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The Effectiveness of Good Corporate Governance Implementation Against Financial Distress Conditions With Intellectual Capital as Moderating Variable

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ABSTRACT

Aims: This study aims to examine the effect of the implementation of good corporate governance on financial distress and examine the influence of Intellectual Capital as a moderating variable that can weaken or strengthen good corporate governance on financial distress. This research is expected to be used as a material for consideration in making company decisions as well as interested parties to be able to take preventive steps in dealing with severe conditions.

Study design: The method used is quantitative research with secondary data taken from the company's financial statements with data collection techniques using purposive sampling.

Place and Duration of Study: This study uses property companies listed on the Indonesia Stock Exchange during 2017-2020 as research objects. The number of samples is 90 samples using purposive sampling method.

Methodology: The data analysis method in this study uses SmartPLS software. The data analysis methods in this study are Descriptive Statistics, Descriptive Analysis and Inferential Statistical Analysis.

Results: Based on the results of the analysis, it is found that good corporate governance has no effect on financial distress, and good corporate governance moderated by intellectual capital has a negative effect on financial distress.

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Keywords: good corporate governance, financial distress, intellectual capital

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1. INTRODUCTION

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Every company is founded with the hope that it will generate profits so that it can survive or develop in the long term and does not experience liquidity. But in reality, these assumptions do not always go well as expected. Often companies that have been operating for a certain period of time are forced to dissolve or be liquidated because they experience financial difficulties that lead to bankruptcy (Permana et al., 2017).

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Companies that experience bankruptcy will begin with conditions where there is financial distress. Financial distress is an interesting topic in finance and financial health as an important indicator for users who are interested in knowing more about performance companies (Pernamasari et al., 2019). Information about financial distress is used by interested parties as an early warning of the problem. So that companies and interested parties can take anticipatory steps to face the worst conditions that threaten the survival of the company.

30 Executive Director of the Indonesian Issuers Association (AEI) Samsul Hidayat assesses
31 that the number of bankruptcy lawsuits experienced by issuers on the stock exchange is
32 currently due to the impact of Covid-19. Many issuers have recorded a decline in
33 performance to the point of losing money. So that they are unable to pay their obligations to
34 creditors and consumers. Ozili (2020) exemplifies that the COVID-19 pandemic has affected
35 the stock market in two ways. First, the pandemic forced the closure of businesses and
36 companies, then affected financial markets. Second, uncertainty about the COVID-19 case
37 also affects investors' investment decisions, which then causes volatility in the stock market.
38 As a result, many firms experience liquidity problems regardless of size (Tashanova et al.,
39 2020). In the study of Lee et al., (2020) The findings showed that higher numbers of COVID-
40 19 cases in Malaysia tended to adversely affect the performance of the KLCI index and all
41 sectorial indices, except for the Real Estate Investment Fund (REIT) index.

42
43 The current condition of Indonesia is very prone to financial difficulties. CNBC Indonesia
44 recorded several issuers on the Indonesia Stock Exchange (IDX) that were affected by the
45 Covid-19 pandemic and affected employees' layoffs and laid off their staff, and cut their
46 employees' salaries in order to survive. Many public companies have been sued for
47 bankruptcy because their performance has decreased due to the covid-19 pandemic. This
48 causes the company to be unable to pay its obligations to consumers or creditors.

49 Meanwhile, CSA Research Institute analyst Reza Priyambada assessed that issuers who
50 are involved in bankruptcy cases with their consumers will have a negative image in the
51 eyes of investors and the public. And, it raises concerns for the parties who cooperate with
52 the issuer. Sentul City, for example, companies that supply businesses such as cement,
53 building tools and furniture will be worried, for fear of not being paid off. So far, according to
54 Reza, issuers who have been involved in bankruptcy cases have not been able to pay their
55 debts to consumers and creditors, nor are they able to finance the company's operations.

56
57 There are four Issuers Sued for Bankruptcy According to data from the Indonesia Stock
58 Exchange (IDX) as of August 10, 2020. Recently, the property company PT Sentul City Tbk
59 (BKSL) was sued for bankruptcy by its consumers over the sale and purchase of a plot of
60 land worth IDR 30 billion. According to the plaintiff's lawyer, his client did not want to make
61 matters worse. If the land is not sold, the client only asks for the money that has been paid
62 IDR 30 billion to be returned. However, Sentul City did not return the money on the grounds
63 that the company's cash flow was being disrupted due to the pandemic. Three other issuers
64 who were also sued for bankruptcy so that they received a special notation 'B', namely PT
65 Cowell Development Tbk (COWL), PT Global Mediacom Tbk (BMTR), and PT Golden
66 Plantation Tbk (GOLL).

