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THE INFLUENCE OF GOOD CORPORATE GOVERNANCE, INTANGIBLE ASSETS, AND SALES GROWTH ON FINANCIAL DISTRESS IN MANUFACTURING FIRMS LISTED ON THE INDONESIA STOCK EXCHANGE DURING THE 2022–2024 PERIOD

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Abstract

This study investigates the determinants of financial distress in companies, emphasizing the roles of good corporate governance, intangible assets, sales growth, leverage, and liquidity. The research aims to provide empirical evidence on how these variables influence a firm's likelihood of experiencing financial difficulties. A quantitative research approach was adopted, utilizing secondary data from annual reports of publicly listed companies over a defined observation period. Multiple regression analysis was applied to test the hypotheses, supported by classical assumption tests to ensure model validity. The results reveal that the size of the board of directors, the size of the board of commissioners, the presence of an effective audit committee, and managerial ownership significantly contribute to reducing financial distress. Sales growth was also found to have a positive effect on financial stability by strengthening operational performance and debt repayment capacity. Conversely, intangible assets showed no significant impact, while leverage exhibited a negative effect, indicating that debt structure management plays a critical role in distress prevention. Liquidity positively affected the ability to meet short-term obligations, reinforcing its importance in maintaining financial health. Overall, the findings highlight the interplay between governance mechanisms, operational growth, and financial structure in mitigating financial distress.

Keywords: ***Financial Distress, Corporate Governance, Leverage***

INTRODUCTION

The global economy has undergone significant structural changes in recent years, leading to heightened competition among manufacturing companies. Financial distress has emerged as a critical issue that can threaten a firm's operational continuity and stakeholder confidence. This condition occurs when a company fails to meet its financial obligations, often signaling potential bankruptcy (Panigoro et al., 2023). Economic fluctuations, market volatility, and technological disruptions have amplified the vulnerability of businesses to financial instability. Policymakers, investors, and managers have therefore intensified their focus on corporate governance mechanisms as preventive measures. The complexity of these challenges requires a comprehensive evaluation of internal and external factors that influence financial resilience.

The implementation of Good Corporate Governance (GCG) is widely recognized as an essential tool to reduce the likelihood of financial distress. Through effective board oversight, transparent disclosure, and accountability, companies can strengthen investor trust and operational efficiency. GCG plays a crucial role in shaping managerial decisions, aligning them with shareholder interests, and minimizing agency conflicts (Nurcahyono et al., 2025). Empirical studies indicate that robust governance practices not only enhance firm performance but also mitigate risks associated with financial instability. In manufacturing sectors, where operational complexity and capital intensity are high, the governance framework becomes even more critical (Tanjung et al., 2023). The link between governance quality and a firm's ability to withstand adverse economic conditions highlights the urgency of further investigation. Apart from governance, intangible assets have attracted increasing attention in recent financial research. These assets, including intellectual property, brand value, and human capital, contribute significantly to a company's competitive advantage. Firms that strategically manage and invest in intangible assets often achieve sustainable growth and improved market valuation (Ionita & Dinu, 2021). In the manufacturing

industry, intangible resources play a vital role in innovation, product differentiation, and operational efficiency. The valuation of intangible assets, however, is often challenging due to their non-physical nature and evolving market relevance (Abebe Zelalem & Ali Abebe, 2022). This complexity necessitates a deeper understanding of their contribution to financial stability. Sales growth, as a measure of a company's market performance, also provides valuable insights into financial health. Rapid sales growth often indicates strong market demand and competitive positioning, yet it can also pose risks if not supported by adequate financial and operational resources. Research suggests that sustained sales growth can serve as a protective factor against financial distress by improving cash flows and profitability (Muslimin & Bahri, 2023). Conversely, overly aggressive growth strategies may lead to increased leverage and operational strain, especially in capital-intensive manufacturing firms. Fluctuations in consumer demand, supply chain disruptions, and competitive pricing pressures add complexity to interpreting the relationship between sales growth and financial stability (Wangsih et al., 2021). The dual nature of this relationship warrants a balanced analysis in research.

