

The Effect of Financial Performance on Financial Distress

*Effect of Financial
Performance*

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ABSTRACT

This study aims to examine the effect of financial performance on financial distress with corporate governance as a moderating variable in banking companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2022 period. The purposive sampling method was used in determining the research sample, so there were 42 companies and a total of 126 samples. The data analysis technique uses multiple linear regression analysis. The results of this study are capital adequacy and profitability have a negative effect on financial distress. Meanwhile, credit risk and corporate governance have a positive effect on financial distress. In addition, corporate governance is unable to strengthen and weaken the relationship of capital adequacy and credit risk to financial distress. However, the relationship between profitability and financial distress is weakened by corporate governance as moderation.

Keywords: *Corporate Governance, Financial Distress, Financial Performance.*

ABSTRAK

Penelitian ini bertujuan untuk menguji pengaruh kinerja keuangan terhadap financial distress dengan corporate governance sebagai variabel moderasi pada perusahaan perbankan yang terdaftar di Bursa Efek Indonesia (BEI) periode 2020-2022. Penelitian ini menggunakan metode penelitian kuantitatif. Purposive sampling digunakan NPL dalam menentukan sampel penelitian, sehingga terdapat 42 perusahaan dan total 126 sampel. Teknik analisis data menggunakan analisis regresi linear berganda. Hasil dari penelitian ini adalah kecukupan modal dan profitabilitas berpengaruh negatif terhadap financial distress. Sedangkan risiko kredit dan corporate governance berpengaruh positif terhadap financial distress. Selain itu, corporate governance tidak mampu memperkuat dan memperlemah hubungan kecukupan modal dan risiko kredit terhadap financial distress. Namun hubungan profitabilitas terhadap financial distress diperlemah oleh corporate governance sebagai moderasi.

Kata kunci: *Corporate Governance, Financial Distress, Kinerja Keuangan*

INTRODUCTION

The Covid-19 pandemic situation in Indonesia at the beginning of 2020, which was a health crisis, had an impact on the country's economy. Economic downturn due to large-scale restriction policies and Lock-Down policies in several other countries, can affect many industries that support the country's economic development. One of them is the banking sector which plays an important role as the biggest supporter of the country's economic development (Setiyawan & Musdholifah, 2020). The weakening condition of the Indonesian economy in 2020 has caused performance pressure on national banks. One of the conventional banks showing financial performance pressure

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in 2020 is Bank Bukopin. Based on the release of financial reports, Bank Bukopin experienced a decline in income over the last few years and experienced a loss in 2020 (Ariani, 2022). Moreover, there was a phenomenon due to a problem where customers wanted to disburse their funds amounting to IDR 45 billion but the bank was only able to provide IDR 640 million. This condition indicates that Bank Bukopin is experiencing liquidity problems (Rini et al., 2021). It is feared that a decline in income over several years and prolonged liquidity difficulties will lead banks to financial distress.

Financial distress occurs when a company's operating cash flow is insufficient to meet current obligations such as trade payables or interest expenses, which will worsen the company's financial condition (Gerged et al., 2022). Financial distress in this study was measured using the Zmijewski model with an accuracy rate of 94% so investors are advised to consider using this model in decision making (Rahmat & Febrianti, 2023). Companies that are facing financial distress can be identified from financial performance assessments. This is important so that the bank's function as an intermediation institution can be achieved so that the efficiency and effectiveness of distributing and collecting funds must be known. Bank financial performance can be measured through the financial ratio approach. In this research the author uses financial ratios, including the capital adequacy ratio, namely the Capital Adequacy Ratio (CAR), the credit risk ratio, namely Non-Performing Loans (NPL) and the profitability ratio, namely Net Interest Margin (NIM).

