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

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Abstract

This study aims to examine the effect of managerial ownership, independent board of commissioners, audit committee, and firm size on financial distress. This research employs a quantitative approach using secondary data obtained from corporate financial statements. The population of this study consists of all property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The sample was selected using a purposive sampling method, resulting in 55 companies that met the predetermined criteria. Logistic regression analysis was used to test the research hypotheses. The results indicate that managerial ownership, audit committee, and firm size have a significant effect on financial distress, while the independent board of commissioners has no significant effect on financial distress.

Keywords: Managerial Ownership, Independent Board of Commissioners, Audit Committee, Firm Size, Financial Distress.

INTRODUCTION

Companies are economic entities that manage resources to produce goods and services in order to meet societal needs while generating profits (Robbani et al., 2024). However, rapid technological development and increasing industry competition have intensified business pressures, which can weaken financial performance and increase the risk of financial distress. Consequently, companies are required to implement appropriate strategies through operational efficiency, risk management, and adaptation to dynamic market conditions (Taufik et al., 2020). Nevertheless, not all firms are able to maintain a balance between growth and risk control.

Financial distress arises from both external and internal pressures. External factors such as market fluctuations, economic instability, and rising production costs, combined with internal weaknesses such as managerial errors and ineffective control systems, may result in revenues being insufficient to cover costs and obligations. This condition increases the likelihood of financial distress, which, if prolonged, can lead to bankruptcy (Andri et al., 2022; Achyani & Kusumawati, 2023). Bankruptcy occurs when a company loses its financial capability to sustain operations and fulfill its obligations (Rivandi et al., 2024). Typically, this condition is preceded by financial distress, characterized by declining profits, financial restructuring, workforce reduction, and inability to pay dividends (Harefa & Simanjorang, 2023).

Financial distress is defined as a condition in which a company experiences declining liquidity and difficulty in meeting short-term obligations, particularly debt payments to creditors (Ferdy Muslifiansyah et al., 2022). In Indonesia, this phenomenon is particularly pronounced in the property and real estate sector, which consists of companies engaged in land acquisition, housing development, commercial property, and real estate investment listed on the Indonesia Stock Exchange (IDX). This sector plays a strategic role in national economic development, contributing significantly to employment, construction activity, and regional infrastructure growth. However, the sector is structurally vulnerable due to its high dependence on external financing, long investment cycles, and sensitivity to macroeconomic fluctuations such as interest rate changes, inflation, and consumer purchasing power. In recent years, property and real estate companies listed on the IDX have exhibited deteriorating financial performance, as reflected in weakened sales growth, constrained cash flows, and increased debt restructuring activities, all of which intensify the risk of financial distress.

The vulnerability of the Indonesian property and real estate sector became critically apparent during the COVID-19 pandemic period. Many IDX-listed property companies experienced acute liquidity shortages, rising liabilities, and severely limited operational cash flows, indicating profound financial stress (Lalu Rahadian, 2023). Although the government introduced fiscal stimulus measures, including property tax incentives and relaxed mortgage policies, the structural financial weaknesses within the sector have persisted. Post-pandemic data indicate continued declining property sales volumes, slower asset turnover ratios, and mounting risks of debt default among listed property firms, suggesting that the financial challenges facing this sector are not merely cyclical but deeply structural (Sekar, 2024).

The severity of financial distress in the Indonesian property sector is further evidenced by actual bankruptcy and delisting cases among IDX-listed companies. Several property firms have undergone formal insolvency proceedings, experienced prolonged trading suspensions, and were ultimately delisted from the IDX due to their persistent inability to fulfill financial obligations (Ana, 2025). These cases demonstrate that financial distress in this sector is not solely driven by macroeconomic shocks, but is also substantially determined by failures in internal financial governance and management discipline within the companies themselves.

From a theoretical perspective, agency theory explains that conflicts of interest between management (agents) and shareholders (principals) can lead to suboptimal financial decision-making and elevated financial risk. Corporate governance mechanisms — specifically managerial ownership, independent boards of commissioners, and audit committees — are designed to mitigate these agency conflicts and strengthen monitoring effectiveness. Managerial ownership aligns managerial interests with shareholder interests, encouraging more prudent and risk-conscious financial decisions (Utami et al., 2023). Independent commissioners provide objective oversight and reduce information asymmetry between management and shareholders, thereby supporting sound governance. Audit committees reinforce the integrity of financial reporting and internal control systems, though their effectiveness varies depending on structural and compositional factors (Robbani et al., 2024; Nurzahara et al., 2021). In addition to governance mechanisms, firm size is recognized as a significant determinant of financial resilience. According to signaling theory, larger firms tend to project greater financial stability owing to their broader asset base and operational capacity (Deviana & Heni, 2025). However, firm size alone does not guarantee immunity from financial distress when internal governance and financial control systems are deficient (Hidayat, 2020).