In emerging markets such as Indonesia, manufacturing firms face distinctive challenges due to regulatory dynamics, resource limitations, and global market integration. The Indonesia Stock Exchange (IDX) serves as a platform for public companies to access capital and improve transparency. Nevertheless, market conditions remain highly competitive, and firms are under constant pressure to maintain performance indicators that align with investor expectations. Studies in Asian emerging markets highlight that governance mechanisms, intangible asset utilization, and sales growth patterns differ from those observed in developed economies (Younas et al., 2021). These differences create a unique setting for examining financial distress determinants. The period of 2022–2024 offers an especially relevant timeframe for such an investigation due to post-pandemic economic adjustments, global inflationary pressures, and fluctuating commodity prices. Manufacturing firms listed on the IDX during this period operate under conditions requiring strategic adaptability and sound financial management. Financial distress cases in this timeframe have underscored the importance of robust governance structures, strategic asset management, and sustainable growth trajectories (Farooq et al., 2021). The interplay between these variables provides valuable insights into resilience strategies for manufacturing firms. A rigorous empirical analysis will therefore enrich existing literature and support practical decision-making in corporate financial management (Arief et al., 2023).

LITERATURE REVIEW

Financial distress describes a condition in which a company experiences severe financial difficulties that hinder its ability to meet obligations. This state often precedes bankruptcy and leads to substantial losses for investors and creditors. Research emphasizes that identifying early warning signs, such as declining profitability and liquidity, is critical for preventive measures (Panigoro et al., 2023). Managers adopt various financial restructuring strategies to mitigate the adverse impacts of distress. In emerging markets, these challenges are often compounded by macroeconomic volatility and limited access to capital. Empirical evidence reveals that such factors significantly influence the probability of distress within non-financial firms (Farooq et al., 2021). The consequences of financial distress extend beyond direct financial losses, impacting employee morale, operational efficiency, and market reputation. Firms under distress tend to experience increased borrowing costs and reduced investor confidence. Studies have demonstrated that poor governance structures and ineffective risk management exacerbate the severity of financial distress (Nurcahyono et al., 2025). In manufacturing industries, where capital requirements and operational complexity are high, the onset of distress can be particularly damaging. External shocks such as demand fluctuations and supply chain disruptions further increase financial vulnerability. Evidence from Asian markets confirms that these conditions elevate the risk of distress in publicly listed companies (Younas et al., 2021).

Good Corporate Governance (GCG) refers to the framework of rules, practices, and processes by which a company is directed and controlled. This concept ensures that corporate resources are utilized efficiently while safeguarding the interests of stakeholders. Strong governance mechanisms are associated with reduced agency conflicts and enhanced decision-making quality (Tanjung et al., 2023). Board independence, transparent disclosures, and accountability systems form the foundation of effective governance. In manufacturing companies, GCG supports strategic planning and risk management to withstand market volatility. Empirical research has shown that firms with robust governance structures are less susceptible to financial distress (Muslimin & Bahri, 2023). The role of GCG in preventing financial distress lies in its capacity to improve oversight and align management objectives with shareholder value. Internal audit functions and clear reporting lines contribute to the early detection of potential risks. Prior studies highlight that GCG acts as a buffer during economic downturns by enhancing investor trust (Panigoro et al., 2023). Well-governed firms are more capable of adapting to changing business environments through strategic agility. The Indonesian manufacturing sector provides evidence of GCG's effectiveness in maintaining operational

stability during financial challenges. Findings in emerging markets support the argument that governance quality strongly influences corporate resilience (Younas et al., 2021). Intangible assets include non-physical resources such as patents, trademarks, brand reputation, and human capital that contribute to long-term value creation. These assets play a crucial role in maintaining competitiveness, especially in innovation-driven industries. Studies have demonstrated that investment in intangible assets positively impacts sustainable growth and firm valuation (Ionita & Dinu, 2021). In manufacturing companies, the utilization of intangible resources often determines market positioning and product differentiation. The measurement and valuation of intangible assets present challenges due to their non-tangible nature. Evidence suggests that such assets also influence financial policies and risk profiles in emerging market firms (Abebe Zelalem & Ali Abebe, 2022). The strategic management of intangible assets can enhance operational efficiency and financial performance. Firms with strong intellectual property portfolios and skilled human resources tend to generate higher returns on investment. Prior research underscores that intangible resources strengthen corporate resilience and adaptability during economic disruptions (Ionita & Dinu, 2021). In competitive manufacturing environments, intangible asset development supports innovation cycles and customer loyalty. The long-term benefits of such investments extend beyond financial metrics, influencing brand equity and stakeholder perception. Data from emerging markets indicate that intangible assets contribute significantly to financial stability (Abebe Zelalem & Ali Abebe, 2022).

