

The Influence of Institutional Ownership and Audit Committee on Company Financial Performance with Financial Distress as an Intervening Variable in Companies with Special Notation

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ABSTRACT

This study aims to examine the effects of institutional ownership and the audit committee on financial performance, with financial distress as an intervening variable, among Special Notation Issuers listed on the Indonesia Stock Exchange (IDX). A quantitative approach with an explanatory research design was employed. Secondary data were obtained from companies' annual reports and financial statements. The population consisted of Special Notation Issuers listed on the IDX, while the sample was selected using purposive sampling based on companies with B, D, E, or ED notations and complete financial statements for 2020–2025. From 215 Special Notation Issuers, 50 companies were selected as the sample. Financial distress was measured using the Altman Z-Score, while financial performance was measured using Return on Assets (ROA). Data were analyzed using panel data regression, t-test, F-test, coefficient of determination, path analysis, and the Sobel test. The results show that institutional ownership has no significant effect on financial distress, while the audit committee has a significant negative effect. Institutional ownership positively affects financial performance, whereas the audit committee has no significant effect. Financial distress negatively affects financial performance, does not mediate the relationship between institutional ownership and financial performance, but mediates the relationship between the audit committee and financial performance. These findings emphasize the importance of strengthening corporate governance, internal controls, and early warning systems to maintain financial stability.



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INTRODUCTION

Financial performance is one of the indicators used to assess a company's success in managing its resources to achieve its objectives. Information regarding financial performance serves as the basis for investors, creditors, and other stakeholders in evaluating the company's condition and making economic decisions (Arkan, 2016). Strong financial performance reflects a company's ability to generate profits, manage assets effectively, and ensure the long-term sustainability of its operations.

To improve financial performance, companies require effective corporate governance mechanisms. One such mechanism is institutional ownership. Institutional ownership is believed to enhance the monitoring function over management because institutional investors possess greater resources and capabilities to oversee the company's decision-making. Effective oversight can encourage management to act more cautiously in managing the company, thereby improving financial performance. However, research findings regarding the impact of institutional ownership on financial performance remain mixed. Research conducted by Sari and Praselia (2023) indicates that institutional ownership and audit committees influence a company's financial performance, suggesting that effective oversight mechanisms can support improvements in corporate performance.

In addition to institutional ownership, audit committees also play a crucial role in supporting the effectiveness of corporate governance. The audit committee is tasked with assisting the board of commissioners in overseeing the financial reporting process, internal control systems, and the company's compliance with applicable regulations. The presence of an effective audit committee is expected to improve the quality of financial information and minimize irregularities in corporate management. Thus, the audit committee has the potential to contribute to improved corporate financial performance. According to the Efficient Market Hypothesis, available information is immediately reflected in investor decisions and corporate value. Fama (1970) explains that asset prices, including a company's stock, reflect all information available in the market. In line with this, Malkiel (2015) states that investors' expectations regarding economic and corporate conditions influence market behavior and the pricing of financial assets. Therefore, information regarding a company's financial condition and corporate governance is a critical factor that investors consider when assessing the company's future prospects.

On the other hand, companies may face financial distress a condition in which a company experiences financial difficulties characterized by a declining ability to meet its financial obligations. Financial distress is an early stage preceding bankruptcy and thus requires serious attention from management and investors. Various studies indicate that corporate governance mechanisms are linked to financial distress. Research by Irfan and Luthan (2024) found that audit committee characteristics influence financial distress, while institutional ownership showed no significant effect. Beno (2023) explains that corporate governance mechanisms play a role in influencing a company's financial distress through oversight functions that can minimize agency problems and enhance the effectiveness of corporate management. With the implementation of sound corporate governance, the potential for financial distress can be mitigated, enabling the company to maintain operational stability and financial performance.