67 According to the Minister of Finance Sri Mulyani Indrawati who was reported by the internet
68 media (Finance.detik.com, 2018) stated the importance of companies building foundations
69 and corporate governance. To minimize this, the company must implement corporate
70 governance. According to the Indonesian Institute of Corporate Governance (IICG),
71 corporate governance is a set of tools that direct and control the running of the company by
72 taking into account the interests of various parties involved in the company. Corporate
73 governance aims to create added value for all stakeholders, so that there is no conflict
74 between the agent and the principal which has an impact on reducing agency costs
75 (Santoso, 2017). These differences in interests can cause shareholders (principals) to suffer
76 losses as a result of actions taken by managers (agents) which have an impact on the
77 company's financial performance which will cause the company to experience financial
78 distress, with good governance it is less likely that the company will experience financial
79 distress.”

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81 Based on Law No. 40 of 2004 concerning limited liability companies, public companies are
82 required to report on corporate governance that has been carried out by the company. This
83 gives rise to transparency regarding the implementation of good corporate governance by
84 companies. The structure and mechanism for implementing corporate governance can
85 improve the quality, supervision, and investment performance in an intellectual capital (Indah
86 & Handayani, 2017). Intellectual capital has an influence on improving the performance of a
87 company. Where the management of intellectual capital is getting better, resulting in the
88 company's performance will also be considered good and if the management of intellectual
89 capital is not going well, it will result in the company's performance being considered poor so
90 that it will be seen that the resources in the company are experiencing a decline in
91 performance. A decrease in performance will lead to a company's profit which can be seen
92 in the financial statements. This will have an impact on the possibility of financial distress in
93 a company (Mustika & et. al, 2018).

94 Therefore, this study discusses the Effectiveness of Good Corporate Governance
95 Implementation Against Financial Distress Conditions with Intellectual Capital as a
96 Moderating Variable in property companies listed on the Indonesia Stock Exchange. The
97 main objective of this study is to analyze how effective the implementation of good corporate
98 governance moderated by intellectual capital is on financial distress conditions. The results
99 of this study are also expected to help management and investors understand the
100 effectiveness of the implementation of good corporate governance moderated by intellectual
101 capital on financial distree conditions in property companies going public in Indonesia.
102 Meanwhile, by providing empirical evidence, the findings of this study can also be used as
103 guidelines for further research.

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105 **2. LITERATURE REVIEW**

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107 **2.1 Financial Distress**

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109 According to Platt & Platt (2002) financial distress is the stage of decline in financial
110 conditions that occurred before the occurrence of bankruptcy. Information about financial
111 distress is used by interested parties as an early warning (warning) of the problem. So that
112 companies and interested parties can take anticipatory steps to deal with the worst of the
113 worst living conditions (Widhiari & Aryani Merkusiwati, 2015).

114 There are several bankruptcy prediction models that are quite popular which are often used
115 by researchers including G-Score by Grover, Y-Score by Ohlson, X-Score by Zmijewski, S-
116 Score by Springate and Z-Score by Altman. In this study using the Altman Z-Score model
117 because the Atman Z-Score model is the best model in predicting the level of bankruptcy
118 risk and can be applied to all companies, both private companies, manufacturing companies
119 and non-manufacturing companies. This is in line with the research of Hadi & Anggraeni
120 (2008) which states that the Altman model is the best predictor among the three predictors
121 analyzed, namely the Springate Model, Zmijewski Model and Altman Model.

122 The advantage with Z-Score analysis is that by knowing the Z value of a company, the
123 condition of the company can be known. In addition, if the Z value of a company is included
124 in the category of bankrupt or critically vulnerable, then the company can still improve the
125 company's financial condition immediately. So by knowing this Z value, the possibility of
126 bankruptcy can be anticipated as early as possible.

127

128 Altman formed 3 Z Score formulas where the three formulas are intended for 3 different
129 categories of companies, namely for open manufacturing companies, closed companies,

130 and for non-manufacturing public companies. This study uses the Altman zscore model for
131 public manufacturing companies as in the research of Pernamasari et al. (2019). Where the
132 shares or stock of a company are traded openly or listed on the stock exchange. The
133 formula used is as follows (Pernamasari et al.,2019):

$$134 Z = 1.2 (X1) + 1.4 (X2) + 3.3 (X3) + 0.6 (X4) + 1.0 (X5)$$

135 Where:

136 Z = Bankruptcy Index

137 X1 = Working Capital/Total Assets

138 X2 = Retained Earnings/Total Assets

139 X3 = Earnings Before Interest and Taxes/Total Assets

140 X4 = Market Value of Equity/Book Value of Debt

141 X5 = Sales/Total Assets

142 Condition Score >2.99 Not Bankrupt, 1.81 – 2.99 Gray Area, <1.81 Bankrupt

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144 These variables include:

- 145 1. Working Capital to Total Assets. Working capital to total assets is used to measure the
146 level of liquidity by comparing net current assets with total assets. The amount of
147 working capital is by subtracting current assets with current liabilities.”
- 148 2. “Retained Earnings to Total Assets. Retained earnings to total assets are used to
149 measure cumulative profitability by comparing retained earnings to total assets.
- 150 3. Earnings Before Interest and Tax to Total Assets. Income before tax and interest on
151 total assets is used to measure the actual productivity of the company's assets by
152 comparing earnings before interest and taxes with total assets.
- 153 4. Market Value Equity to Book Value of Total Debt. The market value of equity against
154 the book value of debt is used to measure how much the company's assets can
155 decrease in value before the amount of debt is greater than its assets and the company
156 goes bankrupt by comparing the market value of equity with the book value of debt. The
157 amount of MVE is by multiplying the closing price of the shares at the end of the year by
158 the number of shares outstanding at the end of the year.
- 159 5. Sales to Total Assets. The capital turnover ratio is a standard financial ratio that
160 describes the ability to generate sales of company assets. This is one measure of
161 management's ability to face competitive conditions.

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163 **2.2 Good Corporate Governance**

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165 Corporate Governance (CG) is that explains the relationship between various participants in
166 the company that determines the direction and performance of the company (Monks &
167 Minow, 2001, in (Wardhani, 2007)). Since the economic crisis hit Indonesia in 1997, good
168 corporate governance has become increasingly important as a support for the sustainability
169 of the company's business.

170 According to The Indonesian Institute for Corporate Governance (IICG) 2015, good
171 corporate governance is a structure, system, and process used by companies as an effort to
172 add value to the company. GCG is carried out continuously in the long term while taking into
173 account the interests of other stakeholders based on morals, ethics, culture, and other
174 applicable rules.

175 According to the General Guidelines for Good Corporate Governance in Indonesia issued
176 by the National Committee on Governance Policy (2006), the implementation of GCG
177 encourages the creation of healthy competition and a conducive business climate.
178 Therefore, the implementation of GCG by companies in Indonesia is very important to
179 support sustainable economic growth and stability. The implementation of GCG is also
180 expected to support the government's efforts to enforce good governance in general in

181 Indonesia. Currently, the Government is trying to implement good governance in its
182 bureaucracy in order to create a clean and authoritative government.

183 In this study (GCG) is calculated using the governance index method. The method used to
184 create a corporate governance disclosure index is to apply an unweighted index using a
185 dichotomous value, namely a value of 1 for items that are disclosed and a value of 0 for
186 items that are not disclosed (Bhuiyan & Biswas, 2007).

$$187 \text{GCGIndex} = \frac{\text{Total CG Disclosure Item Score}}{\text{CG Disclosure Item Maximum Score}}$$

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190 **2.3 Intellectual Capital**

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According to Lestari (2016) Intellectual capital is information and knowledge that can be applied to a job to create value within the company. The International Federation of Accountants classifies intellectual capital into three components, namely, human capital, relational capital, and organizational capital (Mustika & et. al, 2018). The first component, human capital (HC) is the most important component in a company. HC is the lifeblood of intellectual capital in which there are sources of innovation and improvement. Because in it there are knowledge, skills, and competencies possessed by company employees. HC can increase if the company can utilize and develop the knowledge, competence, and skills of its employees efficiently. The second component, structural capital (SC) is the ability of an organization or company to fulfill the company's routine processes and structures that support employees' efforts to produce optimal intellectual performance and overall business performance. The third component, relational capital (RC) or customer capital (CC) is a harmonious association network relationship owned by the company and its partners, both from suppliers, customers, as well as the government and the community. Relational capital can arise from various parts outside the company's environment that can add value to the company.

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The measurement of intellectual capital variable can be calculated by the following measurements:

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Value Added Intellectual Capital:

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The value added intellectual coefficient (VAICTM) method was developed by Pulic in 1998 which is designed to present the formation of value creation efficiency from the tangible assets (tangible assets) and intangible assets (intangible assets) owned by the company. VAIC is an instrument to measure intellectual performance in a company and has the advantage because the data required is relatively easy from various company sources. VAIC calculation begins with the company's ability to create value added (VA). VA is the most objective indicator to assess the company's success in running its business and shows the company's ability to create value (Artati, 2017). Value added is calculated by the difference in output minus inputs, where output is the total income that includes all products and services sold in the market, and inputs are all expenses used to earn income (except employee expenses).