Sales growth serves as an indicator of a firm's ability to expand market share and improve revenue streams. A consistent increase in sales reflects effective marketing strategies, product innovation, and operational efficiency. Research has linked stable sales growth with reduced financial distress risk by improving liquidity and profitability (Wangsih et al., 2021). However, aggressive expansion without sufficient resource support can strain finances and operational capacity. In manufacturing firms, sales fluctuations are influenced by production cycles, demand trends, and input cost volatility. Evidence shows that balanced sales growth strategies are essential for maintaining financial health (Arief et al., 2023). A company's sales performance often determines its ability to generate cash flows for reinvestment and debt servicing. High sales growth enables firms to strengthen their market positioning and attract investor interest. Prior studies reveal that sales growth interacts with governance and asset management to influence distress probability (Muslimin & Bahri, 2023). In emerging markets, external factors such as exchange rate volatility and trade policies can significantly affect sales patterns. Manufacturing companies must align sales strategies with operational capacities to ensure sustainable growth. Findings from the Indonesian manufacturing sector confirm that sales performance remains a key determinant of corporate financial stability (Arief et al., 2023).

METHOD

The research adopts a causal design aimed at testing hypotheses regarding the influence of independent variables Good Corporate Governance, intangible assets, and sales growth on the dependent variable, financial distress. The unit of analysis is manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The sample is determined using purposive sampling, which involves selecting companies based on predetermined criteria to ensure relevance to the research objectives. The inclusion criteria require that companies remain listed throughout the observation period, operate within the manufacturing sector, present audited financial statements by independent auditors, report at least one period of negative net income after tax within 2022–2024, and disclose financial statements in Indonesian rupiah. These requirements ensure that the selected companies reflect conditions associated with potential financial distress. Financial data and audit reports are collected from secondary sources available through the official IDX website. This design allows for a targeted examination of financial distress determinants in the manufacturing industry.

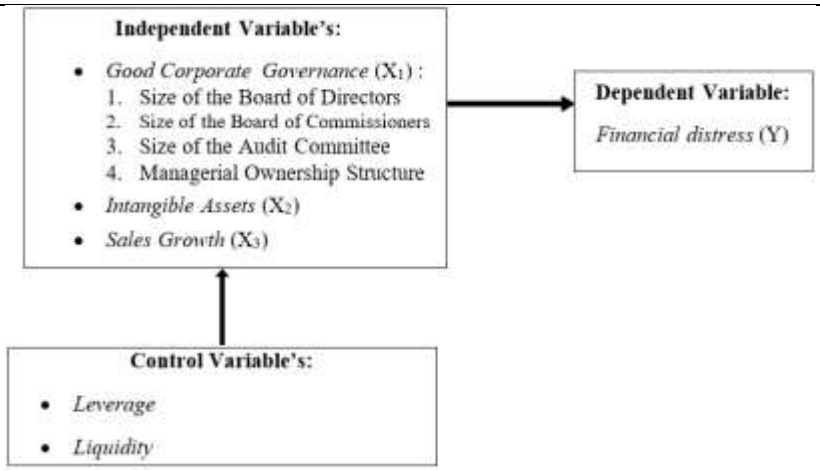

Figure 1 Conceptual Framework

Data collection employs documentation techniques by examining company financial reports and audit disclosures from the specified period. The analysis utilizes multiple regression through SPSS version 25 to determine the effect of the independent variables on financial distress. The statistical procedure incorporates descriptive statistics, classical assumption testing, and hypothesis testing to ensure the validity and reliability of the findings. Multiple regression is applied because it can assess the simultaneous impact of several predictors on the dependent variable. By integrating these analytical tools, the research systematically evaluates the relationships among governance practices, asset structure, sales performance, and financial distress. The methodological approach ensures that the analysis reflects both theoretical and empirical rigor. The outcomes provide insights that are applicable to corporate management, stakeholders, and policy formulation in the Indonesian manufacturing sector.

