

The Influence of Good Corporate Governance and Business Risk on Financial Distress

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ABSTRACT

This study aims to analyze the effect of institutional ownership, audit committee, and business risk on financial distress. The object of the study focuses on public companies listed on the Indonesia Stock Exchange (IDX) that are categorized as issuers with special notations during the 2015–2025 period. The increasing number of problematic issuers, indicated by trading suspensions, adverse audit opinions, and even negative equity, highlights the importance of an in-depth analysis of the factors influencing financial distress. The results show that institutional ownership and the audit committee do not have a significant effect on financial distress, while business risk has a positive effect on increasing financial distress.



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INTRODUCTION

The development of the current business world faces increasingly complex challenges along with increasing global uncertainty, inflation spikes, exchange rate fluctuations, and the impact of war turmoil that continues to affect the financial stability of companies. This situation describes the conditions of the modern environment which are highly dynamic, unpredictable, complex and unclear, and present both challenges and opportunities for organizations to adapt and develop. In the context of modern business, the term VUCA is often used to describe the conditions of the global environment which is dynamic, full of risks, and demands organizations to be adaptive, innovative, and have strong leadership.

In 2025, the global economic situation is expected to still face major challenges. According to IMF projections, global economic growth will reach 3.2% in 2025. Initially, the IMF predicted 3.3% for global economic growth in 2025. However, this prediction was cut to 3.2% due to warnings of increasing risks of war and trade protectionism (Saptati, 2024). The situation of war turmoil and geopolitical tensions was also clearly felt by the Indonesian financial market. In June 2025, the JCI opened down significantly after the US attacked Iran, where on June 2 the JCI value was still at 7,065, and experienced a significant decline to 6,968 on June 19, 2025. The IDX confirmed that the surge in world oil prices and the weakening of the rupiah were the main effects of the escalation of war, which caused pressure on issuers in the industrial, transportation, and energy sectors (CNBC Indonesia, 2025). This can be seen in the graph below.



Source: Data processed from BEI

Figure 1.1 IHSG Movement Graph

Furthermore, based on the Allianz Trade report (2024), the number of global bankruptcies in 2023 increased by 7% and is expected to experience a further acceleration of 9% in 2024 before finally stabilizing. This situation puts many companies in a vulnerable position, especially those with weak capital structures and suboptimal risk management. Issuers that experience suspension on the Indonesia Stock Exchange (IDX) are public companies whose securities (shares) have been temporarily suspended from trading by the IDX for various reasons, such as financial problems (bankruptcy, an unfair financial statement opinion), violation of reporting obligations, unusual market activity (Unusual Market Activity), in accordance with the status or Special Notation feature of the Indonesia Stock Exchange (IDX). The purpose of this suspension is to protect investors and maintain the stability and order of the capital market so that it remains fair and efficient (Source IDX).

This phenomenon indicates that some public companies have not implemented effective governance, ultimately increasing the risk of bankruptcy. This situation demonstrates that the business world still faces significant pressure, both externally and internally. External pressures in the form of global economic uncertainty, soaring inflation, fluctuating exchange rates, and geopolitical turmoil require companies to work harder to maintain their financial stability.

Companies with special notations (codes B/D/E/ED) on the Indonesia Stock Exchange (IDX) are issuers that have received a warning sign because they are experiencing certain conditions that have the potential to disrupt business continuity, such as negative equity, default on obligations, disclaimer of audit opinion, or involvement in serious legal problems. The IDX aims to provide transparency to investors so they are aware of the risks inherent in the company. The existence of special notations is an early warning signal that the company is facing significant financial pressure. In this context, companies with special notations become relevant objects to study in research on financial distress, because the conditions underlying the notation are a real manifestation of financial difficulties, both in terms of liquidity, solvency, and profitability.

From the table on happen increase number of Corporate Taxpayers, will but reporting of SPT experienced. The implementation of Good Corporate Governance (GCG) is a strategic step to ensure that companies are managed transparently, accountably, and oriented toward shareholder interests. The phenomenon in Indonesia shows that weak GCG implementation is often a cause of companies getting into financial trouble.

