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THE EFFECT OF GOOD CORPORATE GOVERNANCE ON FINANCIAL DISTRESS IN GENERAL INSURANCE COMPANIES IN INDONESIA

Novi Setyaningrum[1*], Dian Karunia Shalihah[2]
[1*]Master of Accounting Study Program, Jenderal Soedirman University, Indonesia
[2] Master of Accounting Study Program, Jenderal Soedirman University, Indonesia
*Email corresponding author: novitrisetyaningrum@gmail.com

Abstract

This study examines the influence of Good Corporate Governance (GCG), specifically the size of the board of commissioners, on financial distress in general insurance companies in Indonesia registered with the Financial Services Authority (OJK) in 2023. The study highlights the crucial role that insurance companies play in the country's financial and economic stability, while also acknowledging the challenges posed by financial distress, which is often caused by ineffective governance. The research aims to understand how board size affects financial outcomes. This study employs a quantitative method using secondary data from the annual financial reports of 62 general insurance companies. The results indicate that the size of the board of commissioners does not have a significant impact on financial distress, as measured by the Altman Z-Score. The regression analysis revealed a negative relationship between board size and financial distress. These findings suggest that while GCG practices are important for the overall governance of insurance companies, the size of the board may not be a determining factor in reducing financial distress.

Keywords*: Good Corporate Governance, Financial Distress, Board of Commissioners, Insurance, Altman Z-Score*
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INTRODUCTION

Background

General insurance companies in Indonesia have an important role in the financial industry and the national economy. Insurance companies have the task of providing financial protection against uncertainty and risk of losses that may occur and are unexpected (both for individuals and companies) by transferring these risks to insurance companies so that insurance companies become crucial as institutions that provide protection against risk (Yasmin & Afrita, 2024). The Financial Services Authority (OJK) as a regulator plays an important role in overseeing the financial health of insurance companies in Indonesia. However, challenges arise when many insurance companies experience financial distress, which can be caused by various factors, one of which is ineffective management, especially in terms of corporate governance. Research conducted by Harjadi & Sihombing (2020) shows that insurance companies with poor risk management tend to be more vulnerable to financial distress. This is due to the company's inability to identify, measure and manage risks effectively, which in turn can result in significant financial losses and threaten the Company's operational continuity. The implementation of a good Good Corporate Governance mechanism will add value to the company itself and can minimize the incidence of financial distress

or financial difficulties (Nasiroh & Priyadi, 2018). One of the important elements in good corporate governance is the existence of an effective board of commissioners, which is tasked with overseeing management performance and minimizing the risk of corporate bankruptcy. This study aims to examine the effect of Good Corporate Governance on financial distress in General Insurance companies in Indonesia registered with the Financial Services Authority in 2023. Previous similar studies have shown mixed results regarding the effect of the board of commissioners on financial distress. Nasir & Ali (2020) argue that companies with a larger number of commissioners tend to have a lower risk of failure due to higher accountability of directors so as to increase the effectiveness of supervision and reduce the possibility of financial distress. As for previous research on Good Corporate Governance in the Transportation subsector (Mardahlia & Ghozali, 2023) and manufacturing (Ninda Febriyanti & Khalifaturofi'ah, 2023), but special studies in the General Insurance industry in Indonesia are still limited.

Problem Formulation

How is the effect of Good Corporate Governance as measured by the size of the board of commissioners on Financial Distress in General Insurance companies in Indonesia listed on the Financial Services Authority?

Research Objectives

This study aims to analyze the effect of the components of Good Corporate Governance, namely the size of the board of commissioners on Financial Distress in General Insurance companies in Indonesia listed on the Financial Services Authority.

Research Benefits

This research is expected to make a practical contribution to the management of General Insurance companies in Indonesia in optimizing the implementation of Good Corporate Governance in order to avoid Financial Distress so as to avoid bankruptcy. The company is at risk of bankruptcy if it is unable to overcome the various challenges that arise through the policies set. In addition, the results of this study are also expected to contribute to the development of academic literature related to corporate governance and financial risk management in General Insurance Companies in Indonesia.

