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THE EFFECT OF BOARD SIZE, AUDIT COMMITTEE, OWNERSHIP STRUCTURE, INDEPENDENT COMMISSIONERS, LEVERAGE, AND FIRM SIZE ON FINANCIAL DISTRESS

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Abstract:
The post-pandemic period represents an economic recovery phase during which many companies face financial pressure due to declining revenues and high debt burdens. This condition is particularly critical in the infrastructure sector, which requires financial stability to sustain long-term operations. This study aims to analyze the effect of corporate governance and ownership structure on financial distress in the infrastructure sector. The data were obtained from companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2024 period using a quantitative approach with purposive sampling. Data analysis was conducted using multiple linear regression. The results indicate that board size and managerial ownership have a significant negative effect on financial distress. These findings support agency theory, which posits that effective internal supervision and managerial ownership can reduce agency conflicts and enhance financial efficiency. Meanwhile, audit committee meeting frequency, independent commissioners, institutional ownership, leverage (DER), and firm size show no significant effect. The study highlights the importance of strengthening corporate governance structures and managerial ownership roles in maintaining financial stability. Future research is recommended to expand the scope and incorporate external factors for a more comprehensive understanding.

Keywords: Board Size, Audit Committee Meeting Frequency, Ownership Structure, Independent Commissioners, Leverage, Firm Size, Financial Distress, Altman Z-Score

INTRODUCTION

Financial distress occurs when a company faces challenges in managing its finances, which may indicate a potential risk of bankruptcy (Septyanto & Welandasari, 2020). However, not all firms experiencing financial distress necessarily end in bankruptcy; the outcome largely depends on how management responds to the situation and implements corrective measures (Natalia & Rudiawarni, 2022). The process of financial distress typically begins with a significant decline in financial performance, and if not promptly addressed, may lead to liquidation (Iswanto et al., 2024; Nugrahanti et al., 2020).

Based on the Altman Z-score analysis of infrastructure companies listed on the Indonesia Stock Exchange (IDX) during 2021–2024, several firms showed symptoms of financial distress. One notable example is PT Djasa Ubersakti Tbk (PTDU), which recorded a negative Z-score of -1.05936 in 2024, decreasing from 0.04436 in 2023 and 1.35744 in 2022. This trend indicates a deterioration in financial health and an increasing risk of bankruptcy.

Corporate governance plays a crucial role in mitigating the risk of financial distress. The board of directors is responsible for ensuring that company operations align with strategic objectives and regulatory frameworks (Mashdurohatun et al., 2020). Prior research suggests that a larger board size

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enhances the quality of decision-making through broader discussion and collaboration, thereby reducing the likelihood of financial distress (Ashraf et al., 2022; Abrori et al., 2023). In addition, the frequency of audit committee meetings serves as an indicator of the effectiveness of financial oversight; more frequent meetings often lead to higher reporting accuracy and stronger monitoring (Putra & Serly, 2020; Syahputra et al., 2025).

Ownership structure also influences financial performance and the likelihood of financial distress. Both institutional and managerial ownership can align the interests of managers and shareholders, enhancing corporate accountability (Maryanti & Dianawati, 2024; Meidiyanti & Abdullah, 2024). Meanwhile, independent commissioners help ensure transparency and objectivity in financial reporting, thereby contributing to a reduction in financial distress risk (Martin & Indrati, 2024; Achmad et al., 2023; Abrori et al., 2023).

Leverage ratio is another critical indicator, as it reflects the extent to which a company's assets are financed by debt. High leverage levels can erode investor confidence and increase the likelihood of default (Dirman, 2020; Saputri & Febyansyah, 2023; Putri & Hendrani, 2024; Soesetio, 2023). Furthermore, firm size is often associated with financial stability—larger firms generally possess greater resources and are perceived as more attractive to investors (Pandapotan & Puspitasari, 2022; Larasati & Jayanih, 2023). However, some studies suggest that firm size does not always guarantee financial resilience (Sudaryo et al., 2021; Arifin et al., 2021).

Early identification and monitoring of financial distress are essential for companies to take preventive actions before conditions worsen (Martinez-Sola et al., 2024). Although prior studies have examined financial distress across various sectors, such as mining (Puspaningsih et al., 2023), research on the infrastructure sector in Indonesia remains limited. Therefore, this study aims to analyze the effect of corporate governance, ownership structure, leverage, and firm size on financial distress in infrastructure companies listed on the Indonesia Stock Exchange during 2021–2024 using the Altman Z-score model.