Capital Adequacy Ratio (CAR), which is usually called the capital adequacy ratio, is a ratio that shows the bank's ability to provide funds for business development purposes and accommodate the risk of fund losses due to bank operational activities (Kareem et al., 2022). The research results of Buchdadi et al. (2020) and Pratiwi et al. (2022) shows that CAR has a negative effect on financial distress. This is different from the research results of Ermar & Suhono (2021), which found that CAR had no effect on financial distress. Non-Performing Loans (NPL) is usually referred to as the credit risk ratio. The large NPL value indicates poor bank credit quality and causes large provision costs, which will affect the bank's performance so that the profit received by the bank also decreases. The research results of Buchdadi et al. (2020) and Suot et al. (2020) proves that there is a positive influence of NPLs on financial distress. However, the research results of Dwiarti (2020) and Ermar & Suhono (2021) state that NPLs have no effect on financial distress. NIM is one indicator of measuring bank profitability. The NIM ratio shows the bank's ability to generate profits in the form of interest income. The research results of Sadida (2018) and Sudiyatno et al. (2022), states that Net Interest Margin (NIM) has a negative effect on financial distress. However, the opposite is different from what was stated by Zahronyana & Mahardika (2018) and Pratiwi et al. (2022) which proves that NIM has no effect on financial distress.

Apart from financial factors, the possibility of financial distress can be identified through other factors that influence it, such as corporate governance which is one of the most important things for maximizing performance in a company, including the relationship between company management, board of directors, company owners and shareholders, and stakeholders. other. A company can experience financial distress which is also quite influenced by its ownership structure. Institutional ownership plays an important role in increasing more optimal supervision of company management performance, so that the potential for financial distress can be minimized. According to Septiani & Dana (2019) and Sudiyatno et al. (2022) institutional ownership has a negative effect on financial distress. Meanwhile, Affiah et al. (2018) and Jodjana et al. (2021) stated that institutional ownership has no effect on financial distress. Based on the explanation above, this research wants to re-examine the influence of financial performance on financial distress with corporate governance as moderation. This research aims to determine whether there is an influence of financial performance, especially capital adequacy, credit risk and profitability on financial distress and corporate governance can be a moderating variable. Predicting the possibility of financial distress can be used as an early warning system for companies and

consideration for investors in making decisions. Apart from that, the corporate governance mechanism is institutional ownership, which is an investor with relatively large ownership in the company so that they also have large voting rights in management decisions.

LITERATURE REVIEW

Signal theory, first introduced by Spence (1973), is an explanation of information asymmetry that can arise because management has more information about the company's prospects (Hakim et al., 2020). To avoid information asymmetry, companies need to provide information as a signal of good news or bad news to investors. Agency theory according to Jensen & Meckling (1976) is a theory that connects the owner (principal) with management (agent). Agency theory underlies the application of corporate governance, which explains the relationship between management and owners. According to this theory, management is morally responsible for optimizing the profits of the owners, or principals, and receiving compensation in accordance with the agreement (Pranita & Kristanti, 2020). Financial distress is a condition when business operating cash flow is insufficient to pay off current liabilities, such as trade payables or interest expenses (Platt, 2002). Annither et al. (2020) stated that financial distress is the stage of a company before experiencing bankruptcy or liquidation. It can be concluded that financial distress is a condition when a company experiences losses for several years before being declared bankrupt. Financial performance is closely related to operating income and costs, debt, assets and investment results. According to Suhartanto et al. (2022), financial performance provides an overview of the company's financial condition and reflects profit achievement in a certain time period. An effective way to measure financial performance is by using financial ratios.

Measuring capital adequacy can use the Capital Adequacy Ratio (CAR). Through this ratio, it can be seen to what extent the bank's risk bearing assets as a whole are financed from the bank's own capital or from funds outside the bank, for example public funds, loans and so on (Ismaulina et al., 2020). Credit risk is an assessment carried out by banks to recognize the risk of failure to repay credit by debtors (Kareem et al., 2022). Credit risk can be measured by the Non-Performing Loans (NPL) ratio to see the extent to which existing problem loans can be met with productive assets owned by a bank. Profitability shows the company's ability to generate profits from a number of policies and decisions carried out. Net Interest Margin (NIM) is a measurement of banking profitability which shows the bank's ability to generate net interest income by managing its productive assets (Nuranto & Ardiansari, 2017). Corporate governance mechanisms are an important element in the corporate governance structure, one of which is the ownership structure (Khorraz & Dewayanto, 2020). Ownership structure is the composition of shareholders in a company which is calculated based on the amount of existing ownership. The dominant ownership in companies is institutional ownership, which is a form of share ownership owned by investment companies, banks, corporations, insurance and other institutions (Oktavian & Ahmar, 2019).