Companies experiencing financial distress generally face a decline in operational capacity and profitability, which can ultimately undermine their financial performance. Therefore, financial distress is hypothesized to serve as a mechanism explaining the relationship between institutional ownership and audit committees on a company's financial performance. Findings by Idawati et al. (2024) indicate that financial distress can act as an intervening variable in the relationship between corporate governance mechanisms and firm performance. Although numerous studies have examined institutional ownership, audit committees, financial distress, and financial performance, previous research results remain inconsistent. Some studies have found that institutional ownership and audit committees can enhance firm performance, while others have reported insignificant results. Furthermore, research testing financial distress as an intervening variable remains relatively limited, particularly among firms with special notations on the Indonesia Stock Exchange. Companies with special notations generally face issues related to financial condition, compliance, and business sustainability, making them an interesting subject for further study. Therefore, this study aims to analyze the effects of institutional ownership and audit committees on corporate financial performance, with financial distress as an intervening variable, for companies that have received special notations on the Indonesia Stock Exchange.

LITERATURE REVIEW

Capital Structure Theory

Capital structure refers to the mix of equity and debt used by a company to finance its operations. The right capital structure can increase a company's value and minimize its cost of capital. According to Brigham & Houston (2019), capital structure is "the balance between the use of long-term debt and equity that a company uses to finance its assets." Thus, capital structure decisions relate to how a company determines the most efficient combination of funding sources.

Good corporate governance (GCG)

GCG is a framework of rules and practices that governs companies to ensure they are managed responsibly, transparently, and accountably, with the aim of achieving long-term sustainability (Du Plessis, 2024). Developments in contemporary governance practices encompass stakeholder issues,

technological risks, ESG (Environmental, Social, and Governance), and the impact of globalization, making GCG increasingly complex and important (Du Plessis, 2024).

Institutional Ownership

Institutional ownership refers to the ownership of a company's shares by institutions such as banks, insurance companies, pension funds, and other financial institutions. Institutional investors serve as an effective monitoring mechanism because they have a significant stake in preserving the company's value. High levels of institutional ownership are generally associated with stricter oversight, which can deter management from engaging in opportunistic behavior (Indrayono, 2021).

Audit Committee

Sulimany (2024) states that the audit committee is a subcommittee formed by the board of directors with the primary responsibility of overseeing the financial reporting process and the effectiveness of the company's internal control system. According to Cheung & Chung (2022), an audit committee is a committee formed under the board of directors whose primary responsibilities include overseeing the financial reporting process, the effectiveness of the internal control system, the conduct of internal and external audits, and curbing opportunistic behavior by management to maintain the quality of financial reporting and protect the interests of shareholders.

Financial Distress

Financial distress is a condition in which a company's financial health deteriorates prior to bankruptcy or liquidation. This condition is characterized by a company's inability to meet its financial obligations, a decline in financial performance, and disruptions to the company's operational continuity. Therefore, financial distress is viewed as an early warning sign of financial problems that require corrective action so that the company can maintain its business continuity (Apriyani et al., 2024). Furthermore, Habib et al. (2020) explain that financial distress is a stage of deterioration in a company's financial condition that occurs prior to bankruptcy and serves as a key indicator in assessing the risk of corporate failure. Consequently, financial distress must be detected early so that a company can take appropriate corrective measures to ensure the sustainability of its operations.

Financial Performance

According to Fahmi in Lumantow & Karuntu (2022), financial performance is defined as follows: "Financial performance is an analysis conducted to assess the extent to which a company has implemented financial management rules properly and correctly. This includes preparing financial statements that comply with the standards and provisions of SAK (Indonesian Financial Accounting Standards) or GAAP (Generally Accepted Accounting Principles) and other relevant standards. According to Farisi et al. (2020), "Financial performance is an analysis conducted to determine the extent to which a company has implemented financial management regulations properly and correctly".

From the description of the previous theory, the research model is presented as below:

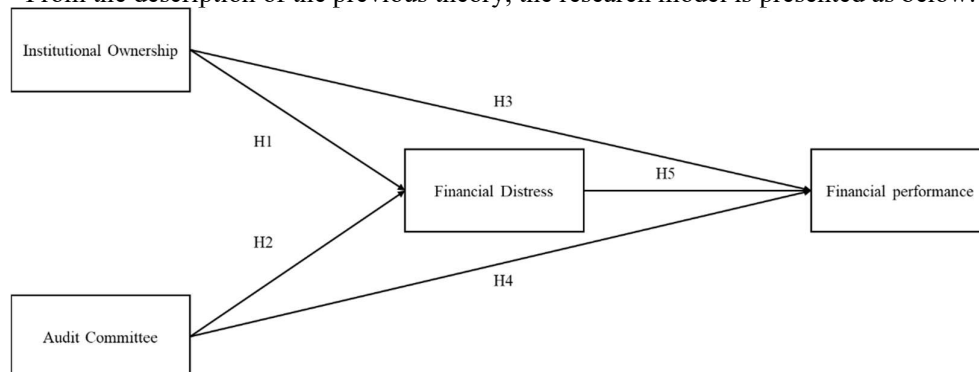


Figure 1. Framework

RESEARCH METHODS

This study employed a quantitative approach with an explanatory research design to examine the relationships between institutional ownership, audit committee, financial performance, and stock returns. The study used secondary data obtained through documentation from annual reports and audited financial statements of companies listed on the Indonesia Stock Exchange (IDX). Institutional ownership was measured by the proportion of institutional shares to total outstanding shares, while the audit committee was measured by the total number of audit committee members. Financial performance was proxied by Return on Assets (ROA), calculated as net income divided by total assets, while stock returns were measured based on the change in stock prices during the observation period. The collected data were analyzed using appropriate statistical techniques to test the proposed hypotheses and examine the relationships among the research variables.

The population consisted of companies classified as Special Notation Issuers listed on the IDX as of August 2025. The sample was selected using purposive sampling based on predetermined criteria, namely: (1) companies listed as Special Notation Issuers on the IDX; (2) companies that had complete annual reports and audited financial statements; and (3) companies that consistently provided the data required to measure institutional ownership, audit committee, financial performance, and stock returns during the 2020–2025 observation period. Based on these criteria, 50 companies were selected as the final sample. The use of secondary financial data enables objective measurement of the variables and supports the empirical examination of the proposed research relationships.

RESULTS AND DISCUSSION

Panel Data Model Selection

Prior to hypothesis testing, an appropriate panel data estimation model must be identified to ensure the validity, consistency, and efficiency of the parameter estimates. Accordingly, model selection was conducted through a series of specification tests, namely the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test. These tests were employed to determine the most suitable estimation approach among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The results of the model selection process for each research model are presented in Table 1.

Table 1. Panel Data Model Selection Results

Test	Model 1	Model 2
Chow Test	Common Effect Model	Fixed Effect Model
Hausman Test	Random Effect Model	Random Effect Model
Lagrange Multiplier Test	Common Effect Model	Random Effect Model

The panel data model selection was conducted using the Chow, Hausman, and Lagrange Multiplier tests. For Model 1, the Chow test and Lagrange Multiplier test indicated that the Common Effect Model (CEM) was more appropriate than the Fixed Effect Model (FEM) and Random Effect Model (REM). Therefore, the Common Effect Model was selected as the final estimation model. For Model 2, the Hausman test and Lagrange Multiplier test consistently supported the Random Effect Model (REM). Consequently, the Random Effect Model was selected as the most appropriate estimation model for Model 2, as it provided a better fit than both the Common Effect Model and Fixed Effect Model. Thus, the empirical analysis employed the Common Effect Model for Model 1 and the Random Effect Model for Model 2 in examining the relationships among the study variables.

Normality Test

In this study, the normality test will be conducted using the Jarque-Bera (J-B) test via the EViews statistical software. If the probability value (p-value) is less than the 5% significance level, then the data are not normally distributed. The data are normally distributed if the probability value (p-value) is greater than the 5% significance level. The results of the normality test in this study are shown in the following figure.

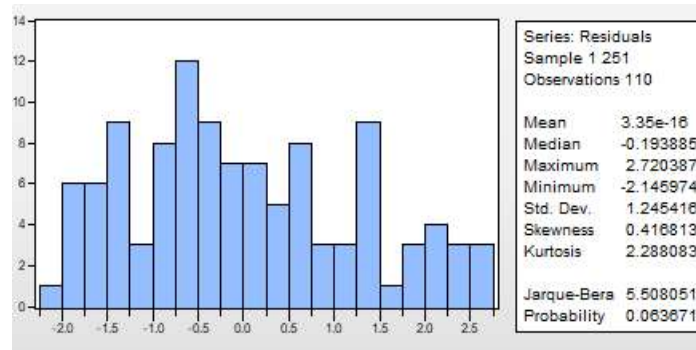


Figure 2. Results of the Normality Test for Model 1

The results of the normality test show that the p-value is 0.063671, which is greater than the significance level of 0.05; therefore, it can be concluded that the data in this study are normally distributed.