Agency Theory. Agency theory explains the relationship between the owners of a company (principals) and managers (agents) who are delegated the authority to operate the firm on behalf of shareholders (Jensen & Meckling, 1976). The information asymmetry between these parties may lead to potential conflicts of interest, as agents typically possess more information than principals (Hidayah & Raihan, 2023; Utama et al., 2023). This asymmetry can encourage opportunistic behavior by managers, which may increase the likelihood of financial distress if not effectively monitored. Therefore, sound corporate governance mechanisms are essential to ensure alignment of interests between principals and agents.

Financial Distress. Financial distress refers to a condition where a company's operating cash flow is insufficient to meet its short-term obligations, such as interest payments and trade debts (Hidayat, 2024). It is often regarded as an early warning signal of potential bankruptcy (Parihah et al., 2025). The Altman Z-score model (Altman, 1968) is widely used to predict financial distress, where a Z-score above 2.99 indicates a healthy condition, between 1.81–2.99 represents a grey area, and below 1.81 suggests potential bankruptcy. The inability to meet financial obligations can reduce investor confidence (Nuswantara et al., 2023) and limit access to new financing (Ahdi & Rakim, 2022).

Board Size. The board of directors is responsible for strategic decision-making and overall corporate management (Abrori et al., 2023). According to Indonesia's Financial Services Authority Regulation (POJK) No. 33/POJK.04/2014, public companies must have at least two board members. A larger board size can enhance monitoring effectiveness and decision-making diversity (Goyal &

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Gulati, 2023; Chakroun, 2024). However, an excessively large board may also create coordination challenges.

Audit Committee Meeting Frequency. The audit committee functions as an internal control body ensuring the transparency and accuracy of financial reporting (Utama, 2023). Based on POJK No. 55/POJK.04/2015, the audit committee is required to hold meetings at least once every three months. A higher meeting frequency indicates stronger supervisory efforts (Alqatan et al., 2024), which may improve reporting quality and reduce the risk of financial distress.

Ownership Structure. Ownership structure consists of managerial and institutional ownership, both of which play important roles in corporate governance (Widyaningsih, 2020; Irawati, 2022). Institutional ownership strengthens oversight of management activities, while managerial ownership motivates managers to act in the best interest of the company (Dirman, 2020). A balanced ownership structure can reduce agency conflicts and lower the likelihood of financial distress.

Independent Commissioners. Independent commissioners are external parties responsible for objectively supervising the performance of the board of directors (Novriyani, 2024). According to POJK No. 33/POJK.04/2014, public companies are required to have at least two independent commissioners or a minimum of 30% of the total board members. Their presence serves as a control mechanism to ensure transparency, accountability, and effective governance (Utama et al., 2023).

Leverage. Leverage measures the extent to which a company finances its assets through debt (Kasmir, 2021). It reflects a company's ability to meet its short- and long-term financial obligations (Septiani & Mahroji, 2024). The most commonly used ratio is the Debt to Equity Ratio (DER). An increase in debt not supported by sufficient equity may heighten the risk of financial distress (Oktasari, 2020).

Firm Size. Firm size represents the scale of assets and resources available to support business operations (Rochman & Sasongko, 2022). Based on POJK No. 53/POJK.04/2017, companies with total assets below IDR 50 billion are categorized as small, between IDR 50–250 billion as medium, and above IDR 250 billion as large. Firm size is commonly measured by total assets (Fachrudin & Ihsan, 2021; Petronila et al., 2025). Larger firms generally enjoy better financial stability and greater access to external financing (Bui & Thach, 2023).

Relationship Between Variables and Hypotheses Development. Understanding the relationships among variables in this study is grounded in agency theory (Jensen & Meckling, 1976), which posits a divergence of interests between owners and management. Within this framework, good corporate governance mechanisms are critical to balancing this relationship and mitigating financial distress. Governance mechanisms such as board size, audit committee meeting frequency, ownership structure, and independent commissioners act as oversight systems that reduce the risk of managerial deviation (Utama et al., 2023).

In addition to governance factors, financial characteristics such as leverage and firm size also influence a company's ability to withstand economic pressure and maintain financial stability (Dirman, 2020). Accordingly, this study examines the effects of governance and financial variables on financial distress, with the following hypotheses:

A larger board of directors tends to enhance the effectiveness of supervision and decision-making, thereby reducing the risk of financial distress (Orbaningsih et al., 2022; Natalia & Rudiawarni, 2022).

H1: Board size has a negative effect on financial distress.

A higher frequency of audit committee meetings improves monitoring effectiveness and helps prevent financial reporting errors (Salleh et al., 2020; Sukawati & Wahidahwati, 2020).

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H2: Audit committee meeting frequency has a negative effect on financial distress.

Managerial and institutional ownership increase accountability and reduce the risk of financial distress (Widhiadnyana & Wirama, 2020; Indriastuti et al., 2021).