LITERATURE REVIEW AND HYPOTHESIS

The agency theory proposed by (Jensen & Meckling, 1976) is one of the commonly used bases to explain the role of the board of commissioners in corporate governance. In this theory, management (as agent) acts on behalf of shareholders (as principal). However, due to differences in interests between management and shareholders, agency conflicts may occur. The board of commissioners serves as a management watchdog to ensure that management actions are in line with the interests of shareholders. A larger board size can provide more insight, expertise and capacity to oversee management, thereby reducing the risk of financial distress by improving internal supervision and management control. However, some studies have also shown that a board that is too large can be less effective due to complex coordination and the difficulty of making decisions quickly and appropriately.

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a set of rules, practices, and processes that companies use to ensure that the management of the company is carried out in a transparent, accountable, and fair manner, in accordance with the interests of stakeholders, including shareholders, management, employees, and the wider community. GCG implementation is considered important because it can increase investor confidence and improve the company's financial performance, as well as minimize

risks such as conflicts of interest and financial distress (Shleifer & Vishny, 1997). Research conducted by (Yuliani & Rahmatiasari, 2021) mentions one of the dimensions to measure GCG, namely the Board of Commissioners.

Board of Commissioners

The board of commissioners has a collective responsibility to supervise and evaluate the performance of the board of directors and company management in operating the company. Thus the board of commissioners does not have direct authority into the company (Sukandar & Rahardja, 2014). Syaepullah & Atmadji (2021) states that the experience of board members plays an important role in improving the quality of supervision of company performance. The experience possessed by the board of commissioners can enrich perspectives in decision making and risk management strategies, thereby contributing to strengthening better corporate governance. The indicator for calculating the Board of Commissioners in this study is the calculation of the number of commissioners in the company in the current period.

Financial Distress

Financial distress refers to a condition where a company faces serious financial problems that can lead to bankruptcy if not handled properly. One commonly used approach to measure the level of financial distress is through the Altman Z-Score, a method that combines various important financial ratios to estimate the likelihood of bankruptcy of a company. According to Altman I Edward (1968), a low Z score indicates an increased risk of bankruptcy, as this reflects the company's deteriorating financial condition and indicates an inability to meet its financial obligations in the future.

Effect of Good Corporate Governance on Financial Distress

The implementation of good corporate governance can increase transparency and accountability in company management, thereby reducing the risk of financial distress. Research (Mashayekhi & Bazaz, 2008) shows that companies with good implementation of Good Corporate Governance are better able to avoid bankruptcy. Especially in the insurance sector, Good Corporate Governance plays a role in risk monitoring and cash flow management to avoid low liquidity that can trigger financial distress.

According to Dewi & Zatira Novridayani (2020) good corporate governance is one way to manage a company to be better and improve healthy business continuity or avoid financial difficulties in the long term (sustainable) and increase the trust of investors, shareholders and stakeholders with guidelines for transparency, accountability, responsibility, independence and fairness. The role of an effective board of commissioners can help reduce the risk of financial distress. A more active board can ensure that management executes a more prudent financial strategy and seeks to reduce the potential for a financial crisis in the company. This study shows that weak governance contributes to an increased risk of bankruptcy, especially in the financial sector.

Nahar et al., (2016) highlights that board size can affect a firm's performance and its financial risk. In the financial services industry, the larger the board, the more likely risks can be identified and addressed more quickly. However, the study also warns that too many board members can reduce the efficiency of decision-making, which in turn can affect the financial stability of the company.

Research Hypothesis

H1: Board size has a significant negative effect on financial distress in general insurance companies in Indonesia.

RESEARCH METHODS

This study adopts a quantitative method by utilizing secondary data obtained from the annual reports of general insurance companies in Indonesia registered with the Financial Services Authority (OJK) for 2023. The population in this study includes all general insurance companies registered with the OJK, while the research sample was taken using purposive sampling technique, namely sample selection based on certain criteria relevant to the research objectives. The independent variable used in this study is the Good Corporate Governance component, represented by the size of the board of commissioners, while the dependent variable is financial distress, which is measured using the Altman Z-Score model to assess the likelihood of bankruptcy in the insurance company.

