committees auditing. In the consumer goods, infrastructure and other sectors, financial distress does not have a significant effect on good corporate governance practices, but the power of financial predictions does distress can be added to GCG mechanism through financial ratio analysis and analysis of macroeconomic factors.

SUGGESTION

In this article, the researcher realizes that there are several weaknesses or shortcomings in the preparation that has been carried out. In order to improve this article it is important to obtain valuable assessments and ideas from readers in order to improve its quality. Future research is expected to examine this more deeply about influence FD against GCG practices to support and strengthen this article regarding influence FD against GCG practices further research is needed.

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