The Influence of Good Corporate Governance and Corporate Social Responsibility Disclosure on Financial Distress Risk (Study on Property and Real Estate Sector Companies Listed on the Indonesia Stock Exchange for the 2021-2023 Period)

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Abstract

This study aims to analyze the influence of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) disclosure on the risk of Financial Distress in property and real estate sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. GCG is measured using three indicators: institutional ownership, managerial ownership, and independent commissioners. CSR disclosure is measured based on the Global Reporting Initiative (GRI) standards, while Financial Distress is analyzed using the Altman Z-Score method. The research employs a quantitative approach with panel data regression analysis. Data were collected from annual and sustainability reports of the companies included in the sample. The results indicate that, partially, independent commissioners and CSR disclosure have a significant negative effect on Financial Distress. Meanwhile, institutional ownership and managerial ownership do not show a significant effect. Simultaneously, the four independent variables significantly influence the risk of Financial Distress. These findings suggest that implementing strong corporate governance and maintaining a solid commitment to CSR practices can enhance financial stability and reduce the potential for financial distress. This research is expected to contribute to the development of risk management strategies and strategic decision-making within the property and real estate sector.

INTRODUCTION

The property and real estate sector is an integral part of economic development in Indonesia. This sector not only contributes to the national Gross Domestic Product (GDP), but also acts as a catalyst for the growth of other industries, job creation, and a driver of domestic and foreign investment. Based on a report from the Coordinating Ministry for Economic Affairs (2023), this sector contributed around IDR 2,865 trillion or 14.64% to the total national GDP, making it one of the main pillars in the country's economic structure. However, this major role does not make it immune to challenges, especially since the COVID-19 pandemic has triggered structural and financial pressures, as well as broad market uncertainty.

During the pandemic, the property sector's contribution to GDP declined to 12%. Despite various recovery efforts, such as the provision of tax incentives and financing relaxation by the government, market conditions have not fully recovered. This is reflected in the decline in demand and supply of commercial property, as well as slow growth in property prices, both nominally and in real terms. This condition raises concerns about the financial stability of companies operating in this sector.

Ironically, despite market pressures, the number of property and real estate companies listed on the Indonesia Stock Exchange (IDX) shows an increasing trend every year. In 2020, there were 66 companies, which increased to 93 companies in 2023. The growth in the number of issuers was largely driven by the influx of foreign investment and support from fiscal and regulatory policies that facilitate investment. However, the increase in quantity is not necessarily followed by the quality of the company's financial fundamentals. Amidst this growth, many companies are facing liquidity pressures, declining profitability, and the risk of Financial Distress.

The phenomenon of mismatch between the growth of the number of companies and the decline in demand and supply of property indicates a deep imbalance. This is an important signal to examine non-financial factors that play a role in maintaining business sustainability in this sector, especially through the implementation of Good Corporate Governance (GCG) and disclosure of Corporate Social Responsibility (CSR).

Good Corporate Governance is a corporate governance system that emphasizes the principles of transparency, accountability, responsibility, independence, and fairness. GCG is not only important for building investor trust, but also as an internal monitoring mechanism that can reduce the potential for conflicts of interest and managerial practices that are detrimental to the company. Regulations related to GCG have been regulated in POJK No. 21/POJK.04/2015 which requires public companies to implement good governance principles.

Meanwhile, Corporate Social Responsibility is a form of corporate responsibility towards the social environment in which they operate. CSR is not only a moral demand, but also has significant economic implications. Voluntary disclosure of CSR in annual reports or sustainability reports can improve the company's image, strengthen relations with stakeholders, and increase attractiveness to investors. OJK Regulation No. 51/POJK.03/2017 and Article 74 of Law No. 40 of 2007 require companies, especially those engaged in sectors related to natural resources, to implement and report their CSR activities.

The decline in the real estate sector's GDP growth rate from 5.76% in 2019 to 1.43% in 2023 indicates a significant decline in the sector's performance. In addition to the pandemic, various external factors such as trade wars, commodity price fluctuations, high inflation, and rising interest rates have worsened the situation. The impact of this condition includes an increase in the number of companies experiencing financial pressure or entering the Financial Distress phase, a condition in which the company is unable to meet its financial obligations.