Capital is an important aspect for banks in carrying out their operations. The general capital ratio is the Capital Adequacy Ratio. The higher the Capital Adequacy Ratio (CAR), the stronger the bank will be in bearing the risk of any risky credit/productive assets. Through this ratio, it will provide a signal to stakeholders and the market regarding the current condition of the bank, therefore signal theory is relevant in determining the health of a company. Banks that have sufficient capital are indicated by an increase in the CAR value which will have an impact on the low potential for financial difficulties. The previous statement is supported by research by Buchdadi et al. (2020) and Pratiwi et al. (2022) which states that CAR has a negative effect on financial distress. However, research by Ermar & Suhono (2021) and Pramesti (2022) states that CAR has no effect on financial distress.

H1: Capital adequacy has a negative effect on financial distress.

Credit risk refers to the risk of a borrower's failure to pay its obligations. Credit risk can be determined through the Non Performing Loan ratio. If the Non-Performing Loans (NPL) gets higher, then management's ability to manage the credit provided will also get worse (Safitra & Kusno, 2023). So the number of non-performing loans will increase and the higher the potential for banks to experience financial distress. The relationship between credit risk and financial distress is supported by signal theory, investors will see a high NPL level as a signal that the bank is in trouble (Spence, 1973). According to Buchdadi et al. (2020) and Suot et al. (2020), NPL has a positive effect on financial distress. However, the research results of Dwiarti (2020) and Ermar & Suhono (2021) show that NPLs have no effect on financial distress.

H2: Credit risk has a positive effect on financial distress.

Profitability is the bank's ability to generate profits. One of the quantitative and qualitative approaches to assessing bank profitability factors is the Net Interest Margin ratio. The greater the Net Interest Margin (NIM) ratio indicates the better the bank's ability to manage its productive assets so that it will increase income from interest, therefore the possibility of financial distress is also smaller. The influence of profitability on financial distress is supported by signal theory, where a high NIM ratio is a positive signal for external parties who have an interest in the company. Profitability has a negative effect on financial distress (Sadida, 2018; Sudiyatno et al., 2022). On the other hand, the research results of Zahronyana & Mahardika (2018) and Pratiwi et al. (2022) shows that NIM has no effect on financial distress.

H3: Profitability has a negative effect on financial distress.

A good company is a company that has good management and corporate governance that is implemented well by consistently maintaining good relations between the company and all interested parties. Corporate governance has several indicators that influence financial distress, one of which is institutional ownership. According to Maronrong et al. (2022), institutional ownership can provide optimal supervision so that management can manage the company better so as to reduce the possibility of financial distress. Agency theory is the basis for implementing corporate governance as a monitoring and control mechanism (Harahap, 2016). The research results of Sudiyatno et al. (2022) and Septiani & Dana (2019), that corporate governance as proxied by institutional ownership has a negative effect on financial distress. However, research by Affiah & Muslih (2018) and Jodjana et al. (2021), that institutional ownership has no effect on financial distress.

H4: Corporate Governance has a positive effect on financial distress.

Corporate governance can encourage management to improve the company's financial performance. One of the corporate governance mechanisms is the ownership structure, including institutional ownership. Institutional ownership acts as the party that monitors company management. Because of their power over invested shares, they have a greater role in monitoring financial performance. The existence of institutional ownership will cause the bank's Capital Adequacy Ratio (CAR) to be higher and the risk of financial distress to be smaller. Based on agency theory, supervision from institutional investors can overcome agency problems thereby encouraging management to act in the interests of shareholders which will help improve financial performance. Research by Setyobudi et al. (2017) show that large institutional ownership can optimize financial performance. Moreover, the research results of Pramurza & Saputra (2021) show that institutional ownership will increase the capital ratio of banks.

H5: Corporate governance is able to strengthen the influence of capital adequacy on financial distress.

