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Financial Distress in Relation to Board Characteristics and Political Connections: An Empirical Study of Companies with Special Notations on the Indonesian Stock Exchange

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ABSTRACT

This study aims to prove the influence between board characteristics and political connections on financial distress. This study uses secondary data from the annual reports of companies with special notations in Indonesia listed on the IDX. The sampling technique used purposive sampling and obtained 77 companies. The data analysis technique used is panel data analysis technique with the help of the EViews 12 program. The results showed that there is an influence between women's representation on the board of commissioners and financial distress condition. However, the results do not support the influence between proportion of independent commissioners, size of the board of commissioners, size of the board of directors, representation of women on the board of directors and political connections. This study has limitations, including first, this research is only limited to several corporate governance variables such as the proportion of independent commissioners, the size of the board of commissioners, the size of the board of directors, the representation of women on the board of directors. Second, the measurement of financial distress variables only uses the Altman Z-Score Model indicator. Based on these limitations, further research can add other variables such as liquidity, leverage, company size in order to show more effective results from related variables. Second, further research can use other measurement indicators such as the Ohlson Model, Fulmer Model, Grover Model, Zmijewski Model and others.

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1. INTRODUCTION

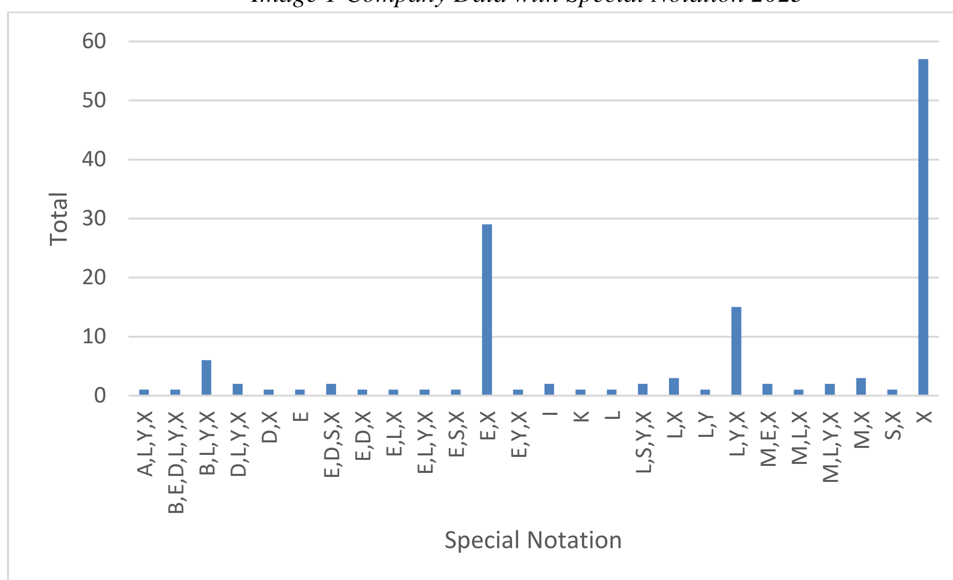
The viability of an entity is a key factor that serves as the basis for setting policies and managing an entity. However, maintaining the viability of an entity, especially in a business context, is not a simple task, as entities always face the risk of financial distress (Meirien Olivia et al., 2023) Financial distress is a condition that indicates that a company is having difficulty managing its financial aspects (Hanifah & Purwanto, 2013). Financial distress can start from liquidity problems which are the lightest initial sign of financial distress. Low liquidity can be the first signal of deeper financial problems. At a more severe level, financial distress can reach a stage where the company is no longer able to fulfill its obligations to creditors, ultimately leading to bankruptcy (Hanifah & Purwanto, 2013; Widhiadnyana & Dwi Ratnadi, 2019). Bankruptcy is the most severe indication of financial distress, signaling that the company is no longer able to fulfill its financial obligations and must seek an exit through legal proceedings. The journey from normal conditions to financial distress can go through various stages, which include a decrease in revenue, an increase in debt, a decrease in stock price, or even a loss of confidence from shareholders and creditors (Sutra & Mais, 2019).

In Indonesia alone, there are 67 go-public companies classified as financial distress and 2 of them cannot improve their performance which leads to delisting of shares, even the company can be declared bankrupt. One of the causes is the spread of the covid 19 virus around the world at the end of 2019. This certainly greatly affects the world economy, even in Indonesia. In Indonesia itself, the spread of the Covid 19 virus also affects the economic conditions in Indonesia. With the condition of the Indonesian economy, as a developing country that relies heavily on imports and increasing global competition, of course, it makes the possibility of financial difficulties even greater in Indonesian companies (Tao et al., 2017).

Since 2020, there have been many companies going public that have experienced financial difficulties and even bankruptcy. Based on data from the Indonesia Stock Exchange Website, there are 2 go public companies that are delisted in 2021-2023, namely Tunas Ridean Tbk and PT First Indo American Leasing Tbk. In the food and beverage sector, PT Tri Banyan Tirta Tbk (ALTO) is also experiencing similar problems. From 2015 to 2022, the company continued to record losses in its financial statements (Lausiri & Nahda, 2022). In the cigarette sector, PT Bentoel International Investama Tbk (RMBA) experienced significant losses. Recorded in 2022, the company also received a special notation from the Indonesia Stock Exchange (IDX), namely X (under special monitoring).

The special notations pinned to some of the issuers above indicate situations such as delays in obligations, significant losses, or problems in financial statements. This is in accordance with the rules of the Indonesia Stock Exchange (IDX) in the form of Circular Letter Number: SE-00001 / BEI / 12-2018 requires that companies be categorized into various special notations so that their conditions can be mapped. The special notation applied by the IDX is in the form of letters, each of which has a different meaning and is given variously to each issuer.