Research Model

This research model can be formulated as follows:

$$FD = \beta_o + \beta_1(UDK) + \varepsilon$$

Where:

FD **:** Financial Distress (measured by Z-Score)
UDK : Board of Commissioners Size
β_o : Constant
ε **:** Error

RESEARCH RESULTS

This study uses secondary data obtained from the annual financial statements of general insurance companies in Indonesia registered with the Financial Services Authority (OJK) in 2023. From a total of 78 general insurance companies listed in the OJK, only 62 companies were selected as samples in this study. The selection of these companies is based on certain predetermined criteria, which can be seen in more detail in table 1 below:

Table 1. Population and Research Sample

No	Criteria	Number of Companies
1	Companies listed on the Financial Services Authority	78
2	Company financial statements are not published	(10)
3	The company's financial statements are outlier data	(6)
	Total	62

Source: Data processed in 2025

This study conducted a data normality test using the Kolmogorov-Smirnov test tool. Based on this test, if the significance value obtained is greater than 0.05, it can be concluded that the data follows a normal distribution. The results of the normality test can be seen in table 2 below:

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		62
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	1.09043381
Most Extreme Differences	Absolute	.043
	Positive	.043

	Negative		-.037
Test Statistic			.043
Asymp. Sig. (2-tailed)[c]			.200[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.		.996
	99% Confidence Interval	Lower Bound	.994
		Upper Bound	.997

Source: Data processed in 2025

a. Test distribution is normal;
b. Calculated from data;
c. Lilliefors significance correction;
d. This is a lower bound of the true significance;
e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 624387341.

Based on Table 2 above, the Kolmogorov-Smirnov test results show a statistical value of 0.043 with a significance value of 0.200, which is greater than 0.05. Based on these results, it can be concluded that the data used in this study do not show significant deviations from the normal distribution, so it can be ascertained that the data are normally distributed.

The multicollinearity test aims to test whether the regression model found a correlation between independent variables. A good regression model should not have a correlation between the independent variables. Decision making can be seen through the Tolerance and VIF (Variance Inflation Factor) values. The results of multicollinearity testing are shown in table 3 below:

Table 3. Multicollinearity Test Results

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	.226	.400		.564	.575		
	X	.182	.112	.206	1.632	.108	1.000	1.000

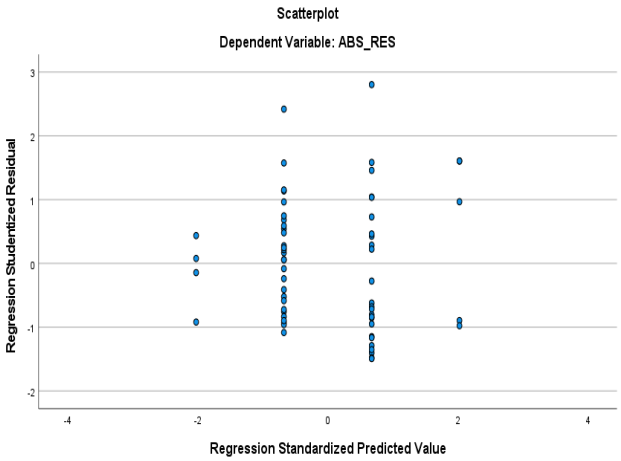
Source: Data processed in 2025

a. Dependent Variable: ABS_RES

Based on table 3, it can be seen that the VIF and Tolerance values for the size of the Board of Commissioners are 1 and 1. From these results it is concluded that the research data is free from multicolineartas. This can be seen from the results of the VIF analysis of the Board of Commissioners Size variable < 10 and the tolerance level> 0.1.