The effectiveness of an audit committee depends heavily on governance practices that uphold transparency, independence, and accountability. A well-functioning audit committee, both in terms of board governance and internal auditing, has been shown to increase the reliability of financial reports and prevent financial irregularities that could worsen a company's financial condition. In the context of financial distress, this oversight mechanism plays a crucial role in ensuring that financial resources are used efficiently and that liquidity risks or losses are identified early before they escalate into crises.

Good Corporate Governance (GCG), through the existence of an audit committee, plays a crucial role in preventing financial distress in companies. The audit committee serves as an internal oversight mechanism that ensures reliable and transparent financial reporting and compliance with applicable policies and regulations. According to research by Sadaaa et al. (2023), the audit committee plays a role in reducing debt risk and improving the quality of risk management. This is achieved by strengthening internal controls, ensuring effective internal audits, and reducing the possibility of errors or fraud in financial reporting.

Besides the audit committee, other GCG mechanisms such as institutional ownership can also influence financial distress. Manzaneeque et al. (2016), Good Corporate Governance (GCG) practices through institutional ownership play a significant role in influencing the likelihood of financial distress. Institutional ownership, such as by banks, pension funds, and insurance companies, can serve as a strong oversight mechanism for management because they have the resources and expertise to assess the company's financial risks. In this study, the Good Corporate Governance (GCG) proxies used include institutional ownership and audit committees. These two proxies were chosen because they are considered capable of representing an effective internal oversight mechanism in driving company performance, especially in companies facing indications of bankruptcy.

Good Corporate Governance (GCG) factors, business risk is also a significant determinant of financial distress. Business risk describes the level of uncertainty a company faces in generating revenue, which can be influenced by sales fluctuations, changes in raw material prices, operational costs, and market dynamics (Krüger & Meyer, 2021).

LITERATURE REVIEW

Good Corporate Governance

Good corporate governance (GCG) or governance a good company is framework rules, practices, and processes that direct and control companies to be responsible answer to stakeholders interests (stakeholders), increasing transparency, accountability, and performance term long company. Foundation GCG theory originates from from a number of theory main theories such as agency theory, stakeholder theory, stewardship theory, and other theories institutional / resource-dependence that helps explain Why mechanism governance formed and how they influence performance company. GCG is system framework rules and practices that govern company to be managed in a way responsible responsible, transparent and accountable with the aim create sustainability term long Du Plessis, (2024), Development contemporary governance practices covers issues stakeholders, risks technology, ESG (Environmental, Social, Governance), and influence globalization, which makes GCG increasingly complex and important Du Plessis, (2024).

Institutional Ownership

Institutional ownership is the ownership of company shares by institutions such as banks, insurance companies, pension funds, and other financial institutions. Institutional investors act as an effective monitoring mechanism because they have a significant interest in maintaining the company's value. High institutional ownership is generally associated with tighter oversight, thus suppressing management from opportunistic behavior (Rossi & Gunardi, 2018; Indrayono, 2021). Institutional ownership is ownership share companies by financial institutions such as banks, insurance companies, mutual funds, and pension funds. Institutional investors play a role as supervisor effective external Because they own source power, interests big, and ability for influence policy management. The height ownership institutional can reduce conflict agency and increase mark company through strict supervision (Brigham & Houston, 2019).

Audit Committee

The audit committee is part of corporate governance that functions to support the board of commissioners in overseeing financial reports, internal control systems, and company compliance with regulations. The existence of an independent and competent audit committee increases the company's transparency and accountability, thereby reducing the possibility of financial report manipulation and fraud (Brigham & Houston, 2019). The audit committee is one of the corporate governance tools that plays a vital role in increasing the transparency and accountability of financial reports. The main

function of the audit committee is to assist the board of commissioners or directors in ensuring that financial reports have been prepared according to standards, as well as overseeing the internal control system. Thus, the existence of an audit committee strengthens shareholder confidence in management performance (Collier, 2015).

