Journal of Business and Management
http://jurnal.unmer.ac.id/index.php/jbm

Volume 12 No 2
2025
Pages 87 - 97

The Moderating Role of Profitability: Good Corporate Governance and Company Size on Financial Distress

Fraciska Phania
Department of Management, Economic and Business Faculty, Widya Dharma University, Pontianak, Indonesia
fraciskaphania@gmail.com

Maran
Department of Management, Economic and Business Faculty, Widya Dharma University, Pontianak, Indonesia
yuvenalismaran@gmail.com

***Corresponding Author: fraciskaphania@gmail.com**

Abstract:

The phenomenon of financial distress is increasingly drawing attention due to its capacity to serve as an early warning sign of potential corporate failure. This research investigates the moderating role of profitability in the association between good corporate governance (GCG) and company size and the chances of encountering financial distress, focuses on healthcare entities traded on the Indonesia Stock Exchange from 2020 until 2024. A quantitative methodology was adopted, utilizing Moderated Regression Analysis and panel data regression, using data analyzed through EViews 12 software. This research involved 21 purposively selected firms, resulting in 105 firm-year observations. Financial distress levels were calculated using the Altman Z-Score model. The findings reveal that while GCG and company size jointly influence financial distress, their individual influences are statistically insignificant. Profitability plays a significant moderator in the correlation between GCG and financial distress, but not between company size and financial distress. This study provides actionable insights for corporate decision makers and regulators, particularly in developing governance frameworks and profitability-based strategies to mitigate financial vulnerability. Moreover, it offers contextually grounded implications for strengthening financial sustainability within Indonesia's healthcare sector an industry where stability and ethical stewardship are vital to maintaining public trust.

Keywords: *Company Size; Financial Distress; Good Corporate Governance (GCG); Profitability*

1. Introduction

In recent years, the phenomenon of financial distress has emerged as a critical issue within corporate finance. The financial resilience of corporations is increasingly tested by uncertain global and domestic economic dynamics, including exchange rate fluctuations, inflation, and geopolitical tensions. One of the most concerning challenges is financial distress, which occurs when the company encounters challenges in meeting its debt commitments, potentially resulting in bankruptcy in the long term. From a theoretical perspective, Agency Theory explains that conflicts between managers (agents) and owners (principals) are likely to result in opportunistic behavior, inefficient decision making, and ultimately, declining corporate performance. Effective GCG mechanisms such as a board of commissioners, transparent disclosure, and active monitoring serve to align managerial actions with shareholder interests, thereby reducing the likelihood of financial distress. Signalling Theory complements this view by suggesting that GCG practices and strong profitability act as credible signals of corporate soundness, reducing information asymmetry and enhancing investor confidence. Collectively, these theoretical perspectives highlight the central role of GCG, profitability, and company size in determining a firm's ability to withstand financial shocks.

In response to these risks, companies must adopt effective mitigation strategies. One highly regarded approach is the application of GCG principles, reflecting how effectively a company management upholds accountability, transparency, independence, responsibility, and fairness. When governance mechanisms within a legal or business environment are managed effectively, it is believed to bolster investor confidence and reduce information asymmetry (Liang et al., 2020), Conversely, weaknesses in governance can trigger conflicts of interest and heighten the potential for financial failure. In addition to GCG, company size is a key determinant in addressing financial distress. Large companies generally benefit from business diversification, broader access to funding, and more intensive external oversight. Companies with substantial assets are typically in a mature stage of their business cycle, possessing stable profit prospects and the flexibility to develop strategies to counteract financial pressures (Husna & Satria, 2019).

However, the effect of GCG and company size against financial risk exposure distress cannot be isolated from other internal factors, such as profitability. Profitability reflects a business entity's efficiency in allocating resources to generate profits. Entities that demonstrate high profitability generally possess a superior capacity to meet their financial obligations and fund business operations, thereby mitigating the risk of financial distress (Savitri & Rochdianingrum, 2020). Within this framework, profitability is hypothesized to have a moderating function in determining the direction and strength of the correlation between GCG, company size, and the likelihood of financial distress. Previous studies have yielded varied results. Findings by (Liang et al., 2020),(Savitri & Rochdianingrum, 2020), (Permana & Serly, 2021), (Muslimin & Bahri, 2022), (Wati et al., 2022), (Sari & Pristiana, 2024) as well as (Islam & Umaimah, 2025) reinforces the effect of GCG and company size on the likelihood of financial distress. However, other findings by (Putri & Ardini, 2020), (Lestari & Wahyudin, 2021), (Yuliani & Rahmatiasari, 2021), (Rahma & Dillak, 2021), (Widhiastuti & Pradnyani, 2024) as well as (Islam & Umaimah, 2025) showed conflicting results. Furthermore, the moderating role of profitability on this relationship has not shown consistency.

