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WHEN GOVERNANCE MATTERS: HOW GOOD CORPORATE GOVERNANCE CONDITIONS FINANCIAL DISTRESS IN INDONESIAN BANKS

Novita Indrawati[1*], Edfan Darlis[2], Hariadi Yasni[3]
[1,2,3]Accounting Study Program, Faculty of Economics and Business, Universitas Riau, Pekanbaru, Indonesia.
*Email: novita.indrawati@lecturer.unri.ac.id.

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Abstract

This study examines the effects of Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Corporate Social Responsibility (CSR) on financial distress in Indonesian banks during 2021–2024, with Good Corporate Governance (GCG) as a moderating variable. Financial distress is measured using the Grover model, and the hypotheses are tested through regression and Moderated Regression Analysis (MRA). The results show that CAR significantly reduces the probability of financial distress, while NPL has no significant effect. CSR is found to increase financial distress in the short term, indicating that sustainability initiatives may generate immediate financial pressure. GCG does not moderate the CAR–distress relationship, but it weakens the effect of NPL and strengthens the effect of CSR on financial distress. This study contributes by highlighting governance as a conditional mechanism rather than a universal buffer against financial risk. It demonstrates that governance interacts differently with capital structure, credit risk, and strategic CSR decisions in post-pandemic banking conditions. Practically, banks should align capital management and CSR strategies within strong governance frameworks to mitigate financial vulnerability.

INTRODUCTION

Financial distress represents the initial stage of deteriorating financial health before a company enters the phase of bankruptcy or liquidation. This condition emerges when a company begins to experience serious financial pressure, characterized by a continuous decline in revenue, unstable cash flows, and an inability to meet short-term obligations to creditors. (Platt and Platt, 2002). In Indonesia, cases of financial distress are evident in several banking institutions. According to a report by Kontan.co.id, (2024), PT Bank Commonwealth Tbk. has faced significant financial pressure. This is reflected in a 124.84% surge in net losses, where the loss increased from IDR 350.77 billion in 2022 to IDR 788.68 billion in 2023. Regarding operational efficiency, the BOPO ratio (Operating Expenses to Operating Income) also worsened, rising from 122.93% in 2022 to 154.17% in 2023, a figure that far exceeds the 100% maximum threshold established by Bank Indonesia. Furthermore, several Regional Development Banks (BPD) have been unable to meet the minimum core capital requirement of IDR 3 trillion, as mandated by POJK No. 12/POJK.03/2020. Referring to news from cnbcindonesia.com, in the first quarter of 2023, Bank Pembangunan Daerah Banten Tbk.

recorded core capital of IDR 1.19 trillion, which remains below the regulator's minimum requirement. This condition has prompted banks to consolidate through the *Kelompok Usaha Bersama* (KUB) scheme. This consolidation step is viewed as a preventive measure to mitigate the risk of financial distress before potential bankruptcy occurs (Zefanya, 2023).

The issues faced by Bank Pembangunan Daerah Banten Tbk. are further highlighted by a high Non-Performing Loan (NPL) ratio, which reached 9.86% in 2024. Additionally, its financial performance remains unstable, evidenced by a net loss of IDR 14.52 billion in 2023 and zero profit recorded as of September 2024. Moreover, Bank Banten, along with Bank of India Indonesia Tbk. and Bank Maspion Indonesia Tbk., has been placed on the Indonesia Stock Exchange's (IDX) special monitoring list. This status signals underlying financial or operational issues within the companies and increases the risk of financial distress (CNBC, 2024).

Financial distress in the banking sector has the potential to erode public trust, trigger massive bank runs by customers, hinder investment flows, and suppress economic growth (Nasution et al., 2024). As a vital sector in the economy, banking functions to maintain financial stability and provide financing. This is closely related to the bank's role as a financial intermediary that channels funds from surplus parties to those in need. This intermediation function can only operate effectively if public confidence is maintained. (Kosasih and Nugroho Heri Pramono, 2022). To detect a bank's health condition, an Early Warning System is required to provide signals regarding the risk of financial distress (Sari and Indrarini, 2020). In the banking industry, one crucial metric for assessing financial condition is capital structure, as reflected by the Capital Adequacy Ratio (CAR). This ratio illustrates a bank's ability to absorb various financial risks (Septyloga, 2018**).** A low CAR level has the potential to increase the risk of financial distress, because weak bank capital is considered less flexible in managing risk and can reduce stakeholder confidence (Hanafi and Hamlim, 2018). While several studies indicate that CAR plays a significant role in reducing the probability of financial distress (Ekadjaja *et al.*, 2021; Xuan Thao Nguyen et al., 2020), other findings show inconsistent results (Qur'anna and Isbanah 2021).