Business Risk

Business risk reflects the level of uncertainty a company faces in carrying out its operational activities. This risk can arise from market fluctuations, cost changes, government policies, and industry dynamics. For managers, understanding business risk is important because it will affect financial planning, capital structure, and investment strategies (Collier, 2015). Business risk is the risk to a company's assets if the company does not use debt. Business risk can increase when the company uses high debt to meet its funding needs (Brigham & Houston, 2019). Business risk is the uncertainty related to a company's operating income before considering the financing structure (debt or equity). Business risk is the uncertainty inherent in the projection of a company's future rate of return on assets. Risk arises along with the cost of borrowing incurred by the company. The higher the cost burden, the greater the risk to the company.

Financial Distress

Financial distress is a condition where a company faces serious financial difficulties, characterized by declining profits, negative cash flow, and an increased likelihood of default. This situation can lead to bankruptcy if not addressed promptly. Financial distress also increases the cost of capital, damages the company's reputation, and impacts investor confidence. Therefore, sound risk management is necessary to minimize the possibility of financial distress (Brigham & Houston, 2019). financial distress A distressed company is a condition in which a company faces serious financial difficulties, characterized by a decreased ability to pay its obligations, declining profits, and even potential bankruptcy. Companies experiencing distress typically have high levels of leverage, negative cash flow, and low profitability. According to Manzanegue et al. (2016) Financial distress is a condition of serious and continuous decline in a company's financial performance, which does not always end in formal bankruptcy, but reflects the company's inability to maintain its business continuity (going concern).

From the description above, it can be described that the framework of thought used in this research is as follows:

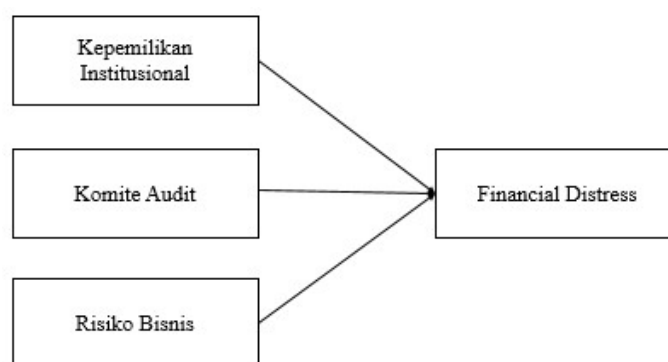


Figure 1 Research Framework

Referring to the framework of thought above, the hypothesis proposed in this study is:

- H1: Institutional Ownership has a positive effect on Financial Distress
- H2: Audit Committee has a negative impact on Financial Distress
- H3: Business Risk has a negative impact on Financial Distress

RESEARCH METHODS

This research uses quantitative research methods. The research approach employed in this study is quantitative. The sample selection criteria for this study involved companies indicating

liquidity difficulties and potential bankruptcy during the 2020–2025 period. The selected period was within the last six years. The sample in this study was determined using a purposive sampling method based on specific criteria relevant to the research objectives. The sample criteria for this study were those that met the following conditions:

- Companies that meet the criteria for Special Notation Issuers for the August 2025 period and publish their shares on the Indonesia Stock Exchange (IDX).
- Companies that meet the criteria for Special Notation Issuers with the notation B/D/E/ED for the period of August 2025 and publish them on the Indonesia Stock Exchange (IDX).
- Companies that meet the criteria for Special Notation Issuers with the notation B/D/E/ED that consistently publish their financial reports on the Indonesia Stock Exchange (IDX) during the 2020–2025 period, second quarter.

Data analysis was carried out quantitatively with correlation analysis aimed at seeing the influence between variables and determining whether the independent variable had an influence on the dependent variable, using EViews (Econometric Views) software version 10.