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"The VAIC method uses three value added indicators, namely Value Added Human Capital (VACA), Value Added Structural Capital (STVA) and Value Added Capital Employed (VACA).

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VAICTM can be calculated by the following formula (Purba & Muslih, 2018):

$$226 \text{VAICTM} = \text{VACA} + \text{VAHU} + \text{STVA}$$

Intellectual Capital based on the VAIC model can be classified into 4 categories, namely (Purba & Muslih, 2018):

1. Top performers – VAICTM score above 3

2. Good performers – VAICTM score between 2.0 to 2.99

231 3. Common performers – VAICTM score between 1.5 to 1.99

232 4. Bad performers – VAICTM score below 1.5

233

234 **Value Added Human Capital (VAHU)**

235 Value Added Human Capital is an indicator of the efficiency of value added human capital.

236 VAHU is the ratio of Value Added (VA) to Human Capital (HC). Human capital includes

237 resources within the company's organization. Human Capital describes the ability of a

238 company to manage human resources with all the knowledge they have (Artati, 2017).

239 VAHU can be calculated by the following formula:

$$VAHU = \frac{VA}{HC}$$

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241 Information:

242 VAHU = Value Added Human Capital

243 VA = Value Added

244 HC = Human Capital (Employee Expenses)

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246 **Value Added Capital Employed (VACA)**

247 VACA is an indicator that VA is created by one unit of physical capital. VACA is the ratio of

248 Value Added (VA) to Capital Employed. Capital employed is the book value of the

249 company's total assets. VACA is a company's ability to manage resources in the form of

250 capital assets which if managed properly will improve company performance. In other words,

251 VACA can show how successful a company is in using its tangible assets.

252

253 VACA can be calculated by the following formula:

$$VACA = \frac{VA}{CA}$$

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255 Information :

256 VACA = Value Added Capital Employed

257 VA = Value Added

258 CA = Capital Employed (Available funds: Equity and net income)

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260 **Value Added Structural Capital (STVA)**

261 Value Added Structural Capital is an indicator of the efficiency of added value from

262 structural capital. Value Added Structural Capital is the ratio of Structural Capital to Value

263 Added. Structural capital is the ability of an organization or company to fulfill the company's

264 routine processes and structures that support employees' efforts to produce optimal

265 intellectual performance and overall business performance. In other words, Value Added

266 Structural Capital measures the amount of Structural Capital needed to generate 1 rupiah of

267 Value Added and is an indicator of how successful Structural Capital is in creating value.

268 Structural Capital can be calculated between the difference between Value Added and

269 Human Capital.

270 STVA can be calculated by the following formula:

$$STVA = \frac{SC}{VA}$$

271

272 Information:

273 STVA = Value Added Structural Capital

274 SC = Structural Capital (Value Added – Human Capital)

275 VA = Value Added

276 **2.4 Hypothesis Development**

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278 **1) The Effect of Corporate Governance on Financial Distress**

279 Corporate governance aims to create added value for all stakeholders, so that there is no
280 conflict between the agent and the principal which has an impact on reducing agency costs
281 (Santoso et al., 2017). The difference in interests can cause the shareholders (principals) to
282 suffer losses as a result of actions taken by the manager (agent) which have an impact on
283 the company's financial performance which will cause the company to experience financial
284 distress.

285 The implementation of corporate governance means that it is considered capable of
286 increasing supervision of management to encourage effective decision making, preventing
287 opportunistic actions that are not in accordance with the interests of the company, and
288 reducing information asymmetry between management, shareholders, and creditors.
289 Companies must implement good corporate governance in their management, with good
290 governance the company will be less likely to experience financial distress. This is in line
291 with the research of Pamungkas & Joshua (2019) which states that the implementation of
292 good corporate governance has an effect on the company's financial distress condition.

293 The following hypotheses are proposed are:

294 H1: Good Corporate Governance has an effect on Financial Distress.

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296 **2) The influence of Intellectual Capital as a moderating variable on the relationship**
297 **between good corporate governance and financial distress**

298 Intellectual capital has an influence on improving the performance of a company. Where the
299 management of intellectual capital is getting better, resulting in the company's performance
300 will also be considered good and if the management of intellectual capital is not going well, it
301 will result in the company's performance being considered poor so that it will be seen that
302 the resources in the company are experiencing a decline in performance. A decrease in
303 performance will lead to a company's profit which can be seen in the financial statements.
304 This will have an impact on the possibility of financial distress in a company (Mustika & et. al,
305 2018).

306 The results of the research by Widhiadnyana & Dwi Ratnadi (2019) stated that intellectual
307 capital has a negative effect on financial distress, which means that if the company's
308 intellectual capital increases, the company will avoid financial distress.