Following the above explanation, this present research centers on assessing the moderating role of profitability in the correlation between GCG and company size against financial distress. An innovative approach is offered that positions profitability as a moderating variable in an integrated model that combines GCG and company size simultaneously. Consequently, this study aims to offer insights into strengthening the theoretical foundation for enriching the literature on financial governance and risk management, as well as generating practical implications for corporate management in planning more holistic and measurable financial distress prevention efforts.

2. Literature Review

Agency Theory

Agency theory posits that a contractual arrangement exists between the owners (principals) and managers (agents) in the process of corporate management (Jensen & Meckling, 1976). However, in practice, agents do not always act in the best interests of principals, as differing goals and asymmetric information often give rise to agency conflicts. Such conflicts may prompt managers to pursue personal gains at the expense of shareholder value, thereby increasing the firm's risk exposure. Within this framework, effective governance mechanisms such as

transparency, accountability, and managerial oversight are essential to align managerial decisions with shareholder interests and minimize potential agency costs.

Signalling Theory

The signal theory proposed by Spence (1973) explains that company managers provide signals to investors and stakeholders to minimize information asymmetry and ensure the company's performance. These signals are derived from financial reports, strategic initiatives, and profitability disclosures in annual reports. The nature and quality of the information provided significantly influence investor confidence, making transparency, timeliness, and accuracy crucial for building trust (Muslimin & Bahri, 2022).

Financial Distress

Financial distress denotes a condition where an enterprise is fails to meet its financial responsibilities, including the timely payment of debts (Rahma & Dillak, 2021). This condition is often the first step towards bankruptcy if not addressed promptly. The impact of financial distress extends beyond financial aspects, potentially damaging the company's reputation, weakening employee morale, and eroding investor confidence. Consequently, companies are compelled to implement robust early warning systems and risk management models. The Altman Z-Score model, a well-known technique employed in analyzing finances, evaluates a company's financial health by combining several financial indicators to assess the probability of bankruptcy with greater precision (Altman, 1968).

Good Corporate Governance

GCG encompasses a framework of principles and governance structures designed to ensure effective company management in terms of accountability, transparency, independence, responsibility, and fairness, thereby ensuring the protection of all stakeholder interests. It involves various mechanisms, such as audit committees, boards of commissioners, directors, institutional ownership, and managerial ownership, which collectively strengthen the oversight function and enhance the transparency of company operations. Effective GCG implementation can alleviate conflicts of interest and reduce gaps in knowledge between management and investors. Furthermore, GCG promotes information transparency through annual reports and governance disclosures, including the disclosure of conditions that could potentially lead to financial distress (Muslimin & Bahri, 2022).

Company Size

Company size represents the total assets or accumulated wealth of a business entity (Widhiastuti & Pradnyani, 2024) and is typically measured using market capitalization, total assets, or total sales. A prevalent technique involves calculating log-transformed value of aggregate assets (Muslimin & Bahri, 2022). Company size is often used as a proxy for assessing capital structure, resilience to economic pressures, and ease of access to external financing. Larger entities generally possess more abundant resources, more efficient operations, and a more diversified portfolio, making them better equipped to navigate uncertainty and risk compared to their smaller counterparts.

Profitability

In general, profitability reflects a firm's ability to yield profit from its resources, equity, and revenue. This indicator serves as an important gauge of financial performance, as it demonstrates operational efficiency and management effectiveness in resources allocation. Profitability ratios are also utilized by investors to evaluate a company's future potential and performance as a foundation for capital allocation (Widhiastuti & Pradnyani, 2024). A company's financial gain is measured through indicators such as Return on Assets (ROA). Each metric represents a specific perspective concerning the organization’s power to produce earnings across various financial dimensions.