Risk management cannot be separated from corporate governance practices so that these two things can complement each other to minimize risks that may occur. This research uses the corporate governance component, namely institutional ownership. Institutional investors have greater voting rights in management decision making which will affect company performance. Based on agency theory, institutional ownership is considered to have a comparative advantage in carrying out supervision. If institutions have carried out their supervisory role optimally, financial performance management will be better, including actions to deal with credit risk. The research results of Paul & Said (2022) show that corporate governance, which is proxied by institutional ownership, has an effect on financial performance. Likewise, research by Wulandari & Pangestuti (2018) states that one of the factors in reducing credit risk is institutional ownership.

H6: Corporate governance is able to weaken the influence of credit risk on financial distress.

In depth, one of the corporate governance mechanisms is institutional ownership. Some researchers believe that this ownership is able to influence the running of the company which ultimately affects the company's performance in achieving the company's goal, namely maximizing profits. For banking, the largest income comes from interest income. The Net Interest Margin (NIM) shows the bank's profit from their lending activities. To obtain high profits, a bank must have a bank supervisor. This is supported by agency theory that institutional ownership will create supervision over the policies that will be taken by management so that decision making is more optimal and can reduce the potential for financial distress. Research by Setyobudi et al. (2017) show that corporate governance as proxied by institutional ownership is able to improve financial performance. When institutional ownership is included as optimal supervision, the company's financial performance and profits can increase.

H7: Corporate governance is able to strengthen the influence of profitability on financial distress.

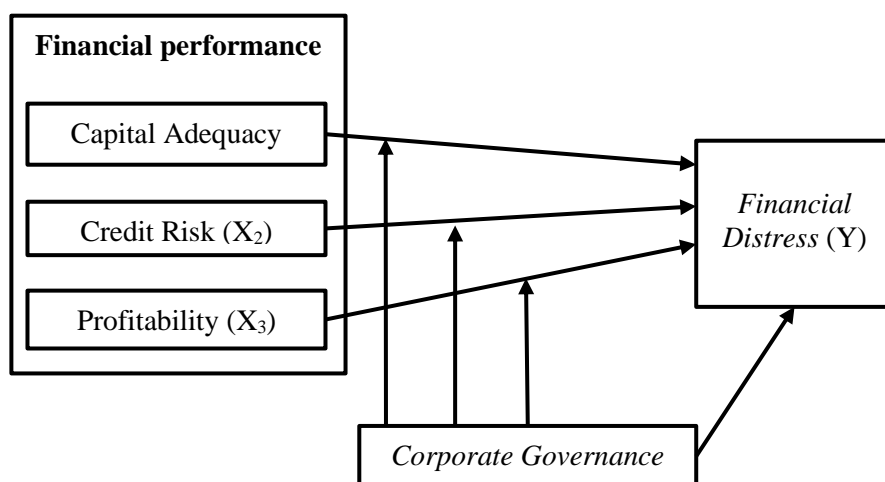


Figure 1. Framework

METHOD

This research includes quantitative research. The population in this research is conventional commercial banks listed on the Indonesia Stock Exchange for the period

2020 - 2022. Documentary data used as a source of information in the form of annual reports and data sources in this research are secondary data taken through the BEI website or the official website of the company concerned. Determination of the sample using purposive sampling. After processing the population using company criteria, namely being categorized as a conventional commercial bank, consistently publishing annual reports for the 2020-2022 period and having complete data as required, a sample of 42 companies were obtained. Moderated Regression Analysis (MRA) is applied in the analysis of this research, as a special application of multiple linear regressions. The following is the regression equation in this research:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Z + \beta_5 X_1 * Z + \beta_6 X_2 * Z + \beta_7 X_3 * Z + \varepsilon$$

Information:

Y	= Financial distress
α	= Constant
β	= Regression coefficient
X1	= Capital adequacy
X2	= Credit risk
X3	= Profitability
Z	= Corporate governance
X1*Z	= Interaction between capital adequacy and corporate governance
X2*Z	= Interaction between credit risk and corporate governance
X3*Z	= Interaction between profitability and corporate governance
ε	= Error term (error rate)

RESULT

This research uses conventional commercial banks listed on the Indonesia Stock Exchange as research objects with an observation period of 3 years (2020-2022). The results of sample selection can be seen in the following table:

Table 1. Research Sample

Sample Criteria	Total
Banking companies registered on the IDX for the 2020-2022 period and publishing annual reports consistently	46
Companies that are not classified as conventional commercial banks (Sharia banks)	(4)
Banking companies that do not have complete data as required in this research	(0)
Number of banks that meet the criteria	42
Year of observation	3
Total number of research samples with observations for 3 years (42 × 3)	126