Image 1 Company Data with Special Notation 2023



Source: Indonesian Stock Exchange website data processed, 2024

Based on the graph above, there are at least 139 companies that received special notations in a row from 2022 to 2023. The special notation received by the company above indicates that there are unfavorable conditions such as a Request for Postponement of Debt Payment Obligations (PKPU) marked with a special notation M, the last year's financial report shows no business income marked with a special notation S, the last financial report shows negative equity marked with a special notation L, and in the worst conditions it can get a special notation B which marks a request for a Bankruptcy Statement, a request to cancel peace, or in a bankrupt condition. Based on the official website, several companies have also received a special notation B (Bankruptcy Statement application) and are threatened with delisting at the end of the year 2022-2023 period, as in the following table:

Table 1 Company Data with Special Notation B

Emiten Code	Special Notation
PT Cowell Development Tbk (COWL)	B,E,D,L,Y,X
PT Forza Land Indonesia Tbk (FORZ)	B,L,Y,X
PT Golden Plantation Tbk (GOLL)	B,L,Y,X
PT Grand Kartech Tbk (KRAH)	B,L,Y,X
PT Hanson International Tbk (MYRX)	B,L,Y,X

(Description attached)

Source: Indonesian Stock Exchange website data processed, 2024

In addition to receiving a special notation B, some of the companies above also received another special notation, the "L" notation, which indicates that the company has not submitted financial reports on time, leading to a lack of financial transparency and possibly hinting at internal problems. Not holding an Annual General Meeting of Shareholders (AGM) within six months after the financial year ends, marked with a "Y" notation, adds to concerns regarding poor corporate governance. Meanwhile, an "X" notation indicates that these companies are listed on the Special Monitoring Board, meaning they are under close scrutiny by exchange authorities due to potentially significant risks to investors. The special notations received by some companies on the Indonesian Stock Exchange indicate serious problems, including financial difficulties, weaknesses in governance, and non-compliance with stock

exchange rules. If these issues are not addressed, they may negatively impact the company's performance, share value, investor confidence, and business viability in the capital market.

To avoid financial distress conditions as above, companies must pay attention to problems related to financial distress by analyzing them early on because some of the causes of financial distress are financial difficulties due to unprofessional management or the company's lack of ability to maintain its operations. Bankruptcy affects investment and debt payments, so it needs to be predicted accurately. Generally, companies do not go bankrupt immediately, but experience a long period of financial distress beforehand. Financial distress is a phase in which a company's financial condition declines before bankruptcy or liquidation occurs (Yosua & Pamungkas, 2019).

There are several factors that influence the occurrence of financial distress conditions including board characteristics consisting of the proportion of independent commissioners, the size of the board of commissioners, the size of the board of directors, the presence of women on the board of commissioners, the presence of women on the board of directors. The existence of an independent board of commissioners plays an important role as the main pillar in the structure of good corporate governance. Generally, a larger proportion of independent commissioners will have better corporate governance (Hanifah & Purwanto, 2013). The presence of independent commissioners is expected to be able to make the performance of commissioners in supervising the behavior of directors more objective. Thus, a larger number of independent commissioners in the company will make the company's performance better and be able to avoid financial distress (Dirman, 2020). This is in line with several studies by Diantari et al. (2016); Hanifah & Purwanto (2013); Mardahlia & Ghozali (2023); Nugrahanti et al. (2020) which shows that the Proportion of the Independent Board of Commissioners has a Negative Effect on Financial Distress Conditions so that the greater the number of independent commissioners, the lower the potential for financial distress. In addition, in research conducted by Aisyah & Afriyenti (2022); Hanifah & Purwanto (2013); Ningrum & Hatane (2017); Yosua & Pamungkas (2019); Yusra & Bahtera (2021)shows that the Proportion of the Independent Board of Commissioners has no effect on Financial Distress Conditions.

Apart from the Independent Board of Commissioners, the size of the Board of Commissioners is also one of the factors that minimize the occurrence of financial distress conditions. The size of the board of commissioners will affect the ability of the board of commissioners in terms of the main function of monitoring the performance of the board of directors as the party that manages the company's operations. Too few commissioners can indicate limitations in the monitoring function carried out in the company, especially when compared to companies that are not facing financial pressure. This condition can increase the risk of financial difficulties that may arise. This means that the greater the number of boards of commissioners in a company will increase the ability to supervise the performance of the directors. In addition, a larger board size can provide broader expertise and experience, which can help companies identify potential problems more quickly, including early signs of financial distress. This is in line with research from Ningrum & Hatane (2017); Nugrahanti et al. (2020); Samudra (2021) which shows that the size of the board of commissioners has a significant negative effect on financial distress. This is different from research from Gaos & Mudjiyanti (2021); Hanifah & Purwanto (2013); Lestari & Wahyudin (2021) which shows that the size of the board of commissioners does not affect financial distress. which shows that the size of the board of commissioners has no effect on financial distress.

Furthermore, the size of the Board of Directors also affects Financial Distress Conditions in Indonesia. Based on research conducted by Adinda & Musdholifah (2020) board size, which refers to the number of individuals appointed as company directors, is an important indicator in corporate governance. With a strong and effectively functioning board of directors, this potential conflict can be reduced because it can make strategic decisions. A large and diverse board also allows for a broader perspective in policy making, which will support corporate stability and avoid financial risks such as financial distress. The large size of the board of directors reflects the company's ability to manage management and access diverse resources. This is supported by research showing that the size of the board of directors has a negative effect on financial distress conditions (Hanifah & Purwanto, 2013; N. Kurniawati & Aligarh, 2021; Lestari & Wahyudin, 2021; Nugrahanti et al., 2020; Yosua & Pamungkas, 2019) This is different from research by Alexandra et al. (2022); Maydah & Serly (2019) which show that there is no influence between board size and financial distress.

Furthermore, gender diversity in the board of directors and board of commissioners also affects financial distress conditions. In this case, gender diversity consists of female representation on the Board of Commissioners and female representation on the Board of Directors. Women's representation on the Board of Commissioners reflects the implementation of gender equality and has the potential to bring positive transformation in the company's supervision. The board of commissioners itself is part of the company's organ that is tasked and collectively responsible for supervising and providing advice to the board of directors and ensuring the implementation of effective and efficient Good Corporate Governance practices. However, the board of commissioners may not participate in making operational decisions (Utami & Cahyono, 2023).

While boards have traditionally been dominated by men, more and more women are taking up these positions, demonstrating gender diversity. Ensure better oversight and tend not to make decisions with overconfidence and are more risk-averse. As a result, companies that have a female board of commissioners are less likely to experience financial distres (Purwaningsih & Zelina, 2023). This is supported by research showing that women's representation in the Board of Commissioners has a negative effect on financial distress conditions (Abbas & Frihatni, 2023; Mardahlia & Ghozali, 2023; Samudra, 2021). This is different from research by García & Herrero (2021); Kalbuana et al. (2022); Nuswantara et al. (2023) which shows that there is a positive influence between women's representation on the board of commissioners and financial distress.