RESULTS AND DISCUSSION

Results

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Fdistress	108	-70,87	203,14	2,73	21,23
Dir_Size	108	2,00	11,00	4,07	2,13
Com_Size	108	2,00	10,00	3,69	1,82
Audit_Com	108	0,00	4,96	2,83	0,72
Kep_Man	108	0,00	73,93	9,83	20,02
Leverage	108	0,00	3,74	0,71	0,59
Likuiditas	108	0,02	42,44	2,18	4,92
Intangible_Assets	108	0,00	1,00	0,29	0,45
Sales_Growth	108	-0,99	6,50	0,06	0,76
Valid N (listwise)	108				

The descriptive statistical analysis covered 108 manufacturing companies listed on the Indonesia Stock Exchange during 2022–2024, presenting minimum, maximum, mean, and standard deviation values for each variable. Financial distress recorded a minimum of –70.87, a maximum of 203.14, a mean of 2.73, and a standard deviation of 21.23, indicating an average condition within the grey area. The analysis showed that the average board of directors consisted of 4.07 members, the board of commissioners averaged 3.69 members, and the audit committee averaged 2.83 members, approaching the regulatory minimum of three. Managerial ownership averaged 9.83%, intangible assets averaged 0.29, and sales growth averaged 0.06, each reflecting relatively low values compared to their respective ranges. Leverage averaged 0.71, suggesting lower financial risk, while liquidity averaged 2.18, which, when closer to the minimum, could increase the likelihood of financial distress. These findings illustrate the variation and distribution of governance, asset, performance, and financial ratio variables across the sampled firms.

Classical Assumption Test

Normality Test

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		108
Normal Parameters[a,b]	Man	0,000
	Std. Deviation	,50465208
Most Extreme Differences	Absolute	,062
	Positive	,044
	Negative	-,062
Test Statistic		,062
Asymp. Sig. (2-tailed)		,200[c,d]

The normality test results indicate that the constructed multiple regression model follows a normal distribution. This is evidenced by the significance value from the test, which exceeds 0.05 (0.05 < 0.098). Therefore, it can be concluded that the regression model employed for hypothesis testing satisfies the normality assumption.

Multicollinearity Test

Table 3. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Dir_Size	0,336	2,975
	Com_Size	0,767	1,304
	Audit_Com		
	Kep_Man	0,384	2,605
	Leverage	0,708	1,412
	Likuiditas	0,964	1,037
	Intangible_Assets	0,715	1,398
	Sales_Growth	0,967	1,034
	a. Dependent Variable: FD		

The table above demonstrates that all variables have VIF values below 10, leading to the conclusion that multicollinearity is absent (H0 is accepted). In addition, the tolerance values each exceeding 0.10 indicate that no correlation exists among the independent variables.

Autocorrelation Test

Table 4. Durbin Watson Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,277[a]	0,077	0,200	21,20821	2,064

Based on the table 4 at a 5% significance level, with a sample size of 108 and three independent variables (k = 3), the Durbin–Watson table provides an upper bound (du) value of 1.7437. Since the calculated Durbin–Watson value of 2.064 is greater than the upper bound (du) of 1.7437 and less than 4 – du (4 – 1.7437 = 2.2563), it can be concluded that autocorrelation is not present.

