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GOOD CORPORATE GOVERNANCE (GCG) AND FINANCIAL DISTRESS BEFORE AND DURING THE PANDEMIC COVID-19

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ABSTRACT

Introduction: Companies need to apply Good Corporate Governance (GCG) to avoid financial difficulty during periods of crisis. This study can see more clearly the effect of the realization of GCG on banking during a crisis by comparing influence before the crisis and its influence during the crisis, is the application of GCG stronger in the crisis? And whether the show of GCG during a crisis can lower the occurrence of financial distress in affected firms.
Methods: Quantitative research method using statistical analysis using regression panel data tested in different situations.
Results: The effect of the GCG on financial distress increased in the crisis period, namely 25.48% in the pre-crisis term, increasing to 98.67% in the crisis term.
Conclusion and suggestion: The outcome of this examination shows that GCG had a negative and significant effect before the crisis and during the crisis, but the results showed the influence of GCG is stronger for crisis periods where in that period companies will try to improve their corporate governance as an effort to survive.

INTRODUCTION

Financial Distress are condition experienced by the firm before bankruptcy occurs, namely in the form of a decrease in the firm's financial situation, where the firm collapses to fulfill its obligations. Financial difficulty should be avoided by the company, by predicting it to avoid financial difficulties in the future, according to Miglani (2015) good corporate governance can negatively affect financial distress. Therefore, companies need to implement Good Corporate Governance to avoid financial difficulties during crisis

periods applied with 5 ideas of corporate governance: openness, accountability, responsibility, independence, and equality.

The Crisis of economics occurred in the last of 2019 due to the influence of the covid-19, the Government announced COVID-19 cases in Indonesia in early 2020 precisely on March 2, 2020, according to data from the Financial Services Authority SP 03/DHMS/OJK/I/2021 said that there was a decline in banking profits, which initially fell by 1.19% in 2019 to 0.98% in 2020, this happened because the performance of bank intermediation was under pressure due to the impact of the Covid-19. Then the financial services authority published a regulation, that regulates credit restructuring 11/POJK.03/2020 to cope with the impact of COVID-19 to maintain financial stability and support the extension of the economy, this is done to overcome the increasing number of bad loans in banking companies during the crisis period.

Banking is one of the main parts of a country's economy because banking performance can picture it when a crisis occurs we can see its economic strength from banking conditions and government policies related to it, according to Anginer et al (2018) economy crisis stimulates a review of corporate governance practices at banks, for this study, researchers are interested in looking further at the condition of Indonesian banks during the Covid-19 pandemic by investigating whether the implementation of GCG during the Crisis can reduce difficulties finance?. According to the Minister of SOEs No: Kep.117 / M-MBU / 2002, the Principles of GCG are firm rules and guidelines needed in a healthy firm management.

Li et al (2021) stated that their research shows that GCG alone is not enough to forecast financial difficulties, therefore it is advisable to increase the predictive power of financial ratios and macroeconomic factors, therefore researchers add control variables (ROA, SIZE, NPL) and macroeconomic factors, namely the COVID-19 pandemic as an exogenous shock that triggers the crisis, for more complete and accurate results, similarly, Asutay & Othman (2020) use macroeconomic variables as dependent variables in their regression formulas.

Furthermore, the crisis due to the Covid-19 pandemic in Indonesia, the government issued a credit restructuring policy to boost the economy, which aims to maintain the strength of the banking financial system and support economic extension, this is done to overcome the increasing number of bad loans in banking companies during the crisis. With this fact, researchers are interested in examining whether government policy as external control and the application of good corporate governance as internal control can overcome financial difficulties? to find out whether corporate governance can help reduce financial difficulties companies must find potential benefits from compliance with good corporate governance (Wang and Deng, 2006; Bravo et al, 2020).