Women's representation on the Board of Directors also affects financial distress. Women's representation on the Board of Directors increases gender representation and signals a push for equality in company management. According to Khaoula and Moez (2019) in Carolina et al. (2020). The board of directors is responsible for allocating resources, improving company performance, and increasing shareholder wealth by ensuring efficient use of assets and making strategic decisions for sustainable growth. The presence of women on boards of directors often improves the quality of corporate profits and brings flexible leadership traits and is open to various perspectives. Women tend to be less tolerant of selfish behavior, more attentive to collective needs, and more cautious in taking risks, which can reduce agency conflicts between shareholders and management.

Overall, women in corporate governance can reduce the risk of financial distress and improve the quality of decision-making. Some literature shows that the presence of women on the board of directors has a negative effect on financial distress conditions (Abbas & Frihatni, 2023; Mardahlia & Ghozali, 2023; Samudra, 2021). This is in contrast to research by García & Herrero (2021); Kalbuana et al. (2022); Nuswantara et al. (2023) which shows that there is a positive influence between women's

representation on the board of commissioners and financial distress. As well as the findings of Fara Fatima et al. (2023) which show that there is no influence between women's representation on the board of directors and financial distress conditions.

Political connections between companies and governments can also provide benefits, generally in the form of political support, policy access, and preferences in government contracts. A company is said to have political connections if it has a top official or the largest shareholder who has a political background or is related to a politician. However, political connections do play a significant role in increasing the risk of financial distress, especially when corporate governance is not implemented effectively. In Indonesia, weak supervision and corporate governance provide room for managers with political connections to utilize their positions to enrich themselves, which ultimately leads to increased corporate financial distress.

According to Habib et al. (2017) in Nugrahanti et al. (2020) states that political connections are often used for personal gain, which actually worsens the company's financial condition. In addition, the implementation of corporate governance, namely the board of commissioners, is only limited to fulfilling applicable regulations, as a result the supervisory process has not run optimally and has not been able to reduce financial distress. This is in line with the literature which shows a significant positive effect between political connections and financial distress (Kalbuana et al., 2014). (Kalbuana et al., 2022; Nugrahanti et al., 2020; Tao et al., 2017). However, in contrast to research by Kharis & Nugrahanti (2022) which shows that there is a negative influence between political connections and financial distress.

This study uses profitability, as measured by Return on Assets (ROA). Return on Assets (ROA) is used as an important indicator to evaluate the company's financial performance. ROA is an important tool to evaluate the company's effectiveness in utilizing its assets to create profits. The higher the ROA, the better the company is at utilizing assets to generate profits. The use of this profitability control variable is consistent with previous research (Nuswantara et al., 2023)..

By understanding the factors that influence financial distress, stakeholders can make more informed investment decisions, while companies can manage their finances to avoid financial distress. This study will examine the influence between the proportion of independent commissioners, board size, board size, female representation on the board of commissioners, female representation on the board of directors and political connections on financial distress. This study uses secondary data in the form of financial reports of companies that get special notations in Indonesia.

This research was conducted on companies listed on the IDX in the 2022-2023 period which received special notations B, M, A, E, D, S, C, Q, Y, F, G, V, X. This research is a development of research by Kalbuana et al. (2022). The development was carried out by adding the variables of the Proportion of Independent Commissioners and the Size of the Board of Commissioners based on research by Nugrahanti et al. (2020). In addition, this research was also conducted on different objects, this research was conducted on companies that received special notations B, M, A, E, D, S, C, Q, Y, F, G, V, X on the Indonesia Stock Exchange (IDX). Special notations on several companies on the Indonesia Stock Exchange (IDX) indicate financial problems or certain risks(Hudaya et al., 2024a, 2024b; Lausiri & Nahda, 2022) From some of the gaps and differences in previous research, therefore the authors are interested in conducting a study entitled "**Financial Distress in view of Board Characteristics and Political Connections: An Empirical Study of Companies with Special Notations on the Indonesian Stock Exchange".**

Literature Review

Agency Theory

This study uses Agency Theory to analyze the impact between the proportion of independent commissioners, board of commissioners, board of directors, and gender diversity and political connections on the likelihood of financial distress in the company. Agency Theory describes the relationship between owners (principals) and managers (agents) that is often characterized by information asymmetries and conflicts of interest, where shareholders provide a mandate to managers who may act in their personal interests (Kharis & Nugrahanti, 2022; Michael C. Jensen, 1976; Nuswantara et al., 2023; Scott, 2015)

Hypothesis Development

The Relationship Between Independent Board of Commissioners and Financial Distress

The independent board of commissioners is responsible for monitoring management performance and acting independently without pressure from other parties. The higher the proportion of independent commissioners, the more effective the supervisory process will be so that the company's operations can run smoothly (Nursiva & Widyaningsih, 2020). The higher the proportion of independent commissioners, the lower the level of financial distress, because the independent board of commissioners will work efficiently to help overcome all situations that lead to bankruptcy (Kharis & Nugrahanti, 2022).

Agency theory states that the presence of external parties who are not affiliated with the company can strengthen the supervision carried out by the board of commissioners against management, which then has a positive impact on the company's financial performance (Yulianti & Cahyonowati, 2023). This theory also highlights the imbalance of information between management as agents and shareholders as principals (Michael C. Jensen, 1976). Thus, increasing the proportion of independent board members is expected to reduce conflicts of interest between principals and agents, thereby reducing the potential for financial distress. Several previous studies have shown that the Proportion of Independent Commissioners Has a Negative Effect on Financial Distress Conditions(Diantari et al., 2016; Mardahlia & Ghozali, 2023; Nugrahanti et al., 2020). Then the first hypothesis can be formulated as follows:

H1: The Proportion of Independent Commissioners Negatively Affects Financial Distress