To measure the potential for bankruptcy, many studies use the Altman Z-Score model, which classifies companies into healthy zones ($Z > 2.60$), gray zones ($1.1 < Z < 2.60$), and distress zones ($Z < 1.1$). The use of this model is considered accurate in predicting the potential for default and is an early diagnosis tool for a company's financial condition.

Previous studies have shown varying results regarding the influence of GCG and CSR on Financial Distress. Several studies have shown that managerial and institutional ownership, as well as the presence of independent commissioners, have an influence on financial stability. However, other findings show inconsistencies, even contradictions between one result and another. Likewise with CSR, which in several studies has a negative effect on Financial Distress, but in other studies it was found to have a positive or insignificant impact.

This condition shows that there is a research gap that still needs to be explored, especially in the property and real estate sector in Indonesia which is known to be very dynamic and influenced by the economic cycle. Given the importance of GCG and CSR in supporting company performance, a comprehensive study is needed to analyze how these two factors—either partially or simultaneously—affect the company's Financial Distress condition.

Considering the urgency of the phenomenon, the importance of good governance, and the strategic role of the property and real estate sector in the economy, this study aims to analyze the effect of Good Corporate Governance and Corporate Social Responsibility disclosure on the risk of Financial Distress. The object of the study is focused on property and real estate sector companies listed on the Indonesia Stock Exchange during the 2021–2023 period, with the hope of providing theoretical and practical contributions to the development of corporate financial strategies and more targeted policy directions in encouraging the resilience of this sector in the future.

METHODS

This research uses quantitative methods. According to(Sujarweni & Utami, 2021)Quantitative research is a type of research that produces findings through the application of statistical procedures or other measurement methods. In quantitative methods, the relationship between variables is analyzed using theories that have developed traditionally, because this method has long been used and is part of the research tradition. In addition, quantitative methods are often referred to as positivistic methods because they are based on the philosophy of positivism. This method is considered scientific because it meets the principles of empirical, concrete, objective, measurable, rational, and systematic research. In addition, this method is also known as the discovery method because it contributes to the discovery and development of new science and technology.(Hardani et al., 2020).

This study utilizes secondary data, in the form of annual reports from property and real estate companies listed on the Indonesia Stock Exchange for the period 2019-2023. Based on the time of implementation, this study uses panel data, which is a combination of time series data and cross-sector data. Time series data is data that is collected repeatedly in the same time period, using the same instruments and objects. Meanwhile, according to(Sugiyono, 2021), cross-sectional data is data obtained from the same or different objects, with instruments that can be the same or different, but in a non-uniform time span. This study uses a non-contrived setting, which aims to examine and understand the cause-and-effect relationship by referring to the actual environmental conditions.(Sekaran & Bougie, 2017).

RESULTS AND DISCUSSION

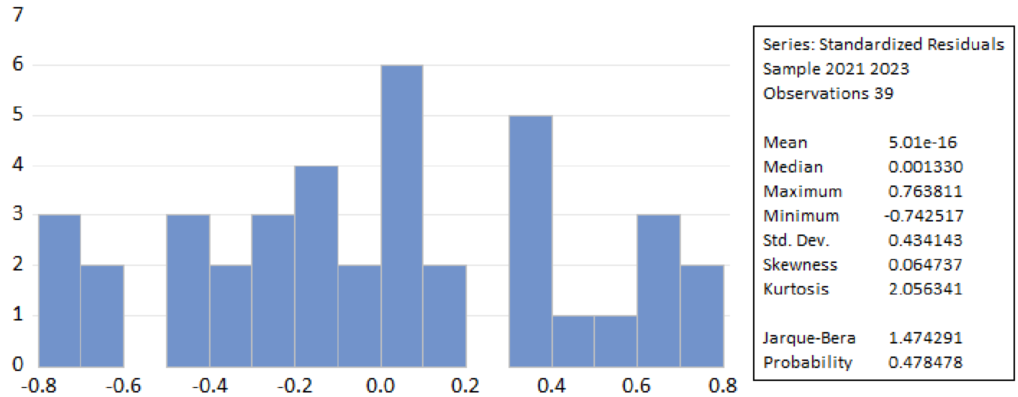
Research result

Classical Assumption Test

The classical assumption test is a statistical stage that must be carried out in multiple linear regression analysis using the Ordinary Least Square (OLS) approach.