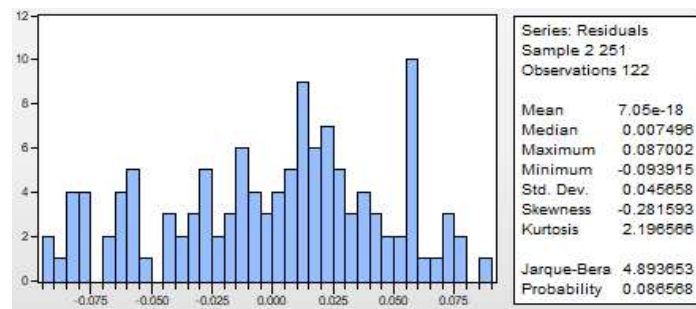


Figure 3. Results of the Normality Test for Model 2

The results of the normality test show that the p-value is 0.086568, which is greater than the significance level of 0.05; therefore, it can be concluded that the data in this study are normally distributed.

Multicollinearity Test

The multicollinearity test aims to determine whether the regression model exhibits correlation among the independent variables. The decision is based on a VIF value less than 10; if so, the model is deemed free of multicollinearity. Conversely, if the VIF is greater than 10, multicollinearity is present. The results of the multicollinearity test are shown in the table below.

Table 1. Multicollinearity Test Results for Model 1

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

Based on the analysis in the table above, it can be seen that the VIF values for all variables are less than 10. Therefore, it can be concluded that all variables are free from multicollinearity because the VIF values are less than 10.

Table 2. Multicollinearity Test Results for Model 2

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.002269	128.3812	NA
KI	0.000277	5.416266	1.019371
KA	0.000229	119.2124	1.060906

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
FD	3.40E-07	1.040662	1.013979

Based on the analysis in the table above, it can be seen that the VIF values for all variables are less than 10. Therefore, it can be concluded that all variables are free from multicollinearity because the VIF values are less than 10.

Heteroscedasticity Test

A heteroscedasticity test is used to determine whether there is unequal variance in the residuals. Decision criteria generally refer to the p-value from the Glejser test, the Breusch-Pagan test, or other methods. If the p-value is greater than 0.05, there is no heteroscedasticity; however, if the p-value is less than 0.05, heteroscedasticity is present. The results of the heteroscedasticity test are shown in the table below.

Table 3. Results of the Heteroscedasticity Test for Model 1

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.372242	Prob. F(3,106)	0.2553
Obs*R-squared	4.112363	Prob. Chi-Square(2)	0.2496
Scaled explained SS	2.459415	Prob. Chi-Square(2)	0.4827

Based on the results of the heteroscedasticity test, the Prob. Obs*R-Squared value for each variable was 0.2496. These results lead to the conclusion that none of the variables exhibit heteroscedasticity, as the Prob. Obs*R-Squared values are all greater than 0.05.

Table 4. Results of the Heteroscedasticity Test for Model 2

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.812265	Prob. F(4,117)	0.5198
Obs*R-squared	3.296368	Prob. Chi-Square(3)	0.5095
Scaled explained SS	1.813820	Prob. Chi-Square(3)	0.7700

Based on the results of the heteroscedasticity test, the Prob. Obs*R-Squared value for each variable was 0.5095. These results lead to the conclusion that none of the variables exhibit heteroscedasticity, as the Prob. Obs*R-Squared values are all greater than 0.05.

Autocorrelation Test

The autocorrelation test is used to detect a relationship between the residuals of the current period and those of the previous period. One test that can be used to detect autocorrelation is the Breusch-Godfrey test, also known as the Lagrange Multiplier test. If the probability value is $> \alpha = 5\%$, there is no autocorrelation. Conversely, if the probability value is $< \alpha = 5\%$, autocorrelation is present. The results of the autocorrelation test can be seen in the following table:

Table 5. Autocorrelation Test Results for Model 1

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.741534	Prob. F(2,104)	0.0907
Obs*R-squared	1.12542	Prob. Chi-Square(2)	0.0808

The results of the autocorrelation test showed that the probability value of Obs*R-squared (0.0808) was greater than 0.05. Therefore, it can be concluded that there is no autocorrelation in the data for the model's research variables.