Despite extensive prior research, empirical findings on the relationship between corporate governance mechanisms, firm size, and financial distress remain highly inconsistent. Some studies report significant effects of managerial ownership, independent commissioners, and audit committees on financial distress, while others find insignificant or contradictory results (Deviana & Heni, 2025; Andri & Wisnu, 2022; Ferdy Muslifiansyah et al., 2022; Rivandi et al., 2024; Budiarjo et al., 2023). These inconsistencies likely reflect differences in sector characteristics, sample periods, and the quality of governance implementation across contexts. Critically, the existing literature has not adequately examined these relationships within the specific context of the Indonesian property and real estate sector, which possesses distinct structural characteristics — including high leverage, long capital cycles, and acute sensitivity to macroeconomic conditions — that differentiate it from other industries. Furthermore, most prior studies were conducted in pre-pandemic periods, thereby limiting their relevance to the post-pandemic financial environment in which property companies currently operate. There is also a notable absence of studies that simultaneously examine all four variables — managerial ownership, independent board of commissioners, audit committee, and firm size — within this sector and period, leaving a significant empirical gap that needs to be addressed.

Therefore, this study aims to examine the effect of managerial ownership, independent board of commissioners, audit committee, and firm size on financial distress in property and real estate companies listed on the Indonesia Stock Exchange during the 2021–2024 period. By focusing on these internal corporate governance mechanisms and firm characteristics within a sector with unique structural risk exposure, and by providing empirical evidence in the post-pandemic economic context, this research contributes to filling the identified research gap and offers more targeted insights for investors, regulators, and property sector management in strengthening financial resilience.

REVIEW OF LITERATURE

Agency Theory

Agency theory explains the contractual relationship between shareholders as principals and managers as agents. Jensen and Meckling (1976) argue that the separation between ownership and control creates potential agency conflicts because managers may not always act in the best interests of shareholders. Such conflicts produce information asymmetry, inefficient managerial decision-making, and weak financial control, all of which elevate the risk of financial distress. In the context of this study, corporate governance mechanisms, specifically managerial ownership, independent boards of commissioners, and audit committees, serve as internal instruments to mitigate agency problems. Managerial ownership reduces the divergence of interests between managers and shareholders, while independent commissioners and audit committees strengthen monitoring functions and improve the quality of financial reporting. Accordingly, agency theory provides a foundational framework for explaining how internal governance mechanisms influence a company's vulnerability to financial distress.

Signaling Theory

Signaling theory, introduced by Spence (1973), explains how companies communicate information to external parties in order to reduce information asymmetry and influence stakeholder perceptions. Companies with sound financial management tend to disclose credible signals that increase investor and creditor confidence. In this study, corporate governance mechanisms and firm size function as signals of corporate quality and financial stability. Managerial ownership signals management's confidence in the firm's future prospects, while the presence of independent commissioners and an effective audit committee signals transparency and accountability. Firm size further signals financial strength, operational capacity, and access to financing. Larger firms are generally perceived as more stable and better equipped to withstand financial pressure, although this perception is contingent on the effectiveness of financial governance. Together, agency theory and signaling theory offer complementary explanations for the mechanisms through which managerial ownership, independent board of commissioners, audit committee, and firm size affect financial distress.

Financial Distress

Financial distress refers to a condition in which a company faces severe financial difficulty, particularly when operating cash flow is insufficient to meet short-term obligations such as trade payables, bank loans, and interest expenses (Sawitri et al., 2025). This condition typically begins with liquidity problems and may escalate into more serious financial crises, including default or bankruptcy, if not addressed in a timely manner (Taufik et al., 2025). Financial distress is driven by both internal and external factors. Internal factors include weak supervisory systems, poor fund management, and ineffective internal controls, while external factors encompass market pressure, macroeconomic instability, and changes in government policy (Ferdy Muslifiansyah et al., 2022).

In this study, financial distress is measured using the Altman Z-Score model, which integrates multiple financial ratios into a single composite score reflecting a firm's overall financial health. The Altman Z-Score comprises five indicators: (1) working capital to total assets, reflecting short-term liquidity; (2) retained earnings to total assets, reflecting accumulated profitability; (3) earnings before interest and taxes to total assets, reflecting operating efficiency; (4) market value of equity to book value of total liabilities, reflecting leverage and market confidence; and (5) sales to total assets, reflecting asset utilization efficiency (Nia & Iswara, 2025). A Z-Score below 1.81 indicates a company is in financial distress, a score between 1.81 and 2.99 falls in the grey zone, and a score above 2.99 indicates financial health.