Table 2. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Dev	Tolerance	VIF	Unst. dized Residual
CAR	11,13	283,88	36,7540	34,16597	0,957	1,045	0,053
NPL	0,00	22,27	3,2070	2,77311	0,881	1,136	0,412
NIM	-3.52	15,87	4,4148	2,61781	0,859	1,165	0,611
KI	0,30	0,99	0,7594	0,17956	0,935	1,070	0,767
<i>Financial distress</i>	-2,77	1,27	0,1833	0,76067			

Based on descriptive statistics in table 2, it shows the results of descriptive statistical calculations obtained from 126 observations. The capital adequacy variable has a maximum value of 283.88 and a minimum value of 11.13, with an average value of 36.7 and a standard deviation value of 34.16. Credit risk has a maximum value of 22.27 and a minimum value of 0.00 with an average value of 3.2 and a standard deviation value of 2.7. The NIM variable has a minimum value of -3.52 and a maximum value of 15. 87, with an average value of 4.41 and a standard deviation value of 2.61. Institutional ownership has a minimum value of 0.30 and a maximum value of 0.99 with an average

of 0.75 and a standard deviation of 0.17. Financial distress has a minimum value of -2.77 and a maximum value of 1.27 with an average value of 0.18 and a standard deviation of 0.76. The normality test uses unstandardized residuals with a Kolmogorov-Smirnov value obtained of 0.101 with a Monte Carlo value. Sig. (2-tailed) of 0.145. This shows that in this study the data is normally distributed because of the Monte Carlo values. Sig. (2-tailed) of 0.145 which is greater than 0.05 so it can meet the classical normal assumption. Moreover, there are no variables that have a tolerance of <0.10 and a VIF value > 10. This shows that each variable does not have symptoms of multicollinearity between the independent variables in the regression model in this study. Based on table 5 above, it also shows that each independent variable has a significant value of > 0.05 or >5%, so it can be concluded that the data is free from heteroscedasticity problems.

Table 3. Autocorrelation & Moderation

Variable	Model	R	R Square	Adj. R Square	Std. Error	Durbin-Watson	f	Sig.
Cochrane-Orcutt	Before	0,861 ^a	0,741	0,732	0,39365	1,374		
	After	0,837 ^a	0,701	0,691	0,37473	1,910		
Moderation	Before	0,855 ^a	0,741	0,732			110,309	0,000 ^b
	After	0,875 ^a	0,701	0,691			55,127	0,000 ^b

Based on table 3, before using the Cochrane-Orcutt method, there was an autocorrelation problem. So, the Cochrane-Orcutt method was used to increase the Durbin-Watson value. So, the DU value < DW (1.7923 < 1.910) and the DW value < (4-DU) or 1.910 < (4-1.7923) which has a result of 2.2077. Therefore, it can be concluded that there are no symptoms of autocorrelation. Furthermore, the significance value is 0.000. Smaller than the significance level used, namely 0.05. This shows that financial performance, namely capital adequacy Capital Adequacy Ratio (CAR), credit risk (NPL) and Profitability (NIM), as well as Corporate Governance (KI) together have a significant effect on financial distress. Based on table 6 above, the significance value is 0.000. Smaller than the significance level used, namely 0.05. This shows that CAR, NPL, NIM, KI, the relationship between CAR and KI, the relationship between NPL and KI, and the relationship between NIM and KI together have a significant effect on financial distress. Based on table 6 above, the coefficient of determination (R²) is 0.724 or 72.4%. This can be interpreted that CAR, NPL and NIM influence the dependent variable, namely financial distress, by 72.4%, while the remaining 27.6% are other variables that also influence financial distress which are not included in the regression model. Based on table 6 above, the coefficient of determination (R²) is 0.752. This shows that CAR, NPL, NIM, KI, the relationship between CAR and KI, the relationship between NPL and KI, and the relationship between NIM and KI influence the dependent variable, namely financial distress, by 75.2%, while the remaining 24.8% are other variables that also influence financial distress which is not included in the regression model.

