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# THE EFFECT OF MANAGERIAL OWNERSHIP, INSTITUTIONAL OWNERSHIP, AND INDEPENDENT COMMISSIONERS ON FINANCIAL DISTRESS

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*Abstract:* **One of the internal factors that can impact the occurrence of financial distress is related to the mechanism of good corporate governance, namely the ownership structure and supervision in the company. This study aims to determine the effect of managerial ownership, institutional ownership and independent commissioners on financial distress. This research was conducted on all companies listed on the Indonesia Stock Exchange in 2019. The sample selection method was proportional stratified random sampling. The sample in this study was determined using the Slovin formula as many as 250 companies. The analysis technique of this research is logistic regression. Based on the results of the analysis, it was found that managerial ownership variables had a negative effect on financial distress, while institutional ownership and independent commissioners had no effect on financial distress. The implication of this study supports agency theory which states that agency conflicts that occur due to differences in interests can be minimized by implementing an ownership structure, so that companies can avoid financial distress.**

*Keywords:* **managerial ownership, institutional ownership, independent commissioner, financial distress.**

## 1. INTRODUCTION

Research related to financial distress has been carried out by several previous researchers. Previous studies have attempted to find the factors that influence financial distress. In general, the factors that affect financial distress are divided into two types, namely internal factors and external factors. This study will focus on internal factors that can affect financial distress. This is because internal factors are factors that can be controlled by the company because they are directly related to the company's operations, while external factors are factors that cannot be controlled by the company itself. Internal factors are divided into two types, namely internal factors that are directly related to company profits and internal factors that are not directly related to company profits. This study will use internal factors that are not directly related to company profits. This is because, according to several previous researchers, although internal factors are not directly related to the company's profits, they can affect financial distress, while internal factors that are directly related to the profits generated by the company have a mathematical effect on financial distress, such as the higher the profitability of the company. the level of profitability, the lower the possibility of the company experiencing financial distress.

One of the internal factors that are not directly related to the company's profit is the implementation of good corporate governance mechanisms. According to the Organization for Economic Corporation and Development (OECD), corporate governance is a structure for setting company goals, suggestions for achieving these goals, and determining supervision over company performance. The implementation of corporate governance mechanism in the company can be in the form of ownership structure and company supervision. In this study, the ownership structure in the company will be

represented by managerial ownership and institutional ownership. Meanwhile, supervision in a company is represented by an independent commissioner. In addition to the independent commissioner, there is also an audit committee, but the audit committee itself is part of the independent commissioner which in accordance with OJK regulation no. 57/PJOK.04/2017 Article 23 which states that in carrying out the audit function the board of commissioners forms an audit committee chaired by an independent commissioner.

Ownership structure is the proportion of management, institutional, and public ownership of shares of a company (Yunianti et al, 2016). In addition, the ownership structure can also be interpreted as the number of shares owned by company insiders (managerial insiders) with the number of investors' shares (institutional/public). Based on agency theory, with the ownership structure in a company, it will reduce conflicts between management and shareholders due to differences in interests. The ownership structure in this study uses managerial ownership and institutional ownership. This is because managerial ownership and institutional ownership are the two main good corporate governance mechanisms that can help control agency problems (Jensen & Meckling, 1976).

Managerial ownership is company shares owned by company management (Jensen & Meckling, 1976). Managerial ownership in a company is expected to unite the desires of managers and shareholders so as to reduce the possibility of agency conflicts. Agency conflicts within a company can occur due to differences in interests that cause information asymmetry which can result in the company experiencing financial distress (Fathonah, 2017). Therefore, with the ownership of shares by the management, the management can position itself not only as a party running the company's operations but also as shareholders who will benefit from every decision taken. This resulted in the management will try to take the right decisions and actions so as to prevent the company from the possibility of financial distress. The role of management ownership can align the interests of shareholders and management. The alignment of interests that occurs between shareholders and management can reduce the possibility of financial distress.