309 The following hypotheses are proposed are:

310 H2: Intellectual Capital as a moderating variable can strengthen the influence of good
311 corporate governance on Financial Distress.

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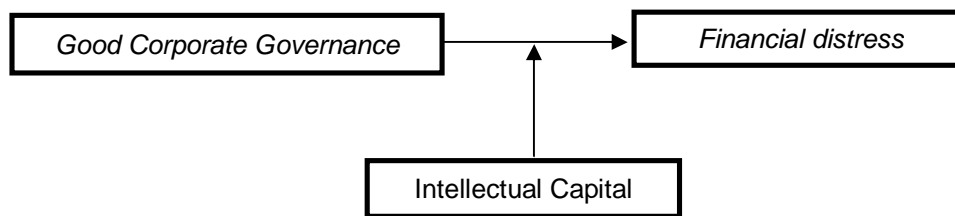
313 Based on the description that has been put forward in the development of hypotheses and
314 theoretical foundations, the related variables in this study can be formulated through a
315 framework of thought as follows:

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Figure 1. Framework of Thought

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323 3. RESEARCH METHOD

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325 3.1 Definition and Operationalization of Variables

326 According to Sekaran and Bougie (2013). A variable is anything that can take different
327 things or varying values. Values can be different at the same time for the same object or
328 person or at the same time for different objects or people. This study uses three types of
329 variables, namely the independent variable which is indicated by the symbol X, the the
330 dependent variable which is indicated by the symbol Y, and the moderating variable which is
331 indicated by the symbol Z.

332 1) Dependent variable

333 The dependent variable in this study is financial distress. Financial distress in this study
334 uses the Altman zscore model for publicly listed companies as in the research of
335 Pernamasari et al. (2019). Where the shares or stock of a company are traded openly or
336 listed on the stock exchange. The formula used is as follows:

$$337 Z = 1.2 (X1) + 1.4 (X2) + 3.3 (X3) + 0.6 (X4) + 1.0 (X5)$$

338 Where:

339 Z = Bankruptcy Index

340 X1 = Working Capital/Total Assets

341 X2 = Retained Earnings/Total Assets

342 X3 = Earnings Before Interest and Taxes/Total Assets

343 X4 = Market Value of Equity/Book Value of Debt

344 X5 = Sales/Total Assets

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346 2) Independent Variable

347 The independent variable in this study is good corporate governance. To determine the
348 quality of corporate governance (CG) in this study using the CG index. The CG Index is an
349 assessment of the implementation of CG in a company that measures the specified CG
350 aspects (Nengzih, 2017).

351

352 Table 1 Variability in parameters with their disclosure items

No	Point Items	Disclosure Items
1	Shareholders	1. Description of shareholder rights
		2. A statement regarding the guarantee of the protection of the rights of shareholders, equal treatment of all shareholders
		3. RUPS implementation date
		4. RUPS results
2	Board of Commissioners	1. The names of the board of commissioners
		2. Status of each member (independent commissioner or non-independent commissioner)
		3. Board of commissioners educational background and career
		4. Description of the duties and responsibilities of the board of commissioners
		5. Policy and amount of remuneration for members of the board of commissioners
		6. Mechanism and criteria for self-assessment on the performance of each member of the board of commissioners

		7. Number of meetings held
		8. The number of attendance of each member of the board of commissioners in the meeting
		9. Decision-making mechanism
		10. Board of commissioners training program
3	Board of Directors	1. The names of the members of the board of directors with their respective positions and functions
		2. Description of the duties and responsibilities of the board of directors
		3. Educational background and career of members of the board of directors
		4. The scope of work and responsibilities of each member of the board of directors. Brief explanation of the working mechanism of the board of directors
		5. Decision-making mechanism
		6. Mechanism for delegation of authority
		7. Policies and amount of remuneration for members of the board of directors
		8. Number of meetings held by the board of directors
		9. The number of attendance of each member of the board of directors in the meeting
		10. Mechanism and criteria for evaluating the performance of the members of the board of directors
		11. Training programs in order to improve the competence of directors

353 Source: Nengzih (2017).

354

355 Based on the research of Bhuiyan & Biswas (2007), the corporate governance disclosure
356 index in the company's annual report can be calculated by the following formula:

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$$\text{GCGIndex} = \frac{\text{Total CG Disclosure Item Score}}{\text{CG Disclosure Item Maximum Score}}$$

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3) Moderating Variables

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The moderating variable in this study is Intellectual Capital. Intellectual capital is an intangible asset that comes from human resources that are dynamic and always changing according to situations and conditions and cannot be measured (Purba & Muslih, 2018). In this study, Intellectual capital is calculated using the Value Added Intellectual Capital (VAIC) formula. VAIC can be calculated by how the ability to be able to create value added (VA) for the company. Value Added (VA) is an indicator to see the company's ability to create added value for the company and can also be used to assess business success within the company. Value added is calculated by the difference in output minus inputs, where output is the total income that includes all products and services sold in the market, and inputs are all expenses used to earn income (except employee expenses). The VAIC method consists of three value-added indicators, namely Value Added Human Capital (VAHU), Value Added Structural Capital (STVA), and Value Added Capital Employed (VACA).