RESULTS AND DISCUSSION

Descriptive Analysis

Analysis descriptive is statistics used for analyze data by means of describe or depict data that has been collected as existence without intend to make applicable conclusions for general or generalization. Analysis The descriptive research conducted in this study is for know mark maximum, minimum value, value mean (average), and value standard deviation. Test results statistics descriptive can seen in the following table :

Table 1. Results of Descriptive Statistical Tests

	KI	KA	RB	FD
Mean	0.546096	2.992032	0.881992	-9.929283
Median	0.600000	3,000,000	0.470000	-0.620000
Maximum	0.940000	4,000,000	523.6800	42.20000
Minimum	0.100000	2,000,000	-556,5000	-334.6700
Std. Dev.	0.260138	0.282730	68.10471	39.04041
Observations	251	251	251	251

Source: Data Processing Results with Eviews 10 (2025)

Based on results statistics descriptive, Institutional Ownership variable own. The average value (mean) is 54.60% with a minimum value of 10% and a maximum of 94%. The standard deviation value is 0.260138. The average value ownership institutional of 54.60% shows that more from half share companies in the sample study owned by institutional investors, but proportion the Still classified as low and not yet reflected domination full institutions in the structure ownership companies with issuer status Notation Specifically (B/D/E/ED), this condition indicates that although there is involvement institutions as holder shares, roles supervision and control carried out are not sufficient strong For in a way effective influence taking decision strategic and company's financial performance. This can happen Because characteristics industries and companies that are under pressure operational and financial, so that control. The main stake remains with management, while institutional investors tend behave passive or oriented term short. Thus, the average ownership institutional of 54.60% reflects existence involvement significant institutions but not yet optimal in improving the company's governance and financial condition in the midst of dynamics risky industry tall.

Variables Audit Committee has the average value is 2.992032 with a minimum value of 2.00 and a maximum of 4.00, and a standard deviation of 0.282730. Average value audit committee of 2.99 indicates that in a way general companies in the sample study only own around three members audit committee, which is the minimum limit according to regulatory provisions, according to the latest POJK, specifically POJK Number 55/POJK.04/2015 concerning Formation and Guidelines Implementation Work Audit Committee, limitations amount member The Audit Committee consists of at least 3 (three) people, who come from from Independent Commissioners and other parties outside

Issuer or Public Company, with majority member must own ability read and understand report finance, as well as chairman usually is an Independent Commissioner, although No in a way explicit mentioned limitation maximum, focus mainly is at least 3 people.

Variables Business Risk has the average value (mean) is 0.881992, and the minimum value is -556.5000 to maximum of 523.6800. And the value standard deviation of 68.10471. The average value risk business of 0.881992 shows that company with notation special (B/D/E/ED) tends to own volatility sufficient income or profit big, so that increase possibility occurrence financial pressure. Increasingly tall mark risk business, increasingly the potential is also great company experience instability cash flow and difficulties in meeting obligation financially. Thus, the average of 0.881992 reflects that majority companies in the sample be in condition risk significant operational, which is theoretical can enlarge probability occurrence financial distress.

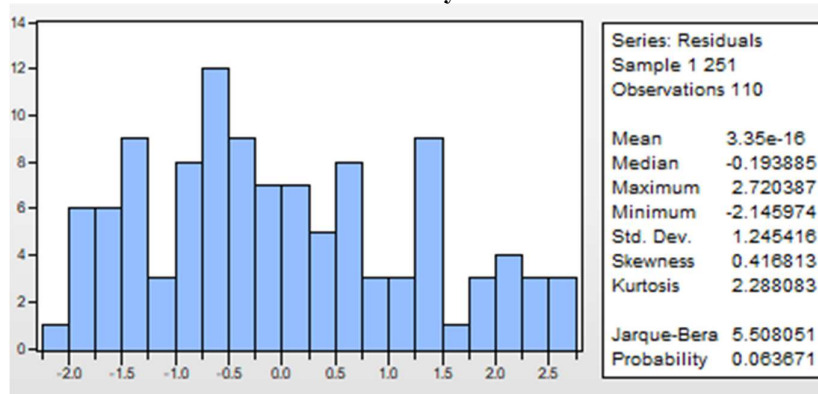
Variables Financial Distress has an average (mean) of -9.929283, a minimum value of -334.6700, and a value of maximum 42,20000, and standard deviation of 39.39766. The average financial distress value of -9.929283 indicates that in a way general companies in the sample study be in condition considerable financial pressure seriously, where the ability company for fulfil obligation financially is at a low level. Issuer Company Notation Special (B/D/E/ED), grades This negative reflects weakness financial performance characterized by a decline profit, unstable cash flow, and height debt burden and costs operational conditions the industry being studied show that companies the face challenge heavy structural and operational, so that difficult go out from long- term financial pressure short. Thus, the average value of negative financial distress indicates that This industry is in a vulnerable phase, where companies must undertake adjustment strategic, efficiency costs, and repairs financial management in order to be able to maintain sustainability his efforts.