The Influence of Good Corporate Governance against Financial Distress

One of the GCG mechanisms key is the board of commissioners, which is tasked with advising and supervising company management to ensure that operations are conducted with prudential principles and in the best interests of investors. According to agency theory (Jensen & Meckling, 1976) the board of commissioners is to minimize conflicts of interest that may arise between managers (agents) and owners (principals). Since then, numerous research has examined the role of boards in enhancing GCG and reducing financial risks.

However, empirical evidence regarding the board's impact on financial distress remains inconclusive. Traditional perspectives argue that larger boards enhance oversight capacity and improve monitoring quality. Yet, more recent studies reveal a paradoxical effect: beyond a certain threshold, increasing board size can reduce efficiency due to slower decision-making, coordination challenges, and higher administrative costs (Permana & Serly, 2021). Similarly, (Dalton et al., 2010) emphasize that board effectiveness is shaped not merely by size, but by the competence, independence, and collaborative dynamics among members. This suggests that board size alone is an inadequate indicator of governance quality. Without effective coordination and a strong monitoring framework, even a large board may become symbolic rather than functional, offering limited contribution to the company's financial stability. Thus, the association between GCG and financial distress is likely context dependent, influenced by the quality and functionality of governance mechanisms rather than their structural magnitude.
H1: Good Corporate Governance has a positive effect on Financial Distress

The Influence of Company Size against Financial Distress
Company scale is typically quantified through the log of accumulated assets, reflecting a general overview of the business entity's capacity. Larger companies are typically considered to have greater financial flexibility, stronger internal controls, and easier access to external financing, making them more resilient to financial distress. This align with Signalling Theory (Spence, 1973), indicating that investors and creditors can obtain signals regarding a company's financial strength and stability based on its size. As a company's size increases, its effectiveness in managing risk and maintaining operational continuity also tends to increase. Furthermore, larger companies tend to have more diversified product and market portfolios, making them more resilient to market volatility.

However, subsequent study has refined this view, showing that the association between financial distress and company size is not always linear or consistent across contexts. For instance, (Muslimin & Bahri, 2022) reported that financial distress was not influenced by company size, indicating that the influence can differ based on the organization internal and external conditions. This inconsistency underscores the importance of contextual and managerial factors, including the efficiency of asset utilization, corporate strategy, and industry characteristics. Collectively, these findings suggest that company size alone is an incomplete indicator of financial health. While it may signal financial robustness, its real effect depends on how effectively the firm leverages its scale advantages to manage risks and sustain profitability. Therefore, understanding how company size impacts financial instability requires integrating both quantitative scale measures and qualitative dimensions of management capability.
H2: Company size has a negative effect on financial distress.

The Moderating Role of Profitability: Good Corporate Governance against Financial Distress
Profitability indicates an entity's capacity to generate revenue through its core business functions. Elevated profitability generally signals an entity robust financial health and greater resilience to financial pressures, over immediate and extended periods. In this context, profitability may either reinforce or undermine the impact of GCG on the risk of financial distress. GCG involves various governance mechanisms such as audit committees, commissioners, directors, institutional ownership, and managerial ownership. Companies with higher profitability tend to be better able to optimally fund the implementation of GCG principles, including financing a proportional board of commissioners (Lestari & Wahyudin, 2021). This financial support enhances the efficiency and effectiveness of governance.

Conversely, companies with lower profitability may face constraints in implementing governance principles comprehensively, which can weaken the effectiveness of GCG and increase vulnerability to financial distress. Although empirical evidence exploring the moderating effect of profitability on the relationship between GCG and financial distress remains scarce, existing research has shown that profitability plays a crucial moderating factor in corporate governance and a firm's financial condition. For example, (Hanifa et al., 2024) found that profitability strengthens GCG against financial distress. This gap underscores the need for the present study to investigate the interactive effect of profitability, contributing to a more nuanced understanding of how internal financial strength shapes the impact of governance practices.
H3: Profitability significantly moderates the relationship between Good Corporate Governance and Financial Distress

The Moderating Role of Profitability: Company Size against Financial Distress
Profitability functions as a crucial metric demonstrating the entity's ability to raise earnings from its operations and sustain financial resilience amid internal and external pressures. High profitability allows firms to optimize asset management, invest in growth opportunities, and absorb shocks, thereby enhancing their capacity to avoid financial

Journal of Business and Management
http://jurnal.unmer.ac.id/index.php/jbm
Volume 12 No 2
2025
Pages 87 - 97

distress. Company size, frequently assessed using total assets (Widhiastuti & Pradnyani, 2024), reflects the overall resources available to a firm. Larger firms are generally presumed to have better access to capital, diversified operations, and stronger internal controls, which theoretically reduce their susceptibility to financial distress.