Table 6. Autocorrelation Test Results for Model 2

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.840164	Prob. F(2,115)	0.0916
Obs*R-squared	1.297012	Prob. Chi-Square(2)	0.0715

The results of the autocorrelation test showed that the probability value of Obs*R-squared (0.0715) was greater than 0.05. Therefore, it can be concluded that there is no autocorrelation in the data for the model's research variables.

Hypothesis Testing

F-Test

The F-test is used to assess whether the independent variables collectively have a significant effect on the dependent variable. The decision is based on the probability value (F-statistic). If the probability value is < 0.05 , then the model is considered significant simultaneously. If the probability value is > 0.05 , then the model is not significant simultaneously. The complete results of the F-test are shown in the following table.

Table 7. Results of the F-Test

Model	Prob. F-statistic
Model 1	0.000002
Model 2	0.000000

Based on the results of the F-test, Model 1 has an F-statistic probability value of 0.000002; thus, it can be concluded that the variables institutional ownership (IO) and audit committee (AC) simultaneously have a significant effect on financial distress (FD).

Furthermore, Model 2 has an F-statistic probability value of 0.000000, so it can be concluded that the variables of institutional ownership (IO), audit committee (AC), and financial distress (FD) simultaneously have a significant effect on financial performance (ROA).

T-Test

The t-test was used to determine the partial effect of each independent variable on the dependent variable. Decisions were based on the probability value. If the probability is less than 0.05, the independent variable has a significant partial effect. If the probability is greater than 0.05, the independent variable does not have a significant partial effect. The complete results of the t-test are shown in the following table.

Table 8. Results of the T-Test

Relationship	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
Institutional Ownership → Financial Performance	0.053869	0.0279	2.225726	H3 Accepted
Audit Committee → Financial Performance	0.023523	0.1377	1.494666	H4 Rejected
Financial Distress → Financial Performance	0.004568	0.0000	6.892465	H5 Accepted

The hypothesis testing results indicate that institutional ownership has no significant effect on financial distress among Special Notation Issuers with B/D/E/ED notations listed on the Indonesia Stock Exchange (IDX) during the period 2020–Q2 2025. The average institutional ownership of 54.61% does not necessarily indicate sufficiently strong dominance to ensure effective monitoring, particularly in companies experiencing operational and financial pressures. In addition, limited institutional investors' influence on strategic decision-making and the potential presence of affiliated institutional ownership may reduce the independence of monitoring functions. These findings indicate that institutional ownership alone is insufficient to prevent financial distress, as a company's financial condition is also influenced by management quality, operational efficiency, and industry conditions. This finding is consistent with Munawar et al. (2018), Feanie & Dillak (2021), Juhaeriah et al. (2021), and Cinantya & Merkusiwati (2015), who found that institutional ownership has no significant effect on financial distress.

The hypothesis testing results indicate that the audit committee has a significant negative effect on financial distress among Special Notation Issuers with B/D/E/ED notations listed on the Indonesia Stock Exchange (IDX) during the period 2020–Q2 2025. This indicates that a stronger and more

effective audit committee is associated with a higher Altman Z-Score, reflecting healthier financial conditions and a lower likelihood of financial distress. This finding is consistent with agency theory, which emphasizes the importance of monitoring mechanisms in reducing conflicts of interest and information asymmetry between management and shareholders. The audit committee supports the board of commissioners in overseeing financial reporting, internal controls, risk management, and corporate governance (OJK, 2015; IFC, 2018). Effective monitoring enables potential financial risks and managerial errors to be identified at an early stage. Although financial distress can arise from internal factors, such as cash flow difficulties, high debt, and operating losses, as well as external factors, such as rising interest rates and labor costs (Adnyana & Firdaus, 2020), an effective audit committee can strengthen the company's ability to anticipate and manage these risks. This finding is consistent with Sadaaa et al. (2023), who found that an effective audit committee can reduce financial distress risk through improved financial reporting oversight and stronger internal controls. Similarly, Suluo et al. (2025) found that the audit committee, as part of Good Corporate Governance (GCG), has a negative effect on the likelihood of financial distress by functioning as an early warning system for potential financial and managerial risks.