Table 4. t Test Result

Model	B	T	Sig.
(Constant)	1,012	10,535	0,000
CAR	-0,016	-15,428	0,000
NPL	0,032	20,368	0,019
NIM	-0,074	-5,081	0,000
KI	1,063	2,214	0,029
CAR*KI	-0,009	-0,966	0,336
NPL*KI	-0,114	-1,900	0,060
NIM*KI	-0,176	-2,881	0,005

$$Y = 1,012 - 0,016CAR + 0,032NPL - 0,074NIM + 1,063KI - 0,009CAR*KI - 0,114NPL*KI - 0,176NIM*KI + \varepsilon$$

Based on Table 4, it shows that, firstly, the coefficient of the capital adequacy variable or CAR is -0.016 with a significance level smaller than 0.05, namely 0.000. This means that capital adequacy has a significant negative effect on financial distress, which means H1 is accepted. The coefficient of the credit risk or Non-Performing Loans (NPL) variable is 0.032 with a significance level smaller than 0.05, namely 0.019. This means that credit risk has a significant positive effect on financial distress, which means H2 is accepted. Second, the coefficient of the profitability variable or Net Interest Margin (NIM) is -0.074 with a significance value smaller than 0.05, namely 0.000. This means that profitability has a significant negative effect on financial distress, which means H3 is accepted. Third, the coefficient of the corporate governance or institutional ownership variable is 1.063 with a significance value smaller than 0.05, namely 0.029. This means that institutional ownership has a significant positive effect on financial distress, which means H4 is accepted. Fourth, the coefficient of the CAR*KI variable is -0.009 and is not significant because the significance level is greater than 0.05, namely 0.336. This means that H5 is rejected because institutional ownership is unable to strengthen the relationship between capital adequacy and financial distress. Fifth, the coefficient of the NPL*KI variable is -0.114 and is not significant because the significance level is greater than 0.05, namely 0.060. This means that H6 is rejected because institutional ownership is unable to weaken the relationship between credit risk and financial distress. Sixth, the coefficient of the NIM*KI variable is -0.176 and is significant because the significance level is smaller than 0.05, namely 0.005. However, the direction of the coefficient is not in line with what was hypothesized, so it can be concluded that H7 is rejected because institutional ownership is not able to strengthen the relationship between profitability and financial distress.

Capital adequacy has a negative effect on financial distress. The higher the level of capital, the higher the cash reserves so that the bank can distribute more credit and ultimately generate large profits. This will reduce financial distress. The results of this research can confirm signal theory, management will try to convey relevant information so that it can be utilized by investors (Spence, 1973). Positive signals will encourage investors to believe and decide to invest their capital in the bank concerned. So that the company obtains sufficient capital to run its business and can reduce the potential for financial distress. In the banking industry, a high Capital Adequacy Ratio (CAR) shows that the bank is increasingly able to absorb the risk of losses that it will experience and indicates that the bank is in a healthy condition. This reflects that the company's performance is also getting better and the possibility of failure of company operations which risks financial distress can also be avoided. This is in line with Buchdadi et al. (2020) and Pratiwi et al. (2022) which state that CAR has a negative effect on financial distress.

Credit risk as measured by Non-Performing Loans (NPL) has a positive effect on financial distress. According to Juleita & Nawawi (2021), high NPLs have an impact on high costs and banks must bear the risk of losses in their operational activities. This will affect the decline in profits obtained by banks due to increasingly high levels of bad credit, thereby preventing banks from obtaining income from credit interest and ultimately the company is likely to experience financial distress. The results of this research are supported by the signal theory put forward by Spence (1973), where signals are actions taken by company management in providing signals about the company's condition to investors about how management views the company's prospects. A high NPL is considered a negative signal because it shows the difficulty of banks in distributing credit, which indicates that the bank does not have the ability to manage its credit, and the bank's health level will be lower. These results are in line with Suot et al. (2020) and Pratiwi et al. (2022) where NPL has a positive effect on financial distress.