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VAICTM can be calculated by the following formula (Purba & Muslih, 2018):

$$\text{VAICTM} = \text{VACA} + \text{VAHU} + \text{STVA}$$

3.2 Population and Research Sample

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The population of this study are companies listed on the Indonesia Stock Exchange. The samples used in this study are property companies listed on the Indonesia Stock Exchange during 2017-2020. The sampling method used is purposive sampling, namely sampling based on the company's criteria as follows:

1. Property companies listed on the Indonesia Stock Exchange
2. Companies that are consistently listed on the Indonesia Stock Exchange in 2017-2020.
3. Companies that have the data needed during the research.

Table 2 Sample Selection Criteria

No.	Criteria	Total
1	Property companies listed on the Indonesia Stock Exchange (IDX)	83
2	Property companies that were IPO and delisted during the research year (2017-2020)	(34)
3	Companies that do not have the required data during the study period	(16)
	Total Sample	33
	Year of Research	4
	Total Data	132

386 Source: Proccesed Data (2022)

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388

3.3 Analysis Method

389 The analytical method used is a quantitative method, namely the approach to data
 390 processing through statistical or mathematical methods collected from secondary data. It is
 391 hoped that the conclusions obtained in a study will be more measurable and
 392 comprehensive.

393 The data analysis method in this study uses SmartPLS software which is run with computer
 394 media. PLS (Partial Least Square) is a variant-based structural equation analysis (SEM) that
 395 can simultaneously test the measurement model as well as test the structural model. The
 396 measurement model is used to test the validity and reliability, while the structural model is
 397 used to test causality (testing hypotheses with predictive models).

398 Ghozali (2015) explains that PLS is an analytical method that is soft modeling because it
 399 does not assume the data must be with a certain scale measurement. The basic difference
 400 between PLS, which is a variant-based SEM, and LISREL or AMOS, which is covariance-
 401 based, is the purpose of its use. PLS is able to avoid two major problems faced by
 402 covariance based SEM, namely inadmissible solutions and factor indeterminacy. There are
 403 several reasons why PLS is used in a study. In this study, the reasons are: first, PLS (Partial
 404 Least Square) is a data analysis method that is soft modeling because it does not assume
 405 that the data must be measured at a certain scale. Second, PLS (Partial Least Square) can
 406 be used to analyze theories that are still said to be weak, because PLS (Partial Least
 407 Square) can be used for predictions. Third, PLS (Partial Least Square) allows the algorithm
 408 to use series ordinary least square (OLS) analysis so that the efficiency of the calculation of
 409 the algorithms is obtained. Fourth, in the PLS approach, it is assumed that all measures of
 410 variance can be used to explain. The data analysis method in this study is divided into two,
 411 namely:

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1. Descriptive Statistics Descriptive analysis

414 Empirical analysis is descriptive of the information obtained to provide an overview/describe
 415 about an event (who/what, when, where, how, how much) collected in the study. The data
 416 comes from the answers given by the respondents to the items contained in the
 417 questionnaire. Furthermore, the researcher will process the existing data by grouping and
 418 tabulating then giving an explanation.

419

2. Inferential Statistical Analysis.

420 In accordance with the formulated hypothesis, in this study the analysis of inferential
 421 statistical data was measured using the SmartPLS (Partial Least Square) software starting

422 from the measurement model (outer model), model structure (inner model) and hypothesis
423 testing.

424 According to Hair et.al. (2006) this method is appropriate for data reduction, namely
425 determining the minimum number of factors needed to calculate the maximum portion of the
426 total variance represented in the original set of variables. This method is used with the
427 assumption that the researcher knows that the number of unique variants and the error
428 variance in the total variance is small. This method is superior because it can overcome the
429 problem of indeterminacy, ie different factor scores are calculated from the resulting single
430 factor model and acceptable data, namely data ambiguity due to unique variances and error
431 variances.

432 This study uses latent variables with formative indicator models. Constructs with formative
433 indicators assume that each indicator defines or explains the characteristics of its construct
434 domain, namely indicators to constructs. The measurement error is shown in the construct
435 not on the indicator so that testing the validity and reliability of the construct is not needed
436 (Ghozali, 2015).