The hypothesis testing results indicate that institutional ownership has a significant positive effect on financial performance among Special Notation Issuers with B/D/E/ED notations listed on the Indonesia Stock Exchange (IDX) during 2020–Q2 2025. The average institutional ownership of approximately 55% indicates a substantial role of institutional investors in monitoring management. Their resources, expertise, and long-term orientation can limit managerial opportunism, strengthen Good Corporate Governance (GCG), and encourage more efficient resource management, thereby improving financial performance. This finding is consistent with Effendi & Prima (2023), Glambosky et al. (2025), and Alam et al. (2024), who highlight the role of institutional ownership in strengthening monitoring and improving company performance. It is also supported by Anggraeni & Giranti (2023), who found that institutional ownership can reduce agency conflicts through stronger corporate governance. Thus, greater institutional ownership can strengthen managerial oversight and contribute to improved financial performance.

The hypothesis testing results indicate that the audit committee has no significant effect on the financial performance of Special Notation Issuers with B/D/E/ED codes listed on the Indonesia Stock Exchange (IDX) during 2020–Q2 2025. This finding suggests that the existence or number of audit committee members does not necessarily improve financial performance. The effectiveness of the audit committee depends more on members' competence, independence, meeting frequency, and ability to provide strategic recommendations than on its size alone. Furthermore, the implementation of Good Corporate Governance (GCG) should not be assessed merely based on the existence of formal governance bodies but also on the substantive implementation of transparency, accountability, responsibility, independence, and fairness. This finding is consistent with Paramitha and Suryanawa (2023), who found that the audit committee does not significantly affect financial performance because its role is more focused on governance and financial reporting oversight than directly increasing profitability.

The hypothesis testing results indicate that financial distress has a significant negative effect on financial performance among Special Notation Issuers with B/D/E/ED notations listed on the Indonesia Stock Exchange (IDX) during 2020–Q2 2025. This means that a lower Altman Z-Score, indicating greater financial distress, is associated with lower financial performance. Therefore, H7 is accepted. The finding also reflects the nature of the Altman Z-Score, where a higher score indicates healthier financial conditions and a lower risk of bankruptcy. Companies with higher Z-Scores generally have more stable financial structures, better profitability, and stronger capacity to manage assets and liabilities, resulting in better financial performance. Thus, financial distress measured by the Altman Z-Score serves as an indicator of financial health, where improved financial conditions contribute to sustainable performance. This finding is consistent with Franz et al. (2020), Owusu-Manu (2022), Edwards et al. (2017), Akbar et al. (2013), Ahmad et al. (2023), and Kariuki (2013), who found that higher financial distress is associated with lower company financial performance.

Test of the Coefficient of Determination (R^2)

The coefficient of determination is a measure that indicates the extent to which the variation in the dependent variable Y and the mediating variable Z can be explained by the independent variable X. The complete results of the coefficient of determination test are shown in the following table.

Table 9. Results of the Coefficient of Determination Test

Model	Adjusted R Square
Institutional ownership and audit committees impact on financial distress	0.191883
Institutional Ownership, Audit Committees, and Financial Distress on Financial Performance	0.494994

Given that in Model 1 the adjusted R-squared value is 0.191883, or 19.18%, it can be concluded that the independent variables institutional ownership and the audit committee explain 19.18% of the variance in the dependent variable, financial distress, while the remaining 80.82% is explained by other variables outside the scope of this study. Furthermore, in Model 2, the adjusted R-squared value is 0.494994, or 49.49%. It can therefore be concluded that the independent variables institutional ownership, the audit committee, and financial distress explain 49.49% of the variance in the dependent variable, financial performance, while the remaining 50.51% is explained by other variables outside the scope of this study.

Path Analysis

Path analysis was used to test the effect of the mediating variable. The results of the path analysis are shown in the table and figure below.