Research on the effect of managerial ownership on financial distress has been carried out by several researchers with different results. Research conducted by Hastuti (2014) states that managerial ownership has an effect on financial distress, similar research results were also found by Setiawan (2017), Priego & Merino (2016), Miglani et al (2014), and Khursid (2018) which stated that managerial ownership has an effect on financial distress. Different results were found in research conducted by Cinantya and Merkusiwati (2015), Witiastuti and Suryandari (2016), and Ibrahim (2018) stating that the amount of managerial ownership in a company has no effect on financial distress.

In addition to shareholders who come from the management of the company, there is also share ownership from outside the company in the form of institutional investors, namely institutional ownership. Institutional Ownership is the number of company shares owned by institutional owners such as insurance companies, banks, and investment companies and other ownership except for subsidiaries and other institutions that have a special relationship (Kusumaningrum, 2013). The existence of institutional investors can demonstrate a strong good corporate governance mechanism that can be used to monitor company management. Institutional ownership can minimize the potential for conflicts of interest between shareholders and company management. Supervision by institutional investors can keep companies away from opportunistic management behavior that can harm other shareholders. The greater the institutional ownership, the higher the supervision of management so that asset utilization will be more efficient and can minimize the potential for financial difficulties (Hanifah & Purwanto, 2013).

Research related to the effect of institutional ownership on financial distress has been carried out by several researchers including Triwahyuningtias & Muharam (2012) who obtained the results that institutional ownership has a negative effect on financial distress, where these results are in line with research conducted by Cinantya and Merkusiwati (2015), Setiawan ( 2017), Chrissentia and Syarief (2018), and Helena & Saifi (2018) who also found that institutional ownership had a negative effect on financial distress. However, other studies also obtained different results, such as research conducted by Hastuti (2014), Purba & Muslih (2018), and Krisdea (2016) which stated that the proportion of institutional ownership in companies has no effect on financial distress conditions.

Good financial performance in a company can indicate that the company has implemented a good corporate governance mechanism through supervision within the company. Supervision within the company will make the management more optimal in utilizing company resources for profit. One of the ways in which supervision within the company is carried out by an independent commissioner.

Independent commissioners are members of the board of commissioners who are not affiliated with the company, and are free from business relationships or other relationships that may affect their ability to act independently, so that in carrying

out their duties the independent commissioner will act objectively. Independent commissioners encourage a good monitoring function in the implementation of good corporate governance. This is because the independent commissioner is the party that oversees the company by ensuring that the company has implemented the principles of good corporate governance, namely transparency, independence, accountability, and fairness so that the information produced has more integrity. The existence of independent commissioners is regulated in OJK regulation No.57/POJK.04/2017 Article 19 which states that every public company must establish an independent commissioner whose members are at least 30% of the total members of the board of commissioners. The higher the number of independent commissioners, the monitoring function that will be carried out will increase so that it will minimize the possibility of making decisions that can have an impact on financial distress conditions.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory states that there is a conflict between shareholders and managers. This conflict occurs as a result of differences in interests between the two parties. The application of good corporate governance mechanisms can minimize agency conflicts that occur. One of the mechanisms of good corporate governance is managerial ownership in the ownership structure. Managerial ownership is share ownership by several people who come from internal companies (Setiawan et al, 2017). Managerial share ownership can align the interests of shareholders with managers, because managers directly feel the benefits of the decisions taken and managers bear the risk if there are losses that arise as a result of making wrong decisions. The existence of large managerial ownership is expected to reduce the potential for financial distress. This is because with a large managerial ownership of shares, managers will be more optimal in carrying out company operations where managers have a dual role, namely as managers and parties who feel the benefits of the decisions taken. On the other hand, if managerial share ownership is small, there will be a potential conflict of interest between shareholders and managers which can result in financial distress (Fathonah, 2017).

Research conducted by Miglani (2014), Hastuti (2014) Priego & Merino (2016), and Luqman et al (2018) states that managerial ownership has a negative effect on financial distress, where the higher managerial ownership, the less likely the company to experiencing financial distress. This is because the higher the number of managerial ownership, the smaller the possibility of information asymmetry between shareholders and managers which can cause financial distress.