To our knowledge, empirical studies explicitly examining profitability as a moderator between company size and financial distress are limited, highlighting a void that this research seeks to address. Prior research (Savitri & Rochdianingrum, 2020) and (Widhiastuti & Pradnyani, 2024) provides preliminary evidence that profitability can strengthen this relationship, as higher profits contribute to long-term asset growth and reinforce the company's financial position. Consequently, firms with higher profitability are better able to leverage their size effectively, enhancing operational resilience, whereas firms with lower profitability may not realize the full advantages of scale.
H4: Profitability significantly moderates the relationship between Company Size and Financial Distress

3. Method

This study employs a quantitative approach grounded in the positivist paradigm, aiming to test hypotheses through statistical analysis (Sugiyono, 2023). An associative research design is applied to examine the relationships between variables. The analytical approach includes Moderated Regression Analysis (MRA) and panel data regression, facilitated by Econometric Views 12 software, to enable a detailed and systematic interpretation of the data. The research process involves identifying theoretically grounded problems, formulating and testing hypotheses, and processing data to elucidate the relationships between the variables under investigation. Secondary data was obtained from the IDX platform also authorized corporate portals of the companies that met the research criteria. The population comprises 38 healthcare industry entity registered on the IDX in 2025, chosen via purposive sampling technique, targeting issuers fulfilling these requirements: (1) the firm belongs to health services and appears on the IDX as of 2025, and (2) the company has published complete and continuous annual reports from 2020 until 2024. Based on these criteria, 21 entities were selected, yielding a total of 105 observation units.

To ensure methodological transparency, this section also elaborates the operationalization of variables. Financial distress is evaluated with the Altman Z-Score model, which combines liquidity, profitability, leverage, solvency, and activity ratios to evaluate a company's financial health, with lower Z-scores signifying a greater risk of distress. GCG is proxied through the number of commissioners board members, reflecting the company's internal monitoring capacity in mitigating agency conflicts, as posited by Agency Theory. Company size is operationalized as the natural logarithm of total assets, representing the company's operational scale and its capacity to absorb financial shocks. Profitability, which serves as the moderating variable, is assessed using Return on Assets (ROA) to measure managerial efficiency in leveraging assets to produce earnings, consistent with Signalling Theory, which views profitability as a credible indicator of financial stability and firm performance.

Table 1. Variable Measurement

Variables	Measurement	Reference
Financial Distress	Z" = 6.56X1+ 3.26X2+ 6.72X3+ 1.05X4	(Sonia et al., 2024)
Good Corporate Governance	Total number of commissioners board members in period	(Yuliani & Rahmatiasari, 2021)
Company Size	Natural logarithm(total assets)	(Widhiastuti & Pradnyani, 2024)
Profitability	$Return\ On\ Assets = \frac{Net\ Income}{Total\ Assets}$	(Savitri & Rochdianingrum, 2020)

4. Findings and discussion

Descriptive Statistical Analysis

Table 2. Output Descriptive Statistical Analysis

	FD	GCG	SIZE	P
Mean	6.232550	4.257143	28.76076	0.056070
Maximum	23.63431	8,000,000	31.01303	0.397410
Minimum	-27.21253	2,000,000	25.61041	-0.948898
Std. Dev.	6.877377	1.704229	1.168100	0.152876
Observations	105	105	105	105

Source: Processed Data, 2025

Based on the descriptive statistical analysis output presented in Table 2, this study includes 105 valid observations. Financial distress variable reports a mean value of 6.232550 with a std. deviation of 6.877377; which indicates a significant difference in financial conditions between companies. GCG variable has a mean value of 4.257143 with a std. deviation of 1.704229; indicating a difference in the level of GCG implementation in each company. The Company size variable reports a mean value of 28.76076 with a std. deviation of 1.168100; which indicates that the variation in size between companies is relatively low. Lastly, Profitability variable has a mean value of 0.056070 with a std. deviation of 0.152876; a negative minimum value indicates that some companies did not generate profits during the observation period.