Another financial ratio that influences financial stability and reflects bank health is the Non-Performing Loan (NPL). NPL is a metric used to measure the level of problematic credit within a bank. A high NPL reflects a large amount of unrecovered credit, which suppresses bank income and increases the risk of losses (Ginting and Mawardi, 2021). A higher NPL indicates poor corporate financial health. On the non-financial side, Corporate Social Responsibility (CSR) has shown a positive trend toward a company's financial state. Implementing programs focused on environmental and social issues also helps mitigate operational and legal risks arising from violations of regulations related to the environment, labor, or society (Orazalin et al., 2023), thereby distancing the company from a state of distress. In practice, capital ownership, credit operations, and CSR implementation require effective supervision and control through Good Corporate Governance (GCG).

GCG is an internal control mechanism used by companies to manage various risks and increase long-term value for stakeholders (Effendi, 2009). Through the principles of accountability and transparency, GCG facilitates sound decision-making in capital management, credit, and CSR implementation, thereby supporting the role of each variable in mitigating financial distress.The role of Good Corporate Governance (GCG) in influencing the likelihood of financial distress has been the focus of a number of studies, but the results show inconsistent findings. The study by Muslimin and Bahri (2022), which placed GCG as an independent variable, found that good corporate governance can influence the level of financial distress, emphasizing the importance of a transparent monitoring and decision-making system in dealing with difficult financial conditions. Conversely, research by Eriyani et al. (2024) shows that not all GCG indicators have a significant effect on financial distress. Shahwan and

Habib (2020), Retno et al. (2022), and Nugraha et al. (2025) concluded that GCG, even when measured through various governance indicators, does not have a significant effect on the likelihood of financial distress. This inconsistency indicates that GCG may not have a direct impact on a company's financial difficulties, but rather works indirectly through strengthening internal company factors. In this context, GCG is considered to play a greater role as a factor that can strengthen or weaken the relationship between internal company variables and its financial performance (Retno et al., 2022).

Based on the background above, this study examines the influence of Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL), and Corporate Social Responsibility (CSR) on financial distress in the Indonesian banking sector, with Good Corporate Governance (GCG) as a moderating variable. Financial distress is measured using the Grover model, which, according to a study by Mufidah & Handayani, (2024), is considered the most appropriate model for detecting potential distress in the banking industry.

HYPOTHESIS DEVELOPMENT

Agency Theory

Jensen & Meckling (1976) explain that agency theory describes a contractual relationship between the owners of the company (principals) and the management (agents), where the owners delegate authority to management to run the business and make operational decisions. To ensure that agents act in the best interests of the owners, the company must incur certain expenses known as agency costs. This theory is highly relevant because companies are encouraged to maintain relationships and avoid conflicts of interest, often referred to as agency problems. An agency problem occurs when management prioritizes personal interests and ignores the owner's objectives, which ultimately leads to suboptimal management performance and increases the risk of financial difficulties (Linder and Foss, 2013). The implementation of Good Corporate Governance (GCG) serves as a primary mechanism to mitigate such conflicts by ensuring that the corporate management process remains transparent and accountable. Consequently, decisions made by management are expected to be more precise and capable of preventing the onset of financial distress.

Stakeholder Theory

Stakeholder theory, introduced by R. Edward Freeman (1984) explains that stakeholders are individuals or groups who can affect or be affected by the achievement of an organization's goals; thus, each party has interests and power that impact the company. Maintaining harmonious relationships with all stakeholders is essential for achieving optimal and sustainable performance (Hasan, 2021), while also increasing the likelihood of support when the company faces difficulties. A company does not operate solely for its own benefit but is also obligated to provide value to various parties, such as shareholders, creditors, consumers, suppliers, the government, and the community (Ghozali and Chariri, 2007). However, the main challenge in this theory is the complexity of managing diverse stakeholder interests that are often difficult to align (Valentinov, 2022), as disharmony in these relationships can trigger the risk of financial distress.