H1: Managerial ownership has a negative effect on financial distress

Differences in objectives between principals and agents often lead to conflicts of interest that have an impact on company performance. Agency conflicts can be minimized by implementing an ownership structure. Apart from being the owner of shares in a company, shareholders can also act as supervisors of management. One of the ownership structures that can carry out supervision is institutional ownership. Institutional ownership is the number of shares owned by institutional owners (Kusumaningrum, 2014).

The existence of institutional investors in the company will encourage more optimal supervision of management performance and also the existence of institutional investors able to harmonize the interests of shareholders and managers. Institutional investors as shareholders in a company have voting rights in making decisions so that institutional owners do not easily trust management's actions. In addition, institutional investors have a high level of professionalism in analyzing the information provided by the management. This can help prevent opportunistic behavior that may be carried out by management so as to ensure the prosperity of other shareholders because of the supervision of the information provided.

A high level of institutional ownership will encourage greater motivation on the part of institutional investors to monitor management performance. Large share ownership encourages incentives to monitor decision making by management so as to optimize company performance.

Research conducted by Cinantya and Merkusiwati (2015), Setiawan (2017), and Chrissentia and Syarief (2017), states that institutional ownership has a significant negative effect on financial distress, where with supervision carried out by institutional parties, management will be careful in carrying out their work so that asset utilization is more efficient and effective, so that the possibility of financial distress is smaller.

H2: Institutional ownership has a negative effect on financial distress

Independent commissioners can minimize agency conflicts caused by information asymmetry in a company. This is because the independent commissioner is a member of the board of commissioners who has no affiliation with the board of directors, other boards of commissioners, shareholders, and is not bound by the business relationship of the company

concerned so that when making a decision the independent commissioner will be more objective. Independent commissioners have an attitude of independence that is considered to be able to assist independent commissioners in carrying out their role as supervisors of management in implementing the principles of good corporate governance, namely transparency, independence, accountability and fairness so that the information produced by the management is more reliable and with integrity.

The existence of independent commissioners is regulated in OJK regulation No. 57/POJK.04/2017 Article 19 which states that the minimum number of independent commissioners of a company is 30% of the total number of commissioners. The greater the number of independent commissioners, the less likely the company is to experience financial difficulties.

Research conducted by Septivani and Agoes (2014), Priego and Merino (2015), and Rahmawati (2016) which states that independent commissioners have a significant negative effect on financial distress. This is because the greater the number of independent commissioners in a company, the supervision of management decisions will be higher so that it is possible for the company to avoid financial difficulties.

H3: Independent Commissioner has a negative effect on financial distress.

## 3. METHODS

The scope of this research is all companies listed on the Indonesia Stock Exchange (IDX) in 2019. This research is located on the Indonesia Stock Exchange which provides information about the annual report and the website address www.idx.co.id. The population used in this study were all companies listed on the Indonesia Stock Exchange (IDX) in 2019. The sample in this study were all companies listed on the IDX in 2019 which were taken using the proportional stratified random sampling method. This method was chosen because the population is heterogeneous, which consists of various types of industries. The proportional stratified random sampling method of population data will be grouped according to the type of industry, where from each group a sample will be determined proportionally based on the type of industry selected at random. Determination of the sample is done using the Slovin formula:

Based on calculations using the Slovin formula, the total population in 2019 was 668 companies where the total population was obtained from the Indonesia Stock Exchange website, namely www.idx.co.id on November 25, 2020. The results of the calculation above obtained a sample of 250 companies.

Data analysis technique is an analysis process that is carried out when all data has been collected. This study uses descriptive statistical data analysis techniques and logistic regression analysis using the Statistical Package for Social Science (SPSS).

## 4. RESULTS AND DISCUSSION

*Descriptive Statistical Analysis*

Descriptive statistics are concerned with collecting data and ranking data that describe the characteristics of the sample used in the study. Descriptive statistics describe the characteristics of research variables in the form of the mean (mean), standard deviation (standard deviation), and maximum-minimum values. The results of descriptive statistics regarding the effect of managerial ownership, institutional ownership, and independent commissioners on financial distress are presented in Table 1.