Normality Test

Normality Test Results Table



Based on the table above, it can be seen that the Jarque-Bera probability value is 0.478478. So it can be concluded that the model in this study is normally distributed, because the probability value is greater than 0.05.

Autocorrelation Test

Autocorrelation Test Results

R-squared	0.329670	Mean dependent var	0.267424
Adjusted R-squared	0.250808	S.D. dependent var	0.233298
S.E. of regression	0.201933	Sum squared resid	1.386421
F-statistic	4.180327	Durbin-Watson stat	1.843698
Prob(F-statistic)	0.007358		

Source: E-views 12 output (2025)

Autocorrelation test can only be performed on time series data, because what is meant by autocorrelation is a value in a particular sample or observation that is greatly influenced by the value of the previous observation. Therefore, research that uses cross-section data or panel data does not need to conduct an autocorrelation test (Basuki and Prawoto, 2017:297).

Multicollinearity Test

Multicollinearity Test Results

	KI	KM	DKI	CSR
KI	1.000000	-0.101826	0.243599	-0.274065
KM	-0.101826	1.000000	-0.190216	0.341315
DKI	0.243599	-0.190216	1.000000	-0.338882
CSR	-0.274065	0.341315	-0.338882	1.000000

Source: E-views 12 output (2025)

Based on the test results shown in the table, it is known that the coefficient value between variables is less than 0.8. This is in accordance with the test criteria that the results of the multicollinearity test show that there is no correlation coefficient value between variables that is more than 0.8. So it can be concluded that the data does not have a multicollinearity problem..

Heteroscedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	0.770059	Prob. F(4,34)	0.5522
Obs*R-squared	3.239710	Prob. Chi-Square(4)	0.5185
Scaled explained SS	1.300495	Prob. Chi-Square(4)	0.8613

Source: E-views 12 output (2025)

In the table, the results of the Glejser test can be seen, the probability value of each is > 0.05. So it can be concluded that there is no heteroscedasticity in this model.

Panel Data Regression Model Selection

Chow Test

Chow Test Table

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	13.347694	(12,22)	0.0000
Cross-section Chi-square	82.442515	12	0.0000

Sig. Cross-section Chi-square value 0.000 < 0.05 then the selected model is FEM Based on the test, it shows that the Probability Crosssection Chi-square value is 0.0000 which is < 0.05 then H1 is accepted and Ho is rejected. So it can be concluded that the Fixed Effect Model is more appropriate compared to the Common Effect Model

Hausman test

Hausman Test Results Table

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	5.263694	4	0.2613

Based on the results of the chow test in table 4.6 above, the probability (p-value) of the cross section chi-square is 0.2613 > 0.05. Based on these results, it can be concluded that it is rejected. This proves that the panel data regression model in this study uses a Random effect model.H_1

Langerange Multiplier Test

Langerange Multiplier Test Results Table

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	18.76105 (0.0000)	0.810745 (0.3679)	19.57179 (0.0000)
Honda	4.331402 (0.0000)	-0.900414 (0.8160)	2.426075 (0.0076)
King-Wu	4.331402 (0.0000)	-0.900414 (0.8160)	0.803495 (0.2108)
Standardized Honda	5.425015 (0.0000)	-0.640916 (0.7392)	0.057666 (0.4770)
Standardized King-Wu	5.425015 (0.0000)	-0.640916 (0.7392)	-1.159231 (0.8768)
Gourieroux, et al.	--	--	18.76105 (0.0000)

Source: E-views 12 output (2025)

Based on table 4.7, the Cross-section probability value is 0.0000. This indicates that H1 is accepted, meaning that the most appropriate model to use is the random effect model. Thus, the most appropriate regression model to use in this study is the random effect model.