Managerial Ownership

Managerial ownership refers to the proportion of company shares held by internal parties, including directors, commissioners, and members of top management (Septiana & Puspa Sari, 2021). It is measured as the percentage of total shares owned by managers relative to total shares outstanding. From the agency theory perspective, when managers hold equity stakes in the company, they simultaneously bear the financial consequences of their own decisions as shareholders. This ownership alignment encourages managers to make more prudent financial decisions, manage cash flows carefully, and avoid excessive risk-taking behavior that may lead to financial distress (Jensen & Meckling, 1976).

Previous studies suggest that managerial ownership can reduce financial distress because managers with ownership interests tend to act more responsibly in preserving firm value and maintaining financial stability (Septiana & Puspa Sari, 2021; Deviana & Heni, 2025). However, the relationship is not always linear. Excessive managerial ownership may create managerial entrenchment, reducing the effectiveness of external oversight and potentially increasing financial risk when managerial decisions are made without adequate checks (Ferdy Muslifiansyah et al., 2022). Based on this reasoning, the following hypothesis is proposed:

H1: Managerial ownership has a significant negative effect on financial distress in property and real estate companies listed on the IDX.

Independent Board of Commissioners

The independent board of commissioners is a critical component of corporate governance, comprising members who have no affiliation with management, controlling shareholders, or other parties that could compromise their objectivity. Their primary function is to monitor managerial decisions independently and ensure that management acts in the best interests of shareholders (Jensen & Meckling, 1976). Independent commissioners are measured as the proportion of independent commissioners to the total members of the board of commissioners.

According to agency theory, a higher proportion of independent commissioners strengthens supervisory effectiveness, reduces information asymmetry between management and shareholders, and curbs opportunistic managerial behavior, all of which can reduce the risk of financial distress (Rivandi et al., 2024). Nevertheless, empirical findings are inconsistent. Some studies confirm that independent commissioners significantly reduce financial distress (Rivandi et al., 2024), while others find no significant effect, indicating that effectiveness depends not only on the number of independent commissioners but also on their competence, actual independence, and active engagement (Budiarjo & Rahayuningsih, 2023; Ferdy Muslifiansyah et al., 2022). Based on this reasoning, the following hypothesis is proposed:
H2: Independent board of commissioners has a significant negative effect on financial distress in property and real estate companies listed on the IDX.

Audit Committee

The audit committee is a governance body responsible for assisting the board of commissioners in overseeing financial reporting, internal control systems, regulatory compliance, and risk management. An effective audit committee enhances the reliability of financial information and reduces the possibility of financial misstatement, thereby supporting early detection of financial distress signals (Hidayat, 2020; Nicholaus & Patricia, 2022). Audit committee size is measured as the total number of members serving on the audit committee.

Based on agency theory, the audit committee serves as a monitoring mechanism that limits managerial opportunism and strengthens accountability in financial governance (Robbani et al., 2024). However, a larger audit committee does not always guarantee more effective supervision. An excessive number of members may introduce coordination inefficiencies, slow decision-making processes, and dilute individual accountability, thereby reducing monitoring effectiveness (Zabrina, 2022). Empirical evidence is mixed: some studies find that audit committees reduce financial distress (Hidayat, 2020; Nurzahara et al., 2021), while others suggest that larger audit committees may reflect reactive governance responses to existing financial pressure rather than proactive financial control (Rivandi et al., 2024; Robbani et al., 2024). Based on this reasoning, the following hypothesis is proposed:
H3: Audit committee size has a significant negative effect on financial distress in property and real estate companies listed on the IDX.

Firm Size

Firm size refers to the overall scale of a company's operations, and in this study it is measured using the natural logarithm of total assets. This measurement is widely adopted because it normalizes the large numerical differences between firms and allows for more meaningful cross-sectional comparisons (Deviana & Heni, 2025; Taufik et al., 2025). Larger firms generally possess broader access to external financing, stronger institutional reputations, larger asset bases, and more stable operational structures.

From the signaling theory perspective, firm size functions as a credible signal of financial strength and business stability to investors and creditors (Deviana & Heni, 2025). Larger firms are expected to be better positioned to manage financial pressure and reduce the risk of financial distress. However, size alone does not guarantee financial resilience. Large firms may face greater operational complexity, higher debt exposure, and slower decision-making processes. Consequently, firm size does not automatically ensure financial stability when risk management and governance mechanisms are inadequate (Taufik et al., 2025; Hidayat, 2020). Based on this reasoning, the following hypothesis is proposed:

H4: Firm size has a significant negative effect on financial distress in property and real estate companies listed on the IDX.