Relationship Between Board of Commissioners Size and Financial Distress

The Board of Commissioners, as an entity within the company structure, has broad responsibilities in conducting overall supervision or focusing on specific aspects in accordance with the provisions stated in the articles of association. One of its main functions is to provide advice to the board of directors (H. Kurniawati, 2016). The existence of the Board of Commissioners is one of the crucial aspects in the corporate governance mechanism needed to minimize agency problems between company owners and managers, with the aim of creating a balance of interests between the two. This approach is based on the theoretical basis of Agency Theory, which asserts that a larger board size can strengthen supervision of management more effectively. This is because a large board size has the potential to gain a wide variety of experience and knowledge, and is able to provide more in-depth advice to advance the company, which will result in more optimal company performance and financial performance. With good financial performance, the company will be better able to avoid the risk of financial distress (Deva Putri Damayanti & Widati, 2024). Several previous studies have shown that the size of the Board of Commissioners has a negative effect on financial distress conditions. (Ningrum

& Hatane, 2017; Nugrahanti et al., 2020; Samudra, 2021). Then the second hypothesis can be formulated as follows:

H2: Board of Commissioners Size Has a Negative Effect on Financial Distress

Relationship Between Board of Directors Size and Financial Distress

The board of directors is a corporate institution that has full authority in managing the company in accordance with its objectives and interests, as well as representing the company both inside and outside the court in accordance with the provisions stated in the articles of association. According to Parkinson (2016), the board of directors has control over the company's assets and is responsible for ensuring that the performance of all managers supports the company's success without violating the law or established limits. A large number of board members can strengthen the process of making useful and appropriate policies, thus helping the company to remain stable and avoid serious financial problems.

In the perspective of agency theory, the board of directors is a corpo\rate governance mechanism that helps minimize conflicts between owners and managers, thereby providing added value to all parties involved and reducing the risk of financial problems that could potentially harm the company in the long term. So as to reduce the potential for financial distress. Several previous studies have shown that the size of the Board of Commissioners has a negative effect on financial distress conditions (Hanifah & Purwanto, 2013; N. Kurniawati & Aligarh, 2021; Lestari & Wahyudin, 2021; Nugrahanti et al., 2020; Yosua & Pamungkas, 2019). Then the second hypothesis can be formulated as follows:

H3: Board of Directors Size Negatively Affects Financial Distress

The Relationship Between Women's Representation on the Board of Commissioners and Financial Distress

The presence of women in the Board of Commissioners is also considered to have the potential to bring positive changes in decision-making and overall company supervision. In line with agency theory, shareholders rely on management to manage the company in their interests, but there is a risk that management will make decisions that benefit themselves rather than shareholders. The presence of women on boards of commissioners has the potential to increase oversight of management, thereby helping to reduce agency problems. Women on Boards of Commissioners tend to adopt a more cautious and collaborative approach, and avoid overconfidence. Increased diversity on boards allows women to provide new perspectives that can strengthen good corporate governance practices.

Thus, women's representation on the Board of Commissioners not only reflects gender equality, but also contributes to reducing the risk of financial distress by improving supervision and reducing conflicts between shareholders and management, in line with the principles of agency theory. This is in line with several previous studies which show that the size of the Board of Commissioners has a negative effect on financial distress conditions (Abbas & Frihatni, 2023; Mardahlia & Ghozali, 2023; Samudra, 2021).

Then the fourth hypothesis can be formulated as follows:

H4: The Presence of Women in the Board of Commissioners Negatively Affects Financial Distress Conditions**.**

The Relationship Between Women's Representation on the Board of Directors and Financial Distress

Women's representation on the Board of Directors signals a push to improve gender representation in the company's management structure. In general, women tend to exhibit less tolerance for selfish behavior and pay more attention to collective needs than their personal interests. However, they also have a lower tendency to take risks when making decisions, tending to be more cautious in considering risk factors before making decisions. This can reduce agency conflicts or misalignment between the interests of shareholders as principals and management as agents (Mardahlia & Ghozali, 2023).

The presence of women in director roles also often shows a tendency to improve the quality of corporate profits as well as bringing different leadership traits, flexibility, and openness to multiple perspectives. Overall, the presence of women in corporate governance structures can reduce the risk of financial distress and improve the quality of decision-making and corporate governance. Some literature also shows the result of a negative influence between the presence of women in the board of directors and financial distress (Abbas & Frihatni, 2023; Mardahlia & Ghozali, 2023; Samudra, 2021). Then the fifth hypothesis can be formulated as follows:

H5: The Presence of Women on the Board of Directors Negatively Affects Financial Distress Conditions.

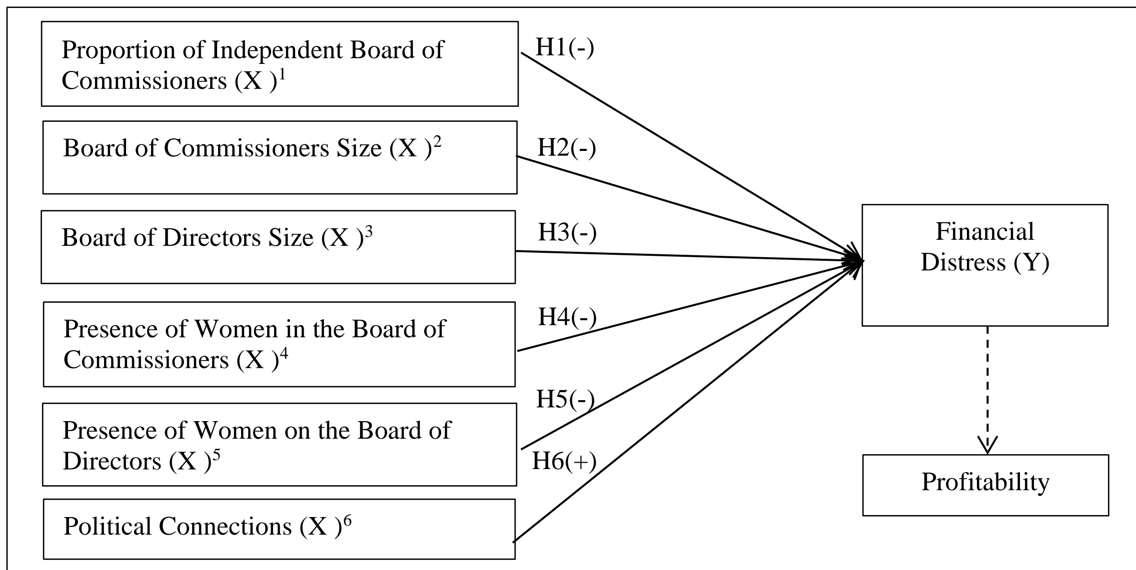
The Relationship Between Political Connection and Financial Distress

Based on agency theory, political relationships can exacerbate conflicts between shareholders (principals) and management (agents), and reduce the effectiveness of supervision. This situation can increase the costs associated with the relationship between shareholders and management, as management feels more protected and risks making decisions that benefit themselves but harm shareholders. In addition, the presence of political networks can pose risks, such as incentivizing directors to seek personal gain, which can ultimately lower firm value and increase the risk of financial distress. However, political connections do play a significant role in increasing the risk of financial distress, especially when corporate governance is not implemented effectively.