Panel Data Regression Equation

Random Effect Test Results Table

Dependent Variable: FD
Method: Panel EGLS (Cross-section random effects)
Date: 07/02/25 Time: 23:02
Sample: 2021 2023
Periods included: 3
Cross-sections included: 13
Total panel (balanced) observations: 39
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.185391	0.602215	5.289454	0.0000
KI	-0.202139	0.586540	-0.344629	0.7325
KM	-1.556118	1.254220	-1.240706	0.2232
DKI	-2.904376	0.884216	-3.284690	0.0024
CSR	-1.407569	0.451591	-3.116909	0.0037

Effects Specification

	S.D.	Rho
Cross-section random	0.457265	0.8417
Idiosyncratic random	0.198282	0.1583

Weighted Statistics

R-squared	0.329670	Mean dependent var	0.267424
Adjusted R-squared	0.250808	S.D. dependent var	0.233298
S.E. of regression	0.201933	Sum squared resid	1.386421
F-statistic	4.180327	Durbin-Watson stat	1.843698
Prob(F-statistic)	0.007358		

Source: E-views 12 output (2025)

Based on Table 4.8, it is the result of the panel data regression equation using the random effect model. The following is the panel data regression equation in this study.

$$Y = 3.185391 - 0.202139X1it - 1.556118X2it - 2.904376X3it - 1.407569X4it$$

Information

Y	=	*Financial Distress*
a	=	Constant coefficient
X1it	=	Institutional Ownership
X2it	=	Managerial Ownership
X3it	=	Independent Board of Commissioners
X4it	=	Disclosure of Corporate Social Responsibility

β	=	Regression coefficient of each independent variable
e	=	*Error term*
t	=	Time
i	=	Company

Based on the regression equation above, it can be explained as follows:

1. The constant value is 3.185391. The value indicates that if the value of the independent variables of institutional ownership, managerial ownership, independent board of commissioners, and CSR is equal to zero (0), then the value of the dependent variable of financial distress is 3.185391.
2. The value of the institutional ownership regression coefficient is -0.202139. This shows that when the independent variable of institutional ownership increases, it will reduce the risk of financial distress by -0.202139 assuming that other independent variables are constant.
3. The value of the regression coefficient of managerial ownership is -1.556118. This shows that when the independent variable of managerial ownership increases, it will reduce the risk of financial distress by -1.556118 assuming that other independent variables are constant.
4. The value of the regression coefficient of the independent board of commissioners is -2.904376. This shows that when the independent variable of the independent board of commissioners increases, it will reduce the risk of financial distress by -2.904376 assuming that other independent variables are constant.

The value of the CSR disclosure regression coefficient is -1.407569. This shows that when the independent variable of CSR disclosure increases, it will reduce the risk of financial distress by -1.407569, assuming that other independent variables are constant..

F Statistic Test

F Statistic Test Result Table

R-squared	0.329670	Mean dependent var	0.267424
Adjusted R-squared	0.250808	S.D. dependent var	0.233298
S.E. of regression	0.201933	Sum squared resid	1.386421
F-statistic	4.180327	Durbin-Watson stat	1.843698
Prob(F-statistic)	0.007358		

Source: E-views 12 output (2025)

Based on the Radom Effect Test Results Table above, the Prob (F-Statistic) value is obtained with a probability value of 0.007 <0.05, so Ho is rejected and Ha is accepted. This value explains that there is a simultaneous and significant relationship between Institutional Ownership, Managerial Ownership, Independent Board of Commissioners, and Corporate Social Responsibility Disclosure on Financial Distress.

T Statistic Test

T-Statistic Test Result Table

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.185391	0.602215	5.289454	0.0000
KI	-0.202139	0.586540	-0.344629	0.7325
KM	-1.556118	1.254220	-1.240706	0.2232
DKI	-2.904376	0.884216	-3.284690	0.0024
CSR	-1.407569	0.451591	-3.116909	0.0037

Source: E-views 12 output (2025)

Based on table 4.10 above, the following conclusions can be drawn:

a. The independent variable of Institutional Ownership has a probability value of 0.7325, this value is greater than the significance level of 0.05 and the regression coefficient is negative at -0.202139 so that Ho is accepted, which means that the independent variable of Institutional Ownership does not have a significant effect on Financial Distress.

b. The independent variable Managerial Ownership has a probability value of 0.2232, this value is greater than the significance level of 0.05 and the regression coefficient has a negative value of -1.556118 so that Ho is accepted, which means that the independent variable Managerial Ownership does not have a significant effect on Financial Distress.