Table 10. Path Analysis Results

Relationship	Sobel Test Probability	t statistic	Conclusion
KI $\rightarrow$ FD $\rightarrow$ ROA	0.4720	0.070	H6 Rejected
KA $\rightarrow$ FD $\rightarrow$ ROA	0.0007	3.193	H7 Accepted

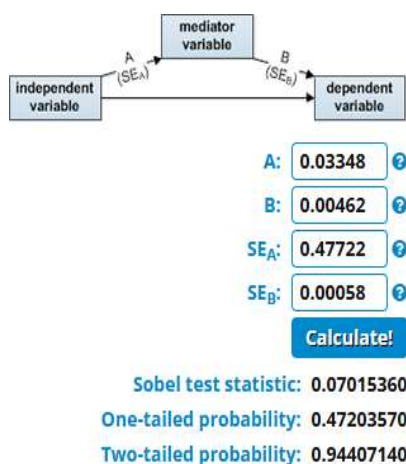


Figure 4. Results of the Sobel Test: Institutional Ownership's Effect on Financial Performance, Mediated by Financial Distress

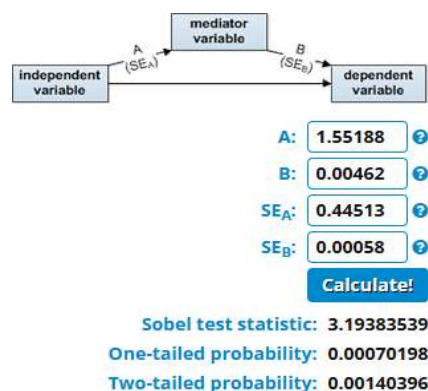


Figure 5. Results of the Sobel Test on the Audit Committee's Impact on Financial Performance, Mediated by Financial Distress

The hypothesis testing results indicate that financial distress does not mediate the effect of institutional ownership on financial performance among Special Notation Issuers with B/D/E/ED notations listed on the Indonesia Stock Exchange (IDX) during 2020–Q2 2025. This indicates that institutional ownership does not significantly influence financial distress, so no indirect effect is transmitted to financial performance. Limited ownership proportions, weak voting power, and affiliated ownership may reduce the effectiveness and independence of institutional monitoring. This finding is consistent with Munawar et al. (2018), Feanie & Dillak (2021), and Juhaeriah et al. (2021), who found that institutional ownership does not significantly affect financial distress. It also supports Yuliyanti & Cahyonowati (2023), who found no significant effect of institutional ownership on financial performance. Thus, financial performance is more likely influenced by management effectiveness, governance quality, and operational efficiency than by institutional ownership through financial distress.

The hypothesis testing results indicate that financial distress mediates the effect of the audit committee on financial performance among Special Notation Issuers with B/D/E/ED notations listed on the Indonesia Stock Exchange (IDX) during 2020–Q2 2025. This finding indicates that an effective audit committee can strengthen financial reporting oversight, internal controls, and risk management, thereby reducing financial distress and indirectly improving financial performance. This finding is consistent with Sadaaa et al. (2023), who found that an effective audit committee can reduce financial distress risk through stronger financial reporting oversight and internal controls. Similarly, Suluo et al. (2025) found that the audit committee serves as an early warning system for financial and managerial risks. Overall, these findings confirm that financial distress acts as a mediating pathway through which the audit committee contributes to improved financial performance, even though its direct effect on financial performance is not significant.

CONCLUSION

This study concludes that institutional ownership does not significantly affect financial distress, while the audit committee has a significant negative effect. Institutional ownership positively affects financial performance, whereas the audit committee has no significant direct effect. Furthermore, financial distress negatively affects financial performance, does not mediate the relationship between institutional ownership and financial performance, but significantly mediates the relationship between the audit committee and financial performance. These findings highlight the importance of strengthening corporate governance, particularly through competent and independent audit committees, active institutional investor monitoring, effective internal controls, and early warning systems to prevent financial deterioration.

Future researchers are encouraged to incorporate additional variables, such as audit quality, board structure, leverage, earnings management, internal control, CSR, and ESG, as well as extend

the research period and use dynamic panel data methods to obtain a more comprehensive understanding of financial distress and financial performance.

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