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438 4. RESULTS AND DISCUSSION

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440 1.1 Result

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441 4.1.1 Descriptive Test

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The results of descriptive statistical tests from this study are as follows:

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Table 3 Descriptive Test

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
FINDIS	132	-.6757	16.0104	2.247378	2.4789286
IC	132	-12.7841	60.6197	7.985154	9.2850195
GCG	132	.4000	.9600	.764848	.1286957
Valid N (listwise)	132				

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446 The table above shows the results of descriptive statistical analysis of each research
447 variable which can be concluded that the data processed in this study were 132 samples (N
448 = 132).

449

Below is a description of the research variables from the statistical descriptive results

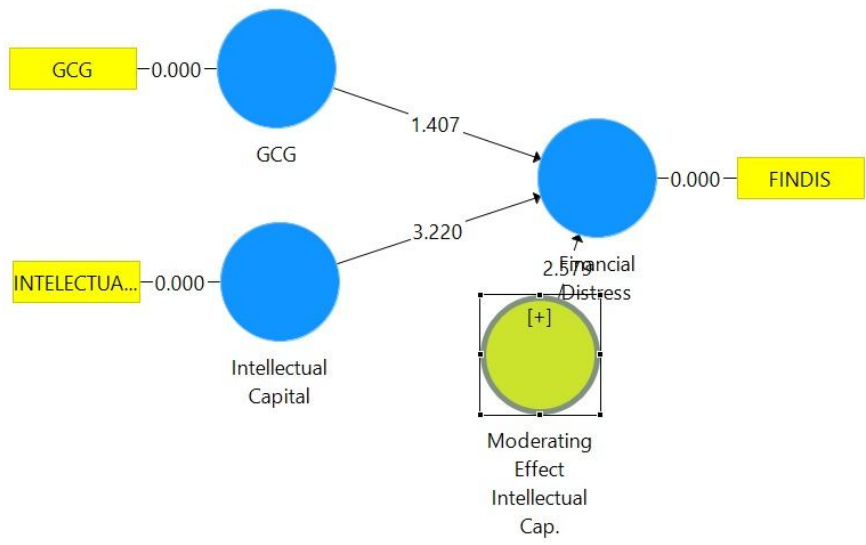
450

- 451 1. Financial Distress has a minimum value of -0.6757 which is owned by PT. Modernland
452 Realty Tbk in 2020. This means that PT. Modernland Realty Tbk has the potential to
453 experience financial distress due to the z-score value for that year <1.81. The maximum
454 value of 16.0104 is owned by PT Puradelta Lestari Tbk. 2018. This means that in 2018
455 PT Puradelta Lestari Tbk. classified as a company that has no potential for bankruptcy
456 because the z-score in that year is >2.99. The mean (mean) z-score is 2.247378 and the
standard deviation is 2.24789286.

- 457 2. Intellectual capital data using vaictm measurement has a minimum value of -12.7841
 458 which is owned by PT. Lippo Cikarang Tbk in 2020. This means the value of Value
 459 Added Human Capital (VAHU), Value Added Structural Capital (STVA), and Value
 460 Added Capital Employed (VACA) by PT. Lippo Cikarang Tbk in 2020 experienced -
 461 1278.41%. The maximum value of 60.6197 is owned by PT PP Property Tbk in 2017.
 462 This means the value of Value Added Human Capital (VAHU), Value Added Structural
 463 Capital (STVA), and Value Added Capital Employed (VACA) by PT Fortune Mate
 464 Indonesia Tbk in 2016 worth 6061.97%. The mean value (mean) of vaictm is 7.985154
 465 and the standard deviation is 9.2850195.
- 466 3. Good Corporate Governance has a minimum value of 0.40 which is owned by PT.
 467 Modernland Realty Tbk in 2020. This means that PT. Modernland Realty Tbk has
 468 the potential to experience financial distress due to the z-score value for that year <1.81.
 469 The maximum value of 16.0104 is owned by PT Puradelta Lestari Tbk. 2018. This
 470 means that in 2018 PT Puradelta Lestari Tbk. classified as a company that has no
 471 potential for bankruptcy because the z-score in that year is >2.99. The mean (mean) z-
 472 score is 2.247378 and the standard deviation is 2.24789286.

473 **4.1.2 Evaluation of Measurement Model**

474 In this study, hypothesis testing using the Partial Least Square (PLS) analysis technique
 475 with the SmartPLS 3.0 program, the following are the results of the schematic model of the
 476 PLS program tested:
 477
 478



479
 480 **Figure 2. Loading Factor**

481
 482 The loading factor describes how much the indicators relate to each construct. The path
 483 chart above shows that all indicators are valid. These results indicate that there is a good
 484 correlation between the indicators and each construct.