This research was conducted with the interest of testing and supplying empirical evidence on the analysis of the effect of GCG on Financial Distress before and during the COVID-19 in Indonesia, the aim is to see more clearly the effect of implementing GCG on banking during a crisis and before the crisis, is the implementation of GCG stronger during the crisis? And whether the implementation of GCG during a crisis can lower the incidence of financial distress in affected companies.

Li et al. (2021) explain that GCG negatively influences the company's financial difficulties, meaning that firms that apply GCG are able to control financial difficulties. The outcome is supported by Miglani (2015) research which states that Good Corporate Governance negatively influences financial difficulties. Furthermore, according to Da Silva (2014), investor confidence declined during the crisis the Company had to improve its financial disclosures.

Based on the outcome of previous research above, this research analyzes the effect of implementing Good Corporate Governance (GCG) to overcome Financial Difficulties problems in banking during crisis periods by using four proxies to measure Good Corporate Governance (GCG) variables referring to previous research, namely: Institutional Ownership, Managerial Ownership, Independent Commissioner, and Audit Committee.

LITERATURE REVIEW

Agency problems can guide companies instantly to financial difficulties in times of economic crisis because policies that are favorable to the personal interests of managers will be detrimental to the company (Jensen and Meckling, 1976). Institutional ownership and managerial ownership play a main part in lower agency conflicts that fall in the middle between managers and shareholders. Miglani et al. (2015) and Li et al. (2021) institutional ownership as a proxy variable of good corporate governance that is useful to companies, considered to lower financial difficulties. The results also state that when other agencies (institutional ownership) have shares in listed companies, the likelihood of the company experiencing financial difficulties will be lowered.

Managerial ownership (MO) is closely related to agency theory because compensation makes the manager become a shareholder of the company (Tarigan, 2013), The outcome of research by Udin et al. (2017) shows the negative influence of institutional ownership (IO) on corporate failure, furthermore, according to Pearce & Robinson (2008) the behavior of managers who pursue personal interests can cause a decrease in stock performance where strategic decisions will lead the company to suboptimal results from the point of view of shareholders, for that the Company needs to compensate managers, according to Li et al. (2021), management compensation in the form of shares is proposed

to be a potential variable in divine financial difficulties, With the ownership of shares by management, management with shareholders finally has the same goal, which is to increase the value of shares therefore with this it is expected that managers can make decisions that prioritize the owners of the company. Formulate the following hypothesis:

H1: *IO has a negative and significant outcome on financial distress.*
H2: *MO has a negative and significant outcome on financial distress.*

The Board as the center of Corporate has a duty to implement corporate strategy. Manzeneque (2015) states firms with a large number of independent directors (ID) have less prospect of financial difficulties. Furthermore, Miglani et al. (2015) stated that audit committee (AC) assist directors in fulfilling their authority, such as making accounting records and completing the annual audit process. The attendance of an audit committee in the company increases monitoring, which will lower the chances of the company becoming financially depressed. Based on the explanation, the hypothesis was formulated:

H3: *ID has a negative and significant impact on financial distress.*
H4: *AC has a negative and significant impact on financial distress.*

This study uses financial ratios, namely ROA, SIZE, and NPL as control variables to get more accurate results, the function of the control variable is to control the relationship between the dependent variable and the independent variable to avoid biased calculation results, where the control variable also affects the independent variable. This study uses financial ratios, namely ROA, SIZE, and NPL as control variables to get more accurate results, the function of the control variable is to control the relationship between the dependent variable and the independent variable to avoid biased calculation results, where the control variable also affects the independent variable.

The value of ROA is influenced by the return on investment (Kasmir, 2014) therefore financial difficulties can be measured from the value of ROA because the smaller or decreased value of ROA can bring the Company to financial difficulties, The size of the company (SIZE) the size of the company is measured by the total assets or the size of the company's assets using the calculation of the logarithmic value of total assets, small companies are more vulnerable to crises (Hartono, 2008), therefore financial difficulties can be seen from the size of the Company because the smaller the Company's assets, the more at risk of experiencing financial difficulties. Furthermore, NPL is a comparison between non-performing loans (doubtful loans, non-current loans, and bad loans) and total loans disbursed by banks, therefore the bank's financial difficulties can be measured from the NPL value because the higher the NPL value, the greater the Company's losses that can bring the Company to financial difficulties.