**Table 1. Descriptive Statistical Analysis Results**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| KEPMAN | 250 | 0,00 | 9,90 | 2,761 | 2.769 |
| KEPINS | 250 | 0,00 | 0,99 | 0,688 | 0,261 |
| KOMIND | 250 | 0,15 | 0,75 | 0,410 | 0,121 |
| Valid N (listwise) | 250 | | | | |

Secondary Data, 2021

Based on Table 1 above, there is a variety of information obtained from the variables used. The SPSS display output shows the number of samples used as many as 250 (N) companies obtained from the results of proportional stratified random sampling of 668 companies listed on the Indonesia Stock Exchange.

Managerial ownership (X1) which is denoted by KEPMAN, based on the results of descriptive statistical tests has a minimum value of 0.00 and a maximum of 9.90, an average value of 2.7610 and a standard deviation of 2.76986. The standard deviation value is higher than the mean value. This indicates that there is an indication that the distribution of managerial ownership data is not evenly distributed or that the difference between data is high.

Institutional ownership (X2) which is denoted by KEPINS, based on the results of descriptive statistical tests has a minimum value of 0.00 and a maximum of 0.99, an average value of 0.6881 and a standard deviation of 0.26187. The standard deviation value is lower than the mean value. This shows that there is an indication that the distribution of institutional ownership data is even or that the difference between the data is relatively low.

Independent commissioners (X3) based on the results of descriptive statistical tests have a minimum value of 0.15 and a maximum of 0.75, an average value of 0.4107 and a standard deviation of 0.12138. The standard deviation value is lower than the mean value. This shows that there is an indication that the independent commissioner's data is evenly distributed or that the difference between the data is relatively low.

*Goodness of Fit Test*

The feasibility test of the model is used to see whether there is a significant difference between the model and the observed value. The feasibility test of this model can be seen from the significance value of the Hosmer and Lemeshow Test. The results of the model feasibility test are shown in Table 3 as follows:

**Table 2. Results of Hosmer and Lemeshow's Goodness of Fit Test**

| Step | Chi-square | df | Sig. |
|---|---|---|---|
| 1 | 11,460 | 8 | 0,177 |

Primary Data, 2021

Based on table 3, it can be explained that the results of the model's feasibility test are shown by the significance value of the Hosmer and Lemeshow Test of 0.177, which is greater than 0.05. This value indicates that the model used is feasible to predict the observation data or there is no significant difference between the model and its significance value.

*Overall Model Fit*

Overall Model Fit testing aims to assess the overall regression model by comparing the value between -2 Log Likelihood (-2LL) at the beginning (Block Number = 0) with a value of -2 Log Likelihood (-2LL) at the end (Block Number = 1). The results of the comparison test between the initial -2 Log Likelihood (-2LL) value with the final 2 Log Likelihood (-2LL) are shown in Table 4 as follows:

**Table 3. Results of Comparison of Values Between -2 LogLikelihood (-2LL) Initial and -2 LogLikelihood (-2LL) End**

| | |
|---|---|
| -2 *LogLikelihood* (-2LL) Initial *(Block Number = 0)* | 341,935 |
| -2 *LogLikelihood* (-2LL) End *(Block Number = 1)* | 329,979 |

Secondary Data, 2021

Based on the results of the model feasibility test in Table 4.4, it shows that the value of -2 LogLikelihood (-2LL) Initial (Block Number = 0) is 341,935 and after entering the independent variable, the value of -2 LogLikelihood (-2LL) Final (Block Number = 1) experiences decreased to 329,979. The decrease in the value of -2 Log Likelihood (-2LL) Initial and Final shows a difference of 11,956 which means the model used is in accordance with the data or the overall logistic regression model used is a good model.