Financial Distress

Financial distress is generally a condition in which a company experiences significant financial pressure that, if not properly addressed, will worsen and lead to bankruptcy. According to Platt and Platt, (2002), financial distress is characterized by declining revenues and the company's inability to fulfill obligations to creditors that have reached maturity. Altman and Hotchkiss, (2011) categorize financial distress into several levels: economic failure, business failure, technical insolvency, insolvency in bankruptcy, and legal bankruptcy. One of the most

appropriate and suitable methods for measuring the level of financial distress in banking companies is the Grover model, developed by Jeffrey S. Grover in 1968 (Mufidah and Handayani, 2024).

The Influence of Capital Adequacy Ratio on Financial Distress

According to agency theory, when management operates the company in alignment with the owner's interests, the risk of financial problems can be minimized. The Capital Adequacy Ratio (CAR) is a metric that describes a bank's ability to bear risks from all risk-weighted assets, such as credit, investments, securities, and claims on other banks, which are covered by the company's capital. This ratio indicates the bank's capacity to absorb potential losses from a decline in asset value using available equity (Ginting and Mawardi 2021). Thus, the larger the capital owned by the company, the stronger its ability to bear financial risks and avoid financial distress. Studies conducted by Diwanti and Purwanto, (2020); Ekadjaja *et al.*, (2021); Ginting and Mawardi, (2021) state that the Capital Adequacy Ratio has a negative effect on financial distress, indicating that an increase in capital can improve the company's financial condition. Based on the description above, the following hypothesis is formulated:

H_1: Capital adequacy ratio influences financial distress.

The Influence of Non-Performing Loans on Financial Distress

The Non-Performing Loan (NPL) ratio reflects management's ability to handle and control problematic credit. When the NPL value increases, the quality of the credit portfolio deteriorates due to a larger amount of bad debt, thereby increasing the risk of the bank facing financial difficulties. This condition ultimately suppresses the bank's profitability level (Ginting and Mawardi, 2021). From the perspective of agency theory, a high NPL also indicates management's failure to perform duties in the owner's best interest, triggering increased corporate issues that impact the company's finances.Research by Vandana and Kautsar (2023), Putri & Zakik (2023) and Sujono *et al.*, (2023) states that Non-Performing Loans have a positive effect on financial distress. This shows that high NPL increases the risk of financial distress because the volume of problematic credit weakens financial performance and the bank's ability to meet its obligations. Accordingly, the following hypothesis is formulated:

H_2: Non-performing loan influences financial distress.

The Influence of Corporate Social Responsibility on Financial Distress

Stakeholder Theory emphasizes that maintaining relationships and the trust of stakeholders is a vital step in increasing corporate value and preventing distress. One effort a company can make is through the implementation of Corporate Social Responsibility (CSR), which is a form of corporate commitment mandated by the Law of the Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies. Optimal CSR implementation can improve corporate image, create stability, strengthen trust, and encourage stakeholder support, which in turn reduces external pressures that could trigger financial distress. This indicates that CSR has a negative effect on financial distress, consistent with research by Orazalin *et al.*, (2023), Nugrahanti, (2021), Safitri & Nurcahyono, (2024), which concludes that the better the CSR implementation, the lower the risk of financial distress. Based on this description, the following hypothesis is formulated:

H_3: Corporate social responsibility influences financial distress.

Good Corporate Governance as a Moderating Variable the Relationship between Capital Adequacy Ratio and Financial Distress

Based on agency theory, controls are necessary to ensure that management works for the company's benefit rather than their own. Good Corporate Governance (GCG) functions as an internal oversight and control system to ensure that organizational management is conducted

transparently and accountably (Effendi, 2009). While large capital provides a broader buffer for a company to absorb risk, without sound management and precise decision-making, a company can still fall into distress. With effective supervision and control, the company can minimize conflicts between owners and managers, potentially leading to better decisions, including decisions related to capital and ultimately avoids distress (Retno et al., 2022). Consequently, the fourth hypothesis is formulated as follows:

H_4: Good corporate governance moderates the relationship between capital adequacy ratio and financial distress.