H5: *ROA has a negative and significant impact on financial distress.*
H6: *SIZE has a negative and significant impact on financial distress.*
H7: *NPL has a positive and significant impact on financial distress.*

RESEARCH METHODS

Citterio & King (2022) in their research analyzed financial distress using a variety of approaches, the results showed that the Z-score is best suited to identify banks experiencing severe financial difficulties. The sample used commercial banks registered on the Indonesia Stock Exchange until 2023 is 58 banks. The tool used in this study was the computer program Eviews12. The sample was broken into two based on separate situations to see the difference in the effect of GCG on financial distress, namely the period before the crisis during 2017-2019 and the period when the crisis occurred during 2020-2022. Methods used in calculating regression equations with panel data are pooling least square (Common Effect), fixed effect approach (Fixed Effect), and random effect approach (Random Effect) (Widarjono, 2009). The equation regression is as follows:

$$Yit^1 = \beta_1 + \beta_2 X_{1it} + \beta_3 X_{2it} + \beta_4 X_{3it} + \beta_5 X_{4it} + \beta_6 X_{5it} + \beta_7 X_{6it} + \beta_8 X_{7it} + e$$

$$Yit^2 = \beta 1 + \beta_2 X_{1it} + \beta_3 X_{2it} + \beta_4 X_{3it} + \beta_5 X_{4it} + \beta_6 X_{5it} + \beta_7 X_{6it} + \beta_8 X_{7it} + e$$

Where:

$Y = financial\ distress$ calculated by Z-Score
$X1 = Institusional\ Ownership$
$X2 = Manajerial\ Ownership$
$X3 = Independent\ Board\ of\ commissioners$
$X4 = Audit\ Committee$
$X5 = ROA$
$X6 = SIZE$
$X7 = NPL$
$e = error$

Where i indicates the subject (cross section), t_1 indicates the time before the crisis and t_2 indicates the time when the crisis occurred.

According to Gujarati (2016), the random effect model does not require a classical assumption test because it is considered to have met the classical assumption test, but for data with the common effect model and fixed effect model, it still requires a classical assumption test. Furthermore, according to Basuki & Yuliadi (2014), the classical assumption test for fixed effect models is multicollinearity and heteroskedasticity, supported by Gujarati (2016) which states that from the advantages of panel data

regression, there are also problems that interfere with cross-section data, thus it is necessary to test heteroskedasticity for fixed effect models.

RESULT AND ANALYSIS

Table 1. Descriptive Statistics

	X1	X2	X3	X4	X5	X6	X7	Y
Mean	72.957	2.1963	56.300	3.8000	1.2066	16.346	1.7860	28.355
Median	80.005	0.0100	59.500	3.0000	1.4250	16.580	1.2550	24.395
Maximum	100.00	53.960	100.00	8.0000	13.580	21.770	7.9200	148.11
Minimum	0.4400	0.0000	20.000	1.0000	-15.890	11.290	-0.6100	-0.0300
Std. Dev.	22.827	8.1236	12.674	1.1700	3.8598	2.7182	1.6105	24.824
Skewness	-1.0632	4.9350	-0.3123	1.4022	-0.8410	0.0118	0.9356	1.9408
Kurtasis	4.0781	28.234	3.4931	4.6287	8.4436	2.4307	3.4401	8.7259
Jarqu-Bera	35.526	4588.6	3.9586	70.059	202.89	2.0289	2.0289	299.09
Probability	0.0000	0.0000	0.1381	0.0000	0.0000	0.3626	0.3620	0.0000
Sum	10943.5	329.45	8445.00	570.000	181.030	2451.98	2451.98	4253.37
Sum Sq. Dev.	77640.0	9832.9	23937.5	240.000	2219.81	1100.90	1100.90	91824.0
Observations	150	150	150	150	150	150	150	150

Processed Data (2023)

The descriptive statistical table describes the sample using banking registered on the IDX for 2017-2022.