In Indonesia, weak oversight and corporate governance provide room for managers with political connections to utilize their positions to enrich themselves, which ultimately leads to increased corporate financial stress. According to Habib et al. (2017) in Nugrahanti et al. (2020) mentioned that political connections are often used for personal gain, which actually worsens the company's financial condition. In addition, the implementation of corporate governance, namely the board of commissioners, is only limited to fulfilling applicable regulations, as a result the supervisory process has not run optimally and has not been able to reduce financial distress. This in turn can reduce firm value and increase the risk of financial distress. In some literature, there is a significant positive effect between political connections and financial distress (Kalbuana et al., 2022; Nugrahanti et al., 2020; Tao et al., 2017). Then the sixth hypothesis can be formulated as follows:

H6: Political Connections Have a Positive Effect on Financial Distress Conditions.

Image 2 Research Framework



2. METHOD

Sample Selection and Data Sources

This research is a quantitative study using secondary data. In this study using official data taken from the financial statements of companies listed on the IDX in the 2022-2023 period that received special notations B (There is a request for a Bankruptcy Statement, a request for cancellation of peace, or in a bankrupt condition), M (There is a request for Postponement of Debt Payment Obligations (PKPU)), A (There is an Unfair (Adverse) Opinion from a Public Accountant), E (The last financial report shows negative equity), D (The existence of a "Disclaimer" Opinion from the Public Accountant), S (The latest financial statements show no business income), C (The occurrence of legal cases against the Listed Company, Listed Subsidiaries and / or members of the Board of Directors and members of the Board of Commissioners of the Listed Company that have a Material impact), Q (Restrictions on the business activities of the Listed Company and / or its subsidiaries by the regulator), Y (Listed Company that has not held an Annual General Meeting of Shareholders (AGMS) until 6 (six) months after the financial year ends), F (Administrative sanctions and/or written orders from the Financial Services Authority imposed on the Listed Company due to violations of regulations in the field of Capital Market with minor violations category), G (Administrative sanctions and/or written orders from the Financial Services Authority imposed on Listed Companies for violations of regulations in the Capital Market sector with moderate violation categories), V (Administrative sanctions and/or written orders from the Financial Services Authority imposed on Listed Companies for violations of regulations in the Capital Market sector with severe violation categories), X (Listed Companies are listed on the Special Monitoring Board).There are 154 total data taken from a sample of 77 companies listed on the Indonesian Stock Exchange (IDX) in the 2022-2023 period that received special notations B, M, A, E, D, S, C, Q, Y, F, G, V, X. The sample selection from this study used purposive sampling in the sample selection, where purposive sampling is a sample selection based on specific objectives and targets in a non-random manner (Sugiyono, 2018). The sample criteria that will be used in the study are as follows:

Table 2 Sampling Criteria

Companies listed on the Indonesia Stock Exchange and given special notation during the period 2022,2023	139
The company was not listed on the Indonesia Stock Exchange before December 30, 2022 and experienced delisting during the study period	-5
Financial statements not ending on December 31	0
The company provides incomplete data according to the needs of this research	0
Not yet published financial statements for 2022 and 2023	-57
Total Sample	77
Number of Years Observed	2
Total observed data (2 years x 77 companies)	154

Instrumentation/Data Collection

The secondary data sources used in this study consist of financial reports obtained through the official website of the Indonesian Stock Exchange (IDX) at https://www.idx.co.id/id, as well as financial reports downloaded directly from the official websites of the companies sampled in this study.

Variable Measurement

Financial distress

Financial distress is a situation where a company has difficulty in fulfilling its obligations due to complex financial problems (Linanda et al., 2024). Financial distress itself can be measured using various indicators, one of which is the Altman Z-Score Model with the Z-Score unit of measurement. The Altman Z-Score model can be calculated using the following formula:

$$Z\ score = 0.012X1 + 0.014X2 + 0.033X3 + 0.006X4 + 0.999X5$$

X1 : Working capital to total assets
X2 : Retained earnings to total assets
X3 : Earnings before interest and taxes to total assets
X4 : Market value of equity to book value of debt
X5 : Sales to total assets
Z : Overall index.

Generally, the higher the Z "score value obtained indicates a low level of financial distress. Based on the Z "score value, according to Aji (2022) Financial distress conditions in companies are divided into three categories, including:

1. The value of Z "score> 2.60 means that the company is in the green area category and does not experience financial distress.
2. The Z" score value between 1.10-2.60 means that the company is in the gray area and has the potential to experience financial distress.
3. Z" score <1.10 means that the company is in the red area and experiencing financial distress

Proportion of Independent Board of Commissioners

The proportion of Independent Commissioners is one of the important aspects of corporate governance. Independent Commissioners are boards that can act as supervisors of managers in implementing a corporate governance system (Widhiadnyana & Dwi Ratnadi, 2019). This proportion refers to the number of independent commissioners on the board of directors of a company (Setiawan et al., 2020). Proportion of Independent Board of Commissioners can be calculated using the following formula:

$$\text{Independent Board of Commissioners} : \frac{\text{Total Independent Board of Commissioners}}{\text{Total Board of Commissioners}}$$

Board of Commissioners Size

The size of the board of commissioners is a parameter that is considered proportional in representing the interests of shareholders of a corporate entity, so that the board of commissioners can carry out their functions effectively in managing corporate governance and accountable for their performance to shareholders (Widodo, 2017).

$$\text{Board of Commissioners Size} = \sum \text{Total Board of Commissioners Size}$$