Synthesis and Theoretical Framework

The four independent variables in this study, namely managerial ownership, independent board of commissioners, audit committee, and firm size, represent distinct but theoretically interconnected determinants of financial distress. From the agency theory perspective, managerial ownership, independent commissioners, and audit committees collectively constitute an internal governance architecture designed to align interests, enforce accountability, and reduce information asymmetry between principals and agents. When these mechanisms function effectively, they constrain managerial opportunism, improve the quality of financial decision-making, and strengthen internal financial controls, all of which directly reduce a company's exposure to financial distress. From the signaling theory perspective, a strong governance structure and a large firm size send credible positive signals to external stakeholders, reducing information asymmetry and reinforcing financial confidence among investors and creditors.

However, the three governance mechanisms do not operate in isolation. Managerial ownership may enhance managerial commitment, but without adequate external monitoring by independent commissioners and audit committees, managerial decisions may become entrenched and self-serving. Conversely, independent commissioners and audit committees may strengthen oversight, but their effectiveness is constrained when managerial ownership is too low to incentivize responsible behavior, or too high to allow meaningful external scrutiny. Firm size further moderates this dynamic, as larger firms possess greater resources to implement robust governance practices, yet also face greater organizational complexity that can undermine governance effectiveness. This integrated perspective underscores that financial distress in the Indonesian property and real estate sector is not driven by any single variable but by the interaction of internal governance quality and firm-level characteristics.

Previous empirical studies consistently report mixed findings across all four variables (Deviana & Heni, 2025; Andri & Wisnu, 2022; Ferdy Muslifiansyah et al., 2022; Rivandi et al., 2024; Budiarjo & Rahayuningsih, 2023; Robbani et al., 2024; Harefa & Simanjorang, 2023; Septiana & Puspa Sari, 2021), reflecting variations in sector characteristics, sample periods, and governance implementation quality across different contexts. These inconsistencies reinforce the necessity of re-examining these relationships specifically within property and real estate companies listed on the IDX during the 2021 to 2024 period, a sector with structurally high leverage, long investment cycles, and elevated post-pandemic financial pressure, in order to generate more contextually valid and actionable empirical evidence.

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RESEARCH METHOD

Research Design

This study employs a quantitative research approach using secondary data obtained from the annual reports of property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period 2021 to 2024. The quantitative approach is selected because the research objective is to examine the effect of managerial ownership, independent board of commissioners, audit committee, and firm size on financial distress through hypothesis testing based on numerical data. Secondary data were collected through documentation methods from publicly available annual reports and financial statements accessed via the official IDX website (www.idx.co.id).

Population and Sample

The population of this study consists of all property and real estate companies listed on the Indonesia Stock Exchange during the observation period of 2021 to 2024. This sector is selected because it represents one of the most financially vulnerable industries in Indonesia, characterized by high dependence on external financing, long investment cycles, and significant exposure to macroeconomic fluctuations.

The sampling technique used is purposive sampling, in which sample selection is based on predetermined criteria relevant to the research objectives. The criteria applied in this study are as follows.

First, the company must be classified under the property and real estate sector and consistently listed on the IDX throughout the entire observation period from 2021 to 2024. Second, the company must publish complete annual reports for all four years of the observation period. Third, the annual reports must contain complete data on all variables required in this study, including information on managerial ownership, the composition of the board of commissioners, audit committee membership, total assets, and financial ratios needed to calculate the Altman Z-Score. Fourth, the company must not have undergone delisting, merger, or significant changes in business classification during the observation period that could distort comparability across years.

Based on these criteria, 55 companies were selected as the final sample, resulting in a total of 220 firm-year observations (55 companies multiplied by 4 years). The use of panel data with multiple observation years strengthens the robustness of the analysis by capturing both cross-sectional and time-series variation across companies.

Variable Measurement

Dependent Variable: Financial Distress

Financial distress is the dependent variable in this study and is measured using the Altman Z-Score model. The Altman Z-Score is calculated using the following formula:

$$Z = 1.2\ X1 + 1.4\ X2 + 3.3\ X3 + 0.6\ X4 + 1.0\ X5$$

Where X1 is working capital divided by total assets, reflecting short-term liquidity; X2 is retained earnings divided by total assets, reflecting accumulated profitability; X3 is earnings before interest and taxes divided by total assets, reflecting operating efficiency; X4 is the market value of equity divided by the book value of total liabilities, reflecting leverage and market confidence; and X5 is net sales divided by total assets, reflecting asset utilization efficiency (Nia & Iswara, 2025).

For the purpose of logistic regression analysis, the Z-Score is transformed into a dummy variable. Companies with a Z-Score below 1.81 are categorized as experiencing financial distress and assigned a value of 1, while companies with a Z-Score above 1.81 are categorized as non-distress and assigned a value of 0 (Wati & Januarti, 2025).