Panel Data Regression Results for the period before the COVID-19 pandemic (2017-2019)

Table 2. Chow test

Effect test	Statistic	d.f	Prob.
Cross-section F	120.0085	(24.43)'	0.0000
Cross-section Chi-Square	316..4426	24	0.0000

Processed Data (2023)

H0: Common Effect Model

Ha: Fixed Effect Model

Value Prob. <5%, then the best model is FEM (Fixed Effect Model).

Table 3. Hausman test

Test Summary	Chi-Sq. Static	Chi-Sq. d.f.	Prob.
Cross-section random	13.1442	7.0000	0.0687

Processed Data (2023)

H0: random effect model

Ha: Fixed effect model

Prob. >5%, then the best model is REM (Random Effect Model).

Table 4. Multicollinearity

	X1	X2	X3	X4	X5	X6	X7
X1	1.0000	-0.4128	0.0207	0.1834	0.2377	0.2543	-0.3865
X2	-0.4128	1.0000	-0.0030	-0.1218	-0.0933	0.0794	0.1734
X3	0.0207	-0.0030	1.0000	0.0939	-0.2814	-0.0115	0.0792
X4	0.1834	-0.1218	0.0939	1.0000	0.0310	0.2848	0.1780
X5	0.2377	-0.0933	-0.2814	0.0310	1.0000	0.1331	-0.3889
X6	0.2543	0.0794	-0.0115	0.2848	0.1331	1.0000	-0.1122
X7	-0.3865	0.1734	0.0792	0.1780	-0.3889	-0.1122	1.0000

Processed Data (2023)

Showing the collinearity of each variable below 0.90 states that the regression model is free of multicollinearity.

Table 5. Heteroskedasticity

Variable	Coefficient	Std.Error	t-Statistic	Prob
C	-32.4829	32.1309	-11	0.3177
X1	-0.0791	0.0548	-1.4433	0.1562
X2	0.0177	0.092	0.1923	0.8484
X3	-0.0671	0.0396	-1.6942	0.0975
X4	-0.2572	0.8185	-0.3143	0.7548
X5	0.0166	0.1457	0.114	0.9097
X6	3.7173	2.0080	1.8512	0.0710
X7	-0.2598	0.4666	-0.5568	0.5805

Processed Data (2023)

Derived from the table known prob. >0.05 thus states that regression is free from heteroskedasticity.

Table 6. Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-25.2866	15.3484	-1.6475	0.1041
X1	0.0486	0.0811	0.5996	0.5507
X2	0.2223	0.1137	1.9551	0.0547
X3	-0.0891	0.0744	-1.1977	0.2353
X4	-1.5174	0.6833	-2.2203	0.0298
X5	-0.0410	0.2034	-0.2017	0.8407
X6	3.9589	0.8542	4.6342	0.0000
X7	-0.6943	0.5088	-1.3646	0.1769
R-squared			0.2548	
Adjusted R-squared			0.177	

Processed Data (2023)

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Regression equation in the period before the COVID-19 pandemic (2017-2019):

$$Y = f - 25.2866 + 0.0486 * \text{IO} + 0.2223 * \text{MO} - 0.0891 * \text{ID} - 1.5174 * \text{AC} - 0.0410 * \text{ROA} + 3.9589 * \text{SIZE} - 0.6943 * \text{NPL}$$

From the table above, it is partially explained that X2 (Managerial Ownership) is stated to have an influence on the dependent variable in α (10%) and t calculate < t table (1.853531<1.995469), explaining that Managerial Ownership had a negative and significant impact on financial difficulties in the pre-crisis period. X4 (Audit Committee) was declared to affect Y in α (0.05) with t count X4 < t table (-2.2203<1.9954) stating that the Audit Committee had a negative and significant impact on financial difficulties in the pre-crisis period. X6 (SIZE) was declared to affect Y in α (0.05) with t count X46> t table (4.6342>1.9954) stating that the SIZE had a positive and significant impact on financial difficulties in the pre-crisis period. The probability value (F-statistic) is less than 0.05 (0,0047<0,05) where F statistics is greater than F table (3.273869>2.149653), then the GCG together affect financial distress, then the R Square clarifies the GCG affects financial distress by 25.48%, while the rest is described by other variables outside this study.