Panel Data Regression Model Test

To identify the ideal model, three models were implemented: Chow Test, the Hausman Test, and the Lagrange Multiplier (LM) Test. The inspection aims to determine the most appropriate estimation model: Fixed Effect Model (FEM), Random Effect Model (REM), or Common Effect Model (CEM), which forms the basis for the subsequent analysis.

Table 3. Chow Test Output

Effects Test	Statistics	df	Prob.
Cross-section F	6.466979	(20.79)	0.0000
Cross-section Chi-square	101.820759	20	0.0000

Source: Processed Data, 2025

Referring to the findings from the Chow Test, the Cross-section F Prob. reached 0.0000 (<0.05). Therefore, H1 is accepted as true and H0 is rejected, indicating that there is significant variation among companies within the model framework. Therefore, the most suitable model to be applied is the FEM approach, followed by the Hausman examination was conducted to ensure a more accurate model selection decision.

Table 4. Hausman Test Output

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross-section	13.331973	5	0.0205

Source: Processed Data, 2025

The Hausman Test in Table 4 found a cross-section random prob. value of 0.0205 (<0.05). Therefore, H1 is accepted, and the null H0 is rejected. This indicates that differences between individuals are not random and must be estimated. Overall, the most compatible model is the Fixed Effects Model.

Based on the findings of the Chow Test and the Hausman Test, the FEM is an ideal model for this study. Consequently, the Lagrange Multiplier (LM) Test is unnecessary.

Classical Assumption Test

Panel data regression analysis has a number of advantages, one of which is that it is not necessary to carry out normality tests or autocorrelation tests when testing the model (Khoirunnisa et al., 2022). Although the residuals (error terms) of the statistical model deviates from normality, the Ordinary Least Squares (OLS) estimator remains approximately normal if the sample size is large, assuming the variance is homoscedastic and the independent

Journal of Business and Management
http://jurnal.unmer.ac.id/index.php/jbm
Volume 12 No 2
2025
Pages 87 - 97

variable values are fixed (Gujarati, D., & Porter, 2012). Therefore, if the number of samples is ≥ 100, the normality assumption can be ignored.

Meanwhile, autocorrelation testing was not applied in this study. This is because this test is only relevant for time series data, while panel data tends to have stronger cross-sectional characteristics, so this test is deemed unnecessary (Basuki & Prawoto in Khoirunnisa et al., 2022). Thus, this study is limited to multicollinearity and heteroscedasticity tests.

Table 5. Multicollinearity Test Output

	GCG	SIZE	P	FD
GCG	1,000,000	**0.611204**	**0.128612**	-0.063183
SIZE	0.611204	1,000,000	**0.086768**	-0.010892
P	0.128612	0.086768	1,000,000	0.744290
FD	-0.063183	-0.010892	0.744290	1,000,000

Source: Processed Data, 2025

The multicollinearity test is checked through the inter-variable correlation grid. A correlation > 0.90 indicates the possibility of multicollinearity, while a low correlation value indicates the opposite (Ghozali, 2021). According to the multicollinearity test in Table 5, the relationship between variables is below 0.90. Therefore, no signs of multicollinearity appear.

Table 6. Heteroscedasticity Test Output

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.076104	0.065430	1.163139	0.2482
GCG	-0.001247	0.001314	-0.948882	0.3455
SIZE	-0.002277	0.002292	-0.993611	0.3234
P	-0.002066	0.006994	-0.295472	0.7684

Source: Processed Data, 2025

From the heteroscedasticity test analysis using the Glejser technique in Table 6, probability value was > 0.05 and indicated the absence of heteroscedasticity symptoms.

Best Panel Data Regression Model Analysis

Table 7. Panel Data Regression Output Without Moderating Variables

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-25.73112	40.52188	-0.634993	0.5272
GCG	0.608683	0.811759	0.749832	0.4555
SIZE	1.021267	1.417012	0.720719	0.4731

Source: Processed Data, 2025

Referring to the data shown in Table 7, the relevant formula can be written and explained as below:

$$Y = -25.73112 + 0.0608683X1 + 1.0212667X2 + \in$$

a. The constant value of -25.73112 in the regression equation indicates the prediction of potential financial distress when all independent variables are zero.
b. Coefficient The GCG variable (X_1) of 0.608683 indicates a positive influence on financial distress. If GCG increases by one point, the risk of financial distress is projected to increase by 0.608683, assuming all other factors remain stable and unchanged.
c. Coefficient The Company Size variable (X_2) of 1.021267 indicates a positive influence on financial distress. When company size increases by one level, financial trouble likelihood rises by 1.021267, holding all else equal and unchanged.