Board of Directors Size

The size of the board of directors is an indicator that shows the number of individuals authorized to direct and manage the operations of a company. The board of directors usually consists of a number of directors selected based on certain criteria, led by a president director (usually called the CEO or *Chief Executive Officer*). The members of the board of directors are responsible for making strategic decisions that affect the overall direction and performance of the company (Erlangga & Hakim, 2022).

$$\text{Board of Directors Size} = \sum \text{Total Board of Directors Size}$$

Women on the Board of Commissioners

Woman in board of commissioners refers to the representation of women on the board of commissioners of a company. It reflects efforts to achieve gender diversity in the company's decision-making structure by ensuring that women have an equal role and representation in the supervision and strategic decision-making of the company(Kalbuana et al., 2022; Nuswantara et al., 2023). The variable Women in the Board of Commissioners can be measured using the following indicators:

$$\text{WOMC} = \frac{\text{Total Women on the Board of Commissioners}}{\text{Total Board of Commissioners}}$$

Women on the Board of Directors

Women on the refers to the presence of women on the board of directors of a company. The board of directors is the highest decision-making body in a company that is responsible for setting strategy, overseeing management performance, and determining company policy(Intia & Azizah, 2021; Kalbuana et al., 2022; Nuswantara et al., 2023). This Woman on Board Director variable can be measured using the following indicators: Board of Directors

$$\text{WOMD} = \frac{\text{Total Women on the Board of Directors}}{\text{Total Board of Directors}}$$

Political connections

Politically connected companies are companies that by exclusive rule have political ties or seek connections with the government. A company is said to be politically connected if one of the company's owners, board of commissioners, or directors has served or been an official in the government, military official, or member of parliament during the study period. The use of dummy variables is used in this study to measure political connections; this value is 1 for businesses that have verifiable political connections and 0 for businesses without such connections (Kalbuana et al., 2022; Nugrahanti et al., 2020; Nuswantara et al., 2023; Tao et al., 2017).

Profitability (ROA)

Profitability is the company's ability to make a profit. The company must make a profit in order to survive and grow in the long term. Companies that make a profit will be trusted by investors as an investment target. Likewise with creditors, who expect the company to pay its debts from the profits earned. The higher the company's profitability is believed to be, the better the company's

performance(Nugrahanti et al., 2020; Nuswantara et al., 2023). This Profitability variable can be measured using the following Return on Asset indicator:

$$ROA = \frac{\text{Net Profit}}{\text{Total Aset}}$$

Data Analysis Technique

Hypothesis testing and data analysis techniques in this study used panel data regression analysis with the help of Eviews 12 software. Based on the test results, the estimation method chosen is panel data regression with a random effect model. The regression equation in this study is as follows:

$$FD_{i,t} = \beta_0 + \beta_1 \, IDPDN_{i,t} + \beta_2 \, UKBoC_{i,t} + \beta_3 \, UKBoD_{i,t} + \beta \, WOMC_{4\,i,t} + \beta \, WOMD_{5\,i,t} + \beta_6 \, KP_{i,t} + \beta_7 \, ROA_{i,t} + \varepsilon_{i,t}$$

Description:

FD	: Financial Distress
β_0	: Constanta
β1-β7	: Regression coefficient
IDPDN	: Independent Board of Commissioner
UKBoC	: Board of Commissioners Size
UKBoD	: Board of Directors size
WOMC	: Women on the Board of Commissioners
WOMD	: Women on the Board of Directors
KP	: Political Connection
ROA	: Profitability
Ɛ	: Eror

3. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis aims to describe statistical data, such as minimum, maximum, average *(mean*), *standard deviation*, and so on. Descriptive statistics in this study include the value of the variables of the proportion of independent commissioners, size of the board of commissioners, size of the board of directors, representation of women on the board of commissioners, representation of women on the board of directors and political connections on financial distress with profitability as the control variable. The following is an overview of the variables in this study:

Table 3 Descriptive Statistical Test Results

	Y	X1	X2	X3	X4	X5	X6	K1
Mean	0.911080	0.463544	2.948052	3.077922	0.131122	0.116056	0.305195	23.25312
Median	0.180158	0.500000	3.000000	3.000000	0.000000	0.000000	0.000000	-0.020000
Maximum	21.37545	1.000000	9.000000	9.000000	1.000000	1.000000	1.000000	3612.440
Minimum	-1.648666	0.000000	1.000000	1.000000	0.000000	0.000000	0.000000	-9.500000
Std. Dev.	2.989710	0.139365	1.394631	1.350538	0.219193	0.206055	0.461992	291.1175
Skewness	5.600755	0.975157	2.558552	1.583048	1.813737	1.881082	0.846078	12.28819
Kurtosis	35.70952	6.153817	10.44986	5.957072	6.259504	6.450328	1.715848	152.0019
Jarque-Bera	7670.396	88.23102	524.1462	120.4308	152.6071	167.2096	28.95481	146335.7
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000001	0.000000

Sum	140.3063	71.38571	454.0000	474.0000	20.19286	17.87262	47.00000	3580.980
Sum Sq. Dev.	1367.570	2.971658	297.5844	279.0649	7.350958	6.496168	32.65584	12966659
Observations	154	154	154	154	154	154	154	154

(Source: Eviews output 12 data processed, 2024)

Classical Assumption Test

In panel data regression, not all classic assumption tests are used, only multicollinearity and heteroscedasticity are required (Napitupulu et al., 2021). Where the results of the multicollinearity test on the data used are the correlation value between independent variables smaller than 0.80, it can be concluded that the model passes the multicollinearity test. Furthermore, the heteroscedasticity test on the data used uses the white test, with a Prob.Chi-Square value of 0.69> 0.05, so there are no symptoms of heteroscedasticity or pass the heteroscedasticity test. In this study, the panel data regression model chosen was *Random Effect Regression* (REM).

Determinant Coefficient Test

Table 4 Determinant Coefficient Test Results

R-squared	0.865336	Mean dependent var	0.110070
Adjusted R-squared	0.858880	S.D. dependent var	1.182815
S.E. of regression	0.444335	Sum squared resid	28.82537
F-statistic	134.0262	Durbin-Watson stat	1.912101
Prob(F-statistic)	0.000000		

(Source: Eviews output 12 data processed, 2024)

From the table above, it can be seen that the adjusted R Squared value is 0.85 (85%), which means that the proportion of independent commissioners, size of the board of commissioners, size of the board of directors, representation of women on the board of commissioners, representation of women on the board of directors and political connections are able to explain the financial distress variable by 85%, the remaining 15% is explained by other variables outside the model. And based on the table above, it can be seen that the probability value is 0.000000 which means f <0.05, meaning that the variables of the proportion of independent commissioners, the size of the board of commissioners, the size of the board of directors, the representation of women on the board of commissioners, the representation of women on the board of directors and political connections, are able to have an influence on financial distress.