c. The independent variable of the Independent Board of Commissioners has a probability value of 0.0024, this value is smaller than the significance level of 0.05 and the regression coefficient has a negative value of -2.904376 so that Ho is rejected, which means that the independent variable of the Independent Board of Commissioners has a negative and significant effect on Financial Distress.

d. The independent variable of CSR disclosure has a probability value of 0.0037, this value is smaller than the significance level of 0.05 and the regression coefficient is negative at -1.407569 so that Ho is rejected, which means that the independent variable of CSR disclosure has a negative and significant effect on Financial Distress.

Coefficient of Determination

Results of Determination Coefficient Test

R-squared	0.329670	Mean dependent var	0.267424
Adjusted R-squared	0.250808	S.D. dependent var	0.233298
S.E. of regression	0.201933	Sum squared resid	1.386421
F-statistic	4.180327	Durbin-Watson stat	1.843698
Prob(F-statistic)	0.007358		

Source: E-views 12 output (2025)

Based on table 4.11, the Adjusted R-squared value is0.250808 (25.08%). This indicates thatshows that the model can explain the variation in changes in financial distress by 25.08% by the four independent variables (X1–X4). While the remaining 74.92% is explained by other variables outside the model.

Research result

The Influence of Institutional Ownership on Financial Distress

The results of the regression test show that institutional ownership has a negative effect on financial distress, with a regression coefficient of -0.202139. However, the probability value of 0.7325 indicates that the effect is not statistically significant, because it is far above the significance level of 5% (0.05). Thus, the null hypothesis is accepted and the alternative hypothesis is rejected, which means that partially, institutional ownership does not have a significant effect on the level of financial distress.

Theoretically, institutional ownership is considered to have a stronger monitoring role over management, considering that institutional investors such as pension funds, insurance companies, and other financial institutions usually have the resources to conduct tighter evaluations and controls over the running of the company. However, the insignificance of this influence indicates that this role may not have been optimally implemented in property and real estate companies during the observation period. This could be due to institutional ownership being dispersed, not dominant, or not active in the company's strategic decision-making process.

Within the framework of agency theory, institutional ownership should be one of the governance mechanisms that can reduce conflicts of interest between management and capital owners. However, in the context of the results of this study, it seems that the existence of institutional ownership is not strong enough to significantly reduce the risk of financial distress. This confirms that the presence of institutions as shareholders needs to be supported by activeness and involvement in the supervisory function, not just nominal ownership.

The Influence of Managerial Ownership on Financial Distress

The regression coefficient for the managerial ownership variable is recorded at -1.556118 with a probability value of 0.2232, which is still greater than the significance level of 0.05. This means that statistically the effect of managerial ownership on financial distress is not significant, although the direction of the relationship is negative. Thus, the null hypothesis is accepted and the alternative hypothesis is rejected, which means that partially managerial ownership does not have a significant effect on financial distress.

Theoretically, managerial ownership is expected to align the interests of managers and shareholders, because managers also own shares in the company. From an agency theory perspective, this should reduce the potential for conflicts of interest and encourage managers to act in the best interests of the company. However, the results of this study indicate that the incentive effect of managerial share ownership is not strong enough to provide a real influence on reducing the risk of financial distress.

The possible causes are the low proportion of managerial ownership among Indonesian property and real estate companies, or the mismatch in time orientation between managers and owners. If management is oriented towards short-term results while the company is facing long-term structural pressures, then managerial share ownership does not always result in effective control. The implication of this finding is that managerial ownership cannot be viewed as the only reliable internal governance mechanism in preventing financial risk, and needs to be supported by other monitoring instruments.

The Influence of Independent Board of Commissioners on Financial Distress

The regression results show that the independent board of commissioners variable has a significant negative effect on financial distress, with a coefficient value of -2.904376 and a probability value of 0.0024, which is smaller than the 5% significance level. This means that the null hypothesis is rejected and the alternative hypothesis is accepted. Thus, partially, the proportion of independent boards of commissioners in a company has a significant effect on reducing the risk of financial distress.