Classical Assumption Test

Normality Test

In this study, the normality test will carried out with Jarque-Bera (JB) via EViews statistical software. If mark probability (p-value) is greater small from level significance of 5%, then the data is not normally distributed. The data will normally distributed if mark probability (p-value) is greater big from level 5% significance. Test results normality in this study can seen in the following image.

Table 2. Normality Test Results



Source: Data Processing Results with Eviews 10 (2025)

Normality test results show that mark probability of 0.063671 which is more big from level significant 0.05, so can concluded that the data in this study are normally distributed.

Multicollinearity Test

Multicollinearity test aim for test whether the regression model found existence correlation between variables independent. Decisions are made based on a VIF value of less than 10, meaning the model is declared free from multicollinearity. Conversely, if the VIF is greater than 10, multicollinearity occurs. Multicollinearity test results can seen in the table below.

Table 4. Multicollinearity Test Results

Variance Inflation Factors
Date: 02/05/26 Time: 09:22
Sample: 1 251
Included observations: 110

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.660082	114.4914	NA
KI	0.228409	5.135489	1.025048
KA	0.198203	117.4333	1.026906
RB	0.001486	1.118431	1.002070

Source: Data Processing Results with Eviews 10 (2025)

Based on results analysis in the table above, can known VIF values across all variables more small out of 10. Thus can concluded that all over variables free from problem multicollinearity Because VIF value < 10.

Heteroscedasticity Test

The heteroscedasticity test is used to determine whether there is inequality in residual variance. The decision criteria generally refer to the p-value from the Glejser, Breusch-Pagan, or other methods. If the p-value is greater than 0.05, heteroscedasticity is absent. However, if the p-value is less than 0.05, heteroscedasticity is present. Heteroscedasticity test results can seen in the table below.

Table 5. Results of Heteroscedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.372242 Prob. F(3,106)	0.2553
Obs *R-squared	4.112363 Square Prob. (3)	0.2496
Scaled explained SS	2.459415 Square Prob. (3)	0.4827

Source: Data Processing Results with Eviews 10 (2025)

Based on the results of the heteroscedasticity test show that testing heteroscedasticity of each variable get The Prob. Obs * R-Squared value is 0.2496. This result provides conclusion that all over variables do not experience problem heteroscedasticity Because Prob. Obs *R-Squared value is > 0.05.

Autocorrelation Test

The autocorrelation test is used to detect the relationship between the residuals of the current period and the previous period. One of the tests that can be used is the autocorrelation test. used for detect existence autocorrelation is the Breusch Godfrey test or what is called the Lagrange Multiplier. If mark probability $> \alpha = 5\%$ means it does not happen autocorrelation. On the other hand mark probability $< \alpha = 5\%$ means it occurs autocorrelation. Autocorrelation test results can seen in the following table:

Table 6. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.741534 Prob. F(2,104)	0.0907
Obs *R-squared	1.1.2542 Square Prob. (2)	0.0808

Source: Data Processing Results with Eviews 10 (2025)

From the results testing autocorrelation obtained Obs probability value *R-squared 0.0808 more big from 0.05. So concluded that the data in the model in the variables research did not occur autokeralation.

Hypothesis Testing

Determination Analysis (R²)

The coefficient of determination is a measure that indicates the extent to which variations in the dependent variable Y can be explained by the independent variable X. The complete results of the coefficient of determination test can be seen in the following table.