Hypothesis Test

Table 5 Statistical Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.495102	0.530394	0.933459	0.3521
X1	-0.054877	0.568630	-0.096508	0.9232
X2	-0.031208	0.115476	-0.270253	0.7873
X3	0.028316	0.099757	0.283850	0.7769
X4	2.287147	0.573991	3.984637	0.0001
X5	1.037796	0.561950	1.846777	0.0668
X6	-0.313505	0.453226	-0.691719	0.4902

K1	0.005230	0.000181	28.92904	0.0000

(Source: Eviews output 12 data processed, 2024)

Discussion

The Effect of the Proportion of Independent Commissioners on Financial Distress

From testing the first hypothesis (H1), the variable proportion of the independent board of commissioners shows the results of the probability value of 0.9232 which is greater than 0.05 with a regression coefficient of -0.054877. This shows that the proportion of independent commissioners has no effect on financial distress. These results indicate that there is no influence on the relationship between financial distress and the proportion of independent commissioners in companies with special notations in Indonesia, which means that the first hypothesis (H1) is rejected. With the Financial Services Authority Regulation (POJK) 57 article 19 (1) which states that companies listed on the Indonesia Stock Exchange (IDX) must have independent commissioners with a minimum percentage of 30% of the total number of commissioners, which is equivalent to the number of minority shareholders. So in some companies the existence of independent commissioners tends only to fulfill this regulation. This also shows that the existence of independent commissioners is still unable to create information transparency for interested parties, especially investors.

In companies with special notations, lack of transparency can reduce investor confidence and worsen financial conditions. So that whatever the proportion of independent commissioners in the company is unable to avoid the possibility of financial distress in the company. Companies with special notations need to ensure that the independent board of commissioners is not only there to fulfill requirements, but also functions effectively in increasing transparency and accountability, in order to reduce the risk of financial distress in the future (Aisyah & Afriyenti, 2022).

This finding is inconsistent with the findings of Diantari et al. (2016); Mardahlia & Ghozali (2023); Nugrahanti et al. (2020) which shows a significant negative relationship, which indicates that the greater the number of independent commissioners can reduce the potential for financial distress. However, the findings in this study are in line with the findings of Aisyah & Afriyenti (2022); Hanifah & Purwanto (2013); Ningrum & Hatane (2017); Yosua & Pamungkas (2019); Yusra & Bahtera (2021) which show insignificant results from the relationship between independent commissioners and financial distress. which shows insignificant results from the relationship between the proportion of independent commissioners and financial distress conditions.

Effect of Board of Commissioners Size on Financial Distress

From testing the second hypothesis (H2) the variable size of the board of commissioners shows the results of the probability value of 0.7873 which is greater than 0.05 with a regression coefficient of -0.031208. This shows that the size of the board of commissioners has no effect on financial distress. These results indicate that there is no influence on the relationship between financial distress and the size of the board of commissioners in companies with special notations in Indonesia, which means that the second hypothesis (H2) is rejected. Therefore, this study is not supported by agency theory which states that the existence of a board of commissioners can reduce agency conflicts. Because the many evaluations carried out by the board of commissioners often result in a variety of different perspectives.

In companies with special notations, oversight and accountability are very important. Too many different perspectives can make it difficult for management to make consistent decisions based on the performance of the board of commissioners, which can hinder the effectiveness of overall company management. So that the large or small number of boards of commissioners in the company is unable

to avoid the possibility of financial distress in the company (Lestari & Wahyudin, 2021). Companies that get special notations need to focus on the quality of supervision and the effectiveness of the board of commissioners, not just on size. Increased collaboration and decision-making among board members will be more effective in supporting the company's financial stability and performance than simply increasing the number of board members.

This finding is inconsistent with the findings of Ningrum & Hatane (2017); Nugrahanti et al. (2020); Samudra (2021) which shows a significant negative relationship, which indicates that the greater the number of boards of commissioners can reduce the potential for financial distress. However, the findings in this study are in line with the findings of Gaos & Mudjiyanti (2021); Hanifah & Purwanto (2013); Lestari & Wahyudin (2021) which show insignificant results of the relationship between the number of commissioners which show insignificant results from the relationship between board size and financial distress condition.

Effect of Board Size on Financial Distress

From testing the third hypothesis (H3), the board size variable shows the results of the probability value of 0.7769 which is greater than 0.05 with a regression coefficient of -0.028316. This shows that board size has no effect on financial distress. These results indicate that there is no effect on the relationship between financial distress and board size in companies with special notations in Indonesia, which means that the third hypothesis (H3) is rejected. Boards of directors with a large number of members, such as in PT Sentul City Tbk with 9 people and PT Goto Gojek Tokopedia Tbk with 8 people, often face challenges in terms of communication and coordination. A large number of members can slow down decision-making and make management less effective. This happens because the more members there are, the greater the likelihood of differences of opinion that slow down the decision process. As a result, the company can lose flexibility in responding to market changes, which results in a decrease in operational performance and company value.

If not handled properly, these conditions have the potential to increase the risk of financial distress, especially when market competition is intensifying or economic conditions are unstable. For companies with special notations, this challenge becomes more significant, as these companies are generally under close scrutiny by and need to respond quickly to important issues. This finding is inconsistent with the findings of Hanifah & Purwanto (2013); N. Kurniawati & Aligarh, (2021); Lestari & Wahyudin, (2021); Nugrahanti et al., (2020); Yosua & Pamungkas, (2019) which shows a significant negative relationship, which indicates that the greater the number of boards of directors can reduce the potential for financial distress. However, the findings in this study are in line with the findings of Alexandra et al., (2022); Maydah & Serly, (2019) which show that there is no influence between board size and financial distress which show that there is no influence between board size and financial distress condition.