Panel Data Regression Results for the period when COVID-19 occurred (2020-2022)

Table 7. Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	58.8579	(24,43)	0.0000
Cross-section Chi-square	264.1475	24	0.0000

Processed Data (2023)

H0: Common Effect Model

Ha: Fixed Effect Model

Value Prob. <5%, then the best model is FEM (Fixed Effect Model).

Table 8. Hausman test

Test Summary	Chi-Sq.Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	44.2960	7	0.0000

Processed Data (2023)

H0: random effect model

Ha: Fixed effect model

Value Prob. <5%, then the best model is FEM (Fixed Effect Model)

Table 9. Multicollinearity

	X1	X2	X3	X4	X5	X6	X7
X1	1.0000	-0.1258	-0.1657	0.3479	0.1029	0.1547	-0.0002
X2	-0.1258	1.0000	-0.1678	-0.1849	0.0956	0.3289	-0.0666
X3	-0.1657	-0.1678	1.0000	-0.0364	-0.0521	-0.0442	-0.1137
X4	0.3479	-0.1849	-0.0364	1.0000	-0.0245	-0.01645	0.2399
X5	0.1029	0.0956	-0.0521	-0.0245	1.0000	0.2495	-0.2147
X6	0.1547	0.3289	-0.0442	-0.0164	0.2495	1.0000	-0.2144
X7	-0.0002	-0.0666	-0.1137	0.2399	-0.2147	-0.2144	1.0000

Processed Data (2023)

Showing the collinearity of each variable below 0.90 states that the regression model is free of multicollinearity.

Table 10. Heteroskedasticity

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.4135	12.1124	0.1167	0.9074
X1	0.0926	0.0642	1.4423	0.1549
X2	0.6185	0.3152	1.9621	0.0539
X3	-0.0097	0.121	-0.0803	0.9362
X4	-1.7054	1.196	-1.4259	0.1585
X5	0.5401	0.3567	1.5142	0.1347
X6	0.7093	0.5167	1.3727	0.1744
X7	0.1237	0.8407	0.1472	0.8834

Processed Data (2023)

Derived from the table prob. >0.05 thus states that regression is free from heteroskedasticity.

Table 11. Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	123.6293	27.5718	4.4839	0.0001
X1	0.0190	0.0619	0.3073	0.7600
X2	-0.4374	0.2353	-1.8584	0.0700
X3	-0.2173	0.0858	-2.5317	0.0151
X4	-2.5489	0.9044	-2.8182	0.0073
X5	0.4239	0.2119	2.0000	0.0518
X6	-4.3814	1.6695	-2.6242	0.0120
X7	-0.7760	0.6894	-1.1255	0.2666
R-Squared			0.9867	
Adjusted R-squared			0.9771	

Processed Data (2023)

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The equation for regression in the period during the covid19 pandemic:

$$Y = 123.6293 + 0.0190*KI - 0.4374*KA - 0.2173*DKI - 2.5489*KA + 0.4239*ROA - 4.3814*SIZE - 0.7760*NPL$$

Individual Tests explained:

- The probability X1 (KI) > 0.05 explains that Institutional Ownership does not affect financial distress.
- The probability X2 (KM) is expressed as having a negative and significant influence on financial difficulties at α (0.10), with the calculated t value smaller than the table t (-1.858468<1.995469).
- The probability X3 (DKI) is expressed as having a negative and significant influence on financial difficulties at α (0.05), with the calculated t value < t table (-2.531753<1.995469).
- The probability of X4 (KA) is expressed as having a negative and significant influence on financial difficulties in α (0.05), with the calculated value of t < t table (-2.818244<1.995469).
- The probability X5 (ROA) is expressed as having a positive and significant influence on financial difficulties at α (0.10), with the calculated t value > t table (2.000081>1.995469).
- The probability X6 (SIZE) is expressed as having a negative and significant influence on financial difficulties in α (0.05), with the calculated value of t < t table (-1.125557<1.995469). SIZE has a negative and significant influence on financial difficulties in periods of crisis.
- The probability of X7 (NPL) is bigger than 0.05 therefore NPL does not influence financial distress.
- The probability (F-statistic) < 0,05 (0,00<0,05), F value > F table (102.9680>2.149653), then GCG jointly affects financial difficulties in the crisis period, then Probability (F-statistic) < 0,05 (0,00<0,05), F value > F table (102.9680>2.149653), hence GCG jointly affects financial difficulties in periods of crisis.

Discussion

The outcome of the analysis test for the term before the Covid-19 pandemic (2017-2019) stated that individual Institutional Ownership, Independent Commissioner, ROA, and NPL did not influence the financial difficulties of banking companies in this period, while Managerial Ownership and Audit Committee influenced the risk of financial difficulties in this period. Furthermore, simultaneously the variables of Good Corporate Governance (GCG) together with financial ratios influence financial difficulties in this

period. This means that corporate governance together with financial ratios in this period has influenced the company's financial difficulties even though the outcome of just several of GCG and financial ratio variables affect the financial distress.

The outcome of the review for the period during the COVID-19 pandemic (2020-2022) stated that individually the variables of managerial ownership, Independent Commissioner, Audit Committee, ROA, and SIZE had a significant impact on the risk of financial difficulties in this period, then Institutional Ownership and NPL individually did not affect the risk of financial difficulties. Moreover, simultaneously the variables of GCG together with financial ratios have a significant effect on financial difficulties.

Based on the outcome, the effect of GCG together with financial ratios on financial difficulties increased in the crisis period, namely 25.48% in the pre-crisis term, increasing to 98.67% in the crisis period. The outcome proves that the influence of GCG together with financial ratios is stronger in crisis periods where in that period companies will try to improve their corporate governance to survive. Chen (2014) explained that the crash of the financial crisis can trigger companies to acquire new forms of governance to overcome environmental changes to maintain business activities and run them properly.

The results prove that GCG together with financial ratios has a negative and significant effect on financial distress when a crisis occurs, this result indicates that the implementation of GCG is able to overcome agency problems, especially when a crisis occurs because managers and shareholders have the same goal to maintain the Company from falling into financial distress when a crisis occurs, this happens because of the same desire to survive facing a crisis, In line with research by Aebi et al. (2012) that empirical evidence shows the financial crisis is linked to a reduce in the realization of GCG.

CONCLUSION

Researchers limit the scope of research by focusing on variables from Good Corporate Governance (GCG) with the financial ratios that affect the financial distress of banking before and during the COVID-19 in Indonesia, aiming to make descriptions, factually and accurately regarding the facts, nature, and relationships between various phenomena investigated (Sugiyono, 2017). Simultaneously, GCG together with financial ratios had a negative and significant effect on banks' financial difficulties during the crisis. The conclusions of the research results are as follows:

1. The Ownership did not affect the company's financial difficulties during the period when the COVID-19 pandemic
2. Managerial Ownership affects the company's financial difficulties during the period when the Covid1 9 pandemic.
3. The Independent Commissioner was partially affected by financial difficulties during the crisis period (Covid 19 pandemic).

4. The audit committee influenced the company's financial difficulties in the period before the H4 pandemic was received.
5. ROA has a positive and significant effect on the company's financial difficulties in the period during the pandemic.
6. SIZE has a negative and significant effect on the company's financial difficulties during the COVID-19 pandemic period.
7. NPL does not influence financial difficulties.

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