Independent Variables

Managerial ownership (KM) is measured by the percentage of total shares owned by internal parties, including directors, commissioners, and top management, relative to the total outstanding shares of the company. A higher value indicates greater alignment between managerial and shareholder interests.

Independent board of commissioners (DKI) is measured by the proportion of independent commissioners relative to the total number of members on the board of commissioners. A higher proportion is expected to reflect stronger independent oversight and more effective monitoring of managerial decisions.

Audit committee (KA) is measured by the total number of members serving on the audit committee. In accordance with the regulations of the Financial Services Authority (OJK), the audit committee must consist of at least three members, one of whom is an independent commissioner serving as the chairperson.

Firm size (SIZE) is measured using the natural logarithm of total assets. The natural logarithm transformation is applied to reduce the scale disparity between large and small firms and to normalize the distribution of total asset values across the sample.

Data Analysis Method

Data analysis is conducted using binary logistic regression, which is appropriate when the dependent variable is dichotomous in nature. Unlike ordinary least squares regression, logistic regression does not require the assumption of normality in the distribution of independent variables, making it suitable for this study (Ghozali, 2018). Statistical analysis is performed using SPSS version 30.

The analysis procedure comprises three stages. In the first stage, descriptive statistics are presented to describe the characteristics of each variable, including the minimum value, maximum value, mean, and standard deviation. In the second stage, overall model fit is evaluated using the -2 Log Likelihood value, where a decrease in the -2 Log Likelihood from the baseline model to the full model indicates improvement in model fit. The Hosmer and Lemeshow Goodness of Fit Test is also applied, where a significance value greater than 0.05 indicates that the model fits the observed data adequately. In the third stage, hypothesis testing is conducted by examining the Wald statistic and its significance level for each independent variable. A significance value below 0.05 indicates that the independent variable has a significant effect on financial distress. The explanatory power of the overall model is assessed using the Nagelkerke R Square, which indicates the proportion of variance in the dependent variable explained by the independent variables.

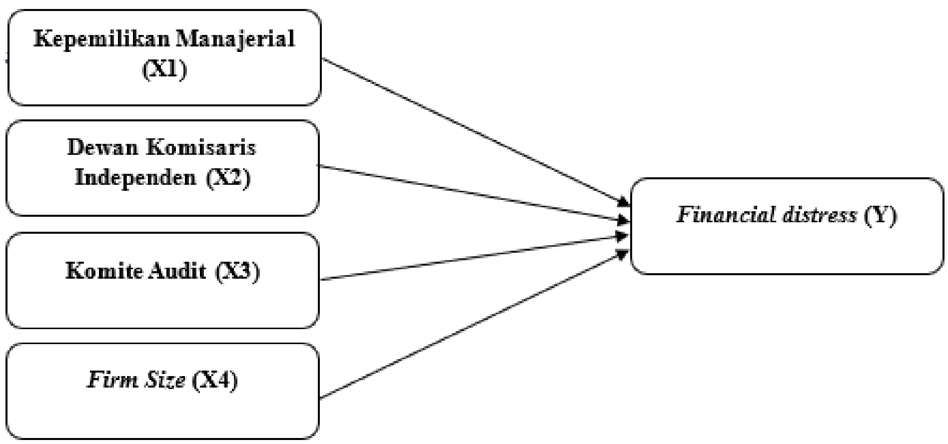

Figure 1.
Research Model

Figure 1 illustrates the conceptual framework of this study. Managerial ownership (X1), independent board of commissioners (X2), audit committee (X3), and firm size (X4) are positioned as independent variables that are hypothesized to influence financial distress (Y) as the dependent variable. The arrows indicate the direction of the relationship between each independent variable and the dependent variable.

RESULTS AND DISCUSSION

The following are the research results obtained from the analysis using SPSS:

Table 1.
Frequency of Financial Distress

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Experiencing Financial Distress	79	35.9	35.9	35.9
	Financial Distress	141	64.1	64.1	100.0
	Total	220	100.0	100.0	

Vol. 9. No. 2 (2026)
Page: 12468-12485

Source: Data processed (2026)

Based on Table 1, it can be seen that the dependent variable, namely financial distress, shows that the majority of companies are experiencing financial distress. A total of 141 companies (64.1%) are categorized as experiencing financial distress, while 79 companies (35.9%) are not experiencing financial distress. This indicates that most companies face financial pressure during the observation period.

Table 2.
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Dev
Managerial Ownership	220	.00	.54	.1521	.17245
Independent Board of Commissioners	220	.25	.75	.4452	.10931
Audit Committee	220	2.00	5.00	3.1045	.92799
Firm Size	220	24.21	31.96	28.4381	1.79332
Valid N (listwise)	220				

Source: Data processed (2026)

The descriptive statistics show that managerial ownership has an average value of 0.1521, indicating relatively low managerial share ownership. The independent board of commissioners has an average of 0.4452, showing a moderate proportion. The audit committee averages 3.1045 members, while firm size has an average of 28.4381, indicating a relatively stable company size distribution.