Good Corporate Governance as a Moderating Variable in the Relationship between Non-Performing Loans and Financial Distress

A high Non-Performing Loan (NPL) reflects poor credit portfolio quality and indicates the possibility of a company facing liquidity and profitability pressures, which then risks leading to financial distress. Studies show that a significant increase in problematic credit levels raises the chances of financial pressure and operational losses (Novaldi, 2025). Poor financial performance is often exacerbated by the absence of sound corporate governance (Darniaty et al., 2023; Firdaus et al., 2025). Theoretically, strong GCG can assist a company in improving its credit risk assessment processes and taking early strategic actions against problematic credit, thereby preventing financial issues and distress indicators. Thus, the following hypothesis is formulated:

H_5: Good corporate governance moderates the relationship between non-performing loans and financial distress.

Good Corporate Governance as a Moderating Variable in the Relationship between Corporate Social Responsibility and Financial Distress

Theoretically, CSR implementation can add corporate value and maintain stakeholders, including customers, employees, investors, and the community. This positive relationship impacts the company's financial stability (Afifah et al., 2021; Nguyen & Nguyen, 2022; Orazalin et al., 2023). However, a study by Maxima Impact Consulting, (2024) indicates that many companies run CSR programs without measurable results and with minimal stakeholder involvement. This condition reflects weak oversight and management in operational activities. With the implementation of GCG, companies are expected to ensure that CSR becomes more effective, provides a more tangible impact, and ultimately helps lower the potential for financial distress. Strengthening through governance can improve accountability, maintain long-term financial stability, and suppress potential financial distress. Based on this, the sixth hypothesis is formulated as follows:

H_6: Good corporate governance moderates the relationship between corporate social responsibility and financial distress.

RESEARCH METHOD

Population and Sample

This study examines all banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2024 as the population. By applying a saturated sampling (census) technique, the entire population was used as the sample, totaling 47 companies. The observation data collected over the four-year study period amounted to 188 observations.

Data, Source, and Collection Technique

This research utilizes quantitative secondary data sourced from the annual reports and sustainability reports of banking companies for the 2021-2024 period. The data were obtained from the official IDX website (www.idx.co.id) and the companies' respective official websites.

The data collection method employed is the documentary method, which involves several stages: identifying, classifying, processing, and evaluating relevant secondary data.

Operational Definitions and Variable Measurement

The dependent variable in this study is financial distress. The independent variables include the Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Corporate Social Responsibility (CSR), with Good Corporate Governance (GCG) as the moderating variable.

Financial Distress (Y)

Financial distress is a decline in financial condition before a company faces bankruptcy or liquidation. This study measures financial distress using the Grover model. The formula used is as follows (Purwanti *et al.*, 2024).

G-Score= 1,650 X1 + 3,404 X2 - 0,016 ROA + 0,057

Where:

X1 = Working capital/ total asset

X2 = Earning before interest and taxes/total asset

ROA = Net Income/total asset

Capital Adequacy Ratio (X_1)

According to Ginting and Mawardi, (2021), Capital Adequacy Ratio (CAR) is a ratio used to assess the adequacy of a bank's capital in supporting risky banking activities.

$$\text{CAR} = \frac{\text{Capital}}{\text{Risk}-\text{Weighted Assets}} \times 100\%$$

Non-Performing Loan (X_2)

Non-performing loan (NPL) is the ratio between the amount of problematic credit and total credit (Putri and Zakik, 2023). The formula is:

$$\text{NPL} = \frac{\text{Problematic Credit}}{\text{Total Credit}} \times 100\%$$

Corporate Social Responsibility (X_3)

CSR is a company's ongoing commitment to act ethically, support economic development, and improve the quality of life for all stakeholders (WBCSD, as cited in Berampu and Agusta, 2015). CSR is measured using the CSR Index based on the 2021 GRI Consolidated standards with 20 relevant topics, formulated as:

$$\text{CSR Disclosure Index} = \frac{\sum X_i}{n}$$

Good Corporate Governance (Z)