Coefficient of Determination Test (R^2)

Table 8. Output of Determination Coefficient Test

R-squared	Adjusted R-squared
0.709176	0.631149

Source: Processed Data, 2025

Table 8 explains that the GCG and company size variables influence the financial distress variable by 0.709176 (70.9176%) and the remaining 0.290824 (29.0824%) is influenced by variables that have not been the focus here.

F test

Table 9. F-Test Output

F-statistic	Prob(F-statistic)
9.088954	0.000000

Source: Processed Data, 2025

The F-test analysis presented in Table 9 displays a Prob(F-statistic) value of 0.000000, indicating that each independent variable simultaneously exhibits a significant relationship with the dependent variable. The output also indicates that this research model is statistically sound.

T-test

Table 10.T-Test Output

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-25.73112	40.52188	-0.634993	0.5272
GCG	0.608683	0.811759	0.749832	0.4555
SIZE	1.021267	1.417012	0.720719	0.4731

Source: Processed Data, 2025

To obtain the t-table value, a t-distribution at a 0.05 significance level and specified df of nk = 102 was used to ensure more accurate statistical analysis. The calculation yielded a t-table value of 1.65993. Referring to the hypothesis test output presented in Table 10, the following conclusions are drawn:

a. GCG recorded a coefficient of 0.608683, which is below the table limit (0.608683 < 1.65993), with a Prob. value of 0.4555 (>0.05). The results imply that GCG has a unidirectional effect, although this effect is not proven to be individually significant on financial distress.
b. Company size recorded a coefficient of 1.021267, a value is lower than the t-table (1.021267 < 1.65993), with a Prob. value of 0.4731 (>0.05). The results imply that company size has a unidirectional influence, although it is not statistically significant on financial distress when considered individually.

Moderated Regression Analysis (MRA) Test

Table 11. Moderated Regression Analysis (MRA) Test Output

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	22.05319	30.68148	0.718779	0.4744
GCG	1.258965	0.608664	2.068408	0.0419
SIZE	-0.790527	1.081471	-0.730974	0.4670
P	-156.9843	106.2578	-1.477390	0.1435
M1	-10.22188	2.811325	-3.635967	0.0005
M2	8.069733	4.083637	1.976114	0.0516

Source: Processed Data, 2025

Referring on the output in Table 11, the following conclusions are obtained:

a. Variable M1 indicates the interaction between GCG and profitability (GCG*P), with a coefficient of -10.22188 and Prob. value of 0.0005 (<0.05). The analysis shows that financial distress can be significantly moderated by profitability.

Journal of Business and Management
http://jurnal.unmer.ac.id/index.php/jbm
Volume 12 No 2
2025
Pages 87 - 97

b. Variable M2 represents the interaction between company size and profitability (Size*P), with a coefficient of 8.069733 and Prob. value of 0.0516 (>0.05). The analysis found that financial distress cannot be significantly moderated by profitability.

DISCUSSION

The Influence of Good Corporate Governance against Financial Distress

Based on the output of Table 10, a positive correlation between GCG and financial distress was found. Therefore, the first hypothesis (H1) can be accepted in terms of the relational orientation; a positive sign shows that GCG implementation tends to increase the potential for financial distress, which can be caused by high compliance costs that burden a business entity. Nevertheless, the influence of GCG is not statistically significant, indicating that the empirical evidence is not strong enough to conclude a real relationship. This could be due to sample size limitations, data variability, or other more dominant factors. Therefore, in this context, GCG cannot be said to be a direct cause of financial distress, but rather only indicates trends in certain situations. This finding aligns with a study by (Permana & Serly, 2021), which found that increasing the number of commissioners board members can actually heighten the risk of financial distress. The effectiveness of GCG is largely determined by the quality of oversight and synergy among members, not simply the number.

This finding contradicts agency theory (Jensen & Meckling, 1976), which emphasizes that governance mechanisms should mitigate conflicts of interest and reduce financial risk. In practice, excessively large boards of commissioners can actually create inefficiencies, reduce oversight effectiveness, and slow responses to business pressures. If not supported by good coordination and quality oversight, a large GCG structure can be counterproductive. If this occurs, it can lead the company to bankruptcy.