Table 3.
Overall Model Fit (-2 Log Likelihood)

Description	-2 Log Likelihood
Initial (Block 0)	287.286
Final (Block 1)	224.217

Source: Data processed (2026)

The decrease in the -2 Log Likelihood value from 287.286 to 224.217 indicates that the model improves after including independent variables. This shows that the regression model is fit and appropriate for further analysis.

Table 4.
Model Summary

Step	-2 Log L	Cox & Snell R Square	Nagelkerke R Square
1	224.217	.221	.342

Source: Data processed (2026)

The Nagelkerke R Square value of 0.342 indicates that 34.2% of the variation in financial distress can be explained by managerial ownership, independent board of commissioners, audit committee, and firm size. The remaining 65.8% is influenced by other variables outside this model.

Table 5.
Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	8.863	8	.354

Source: Data processed (2026)

The significance value of 0.119 is greater than 0.05, indicating that the model is fit and suitable for predicting financial distress.

Table 6.
Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Managerial Ownership	-3.250	.967	11.298	1	.001	.039
	Independent Board of Commissioners	.229	1.565	.021	1	.884	1.258
	Audit Committee	1.052	.230	20.953	1	.001	2.864
	Firm Size	.218	.102	4.558	1	.033	1.243
	Constant	-8.237	2.925	7.927	1	.005	.000

Source: Data processed (2026)

Wald Test (Partial Test)

The results show that managerial ownership has a negative and significant effect on financial distress, with a coefficient of -3.250 and a significance value of 0.001. This indicates that higher managerial ownership reduces the likelihood of financial distress. The independent board of commissioners does not have a significant effect, as indicated by a significance value of 0.884 (>0.05). Meanwhile, the audit committee has a positive and significant effect, with a coefficient of 1.052 and a significance value of 0.001. Firm size also has a positive and significant effect, with a coefficient of 0.218 and a significance value of 0.033.

Overall Model Fit (Simultaneous Test / Likelihood Ratio Test)

Although partially only some variables are significant, the overall model fit test shows that managerial ownership, independent board of commissioners, audit committee, and firm size simultaneously influence financial distress. This is indicated by the decrease in the -2 Log Likelihood value from 287.286 to 224.217, which shows that the model improves after the inclusion of independent variables. Furthermore, the Nagelkerke R Square value of 0.342 indicates that the model explains 34.2% of the variation in financial distress. The Hosmer and Lemeshow significance value of 0.119 (>0.05) also confirms that the model is fit and appropriate for predicting financial distress.

The Effect of Managerial Ownership on Financial Distress

The first hypothesis proposed that managerial ownership has a significant negative effect on financial distress. The test results confirm this hypothesis, with a significance value of 0.001 (below 0.05) and a regression coefficient of -3.250, indicating a significant negative direction of influence. This finding means that the greater the proportion of shares held by management, the lower the probability of a company experiencing financial distress.

This result is theoretically grounded in agency theory (Jensen & Meckling, 1976), which posits that when managers simultaneously hold ownership stakes in the company, the divergence of interests between principals and agents is reduced. Managers who are also shareholders bear the direct financial consequences of their own decisions, which incentivizes more prudent risk management, more disciplined cash flow control, and a stronger orientation toward long-term financial stability. In the context of the Indonesian property and real estate sector, where companies are particularly exposed to liquidity pressure, high leverage, and macroeconomic volatility, this ownership-interest alignment becomes especially consequential. Managers who are equity holders are less likely to pursue short-term opportunistic strategies that could erode liquidity or accumulate unsustainable debt, as these actions would directly diminish their own financial wealth.

The practical significance of this finding is further illustrated by company-level evidence. PT Andalan Sakti Primaindo Tbk., with a relatively high managerial ownership proportion of 0.487, did not experience financial distress during the observation period, consistent with the prediction that managerial ownership promotes financial discipline. Conversely, PT Bekasi Fajar Industrial Estate, which recorded no managerial ownership, experienced financial distress, reinforcing the argument that the absence of managerial equity stakes weakens the internal incentive structure for sound financial governance.