The heteroscedasticity test is used to test whether in the regression model there is an inequality of variance from residuals or observations to other observations (Ghozali, 2011). The way to detect the presence or absence of heteroscedasticity can be done by looking at the plot graph between the predicted value of the dependent, namely ZPRED with its residuals SRESID. The scatterplot test results can be seen in Figure 1 below:

Figure 1. Glesjer Test Results



Based on the scatterplot test graph shown in the figure, the data points are scattered above and below the number 0 on the Y axis, which indicates that there is no indication of heteroscedasticity in the regression model used. Therefore, it can be concluded that the regression model is suitable for predicting financial distress based on the size of the board of commissioners. However, to ensure the accuracy of the results and support the findings of the scatterplot test, additional statistical tests are required. One of the statistical tests used is the Glejser test, which aims to test whether there is a significant relationship between the absolute residuals of the regression results and the independent variables used in the model. The results of the Glejser test can be seen in table 4 below:

Table 4. Heteroscedasticity Test Results

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.226	.400		.564	.575		
	X	.182	.112	.206	1.632	.108	1.000	1.000

Source: Data processed in 2025

a. Dependent Variable: ABS_RES

The results of a data are said to be free from heteroscedasticity if the significance level is> 0.05 based on the table, it can be seen that the significant value of the Board of Commissioners Size variable is 0.108, it can be concluded that the research data is free from heteroscedasticity because the significant value is> 0.05.

Hypothesis Testing Results

Linear regression analysis is used to determine how much influence the independent variable Good Corporate Governance as measured by the Size of the Board of Commissioners on Financial Distress.

Table 5. Linear Regression Analysis Results

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF

1	(Constant)	2.196	.679		3.233	.002		
	X	-.049	.190	-.033	-.256	.799	1.000	1.000

Source: Data processed in 2025

a. Dependent Variable: Y

Based on the results of the linear regression test in table 5, the linear regression test equation model can be seen as follows:

$$\mathbf{FD = \beta_o + \beta_1(UDK) + \varepsilon}$$
$$\mathbf{FD = 2196 + -0.049\ (UDK)}$$

The regression equation model above can be explained as follows:
α = 2.196, the constant is 2.196, meaning that if the board of commissioners size variable has a value of 0, the financial distress variable is 2.196.
β_1: -0.049, the regression coefficient value of the size of the board of commissioners is -0.049, meaning that if the board of commissioners size variable decreases by 1 unit, then financial distress will decrease by 0.049 units assuming that the board of commissioners size variable of the regression model is fixed.

The coefficient of determination (R2) shows how much change in the dependent variable is caused by the dependent variable. The results of the coefficient of determination R2 can be seen from table 6 below:

Table 6. Coefficient of Determination

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.033[a]	.001	-.016	1.09948

Source: Data processed in 2025

a. Predictors: (Constant), X
b. Dependent Variable: Y

Based on the table, it is known that the adjusted r square value is -0.016, which is analyzed that -1.6% of financial distress is influenced by the size of the board of commissioners.

The t test is used to determine the effect of independent variables on related variables. The criterion used is to see the probability of significance of the independent variable t in the coefficient table. The t test results can be seen in table 7 below:

Table 7. Results of the t test

Coefficients [a]

		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	T	Sig.	Tolerance	VIF
1	(Constant)	2.196	.679		3.233	.002		
	X	-.049	.190	-.033	-.256	.799	1.000	1.000

Source: Data processed in 2025

a. Dependent Variable: Y

Based on the table, the regression coefficient value is negative -0.049, which means that the decrease in the size of the board of commissioners, the financial distress will also decrease. The results of the t test between the size of the board of commissioners and financial distress show the t-count of -0.256 is smaller than the t-table. So the hypothesis states that the size of the board of commissioners has a negative effect on financial distress is rejected.

CONCLUSION

Based on the analysis conducted, this study found that the size of the board of commissioners has a negative effect on the financial distress of general insurance companies in Indonesia. The statistical test results show that the size of the board of commissioners does not contribute significantly in explaining variations in financial distress, which means that strengthening Good Corporate Governance through increasing the size of the board of commissioners is not sufficient to reduce the risk of financial distress in general insurance companies in Indonesia. This occurs because in practice the company is only a formality to fulfill regulations so that the existence of independent commissioners is not to carry out a good monitoring function. This suggests that other factors, such as organizational structure, risk management, and other external variables, may play a greater role in influencing the company's financial performance. The results of this study are also in line with previous research conducted by (Brédart, 2014) and (Maryam & Yuyetta, 2019) which suggests that the board of directors has no effect on Financial Distress.

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