The Influence of Company Size against Financial Distress

Referring to Table 10, a direct association involving company size and financial distress was found. Therefore, the second hypothesis (H2) is rejected both in terms of direction. A positive coefficient indicates that larger companies tend to increase the potential for financial distress. This can occur due to complex organizational structures, high operational costs, and large liabilities to support business activities. These conditions can increase a company's financial pressure and subsequently heighten the potential of financial instability. However, the association between company size and financial distress in this study proved insignificant. This means that company size is not a dominant factor in explaining financial distress and there are indications that other factors have a stronger effect. According to the findings of the study reported by (Muslimin & Bahri, 2022), evidence was found that company size had no impact on financial distress. Emphasizing that a company size, regardless of its scale, doesn't play a role in determining the likelihood of financial instability. This finding contradicts Signalling Theory, which suggests that company size is a positive indicator of financial stability and strength for stakeholders. However, without efficient management, large scale can actually increase operational costs and exposure to external risks, thus not always guaranteeing a firm's financial health.

The Moderating Role of Profitability: Good Corporate Governance against Financial Distress

As can be seen from the output of Table 11, earning performance meaningfully alters the link between GCG and financial distress. Therefore, the third hypothesis (H3) is accepted, both in terms of direction and statistical significance. The negative interaction coefficient indicates that profitability diminishes the influence of GCG on financial distress. High company profitability can mitigate the impact of GCG on the risk of financial distress, thus reducing its effect. In this case, profitability functions as a damper, demonstrating greater effectiveness when supported by strong financial conditions, and its effectiveness decreases when financial conditions are weak. From the perspective of Agency Theory, high profitability reflects effective managerial performance and reduces agency problems, thereby lessening the company's reliance on GCG monitoring alone. In other words, when a firm has strong financial capacity, the implementation of GCG becomes more effective in mitigating financial distress. Conversely, in firms with weaker financial conditions, the influence of GCG on financial resilience is limited. This analysis is consistent with a study by (Fathya & Kristanti, 2023) as well as (Lestari & Wahyudin, 2021) which states that the interaction between GCG and financial distress may be moderated by profitability.

The Moderating Role of Profitability: Company Size against Financial Distress

Referring on the information in Table 11, the correlation connecting company size to financial distress is not significantly moderated by profitability. Therefore, the fourth hypothesis (H4) was not supported by the results, both in terms of direction and statistical significance. Although the interaction coefficient is positive, the effect is not statistically strong enough to be categorized as a significant moderator. These results suggest that the tie between company size and financial distress remains direct and independent of profitability. In other words, variations in internal financial strength do not alter how company size affects financial instability. From an Agency Theory perspective, larger firms may possess more structured management and diversified operations, but the absence of moderation by profitability indicates that internal financial capacity does not further enhance or weaken this relationship. This finding aligns with a study by (Islam & Umaimah, 2025) which states that profitability only acts as a direct predictor, not as a moderator variable.

5. Conclusion and recommendation

This research focuses on the moderating role of profitability on the correlation between good corporate governance (GCG), company size, and financial distress. The findings reveal that both GCG and company size independently exert an insignificant positive influence on financial distress. Profitability plays a significant moderating role in the link between GCG and financial distress, but not involving company size and financial distress. This suggests that while GCG and company size alone do not directly reduce financial distress, stronger governance combined with higher profitability can enhance a company financial resilience. These findings align with the principles of agency theory, which posits that robust governance mechanisms align the interests of management and investors, thereby improving transparency and accountability. This suggests that while GCG and company size alone do not directly reduce financial distress, stronger governance combined with higher profitability can enhance a firm's financial resilience.

The findings also indicate that not all governance mechanisms or structural characteristics are sufficient on their own to mitigate financial distress, highlighting the importance of internal financial strength. Future research could consider using other variables that could potentially contribute to financial distress, such as leverage, operational efficiency, or other financial ratios. Additionally, the scope of sectors could be broadened to encompass firms from various other industries, such as finance, energy, transportation, and the LQ45 index, to provide more diverse research results and a higher level of generalizability.

References

Altman I Edward. (1968). Financial Ratios, Discriminant Analysis And The Prediction Of Corpporate Bankruptcy. The Journal Of Finance, XXIII(4), 589–609.