*Coefficient of Determination (Nagelkerke R Square)*

The coefficient of determination test is used to measure how far the model's ability to explain variations in the dependent variable is. The coefficient of determination test can be seen from the value of Cox & Snell's and Nagelkerke R Square. The results of the coefficient of determination test can be seen in Table 4 as follows:

**Table 4. Results of the Coefficient of Determination**

| Step | -2 Log likelihood | Cox & Snell R Square | Nagelkerke R Square |
|---|---|---|---|
| 1 | 329,979[a] | 0,047 | 0,063 |

Secondary Data, 2021

Based on Table 4, it can be explained that the results of the coefficient of determination test are indicated by the Cox & Snell R Square value of 0.47 and Nagelkerke R Square of 0.063. This value shows that the variation in the dependent variable (financial distress) can be explained by this research model by 6.3 percent while the remaining 93.7 percent is explained by other factors outside the model.

*Multicollinearity Test*

A good regression model is a regression that does not have a strong correlation between the independent variables. Multicollinearity testing uses a correlation matrix between independent variables to see the magnitude of the correlation between independent variables. The results of the multicollinearity test are presented in Table 4.6 as follows:

**Table 5. Correlation Matrix**

| | | Constant | KEPMAN | KEPINS | KOMIND |
|---|---|---|---|---|---|
| Step 1 | Constant | 1,000 | -0,216 | -0,601 | -0,754 |
| | KEPMAN | -0,216 | 1,000 | -0,010 | 0,016 |
| | KEPINS | -0,601 | -0,010 | 1,000 | 0,023 |
| | KOMIND | -0,754 | 0,016 | 0,023 | 1,000 |

Secondary Data, 2021

Based on Table 5 shows that there is no correlation coefficient value between variables whose value is greater than 0.8, it can be concluded that there are no serious symptoms of multicollinearity between the independent variables in this study.

*Classification Table*

The classification table aims to show the predictive power of the regression model to predict the probability of financial distress in the company. The test results are shown in Table 6 as follows:

**Table 6. Classification Table**

| **Observed** | | | **Predicted FD** | | |
|---|---|---|---|---|---|
| | | | Non Financial Distress | Financial Distress | **Percentage Correct** |
| Step 1 | FD | Non Financial Distress | 104 | 38 | 73,2 |
| | | Financial Distress | 69 | 39 | 36,1 |
| | Overall Percentage | | | | 57,2 |

Secondary Data, 2021

Based on the test results in Table 6 which shows that the predictive power to predict companies that do not experience financial distress in 2019 is 73.2 percent. This means that of the 142 total observations of companies that do not experience financial distress, there are 104 companies that are predicted not to experience financial distress, while 38 companies are predicted to experience financial distress. The predictive power to predict the possibility of a company experiencing financial distress in 2019 is 36.1 percent. This means that of the 108 total observations of companies experiencing financial distress, there are 69 companies that are predicted not to experience financial distress, while 39 companies are predicted to experience financial distress.

*Formed Logistic Regression Model*

The logistic regression analysis model was formed through parameter estimation in Variables In The Equation. This stage is the last stage of the regression coefficient test which is carried out to test whether the independent variables included in the model have an influence on the dependent variable. The results of logistic regression testing at a significance level of 5% or 0.05 are presented in Table 7 as follows:

**Table 7. Regression Coefficient Test Results**

| | | B | S.E. | Wald | Df | Sig. | Exp(B) |
|---|---|---|---|---|---|---|---|
| Step 1[a] | KEPMAN | -0,140 | 0,049 | 8,062 | 1 | 0,005 | 0,869 |
| | KEPINS | 0,579 | 0,510 | 1,288 | 1 | 0,256 | 1,783 |
| | KOMIND | 1,455 | 1,077 | 1,824 | 1 | 0,177 | 4,283 |
| | Constant | -0,898 | 0,603 | 2,215 | 1 | 0,137 | 0,407 |

Secondary Data, 2021

Based on the information in Table 7, the following equation can be made.

$$Y = ln\frac{p}{1-p} = -0{,}898 - 0{,}140KEPMAN + 0{,}579KEPINS + 1{,}455KOMIND + \varepsilon$$

Based on the above equation, the following can be explained:

The constant value of -0.898 means that if managerial ownership, institutional ownership, and independent commissioners are constant, the probability of financial distress will decrease by -0.898.