Table 7. Results of Determination Analysis

Model	Adjusted R Square
Institutional ownership, audit committees, and risk business to financial distress	0.121883

Source: Data Processing Results with Eviews 10 (2025)

It is known that the Adjusted R-squared value model is 0.089996 or 12.18 %, so it can be concluded that the independent variables of institutional ownership, audit committee, and business risk are able to explain their influence on the dependent variable of financial distress by 12.18 %, while the remaining 87.82% is explained by other variables outside this study.

t-test

The t-test is used to determine the partial effect of each independent variable on the dependent variable. Decisions are based on probability values. If the probability is <0.05, then the independent variable has a significant partial effect. If the probability > 0.05, then the independent variable is not partially significant. The complete results of the t-test can be seen in the following table.

Table 8. Partial Test Results (t-Test)

Connection	Coefficient	Prob	t-statistic	Conclusion
Institutional Ownership → Financial Distress	0.033487	0.9442	0.070170	H1 Rejected
Audit Committee → Financial Distress	1.551887	0.0007	3.486368	H2 Accepted
Risk Business → Financial Distress	-0.085200	0.0292	-2.210276	H3 Accepted

Source: Data Processing Results with Eviews 10 (2025)

H1: Institutional Ownership on Financial Distress

Based on the results of the t-test in Table 8 on variables ownership institutional to financial distress has prob. value 0.9442 > 0.05 with value t- s statistic 0.070170 < 1.645 and the coefficient value is 0.033487. Thus, H1 is rejected. It can be concluded that institutional ownership has no effect on financial distress.

H2: Audit Committee Against Financial Distress

Based on the t-test results in Table 8, the audit committee variable on financial distress has a probability value of 0.0007 < 0.05 with a t- statistic value of 3.486368 < 1.645 and a coefficient value of 1.551887. Thus, H2 is accepted. It can be concluded that the audit committee has an effect on financial distress.

H3: Business Risks to Financial Distress

Based on the t-test results in Table 8, the business risk variable on financial distress has a probability value of 0.0292 < 0.05 with a t- statistic value of -2.210276 > 1.645 and a coefficient value of -0.085200. Thus, H3 is accepted. It can be concluded that business risk has an effect on financial distress. against financial distress.

Discussion

Test results the first hypothesis shows that ownership Institutional factors do not affect financial distress in companies included in the criteria for Special Notation Issuers with the notation B/D/E/ED that published their financial reports on the IDX during the 2020–2025 period in the second quarter. This finding can explained through results statistics descriptive which shows that the average ownership institutional only 0.546096 or 54.61%. Even though nominally in numbers the show that more from half share company owned by institutional investors, this proportion does not yet reflect strong dominance in the structure ownership. Institutional ownership at the corporate level that is not enough effective for operate monitoring and control functions management optimally, especially in companies that are under pressure operational and financial. In conditions Issuer Special Notation, control taking decision strategic tend to remain with management, while institutional investors nature passive or oriented term short so as not to get involved active in efforts prevention financial distress. This finding reinforces the view that corporate sustainability is not solely determined by ownership structure but is also influenced by other factors such as employee performance quality, financial management effectiveness, resource utilization efficiency, and industry dynamics. This aligns with research by Munawar et al. (2018) , Feanie & Dillak (2021) , and Juhaeriah et al. (2021) found that institutional ownership had no significant effect on financial distress. They emphasized that the presence of institutional investors does not always improve management's monitoring function, especially when a company's strategy faces more complex operational and financial risks.

Test results hypothesis second show that audit committee has a positive influence against financial distress in companies included in the Special Notation Issuer criteria with the notation B/D/E/ED that published their financial reports on the IDX during the second quarter of 2020–2025. This means that the better the audit committee, the better Healthy company or the more low occurrence financial distress. These findings indicate that the more effective the audit committee's role in carrying out its oversight function, the lower the level of financial distress experienced by the company. Theoretically, these results align with agency theory, which emphasizes the importance of oversight mechanisms to reduce conflicts of interest and information asymmetry between management and shareholders. An active and independent audit committee can improve the quality of financial reporting, strengthen internal control systems, and detect potential financial risks early before they develop into more serious financial distress. Previous research has found that audit committees have a significant effect on financial distress. Sadaaa et al. (2023) demonstrated that an effective audit committee can reduce the risk of financial distress by improving the quality of financial reporting oversight and strengthening internal control systems. Similar findings were also presented by Suluo et al. (2025) showed that Good Corporate Governance (GCG) practices through the role of the audit committee negatively impact the likelihood of financial distress, as the audit committee functions as an early warning system mechanism in detecting potential financial risks and managerial errors. These results reinforce the view that the audit committee plays a crucial role in maintaining a company's financial stability and preventing financial deterioration.