485
486

4.1.3 Structural Model Evaluation

487 After checking the measurement model, the next step is to examine the structural model.
488 This examination includes the significance of the path relationship and the value of R Square
489 (R2) to see the results of the evaluation of the structural model. The value of R2 aims to
490 determine how much the independent variable affects the dependent variable. The value of
491 R2 can be seen from table 4:
492

Table 4. R Square

	R Square	R Square Adjusted
Financial Distress	0.114	0.091

493
494

Source: SmartPLS 3.0 data Data Processing

495 The value of R Square (R2) of 0.114 means that the variability of the financial distress
496 construct can be explained by the construct of good corporate governance and intellectual
497 capital of 11.4%. While 88.6% is explained by other variables not included in this study.

498
499

4.1.4 Hypotesis Test Results

500

Table 5. Path Coefficient Value (Mean, STDEV, T-Values, P-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
GCG -> FD	-0.161	-0.158	0.115	1.407	0.160
IC -> FD	0.712	0.678	0.221	3.220	0.001
Moderating Effect IC -> FD	-0.478	-0.449	0.185	2.579	0.010

501
502

Source: SmartPLS 3.0 data Data Processing

503 Based on the table above, the results can be used to answer the hypothesis in this study.
504 Hypothesis testing in this study was carried out by looking at the T-Statistic value > 1.96 and
505 the P value < 0.05. So it can be seen that the relationship test between constructs shows
506 that good corporate governance has no effect on the z-score value, and good corporate
507 governance moderated by intellectual capital has a negative effect on the z-score value.

508
509

1.2 Discussion

510

1. The Effect of Good Corporate Governance on Financial Distress

511 The results of the hypothesis test show that good corporate governance has no effect on
512 the zscore value. This means that the higher or lower the implementation of corporate
513 governance in the company does not have an influence on the risk of financial distress. The
514 implementation of corporate governance in property companies has not been considered
515 able to improve management supervision to encourage effective decision making, prevent
516 opportunistic actions that are not in accordance with the company's interests, and reduce
517 information asymmetry between management, shareholders, and creditors. This is possible
518 because the implementation of GCG is only a form of formality as a manifestation of
519 compliance with applicable regulations. This result is in line with the research of Widhiastuti
520 et al., (2019) which found that good corporate governance has no effect on financial distress.
521 To avoid the risk of financial distress, it is not only the implementation of good corporate
522 governance, it must be balanced with others.

523 2. The influence of Intellectual Capital as a moderating variable on the relationship between
524 good corporate governance and financial distress

525 The results of the hypothesis test show that good corporate governance moderated by
526 Intellectual Capital has a negative effect on financial distress. This means that the higher the
527 implementation of corporate governance balanced with good intellectual capital in the
528 company will reduce the risk of bankruptcy. Optimal implementation of corporate governance
529 will be able to improve the company's performance so that the occurrence of financial
530 distress can be minimized. The corporate governance mechanism can minimize conflicts of
531 interest which, according to agency theory, arise as a result of the separation of interests
532 between the principal and the agent. Good intellectual capital management results in the
533 company's performance will also be assessed as good, the increase in performance will lead
534 to a company's profit which can be seen in the financial statements. This will have an impact
535 on the lower risk of the possibility of financial distress in a company. These results are in line
536 with the research conducted by Yuliani & Rahmatiasari (2021).

537 **5. CONCLUSION AND SUGGESTIONS**

538

539 **5.1 Conclusion**

540

541 Based on the results of the analysis and discussion described in the previous chapter, the
542 conclusions of this study are as follows:

543 1. Good corporate governance has no effect on Financial Distress. This means that the
544 higher or lower the implementation of corporate governance in the company does not
545 have an influence on the risk of financial distress.

546 2. Good corporate governance moderated by intellectual capital has a negative effect on
547 financial distress. This means that the higher the implementation of corporate
548 governance balanced with good intellectual capital in the company will reduce the risk of
549 financial distress.

550 **5.2 Suggestions**

551 In the research that has been done, there are still some limitations. Based on the results of
552 the conclusions, the suggestions that can be given include:

553 1. For further researchers, because the results of research on the good corporate
554 governance variable show that the company does not experience an influence on
555 financial distress on the sample that has been carried out, it is recommended to retest
556 with another sample because it is not in accordance with the applicable theory.

557 2. Property companies are expected to pay attention to factors that can cause company
558 financial distress, so that if there are indications that the company is experiencing
559 financial distress, the company can quickly take action to improve the company's
560 financial condition.

561

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