The Effect of Women's Representation in the Board of Commissioners on Financial Distress

From testing the fourth hypothesis (H4), the variable representation of women in the board of commissioners shows the results of the probability value of 0.0001 which is smaller than 0.05 with a regression coefficient of -0.028316. This shows that women's representation on the board of commissioners has an effect on financial distress. These results indicate that there is a negative influence on the relationship between financial distress and women's representation on the board of commissioners in companies with special notations in Indonesia, which means that the fourth hypothesis (H4) is accepted. Gender diversity in the board of commissioners significantly reduces the

risk of bankruptcy and financial distress, especially in companies that receive a special notation. In companies with special notations, where supervision and accountability are very important, the involvement of women in the board of commissioners can help strengthen managerial supervision. Female commissioners tend to be risk-averse and bring different perspectives, values and understandings that improve the company's financial performance. Female commissioners are considered capable of overcoming management's opportunistic behavior with a more risk-averse nature, while female commissioners are more active in conducting intensive supervision. So that it can minimize the possibility of financial distress. This finding is in line with research from Abbas & Frihatni, (2023); Mardahlia & Ghozali, (2023); Samudra, (2021) which shows a significant negative relationship, which indicates that the greater the number of women on the board of commissioners can reduce the potential for financial distress.

The Effect of Women's Representation in the Board of Directors on Financial Distress

From testing the fifth hypothesis (H5), the variable of women's representation in the board of directors shows the results of the probability value of 0.0668 which is greater than 0.05 with a regression coefficient of 1.037796. These results indicate that there is no influence on the relationship between financial distress and women's representation on the board of directors in companies with special notations in Indonesia, which means that the third hypothesis (H5) is rejected. The insignificant relationship between the two variables is due to the low level of gender diversity in Indonesia. According to the data, the percentage of female representation on the board of directors only reaches 12%. Of the 77 companies that received a special notation, there are 56 companies that do not have any women on their board of directors. Thus, gender diversity in the board of directors cannot effectively predict financial distress in companies that get special notations in Indonesia. In addition, male leaders tend to think logically, develop corporate strategies, and are more willing to take high risks. So that whatever the number of women on the board of directors in the company is not able to avoid the possibility of financial distress in the company.

This finding is inconsistent with the findings of Abbas & Frihatni, (2023); Mardahlia & Ghozali, (2023); Samudra, (2021) which shows a significant negative relationship, which indicates that the greater the number of women on the board of directors can reduce the potential for financial distress. However, the findings in this study are in line with the findings of Fara Fatima et al. (2023) which shows that there is no influence between female representation on the board of directors and financial distress conditions.

The Effect of Political Connection on Financial Distress

From testing the sixth hypothesis (H6), the political connection size variable shows the results of the probability value of 0.4902 which is greater than 0.05 with a regression coefficient of -0.313505. This shows that political connections have no effect on financial distress. These results indicate that there is no influence on the relationship between financial distress and political connections in companies with special notations in Indonesia, which means that the sixth hypothesis (H6) is rejected. Political connections can provide benefits for companies, such as ease in obtaining funds, reducing the burden of paying taxes, and facilitating market monopolies. However, this study shows that the presence or absence of political connections has no significant impact on the financial difficulties experienced by companies. In other words, although political connections may provide some operational benefits, it does not directly affect the financial distress condition of the company, especially in companies with special notations. The financial condition of companies with special notations is more influenced by other factors, such as operational performance, management

efficiency, and debt structure, than by political connections. So that the company's involvement with politics does not affect the possibility of financial distress in the company. This finding is inconsistent with the findings of Kalbuana et al. (2022); Nugrahanti et al., (2020); Tao et al. (2017) indicate a significant positive relationship, which indicates that the higher the political connection has an impact on increasing financial distress, and vice versa, the lower the political connection has an impact on decreasing financial distress. However, the findings in this study are in line with the findings of Fitrianti (2022) which shows that there is no influence between political connections and financial distress conditions.

4. CONCLUSION

This study aims to prove the influence between board characteristics and political connections on financial distress conditions with profitability as a control variable in companies with special notations for the period 2022 - 2023. From hypothesis testing, the following results are obtained that there is no influence between the proportion of independent commissioners, the size of the board of commissioners, the size of the board of directors, the representation of women on the board of directors and political connections in companies with special notations in Indonesia for the period 2022-2023. However, there is an influence between the representation of women on the board of commissioners and financial distress conditions in companies with special notations in Indonesia for the period 2022-2023.

This research has limitations, including first, this research is only limited to several corporate governance variables such as the proportion of independent commissioners, the size of the board of commissioners, the size of the board of directors, the representation of women on the board of directors. Second, the measurement of financial distress variables only uses the Altman Z-Score Model indicator. Based on these limitations, further research can add other variables such as liquidity, leverage, company size in order to show more effective results from related variables. Second, further research can use other measurement indicators such as the Ohlson Model, Fulmer Model, Grover Model, Zmijewski Model and others.

It is hoped that this research can help investors in the Indonesian capital market so that they do not choose the wrong shares as an investment instrument and can help companies that get special notations to pay more attention to the causes of financial distress above such as the proportion of independent commissioners, the size of the board of commissioners, the size of the board of directors, the representation of women on the board of directors and the representation of women on the board of commissioners and political connections so that they can analyze it early to prevent financial distress in the future.

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5. APPENDIX

Appendix 1 Description of Special Notations in Indonesian Stock Exchange

Code	Description
B	Bankruptcy filing against the company
M	Moratorium of debt payment
E	Negative equity

A	Adverse opinion of the audited financial report
D	Disclaimer opinion of the audited financial report
S	No sales based on latest financial report
C	Lawsuit against Listed Company, its subsidiary, and/or member of Board of Directors and Board of Commissioners of Listed Company which has Material impact
Q	Restriction of business activities of the Listed Company and/or its subsidiaries by the regulator
Y	Listed Companies that have not held an Annual General Meeting of Shareholders (AGMS) until 6 (six) months after the financial year ends
F	Administrative sanctions and/or written orders from the Financial Services Authority imposed on the Listed Company for violation of regulations in the field of Capital Market with minor offense category
G	Administrative sanctions and/or written orders from the Financial Services Authority imposed on the Listed Company for violation of regulations in the Capital Market with moderate violation category
V	Administrative sanctions and/or written orders from the Financial Services Authority imposed on the Listed Company due to violations of regulations in the Capital Market with the category of serious violations
X	Listed Company is listed on the Watchlist Board