Test results hypothesis third show that business risk has a negative impact against financial distress in companies included in the criteria of Special Notation Issuers with the notation B/D/E/ED that publish their financial reports on the IDX during the 2020–2025 period, second quarter. These results indicate that the higher the business risk faced by a company, the greater the likelihood of the company experiencing financial distress. This finding indicates that the higher the level of business risk faced by a company, the greater the likelihood of the company experiencing financial difficulties. Conceptually, business risk reflects the level of earnings volatility and operational uncertainty stemming from sales fluctuations, changes in production costs, competitive pressures, and dynamic macroeconomic conditions. When earnings variability increases, the stability of a company's cash flow is disrupted, thereby weakening the company's ability to meet short-term and long-term obligations and leading to financial distress. This finding aligns with financial theory, particularly the view of Brigham and Houston (2019), which states that the higher the business risk, the greater the likelihood of earnings instability, which can worsen a company's financial condition. From an agency theory perspective, high business risk can also increase pressure on management in decision-making, which, if not managed carefully, actually increases the potential for strategic errors and accelerates the company's entry into financial distress. Thus, the results of this study confirm that effective business risk management is key

to maintaining financial stability and preventing companies from experiencing ongoing financial stress. These results align with research Altass (2024); Ercan et al., (2025); Abraham et al., (2024) that the audit committee can lower occurrence financial distress.

CONCLUSION AND SUGGESTIONS

Institutional ownership has no effect on financial distress in companies included in the criteria of Special Notation Issuers with the notation B/D/E/ED that publish their financial reports on the Indonesia Stock Exchange (IDX) during the 2020-2025 period, second quarter. Difference these results show that at the company Issuer Notation Special (B/D/E/ED), the role of institutional investors as mechanism supervision has not been effective in reducing level Company financial distress. Audit committees influence financial distress in companies that meet the criteria for Special Notation Issuers with the notation B/D/E/ED that publish their financial reports on the Indonesia Stock Exchange (IDX) during the second quarter of 2020–2025. These results indicate that although audit committees are theoretically and empirically recognized as having an influence on financial distress, their effectiveness is largely determined by their independence, competence, and the intensity of supervision carried out. Business risk influences financial distress in companies that meet the criteria for Special Notation Issuers with the notation B/D/E/ED that publish their financial reports on the IDX during the second quarter of 2020–2025. This confirms that the higher the uncertainty and operational risks faced by a company, the more likely it is that the company is in financial distress.

Companies are advised to improve the effectiveness of their business risk management, given that business risk has been shown to positively impact financial distress and financial performance. This can be achieved through early identification of sources of uncertainty, monitoring revenue volatility, and improving regular operational evaluations, allowing emerging risks to be managed before they become more serious financial pressures. Furthermore, companies need to strengthen internal governance mechanisms, particularly the audit committee function, which this study showed no impact on financial distress or financial performance. This strengthening can be achieved by improving the competence of audit committee members, increasing independence, meeting frequency, and providing full access to internal audit information and financial reports to optimize oversight functions.

Future researchers are advised to add independent variables and moderating variables to make the research model more comprehensive. Considering institutional ownership and risk, While business performance does not show a significant influence in this study, variables such as audit quality, board structure, leverage, or the quality of internal and external controls (COSO), as well as other variables such as Corporate Social Responsibility (CSR) and Environmental Social Governance (ESG) can be used to provide a deeper understanding of the factors that influence financial distress and financial performance. Furthermore, further research could expand the study to companies in other sectors to determine whether the relationship patterns between variables are consistent across industries. Research in the manufacturing, financial services, mining, or transportation sectors may yield different results, given that the risk characteristics and financial structure of each sector differ from those of Special Notation Issuers.

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