Good Corporate Governance (GCG) GCG is defined as the framework, organizational structure, and mechanisms that regulate how an organization conducts its operational activities (Wardani and Fauzi, 2022). GCG is measured through the mandatory self-assessment conducted by each bank in accordance with Bank Indonesia Circular Letter No. 15/15/DPNP, with the following composite ratings:

Table 1.
Composite GCG Rating Score

Score	Rating	Predicate
1.00-1.50	1	Excellent
1.51-2.50	2	Good
2.51-3.50	3	Fair
3.51-4.50	4	Poor
4.51-5.00	5	Very Poor

Source: OJK Circular Letter No. 13/SEOJK.03/2017

Data Analysis Method

The data analysis method used is multiple regression analysis. Prior to conducting the multiple linear regression test, classical assumption tests were performed. To test the moderating effect of GCG, Moderated Regression Analysis (MRA) was applied. The regression equation for this study is:

$$Y = + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 (X_1 * Z) + \beta_5 (X_2 * Z) + \beta_6 (X_3 * Z) + \varepsilon$$

Where:

Y = Financial Distress
α = Constant
β = Regression Coefficient
X_1 = Capital Adequacy Ratio
X_2 = Non-Performing Loan
X_3 = Corporate Social Responsibility
Z = Good Corporate Governance
e = Error

RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to provide an overview and description of the research variables (capital adequacy ratio, non-performing loan, corporate social responsibility, financial distress, and good corporate governance).

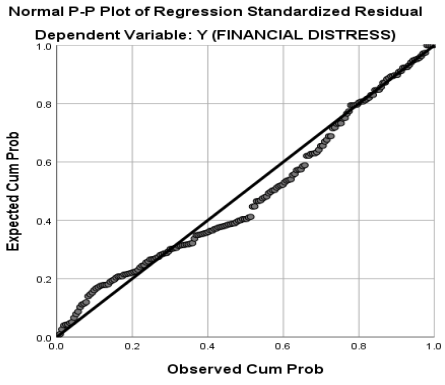
Table 2.
Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
X_1 (CAR)	188	0.1050	3.9050	0.426765	0.4348094
X_2 (NPL)	188	0.0000	0.1409	0.028854	0.0223121
X_3 (CSR INDEX)	188	10	20	17.55	1.759
Y (FINANCIAL DISTRESS)	188	-1.2949	1.5452	0.008106	0.5306243
Z (GCG)	188	1	3	1.98	0.372

Source: Data processed using SPSS, 2025

Normality Test

Normality test can be performed using a normal probability plot.



Source: Data processed using SPSS, 2025

Picture 1.
Normal Probability Plot

Based on the normal probability plot, the data points are distributed around and follow the direction of the diagonal line, indicating that the data are normally distributed.

Multicollinearity Test

The multicollinearity test can be observed through the tolerance and variance inflation factor (VIF) values. Multicollinearity does not occur if the regression model has a tolerance value ≥ 0.10 or a VIF value VIF ≤ 10.

Table 3.
Multicollinearity Test Results

	Collinearity Statistics	
Model	**Tolerance**	**VIF**
X_1 (CAR)	0.984	1.017
X_2 (NPL)	0.960	1.042
X_3 (CSR INDEKS)	0.961	1.041
Z (GCG)	0.938	1.066

Source: Data processed using SPSS, 2025

Based on Table 2 above, the test results show that the tolerance values for all independent variables are ≥ 010 and VIF values are ≤ 10, which means that multicollinearity does not occur.

Heteroscedasticity Test

The heteroscedasticity test is conducted using the Glejser test by regressing the independent variables against their absolute residual values. Heteroscedasticity does not occur if the Glejser test results show a significance value greater than 0.05.