H3: Managerial ownership has a negative effect on financial distress.

H4: Institutional ownership has a negative effect on financial distress.

Independent commissioners ensure the objectivity of managerial decisions and improve the quality of corporate governance (Kyere & Ausloos, 2020; Puspitasari et al., 2023).

H5: Independent commissioners have a negative effect on financial distress.

High leverage increases the risk of default and financial distress (Utama & Setiawati, 2022; Wangsih et al., 2021).

H6: Leverage has a positive effect on financial distress.

Large firms generally indicate stronger financial capacity and greater resilience to economic pressures (Dirman, 2020; Iswanto et al., 2024; Utami et al., 2023).

H7: Firm size has a negative effect on financial distress.

METHODS

This study employs a quantitative approach to objectively analyze the relationships among variables using numerical data and statistical techniques (Suhartawan et al., 2024). The approach aims to examine the influence of corporate governance and financial characteristics on financial distress. The dependent variable in this study is financial distress, measured using the Altman Z-Score model (Altman, 1968).

The research population consists of infrastructure companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. Data were obtained from the companies' annual financial statements published on the official IDX website (www.idx.co.id). Financial statements were selected as they provide comprehensive information on a company's performance and financial condition, which can be used to predict potential financial distress (Nurhayati et al., 2022).

The independent variables in this study include board size, audit committee meeting frequency, ownership structure, independent commissioners, leverage, and firm size. Board size is measured by the total number of directors (Puspaningsih et al., 2023), while audit committee meeting frequency is based on the number of meetings held annually (Alqatan et al., 2024). Ownership structure comprises both managerial and institutional ownership (Puspaningsih et al., 2023). Independent commissioners are assessed based on the proportion of independent members within the board (Novriyani, 2024). Leverage is measured by the ratio of total debt to equity (Hery, 2020), and firm size is determined by total assets (Dirman, 2020).

The sampling technique used is purposive sampling, with the following criteria: (1) infrastructure companies listed on the IDX during 2021–2024, (2) companies that were not delisted during the study period, (3) those that use the Indonesian Rupiah (IDR) as the reporting currency, (4) companies with complete financial statements, and (5) companies providing all required variable data. Based on these criteria, 17 companies were identified per year, resulting in a total of 68 observations over the four-year study period.

Data analysis was conducted using descriptive statistics to illustrate data characteristics, followed by classical assumption tests to ensure the validity of the regression model. Multiple linear regression analysis was then applied to assess the influence of each independent variable on financial distress. The results were further evaluated through t-tests and F-tests to measure partial and simultaneous effects, respectively, while the coefficient of determination (R^2) was used to assess how well the independent variables explained variations in financial distress among the companies.

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RESULT AND DISCUSSION

Descriptive Statistics. The descriptive statistical analysis of 84 infrastructure firms provides an overview of the characteristics of the data used in this study. The minimum, maximum, mean, and standard deviation values indicate variations in corporate governance structures and financial conditions among firms.

Table 1. Descriptive Statistics

Descriptive Statistics					
Variable	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Board of Directors	84	2,0	9,0	4,821	1,6366
Audit Committee Meeting Frequency	84	2,0	43,0	9,131	8,6481
Managerial Ownership	84	,00	,61	,0659	,12610
Institutional Ownership	84	,12	,99	,6574	,16622
Independent Commissioners	84	,17	,67	,4038	,10341
Leverage	84	-34,93	8,62	,7432	5,52565
Firm Size*	84	32,948*	299,675,000*	42,576,033*	66,064,942*
Financial Distress	84	-1,06	10,15	3,2170	1,96751
Valid N (listwise)	84				

Source: SPSS Output (2025)

The results show that the average number of board members is 4.82 with low data dispersion, indicating relatively similar board structures across companies and compliance with the minimum requirements of POJK No. 33/POJK.04/2014. The audit committee met on average nine times per year, consistent with POJK No. 55/POJK.04/2015 standards. The average managerial ownership was 6.59%, while institutional ownership reached 65.74%, reflecting institutional dominance in ownership. Independent commissioners averaged 40.38%, exceeding the regulatory minimum of 30%.

The average leverage ratio of 0.74 indicates that companies rely more on equity than debt financing. The mean firm size of IDR 42.5 billion demonstrates the large-scale nature of infrastructure firms. Finally, the average financial distress score of 3.217 (>2.99) indicates that most companies were in a financially healthy position, though some remained at risk.

Classical Assumption Tests and Regression Results. The regression model passed the classical assumption tests. The Kolmogorov–Smirnov normality test yielded a significance value of 0.200 (>0.05), indicating normally distributed data. All Variance Inflation Factor (VIF) values were below 10, and tolerance values exceeded 0.1, showing no multicollinearity. The Glejser test confirmed homoscedasticity with all significance values above 0.05, and the run test result of 0.222 (>0.05) indicated the absence of autocorrelation.