The independent board of commissioners is part of the Good Corporate Governance mechanism that is tasked with monitoring management performance objectively. Because it has no interest relationship with management, this board is considered more capable of providing evaluation and control over decision-making, including risk management and regulatory compliance. This finding confirms the importance of the existence of an independent board of commissioners in controlling potential deviations and maintaining the company's financial stability.

In the context of the property and real estate sector which is highly influenced by macroeconomic fluctuations and capital intensive, the presence of an independent board of commissioners is crucial in assessing and balancing long-term strategic policies. In practice, these results strengthen the argument that companies are not enough to just fulfill the formal aspects of the existence of an independent board of commissioners, but must also ensure that the supervisory function is truly carried out actively and independently.

The Influence of Corporate Social Responsibility Disclosure on Financial Distress

The Corporate Social Responsibility (CSR) disclosure variable shows a significant negative effect on financial distress, with a coefficient value of -1.407569 and a probability value of 0.0037. Because the probability value is below the significance level of 0.05, the null hypothesis is rejected and the alternative hypothesis is accepted. Thus, partially, the level of CSR disclosure has a negative and significant effect on the company's financial distress.

The negative impact shows that the higher the CSR disclosure, the lower the potential for the company to experience financial pressure. This is in line with the concept of CSR as a strategic instrument that can improve the company's reputation, strengthen relationships with stakeholders, and increase trust from investors and customers. CSR that is consistently disclosed can also be a positive signal that the company has a long-term orientation and commitment to sustainability, which ultimately creates operational and financial stability.

In the property and real estate industry, CSR practices are very important because corporate activities often have significant social and environmental impacts. Good disclosure not only increases the legitimacy of the company in the eyes of the public but also reflects high quality governance. Therefore, the results of this study indicate that CSR is not just a regulatory obligation, but can play a significant role in reducing the possibility of companies experiencing financial distress.

Simultaneous Influence of Independent Variables on Financial Distress

The simultaneous test conducted through the F test produces an F-statistic probability value of 0.007358, which is below the 5% significance level. This shows that together, the four independent variables in this study, namely institutional ownership, managerial ownership, independent board of commissioners, and CSR disclosure, have a significant effect on financial distress.

The coefficient of determination (R-squared) value of 0.2508 indicates that 25.08% of the variation in financial distress can be explained by the regression model built, while the remaining 74.92% is explained by other factors outside this model. This indicates that although this model has a significant contribution, there are still many other external factors such as macroeconomic conditions, industry structure, and project risks that affect the company's financial condition.

Overall, these results emphasize the importance of implementing Good Corporate Governance principles and disclosing social responsibility in an effort to maintain the company's financial sustainability. Companies cannot rely on just one mechanism, but need to integrate various complementary governance instruments. On the other hand, investors and regulators can also use these factors as early indicators in assessing a company's financial risk.

CONCLUSION

This study aims to analyze the effect of Good Corporate Governance and Corporate Social Responsibility disclosure on the risk of financial distress in property and real estate sub-sector companies listed on the Indonesia Stock Exchange during the period 2021-2023. The number of observations obtained in this study was 39 observations from 13 property and real estate sub-sector companies. Based on the results of the research and discussion, the following conclusions were obtained:

1. Based on the statistical tests that have been conducted, institutional ownership, managerial ownership, independent board of commissioners, and corporate social responsibility disclosure have a simultaneous effect on financial distress in the property and real estate sub-sector listed on the Indonesia Stock Exchange for the 2021-2023 period. The variables of institutional ownership, managerial ownership, independent board of commissioners, and corporate social responsibility disclosure are able to explain financial distress by25.08%, while the remaining 74.92% is explained by other variable factors that were not studied.
2. Based on partial testing of each variable on financial distress, the following conclusions can be drawn:

a. Institutional ownership has no effect on the risk of financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2021-2023 period.
b. Managerial ownership has no effect on the risk of financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2021-2023 period.
c. The independent board of commissioners has a significant negative effect on the risk of financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2021-2023 period.

Disclosure of corporate social responsibility has a significant negative effect on the risk of financial distress in property and real estate companies listed on the Indonesia Stock Exchange for the 2021-2023 period.

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