Profitability as measured using Net Interest Margin (NIM) has a negative effect on financial distress. NIM is very necessary for good bank management so that bank problems can be minimized. The greater this ratio, the greater the effect on increasing

interest income obtained from productive assets that are well managed by the bank. The results of this research are in line with Spence (1973), which good financial reports are a signal that the company is also operating well. If the NIM shows a high figure, it will be a good signal for investors because it means that the company's financial performance is good. The results of this research are in line with Sadida (2018) and Sudiyatno et al. (2022), NIM has a negative effect on financial distress. Thus, the greater this ratio, the greater the interest income on productive assets managed by the bank so that the possibility of the bank being in trouble is smaller.

Corporate governance, namely institutional ownership, has a positive effect on financial distress. Institutional investors tend to be passive in carrying out supervisory activities on company management which can result in agency problems or poor decision making, thereby increasing the risk of financial distress. The results of this research are not in line with agency theory which states that the separation of ownership in a company will give rise to agency costs due to conflicts of interest, so that institutional ownership plays an important role in minimizing agency problems (Udin et al., 2017). This cannot be proven in this study. The results of this research are in line with research by Pranita & Kristanti (2020) and Usman et al. (2022) which shows that institutional ownership has a positive effect on financial distress.

Corporate governance, namely institutional ownership, is not able to strengthen the influence of capital adequacy on financial distress. Institutional ownership has nothing to do with bank capital because the size of the capital depends on how big the needs or responsibilities must be met by the bank. In agency theory, institutional investors are often referred to as sophisticated investors, which help control agency conflict because they act as a monitoring mechanism in making decisions so that managers are careful in their actions. However, existing supervision apparently does not cover the management of non-performing loans provided by banks and fails to identify the extent to which all bank assets contain risks. So institutional ownership does not affect Capital Adequacy Ratio (CAR) in reducing financial distress. This research is in line with research conducted by Ingraini et al. (2019) and Khoirunnisa & Arni (2021) who state that institutional ownership has no effect on a company's financial performance.

Corporate governance, namely institutional ownership, is unable to weaken the influence of credit risk on financial distress. According to Ballester et al. (2020), institutional ownership as the largest investor actually increases credit risk. This may occur because of a potential conflict of interest. The higher the institutional ownership, the greater the management's responsibility in making decisions and the higher the bank credit risk, so that the company is more likely to have problems and ultimately financial distress cannot be avoided. Moreover, one of the perspectives on the relationship between institutional ownership and company performance is the passive monitoring view which shows that the majority of institutional ownership only provides formal supervision because they only care about dividend profits (Lin & Fu, 2017). In line with research by Ingraini et al. (2019), that the amount of institutional ownership does not affect bank performance so that financial distress conditions cannot be determined. Furthermore, Aebi et. al (2012) stated that institutional investors failed to adequately monitor bank risks.

Corporate governance, namely institutional ownership, weakens the influence of profitability on financial distress. Institutional ownership that is too dominant or pressure from certain institutions to take disproportionate risks can have a negative impact. Too much pressure to achieve short-term financial performance or high profit targets can encourage company management to take any excessive means to pursue the interests of institutional investors, and in turn can cause financial distress. Therefore, institutional ownership actually weakens the influence of Net Interest Margin (NIM) on financial distress. The results of this research are not in accordance with agency theory, where the theory explains that there is a relationship between the agent and the capital owner who have their own interests. Increasing institutional ownership in companies, which is considered as an alternative that can reduce agency conflicts, cannot be

answered in the results of this research. In line with research Fitriatun (2017) that institutional ownership is unable to maximize profitability.

CONCLUSION

Based on the explanation discussed above, it can be concluded that capital adequacy and profitability have a negative effect on financial distress, while credit risk and corporate governance have a positive effect on financial distress. The moderating role of corporate governance is only able to moderate the relationship between profitability and financial distress, while corporate governance is unable to moderate the relationship between capital adequacy and credit risk and financial distress. The researcher suggests that future research use a larger population and sample size and a longer research period in order to provide a long-term picture of the company. Researchers also provide suggestions for future research that should use moderating variables other than corporate governance, especially institutional ownership, which might be able to moderate the influence of capital adequacy and credit risk on financial distress. Apart from that, further research should add or replace independent variables that can be used for sharia banking, such as profit sharing or financial ratios of other sharia banks so that different tests can be carried out between the financial distress of conventional banks and sharia banks.

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