Table 4.
Heteroscedasticity Test Results

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	0.536	0.247		2.167	0.032
X1 (CAR)	0.065	0.046	0.103	1.408	0.161
X2 (NPL)	1.570	0.912	0.127	1.723	0.087
X3 (CSR INDEKS)	-0.015	0.012	-0.099	-1.341	0.182
Z (GCG)	0.002	0.055	0.002	0.029	0.977

Dependent Variable: ABRESID

Source: Data processed using SPSS,2025

Based on Table 4 above, the test results show that the significance values for all independent variables are above 0.05. Thus, the data are free from heteroscedasticity.

Autocorrelation Test

The autocorrelation test is conducted using the Durbin-Watson test.

Table 5.
Autocorrelation Test Results

Model	Durbin-Watson
1	0.704

Source: Data processed using SPSS, 2025

In the Durbin-Watson (DW) autocorrelation test for this study, the number of observations (n) = 188 and the number of variables (k) = 3 at a significance level of 5% (0.05). Consequently, the values obtained are dU = 1.7938 and dL = 1.7290. Based on the table above, the DW statistical test value is 0.704. Since 1.7938 > 0.704 < 2.2062 or dU > d < 4-dU. It indicates an autocorrelation problem. To address this, data remediation was performed using the Cochrane-Orcutt method.

Table 6.
Autocorrelation Test Results using Cochrane-Orcutt

Model	Durbin-Watson
1	1.800

Source: Data processed using SPSS, 2026

Based on the autocorrelation test results using Durbin-Watson after applying the Cochrane-Orcutt transformation, the DW value obtained is 1.800. With the decision-making criteria of 1.7938 < 1.800 < 2.2062 or dU < d < 4 – dU, it can be concluded that the data are free from autocorrelation.

Multiple Linear Regression Analysis

The model designed in this study involves three independent variables which are Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), and Corporate Social Responsibility (CSR), moderated by the Good Corporate Governance (GCG) variable.

Table 7.
Multiple Linear Regression Results

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**T**	**Sig.**
(Constant)	-0.003	0.332		-0.010	0.992
X_1 (CAR)	4.444	1.968	3.642	2.258	0.025
X_2 (NPL)	12.323	7.063	0.518	1.745	0.083
X_3 (CSR INDEKS)	-0.093	0.034	-0.310	-2.731	0.007
ZX_1	-1.892	0.984	-3.144	-1.923	0.056
ZX_2	-6.123	3.050	-0.629	-2.008	0.046
ZX_3	0.040	0.015	0.534	2.605	0.010

Source: Data processed using SPSS, 2025

Coefficient of Determination (R^2)

Coefficient of Determination (R^2) is used to measure the strength of the model in explaining the dependent variable.

Table 8.
Coefficient of Determination (R^2) Test Results

Model	R	R Square	Adjusted R Square
1	0.565[a]	0.319	0.304

Source: Data processed using SPSS, 2025

Based on the test results, the *R Square* value is 0.319 or 31.9%. This indicates that the independent variables contribute 31.9% to financial distress, while the remaining portion is influenced by other variables not included in this study.

F-Test

The F-test is conducted to test the simultaneous effect of independent variables on the dependent variable.

Table 9.
F-Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	16.791	4	4.198	21.421	.000[b]
Residual	35.861	183	.196		
Total	52.652	187			

Source: Data processed using SPSS, 2025

Based on the table above, F calculated (21.421) > F table (2.42) with a significance value of 0.00 or < 0.05, meaning that the independent variables (CAR, NPL, CSR, and GCG) simultaneously influence financial distress.

Hypothesis Testing (t-Test)

The t-test is performed to test the individual effect of each independent variable on the dependent variable:

Table 10.
Hypothesis Testing Results (t-test)

Model	T-table	T-calculated	Sig.
X_1 (CAR)	1.973	2.258	0.025
X_2 (NPL)	1.973	1.745	0.083
X_3 (CSR INDEKS)	1.973	-2.731	0.007
ZX_1	1.973	-1.923	0.056
ZX_2	1.973	-2.008	0.046
ZX_3	1.973	2.605	0.010