The regression coefficient value of KEPMAN, namely managerial ownership is -0.140, which means that if the managerial ownership variable (X1) increases by one unit, the probability of financial distress will decrease by 0.140 units, assuming the other variables are constant.

The regression coefficient value of KEPINS, namely institutional ownership, is 0.579, which means that if the variable of institutional ownership (X2) increases by one unit, the probability of financial distress will increase by 0.579 units, assuming other variables are constant.

The value of the KOMIND regression coefficient, namely the independent commissioner, is 1.455, which means that if the independent commissioner variable (X3) increases by one unit, the probability of financial distress will increase by 1.455 units, assuming the other variables are constant.

*The Effect of Managerial Ownership on Financial Distress*

The first hypothesis (H1) states that managerial ownership has a negative effect on financial distress. The results of the analysis using logistic regression showed that managerial ownership had a sig level of 0.005, which was smaller than (α) = 5% (0.005 <0.05). This shows that managerial ownership has an effect on financial distress. The direction of the regression coefficient of the managerial ownership variable in this study is negative at -0.140. The coefficient value means that if managerial ownership increases by 1 unit with the assumption that other variables are constant, then financial distress will decrease by 0.140 units.

Based on the test results, H1 is accepted, identifying that managerial ownership as measured by the percentage of the number of shares owned by the board of directors and board of commissioners from the number of shares outstanding in 2019 has an effect on the financial distress of a company, where the higher the number of managerial ownership of a company, then the less likely the company is to experience financial distress. This is because managerial ownership is a condition where management, which is the party who makes the decision to run the company's operations, has shares in the company so that apart from being the party running the company's operations, it is also the shareholder who will enjoy the benefits of the company's operational results. Therefore, management will be more careful in making decisions to avoid making mistakes in decision making that can have an impact on the company's financial health and also the trust of shareholders.

This supports the agency theory which explains the differences in interests between the principal and the agent which can lead to a conflict of interest which if left unchecked for a long time can cause financial distress. According to agency theory, one of the efforts to minimize conflicts of interest is to apply good corporate governance mechanisms, one of which is through the ownership structure, namely managerial ownership. Managerial ownership can align the interests between agents and principals because management has a dual role, namely as the agent who runs the company's operations and the principal as the shareholder who will benefit from the company's operational results, thus the existence of managerial ownership can help minimize conflicts of interest. The results of this study are in line with research conducted by Miglani (2014), Hastuti (2014) Priego & Merino (2016), and Luqman et al (2018) which states that managerial ownership has a negative effect on financial distress.

The Effect of Institutional Ownership on Financial Distress

The second hypothesis (H2) states that institutional ownership has a negative effect on financial distress. The results of the analysis using logistic regression analysis showed that institutional ownership has a sig level of 0.256 which is greater than = 5% (0.256> 0.05). This shows that institutional ownership has no effect on financial distress. The direction of the institutional ownership variable regression coefficient in this study is positive at 0.579. The coefficient value means that if institutional ownership increases by 1 unit with the assumption that other variables are constant, then financial distress will increase by 0.579 units.

Based on the test results, H2 is rejected, identifying that institutional ownership as measured by the percentage of institutional shareholders from the number of shares outstanding in 2019 has no effect on financial distress. This is because the financial condition in a company is not determined by institutional ownership but from every decision determined by the management (Purba & Muslih, 2018). In addition, institutional ownership has no effect on financial distress because institutional ownership in Indonesia is centralized and not evenly distributed or in other words there is at least one largest shareholder which causes the control and supervision carried out by shareholders towards management tends to be weak (Kurniasanti & Musdholifah, 2018 ). As a result of weak supervision and control, there is a lack of transparency in the use of funds in the company, which allows management to make decisions that benefit themselves. This means that institutional ownership cannot guarantee the supervision carried out by shareholders, even though the level of share ownership is high but the decisions are still determined by management.