This finding is consistent with Septiana and Puspa Sari (2021), who found that managerial ownership exerts a negative effect on financial distress, and with Ferdy Muslifiansyah et al. (2022), who argued that managerial share ownership strengthens internal monitoring and promotes more effective management. However, the result diverges from Deviana and Heni (2025), who reported a positive relationship between managerial ownership and financial distress, suggesting that in certain contexts, concentrated managerial ownership may give rise to entrenchment behavior and reduced external accountability. Similarly, Rivandi et al. (2021) and Zabrina (2022) found positive effects, attributing this to the risk of opportunistic decision-making at high ownership levels. These divergent findings across studies are likely attributable to differences in industry characteristics, ownership concentration thresholds, and the broader governance environment in which firms operate. In the property sector specifically, where project-based revenue cycles create inherent cash flow uncertainty, the risk-bearing incentive associated with managerial ownership appears to dominate the entrenchment risk, producing the negative effect observed in this study.

The Effect of Independent Board of Commissioners on Financial Distress

The second hypothesis proposed that the independent board of commissioners has a significant negative effect on financial distress. The test results reject this hypothesis, with a significance value of 0.884, which substantially exceeds the 0.05 threshold. This finding indicates that the proportion of independent commissioners on the board does not significantly influence the likelihood of financial distress in property and real estate companies listed on the IDX during the 2021 to 2024 period.

This result warrants careful analytical interpretation. From an agency theory perspective, independent commissioners are theoretically expected to function as objective monitors who reduce information asymmetry, constrain opportunistic managerial behavior, and strengthen financial oversight (Jensen & Meckling, 1976). However, the insignificant finding in this study suggests that in practice, the mere presence or proportion of independent commissioners may not translate into effective governance outcomes. Several explanations are plausible. First, regulatory compliance in Indonesia requires listed companies to maintain a minimum proportion of independent commissioners, which means that many firms satisfy the formal requirement without ensuring substantive independence or active engagement. Second, independent commissioners may lack sufficient industry-specific expertise or access to internal financial information to effectively identify early warning signs of financial distress, particularly in the technically complex property development sector. Third, in larger boards, coordination inefficiencies and diffusion of accountability may reduce the practical impact of individual independent commissioners, regardless of their formal proportion (Budiarjo & Rahayuningsih, 2023). Fourth, during the post-pandemic period, macroeconomic pressures on the property sector were sufficiently severe that board-level governance changes alone may have been insufficient to prevent financial deterioration at the company level.

This finding is consistent with Ferdy Muslifiansyah et al. (2022), who similarly found that the independent board of commissioners does not significantly affect financial distress, concluding that a higher number of independent commissioners does not guarantee the avoidance of financial difficulties when their roles are not effectively executed. It is also aligned with Budiarjo and Rahayuningsih (2023), who argued that larger boards may generate coordination problems that weaken monitoring effectiveness. However, this result contradicts Rivandi et al. (2024) and Andri and Wisnu (2022), both of whom found significant effects of independent commissioners on financial distress, emphasizing their role in strengthening monitoring functions and reducing financial risk. These contrasting findings suggest that the effectiveness of independent commissioners is highly context-dependent, shaped by board quality, regulatory enforcement, and the severity of external financial pressures rather than by compositional ratios alone. Future research should examine qualitative dimensions of board independence, such as commissioner expertise, meeting attendance, and actual voting behavior, to better capture governance quality beyond formal structural indicators.

The Effect of Audit Committee on Financial Distress

The third hypothesis proposed that the audit committee has a significant effect on financial distress. The test results accept this hypothesis, with a significance value of 0.001 (below 0.05) and a regression coefficient of 1.052, indicating a significant positive relationship. This means that a larger audit committee is associated with a higher probability of financial distress, which is a counterintuitive but theoretically explicable finding.

From an agency theory perspective, the audit committee is designed to serve as an internal control mechanism that reduces information asymmetry between management and shareholders, enhances the reliability of financial reporting, and provides early warning against financial irregularities (Hidayat, 2020; Nicholaus & Patricia, 2022). However, the positive coefficient found in this study suggests that a larger audit committee size does not necessarily translate into more effective oversight. Several mechanisms may explain this paradox. First, larger audit committees may suffer from social loafing and diffusion of responsibility, where individual members feel less personally accountable for monitoring outcomes precisely because responsibility is distributed across more people. Second, a larger committee may reflect a company's reactive response to existing governance weakness or financial stress rather than a proactive governance choice. In other words, companies already experiencing financial difficulties may expand their audit committees in an attempt to signal compliance or address investor concerns, creating a reverse causality pattern where financial distress drives committee enlargement rather than the reverse. Third, coordination costs in larger committees, including the difficulty of reaching consensus, scheduling efficient meetings, and processing complex financial information collectively, may slow down the committee's ability to respond to early signs of financial trouble in a timely manner (Budiarjo & Rahayuningsih, 2023; Zabrina, 2022).

Company-level evidence supports this interpretation. PT Bukit Darmo Property Tbk. maintained a relatively large audit committee of five members yet still experienced financial distress, illustrating that committee size alone does not guarantee oversight effectiveness. In contrast, PT Bekasi Asri Pemula, with only two audit committee members, did not experience financial distress, suggesting that effectiveness is more closely linked to the quality of committee functioning than to the number of members.