Source: Data processed using SPSS, 2025

The table above can be interpreted as follows:

a. Capital adequacy ratio (CAR) has a t-calculated of 2.258 > t-table 1.973 and a significance value of 0.025 < 0.05. Thus, CAR has a significant positive effect on financial distress.
b. Non-performing loan (NPL) has a t-calculated of 1.745 < t-table 1.973 and a significance value of 0.083 > 0.05. Thus, non-performing loan does not have a significant effect on financial distress.
c. Corporate social responsibility (CSR) has a t-calculated of -2.731 > t-table 1.973 and a significance value of 0.007 < 0.05. Thus, corporate social responsibility has a significant negative effect on financial distress.
d. Good Corporate Governance (GCG) as a moderating variable in the relationship between capital adequacy ratio and financial distress has a t-calculated of -1.923 < t-table 1.973 and a significance value of 0.056 > 0.05. Thus, good corporate governance fails to moderate the relationship between capital adequacy ratio and financial distress.
e. Good Corporate Governance (GCG) as a moderating variable in the relationship between non-performing loan and financial distress has a t-calculated of -2.008 > t-table 1.973 and a significance value of 0.046 < 0.05. Thus, good corporate governance weakens the influence of non-performing loan on financial distress.
f. Good Corporate Governance (GCG) as a moderating variable in the relationship between corporate social responsibility and financial distress has a t-calculated of 2.605 > t-table 1.973 and a significance value of 0.010 < 0.05. Thus, good corporate governance strengthens the influence of corporate social responsibility on financial distress.

Discussion

The Effect of Capital Adequacy Ratio (CAR) on Financial Distress

The results indicate that CAR has a significant positive effect on financial distress as measured by the Grover model. The Grover model dictates that higher values indicate a healthier company. Thus, a higher CAR strengthens a bank's capital resilience, increasing the Grover score and reducing the risk of financial distress. Adequate capital allows banks to absorb potential losses and maintain operational stability during periods of financial uncertainty.

In line with agency theory, strong capital bolsters the risk profile and loss-absorption capacity. Agency theory suggests that stronger financial safeguards can reduce managerial

incentives to engage in excessive risk-taking that may endanger the financial stability of the institution (Jensen & Meckling, 1976). This aligns with research by Ekadjaja et al. (2021), stating that CAR can mitigate financial distress. Similarly, previous studies emphasize that higher capital adequacy improves a bank's ability to withstand financial shocks and maintain solvency (Berger & Bouwman, 2013; Demirgüç-Kunt et al., 2013). Therefore, strong capitalization plays an important role in strengthening the resilience of banking institutions and reducing the likelihood of financial distress.

The Effect of Non-Performing Loan (NPL) on Financial Distress

The results show that NPL has no effect on financial distress. This suggests that a higher NPL does not necessarily reflect the occurrence of financial distress. This is because one aspect of total productive assets is credit provision; as long as other productive assets increase, a high NPL ratio does not impact financial distress.

In the banking industry, credit risk arising from non-performing loans is typically mitigated through several mechanisms, including loan loss provisions, portfolio diversification, and effective credit monitoring systems (Louzis et al., 2012). These mechanisms enable banks to manage potential losses without significantly affecting their financial stability.

This is consistent with studies by Kosasih and Nugroho Heri Pramono (2022) and Ginting and Mawardi (2021). Furthermore, previous research indicates that the impact of NPL on financial distress may be weakened when banks maintain adequate capital buffers and effective risk management practices (Foos et al., 2010). Therefore, increases in NPL levels do not always directly lead to financial distress, particularly when banks implement prudent credit risk management strategies.

The Effect of Corporate Social Responsibility (CSR) on Financial Distress

The results show that CSR has a significant negative effect on financial distress (measured by the Grover model). This indicates that higher CSR activities actually increase the likelihood of financial distress. This proves that many CSR implementations do not yield immediate financial benefits.

Furthermore, CSR is long-term in nature, and its impact may not be significant in the short term, often being viewed merely as an operational cost. This is what causes CSR to impact short-term financial conditions.

From the perspective of stakeholder theory, CSR is generally implemented to strengthen relationships with stakeholders and improve corporate legitimacy (Freeman, 1984). However, CSR activities often require substantial financial resources, which may increase operational costs in the short term. While CSR investments may generate reputational and strategic benefits over time, these benefits are not always immediately reflected in financial performance (McWilliams & Siegel, 2001).