Heteroscedasticity Test

Table 5. Glejser Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	17,079	9,420		1,813	0,073
	Dir_Size	-0,389	1,368	-0,044	-0,285	0,777
	Com_Size	-0,918	1,513	-0,095	-0,606	0,546
	Audit_Com	1,571	2,509	0,065	0,626	0,533
	Kep_Man	-0,180	0,130	-0,179	-1,745	0,084
	Leverage	-7,731	3,718	-0,238	-2,079	0,060
	Likuiditas	-0,275	0,483	-0,057	-0,570	0,570
	Intangible_Asset	-4,371	4,302	-0,105	-1,016	0,312
	Sales_Growth	-7,947	4,919	-0,178	-1,616	0,109

The heteroscedasticity test results indicate that all variables exhibit significance values greater than 0.05. Therefore, it can be concluded that the regression model is free from heteroscedasticity issues.

Hypothesis Testing

Coefficient of Determination Test (R-Square)

Table 4 shows an adjusted R^2 value of 0.200, indicating that the independent variables good corporate governance, intangible assets, and sales growth explain 20% of the variation in the dependent variable, financial distress. The remaining 80% of the variation in financial distress is influenced by other independent variables not included in the model.

F-Statistic Test (Simultaneous F-Test)

Table 6. Results of the F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	237,183	8	29,648	6,745	0,000[a]
	Residual	347,271	99	4,396		
	Total	584,454	107			

Table 6 indicates that the significance value (F) is 0.00, which is less than 0.05 ($\alpha = 0.05$). Therefore, it can be concluded with a 95% confidence level that all variables, when considered together, exert a significant influence on financial distress.

Statistical t-Test (Partial Test)

Table 7 Results of Regression t-Test

Model		Prediction	B	t	Sig	Description
1	(Constant)		14,206	1,312	0,193	
	Directur Size	Negative	-2,153	-1,506	0,135	Positive
	Commissaris Size	Negative	1,464	0,858	0,393	Positive
	Komite Audit	Negative	0,203	0,068	0,946	Positive
	Kepemilikan Manajerial	Negative	-0,090	-0,830	0,409	Positive
	Leverage	Negative	-7,776	-2,016	0,047	Negative
	Likuiditas	Negative	-0,032	-0,075	0,940	Positive
	Intangible Assets	Positive	-7,226	-1,503	0,136	Not impactive
	Sales Growth	Negative	-1.810	-0,638	0,525	Positive

Based on table 7, the partial test results indicate that board size has a positive but insignificant effect on financial distress, with a t-value of 1.506, a significance level of 0.135, and a regression coefficient of –2.153, suggesting that larger boards tend to reduce the likelihood of financial distress. The size of the board of commissioners also shows a positive but insignificant influence, as reflected in a t-value of 0.858, a significance

level of 0.393, and a regression coefficient of 1.464, implying potential effects on financial distress. The audit committee size demonstrates a positive yet insignificant effect, with a t-value of 0.068, a significance level of 0.946, and a coefficient of 0.203, indicating that larger committees may reduce financial distress. Managerial ownership exhibits a positive but insignificant effect, with a t-value of 0.830, a significance level of 0.409, and a regression coefficient of –0.090, showing potential influence on financial distress. Intangible assets present no significant impact, with a t-value of 1.503, a significance level of 0.136, and a coefficient of –7.226, suggesting they do not affect financial distress. Sales growth has a positive but insignificant effect, with a t-value of 0.638, a significance level of 0.525, and a coefficient of –1.810, indicating that higher sales growth may lower financial distress. Regarding control variables, leverage significantly influences financial distress ($p = 0.047$, $t = 2.016$), while liquidity shows no significant effect ($p = 0.940$, $t = 0.075$).

DISCUSSION

Effect of Board of Directors Size on Financial Distress

The hypothesis testing reveals that board size exerts a positive influence on financial distress. This finding contrasts with prior evidence suggesting that a larger board does not necessarily alleviate a firm's financial challenges, as the effectiveness of monitoring depends more on quality than quantity (Nurcahyono et al., 2025). In some cases, smaller boards may result in weaker oversight, yet this condition still fails to significantly affect the likelihood of distress. Furthermore, board size often functions merely as a formal requirement rather than a genuine driver of financial stability. Therefore, an increase in the number of directors does not guarantee improved financial outcomes.