This finding is consistent with Nicholaus and Patricia (2022) and Budiarjo and Rahayuningsih (2023), both of whom found that larger audit committees are positively associated with financial distress, attributing this to coordination problems and ineffective deliberation. However, this result diverges from Rivandi et al. (2024) and Dewi et al. (2024), who reported a negative relationship, arguing that insufficient committee size limits oversight capacity and increases financial distress risk. The divergence between these findings highlights the nonlinear nature of the audit committee-financial distress relationship: neither excessively small nor excessively large committees appear to optimize governance effectiveness. Future research would benefit from examining committee quality indicators such as member expertise, meeting frequency, and independence of the chair rather than relying solely on size as a proxy for audit committee effectiveness.

The Effect of Firm Size on Financial Distress

The fourth hypothesis proposed that firm size has a significant effect on financial distress. The test results accept this hypothesis, with a significance value of 0.033 (below 0.05) and a regression coefficient of 0.218, indicating a significant positive relationship. Contrary to the initially expected negative direction, this finding reveals that larger firms in the Indonesian property and real estate sector are more likely to experience financial distress.

This result challenges the conventional assumption embedded in signaling theory that firm size invariably signals financial strength and stability. While it is true that larger firms generally have broader access to external financing and a stronger institutional reputation, these advantages can be offset by several structural vulnerabilities that are particularly pronounced in the property sector. First, large property companies typically carry substantial long-term financial commitments, including large-scale land acquisitions, multi-year construction projects, and complex financing arrangements that generate significant fixed obligations regardless of revenue performance. When property sales volumes decline, as has been the case in Indonesia's post-pandemic property market, these fixed obligations cannot be easily reduced, creating severe cash flow mismatches that increase financial distress risk. Second, larger firms in the property sector often have more complex asset structures and a higher proportion of non-liquid assets such as land and buildings under development, which cannot be quickly converted to cash when liquidity pressures arise (Achyani & Kusumawati, 2023). Third, the operational complexity associated with large-scale property development, including managing multiple project sites, coordinating large workforces, and navigating bureaucratic approval processes, can create significant inefficiencies that erode profitability and cash flow generation.

Company-level evidence corroborates this interpretation. PT Bumi Serpong Damai Tbk., with a very large total asset value (ln = 31.96), experienced financial distress during the observation period, demonstrating that a large asset base does not guarantee effective financial management or cash flow adequacy. Conversely, Era Graharealty Tbk., with a comparatively smaller asset value (ln = 24.21), did not experience financial distress, suggesting that effective financial management and disciplined capital allocation can sustain financial stability even in smaller firms.

This finding is consistent with Septiana and Puspa Sari (2021) and Cheng and Pribadi (2025), who similarly found that firm size increases financial distress risk in property-related contexts, attributing this to complex asset structures, high liabilities, and elevated operational costs. However, it contradicts Dewi et al. (2024) and Hidayat (2020), who found that firm size reduces financial distress risk by providing greater resource access and operational stability. These contrasting results across studies reflect the fact that the direction of the firm size-financial distress relationship is not universal but is heavily conditioned by sector characteristics, leverage levels, asset liquidity, and the quality of internal financial management. In the Indonesian property sector specifically, the structural characteristics of large firms appear to amplify rather than buffer financial distress risk, particularly in an environment of declining property demand and tightening credit conditions..

CONCLUSION

This study aims to examine the effect of managerial ownership, independent board of commissioners, audit committee, and firm size on financial distress in property and real estate companies listed on the Indonesia Stock Exchange during the 2021–2024 period. Based on the results of statistical testing using logistic regression analysis with SPSS 30, it can be concluded that managerial ownership has a significant negative effect on financial distress, indicating that higher managerial share ownership reduces the likelihood of financial distress due to the alignment of interests between management and shareholders. The independent board of commissioners does not have a significant effect, suggesting that the proportion of independent commissioners has not been able to influence financial distress conditions effectively. Meanwhile, the audit committee has a significant positive effect, meaning that a larger number of audit committee members is associated with a higher probability of financial distress, indicating that increasing committee size does not always improve oversight effectiveness. Furthermore, firm size has a significant positive effect on financial distress, implying that larger companies tend to face higher financial risk due to greater operational complexity and financial obligations.

This study has several limitations. First, the research is limited to property and real estate companies, which may restrict the generalizability of the findings to other sectors. Second, the independent variables used explain only part of the variation in financial distress, indicating that other factors not included in this study may also play an important role. Third, the study relies on secondary data from financial reports, which may not fully capture real-time managerial conditions or qualitative aspects of corporate governance.

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