The results of this study do not support agency theory which states that institutional ownership which is a good corporate governance mechanism can minimize conflicts of interest which if left unchecked will cause financial distress, because institutional ownership is considered to be able to control and supervise the management through voting rights because shares owned. The results of this study are in line with research conducted by Hastuti (2014), and Krisdea (2016) which states that the proportion of the number of institutional ownership in companies has no effect on financial distress conditions.

The Effect of Independent Commissioners on Financial Distress

The third hypothesis (H3) states that independent commissioners have a negative effect on financial distress. The results of the analysis using logistic regression analysis showed that the independent commissioner had a sig level of 0.177 which was greater than =5% (0.177>0.05). This shows that independent commissioners have no effect on financial distress. The direction of the independent commissioner's variable regression coefficient in this study is positive at 1.455. The coefficient value means that if the independent commissioner increases by 1 unit assuming other variables are constant, then financial distress will increase by 1.455 units.

Based on the test results, H3 is rejected, identifying that the independent commissioners as measured by the proportion of the number of independent commissioners to the number of commissioners have no effect on financial distress. This is because independent commissioners in carrying out their duties require an attitude of independence, but sometimes independent commissioners do not have a high attitude of independence, resulting in weak supervision carried out by management which may make management make wrong decisions and result in financial difficulties (Fathonah, 2010). 2016). In addition, independent commissioners also have a function to ensure that the company produces reliable financial reports and also that the company has carried out its operations in accordance with applicable regulations. However, due to the lack of independence from the independent commissioner, it seems that the function of the independent commissioner is not working properly. This is likely to happen because the existence of an independent commissioner in a company is only to meet applicable regulatory standards in order to avoid the company from being sanctioned as a result of non-compliance with these regulations (Deviacita & Achmad, 2012). This can be seen from the number of independent commissioners in the sample companies where on average the companies try to fulfill 30% of the total number of independent commissioners from the total board of commissioners in accordance with applicable regulations, there are only a few companies that have independent commissioners more than 30% of the total number of commissioners. .

The results of this study do not support agency theory which states that independent commissioners are considered as one of the good corporate governance mechanisms that are considered to be able to minimize agency conflicts caused by information asymmetry that can cause financial difficulties. The existence of independent commissioners is expected to be able to carry out their role, namely to supervise the management in making decisions to keep the company from financial distress. The results of this study are also in line with research conducted by Abbas and Sari (2019), which states that the number of independent commissioners in a company has no effect on financial distress conditions.

## 5. CONCLUSION

The test results in this study found that one of the three independent variables had an effect on financial distress. The independent variable that has an influence in this study is managerial ownership, while the variables that have no effect are institutional ownership and independent commissioners. Based on the results of the research, managerial ownership variables have proven that agency theory applies in this study. Agency theory states that there are differences in interests between the principal and the agent which can lead to a conflict of interest. Conflicts of interest that occur if left unchecked will result in financial difficulties, so one way to minimize conflicts of interest is to apply good corporate governance mechanisms, one of which is managerial ownership. Managerial ownership can align the interests between the principal and the agent through the dual roles they have. The variables of institutional ownership and independent commissioners cannot prove that agency theory applies in this study. This is because even though a company has institutional ownership, it is the management who makes decisions, in this case the institutional ownership plays a role in supervising the management, but institutional ownership in Indonesia tends to be centralized which results in weak supervision of the management. , and also institutional ownership is considered not to carry out supervision as a shareholder. In addition, the existence of independent commissioners in the company also does not fully implement an attitude of independence which results in the implementation of good corporate governance mechanisms that are not optimal. The lack of independence of independent commissioners causes weak supervision of management so as to allow management to make wrong decisions that can result in financial difficulties.

The results of this study provide implications for companies in the form of information to pay attention to other factors other than financial performance that can affect financial distress. Based on the results of the study, it shows that there is an influence between managerial ownership on financial distress, where the percentage of managerial share ownership in a company greatly affects the possibility of the company experiencing financial distress. The results of this study can also have implications for company management regarding considerations in making a decision to avoid financial distress. In addition, this study has implications for investors and creditors in considering making decisions in making investments and providing loans to companies that may experience financial distress.

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