Effect of Board of Commissioners Size on Financial Distress

The analysis demonstrates that the size of the board of commissioners has a positive impact on financial distress, contradicting studies indicating no significant effect (Younas et al., 2021). The effectiveness of this body largely depends on its monitoring and control mechanisms rather than its size. When governance structures fail to manage oversight effectively, the mere expansion of commissioners becomes irrelevant to financial stability. Consequently, the size of the board may indirectly contribute to negative financial outcomes. This implies that governance quality, not numerical strength, plays a pivotal role in mitigating distress.

Effect of Audit Committee on Financial Distress

The results indicate that the audit committee positively affects the mitigation of financial distress, aligning with research highlighting its importance in corporate governance (Panigoro et al., 2023). By independently overseeing financial reporting and external audits, the committee reduces the likelihood of distress. Effective audit committees ensure transparency, accuracy, and accountability in financial disclosures. This independent control function strengthens investor confidence and operational resilience. As a result, firms with active and well-structured audit committees are better positioned to avoid severe financial problems.

Effect of Managerial Ownership on Financial Distress

Managerial ownership is found to have a positive association with financial distress, differing from evidence suggesting no direct or indirect impact (Tanjung et al., 2023). In practice, a high proportion of external institutional ownership may dilute the influence of internal managerial stakes. This condition weakens the alignment between management decisions and shareholder value creation. Moreover, firms dominated by outside ownership may face constraints in implementing responsive financial strategies. Thus, managerial ownership alone does not ensure protection against distress.

Effect of Intangible Assets on Financial Distress

The findings reveal that intangible assets do not significantly influence financial distress, which contrasts with studies indicating that their growth can affect financial performance and risk levels (Ionita & Dinu, 2021). Due to the uncertainty of future benefits, high intangible asset levels may fail to enhance a company's long-term image. Such assets lack physical form, making them harder to value and more volatile in their impact on financial outcomes. Consequently, the absence of a significant relationship may stem from the unpredictable nature of their returns.

Effect of Control Variables (Leverage and Liquidity) on Financial Distress

The control variable analysis shows that leverage negatively influences financial distress, suggesting that well-managed debt can reduce the risk of financial instability (Wangsih et al., 2021). However, ineffective debt management could negate this benefit. Liquidity, on the other hand, exhibits a positive effect on reducing financial distress risk, as effective management of current assets enables timely fulfillment of obligations. Firms maintaining optimal liquidity are less likely to encounter severe financial challenges. Therefore, both factors serve as critical considerations in financial risk management strategies.

CONCLUSION

This study aims to examine the determinants influencing financial distress, focusing on good corporate governance (board of directors' size, board of commissioners' size, audit committee, and managerial ownership), intangible assets, sales growth, leverage, and liquidity. The findings indicate that the size of the board of directors positively affects financial distress; when more directors are appointed, stronger monitoring functions are carried out, thereby reducing the likelihood of financial distress. Similarly, the size of the board of commissioners has been found to exert a positive influence, as effective oversight and control mechanisms help mitigate financial difficulties. The audit committee's role is also significant, since independent supervision over financial reporting and external audits can lower the risk of distress. Managerial ownership positively affects financial distress, as companies with a higher proportion of insider ownership tend to avoid financial problems more effectively than those dominated by external shareholders. However, intangible assets were shown to have no significant effect; regardless of their presence, they do not directly influence company performance or sales growth due to the uncertainty of future benefits. In contrast, sales growth positively influences financial stability, since increased sales revenues strengthen financial performance and support debt repayment.

Leverage demonstrated a negative effect on financial distress, yet poor, unstructured, and ineffective debt management can still expose firms to potential difficulties despite low leverage levels. Liquidity, conversely, was proven to positively affect financial distress prevention, as effective management of current assets enables firms to meet short-term obligations promptly. While intangible assets were not a determining factor, tangible governance mechanisms consistently contributed to reducing distress. Strong monitoring by larger boards and effective audit committees has been recognized as essential for maintaining financial health. Managerial ownership's ability to align management and shareholder interests plays a critical role in mitigating financial risk. Furthermore, robust sales growth not only enhances profitability but also increases a company's capacity to manage obligations and sustain operations. Overall, the interplay of governance quality, operational performance, and financial structure determines whether a company can avoid or succumb to financial distress.

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