Table 2. Multiple Linear Regression Results

Independent Variable	Coefficient	t-value	Sig.	Description
(Constant)	9,547	-	-	-

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Board Size	-0,625	-3,714	<0,001	Significant
Audit Committee Meeting Frequency	-0,048	-1,640	0,106	Not Significant
Managerial Ownership	-12,665	-3,412	0,001	Significant
Institutional Ownership	-3,120	-1,975	0,053	Not Significant
Independent Commissioners	-0,970	-0,522	0,603	Not Significant
Leverage	0,097	1,933	0,058	Not Significant
Firm Size	-0,009	-0,082	0,935	Not Significant

Adjusted R^2 = 0,362, F = 6,181, Sig. = < 0,001
Source: SPSS Output (2025)

The findings indicate that board size and managerial ownership have a significant negative effect on financial distress, implying that an increase in board members and management shareholding reduces the likelihood of financial distress. Other variables—such as audit committee meetings, institutional ownership, independent commissioners, leverage, and firm size—did not show significant effects. The adjusted R^2 value of 0.362 suggests that 36.2% of variations in financial distress are explained by the independent variables, while the remaining 63.8% are influenced by other factors outside the model (Heykal et al., 2024).

The results reveal that board size has a significant negative relationship with financial distress. A larger board enhances monitoring capacity and strategic decision-making, reducing the risk of financial difficulty. This finding supports agency theory (Jensen & Meckling, 1976), which posits that effective oversight reduces conflicts between owners and managers. The result is consistent with studies by Jurnali and Putri (2024), Nurhadimah and Paramita (2024), and Widhiastuti and Rahayu (2022), which emphasize that larger boards improve governance effectiveness and financial performance.

In contrast, audit committee meeting frequency does not significantly affect financial distress, even though most firms comply with POJK No. 55/POJK.04/2015. It suggests that the number of meetings alone does not guarantee monitoring quality—substantive discussions and follow-up actions are more important (Oktaviani & Sholichah, 2020).

Managerial ownership shows a significant negative impact on financial distress, indicating that higher managerial shareholding aligns management's interests with those of shareholders and encourages prudent financial management (Abrori et al., 2023; Sarker & Hossain, 2023).

Conversely, institutional ownership does not significantly influence financial distress. Although institutions hold large share proportions, they may not actively monitor management decisions. This finding aligns with Debora and Zoraya (2025) and Utami and Dirman (2022), who note that institutional oversight often remains passive.

Similarly, independent commissioners do not have a significant effect on financial distress. Despite meeting the 30% minimum requirement stated in POJK No. 33/POJK.04/2014, their oversight role may be more formal than functional (Muslifiansyah et al., 2022; Nugrahanti et al., 2020).

Leverage also shows no significant effect, indicating that the level of debt does not directly trigger financial distress as long as companies can manage obligations efficiently. It supports Aryani and Sihono (2024) and Purwaningsih and Safitri (2022), who found that leverage is not the sole determinant of financial distress.

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Lastly, firm size has no significant relationship with financial distress. It implies that asset scale does not necessarily reflect financial stability. For example, large firms such as PT Jasa Marga (Persero) Tbk were found in the distress zone, while smaller firms like PT Fimperkasa Utama Tbk were financially healthy. Thus, internal governance and managerial effectiveness play a more critical role than size alone (Rochman & Sasongko, 2022).

Overall, these findings emphasize that internal managerial factors—particularly board size and managerial ownership—are key determinants in mitigating financial distress among infrastructure companies in Indonesia. Effective corporate governance and active management participation contribute more to financial stability than external factors such as capital structure or firm scale.

CONCLUSION

This study demonstrates that, collectively, corporate governance and financial structure variables significantly affect financial distress, confirming their joint role in maintaining financial stability. Partially, only board size and managerial ownership have a significant negative influence on financial distress, suggesting that larger boards and higher managerial ownership reduce financial risk. Other variables—such as audit committee meetings, institutional ownership, independent commissioners, leverage, and firm size—showed no significant impact.

The adjusted R^2 value of 36.2% indicates that other factors outside the model, such as profitability, liquidity, and external macroeconomic conditions, may also influence financial distress. Future studies are recommended to incorporate these variables and extend the research to other sectors and time periods for more comprehensive insights.

These findings imply that companies should strengthen governance structures—particularly board composition and managerial ownership—to enhance decision-making effectiveness and financial oversight. For investors, these results serve as a reference for evaluating management quality and assessing financial risk before making investment decisions.

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