This aligns with Ekonomika et al. (2019), who found that more CSR activities correlate with a higher potential for financial distress. Similarly, some studies suggest that excessive CSR expenditure may place pressure on financial resources when firms allocate significant funds to social programs without immediate economic returns (Barnett & Salomon, 2012).

GCG as a Moderating Variable in the CAR–Financial Distress Relationship

The results show that GCG fails to moderate the effect of CAR on financial distress. In this study, GCG measurement was conducted via self-assessment, which may contain reporting bias. Additionally, CAR already explains a significant portion of protection against financial distress, leaving little room for GCG to further suppress distress risks. Capital adequacy is a key regulatory requirement in the banking sector, where financial institutions are required to maintain minimum capital ratios to ensure financial system stability (Basel Committee on

Banking Supervision, 2011).

This is consistent with Nugraha et al. (2025) and Retno et al. (2022) who stated that GCG does not always have a direct impact on distress. Therefore, when capital adequacy is already strong, the additional influence of governance mechanisms may become less significant in explaining variations in financial distress.

GCG as a Moderating Variable in the NPL–Financial Distress Relationship

The results show that GCG weakens the influence of NPL on financial distress. Consistent with agency theory, the implementation of GCG can align management interests with stakeholders by improving NPL management and limiting high-risk credit.

Good GCG practices encourage stricter monitoring of loans, thereby reducing the impact of NPL and the subsequent risk of financial distress. Strong governance structures, including effective board oversight and internal control mechanisms, can enhance credit monitoring and improve risk management practices (Shleifer & Vishny, 1997).

Through stronger supervision and accountability mechanisms, banks can detect potential credit problems earlier and take corrective action before they significantly affect financial performance. Consequently, effective governance practices can mitigate the adverse effects of rising non-performing loans on financial stability.

GCG as a Moderating Variable in the CSR–Financial Distress Relationship

The results show that GCG strengthens the influence of CSR on financial distress. In line with stakeholder theory, GCG as an internal control and oversight system can maintain stakeholder relationships through CSR.

Implementing CSR can enhance company image, mitigate risks, and improve social performance, thereby maintaining financial stability and preventing financial distress.

However, strong governance mechanisms may also encourage firms to increase transparency and accountability in CSR implementation. As a result, companies with stronger governance structures may allocate greater financial resources to CSR activities, which may increase financial pressure in the short term.

Previous studies also suggest that governance mechanisms often encourage firms to engage more actively in social responsibility activities to maintain legitimacy and stakeholder trust (Jo & Harjoto, 2011). Consequently, the presence of strong governance structures may intensify the relationship between CSR activities and financial pressure, particularly when CSR requires substantial financial commitments**.**

CONCLUSION

Capital Adequacy Ratio (CAR) has a significant positive effect on financial distress as measured by the Grover model, meaning a higher CAR reduces the probability of financial distress. Meanwhile, Non-Performing Loans (NPL) do not have a significant effect. Furthermore, Corporate Social Responsibility (CSR) has a significant negative effect, meaning higher CSR correlates with a higher probability of financial distress. The Moderated Regression Analysis (MRA) results indicate that Good Corporate Governance (GCG) does not moderate the relationship between CAR and financial distress. However, GCG is able to moderate the influence of NPL and CSR on financial distress. GCG weakens the effect of NPL on financial distress and strengthens the effect of CSR on financial distress.

This study uses self-assessment as a proxy for Good Corporate Governance. This assessment is conducted by the companies themselves, and the results of the study should be understood as a representation of the companies' internal assessments of the quality of their governance. The use of this proxy may carry the risk of bias because the values are issued by the companies themselves. Future research is recommended to use more objective GCG proxies

such as the Corporate Governance Perception Index (CGPI) or even the Asean Corporate Governance Scorecard (ACGS) to reduce the effect of bias. The research period only covers 4 years (2021-2024). This time frame may not fully capture the real impact of CSR activities on financial health. Given that CSR is long-term in nature and is often considered a short-term cost, this may cause the relationship between CSR and Grover scores to be less than optimal. Future researchers are advised to extend the observation period beyond four years to capture the full impact of CSR activities, as the benefits of CSR are not usually immediately apparent in the same year.

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