Dalton, D. R., Daily, C. M., Ellstrand, A. E., & Johnson, J. L. (2010). Meta-Analytic Reviews of Board Composition, Leadership Structure, and Financial Performance. Management, 19(3), 269–290.

Fathya, A., & Kristanti, F. T. (2023). PENGARUH CORPORATE GOVERNANCE TERHADAP INDIKASI FINANCIAL DISTRESS DENGAN PROFITABILITAS. 7(1), 489–503.

Ghozali. (2021). Aplikasi Analisis Multivariate dengan Program IBM SPSS 26 edisi 10.

Gujarati, D., & Porter, D. (2012). Basic-Econometrics.

Hanifa, Sarah; Mustaruddin; Afifah, N. (2024). Pengaruh Good Corporate Governance Terhadap Nilai Perusahaan Dengan Profitabilitas Sebagai Variabel Moderating. Jurnal Ekonomi STIEP (JES), 9(1), 11. https://doi.org/10.20527/ragam.v3i1.11903

Husna, A., & Satria, I. (2019). Effects of Return on Asset, Debt To Asset Ratio, Current Ratio, Firm Size, and Dividend Payout Ratio on Firm Value. International Journal of Economics and Financial Issues, 9(5), 50–54. https://doi.org/10.32479/ijefi.8595

Islam, S. S., & Umaimah. (2025). PENGARUH LIKUIDITAS, SOLVABILITAS DAN UKURAN PERUSAHAAN TERHADAP FINANCIAL DISTRESS DENGAN PROFITABILITAS SEBAGAI VARIABEL MODERASI. Jimea, 9(1), 976–1004.

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. The Economic Nature of the Firm: A Reader, Third Edition, 283–303. https://doi.org/10.1017/CBO9780511817410.023

Khoirunnisa, H., Ulupui, I. G. K. A., & Armeliza, D. (2022). Pengaruh Financial Distress, Profitabilitas Dan Intensitas Modal Pada Konservatisme Akuntansi. Repository Fe Unj, 1–16.

Lestari, T., & Wahyudin, A. (2021). Pengaruh Mekanisme Corporate Governance terhadap Financial Distress dengan Profitabilitas sebagai Variabel Moderating. Business and Economic Analysis Journal, 1(1), 50–62. https://doi.org/10.15294/beaj.v1i1.30145

Liang, D., Tsai, C. F., Lu, H. Y. (Richard), & Chang, L. S. (2020). Combining corporate governance indicators with stacking ensembles for financial distress prediction. Journal of Business Research, 120(July), 137–146. https://doi.org/10.1016/j.jbusres.2020.07.052

Muslimin, D. W., & Bahri, S. (2022). PENGARUH GCG, UKURAN PERUSAHAAN, DAN SALES GROWTH TERHADAP FINANCIAL DISTRESS. Owner, 7(1), 293–301. https://doi.org/10.33395/owner.v7i1.1249

Permana, F. D., & Serly, V. (2021). Pengaruh Karakteristik Dewan Komisaris Terhadap Kemampuan Memprediksi Financial Distress: Studi pada Perusahaan BUMN. Jurnal Eksplorasi Akuntansi, 3(4), 908–921. https://doi.org/10.24036/jea.v3i4.402

Putri, D., & Ardini, L. (2020). Pengaruh Kinerja Keuangan, Pertumbuhan Penjualan Dan Ukuran Perusahaan Terhadap Financial Distress. Jurnal Ilmu Dan Riset Akuntansi, 9(6), 1–18.

Rahma, N. H., & Dillak, V. J. (2021). Pengaruh Strukturmodal, Ukuran Perusahaan,Sales Growthdan Intangible AssetterhadapFinancial Distress. Jurnal Ilmiah MEA (Manajemen, Ekonomi, Dan Akuntansi), 5(3), 378–395.

Sari, I. F., & Pristiana, U. (2024). Pengaruh Keputusan Investasi , Keputusan Pendanaan , Ukuran Perusahaan terhadap Financial Distress dengan Good Corporate Governance sebagai Variabel Moderasi pada Perusahaan Manufaktur Sub Sektor Makanan dan Minuman yang Terdaftar di Bei. Jurnal Pendidikan Tambusai, 8(1), 5779–5790. https://jptam.org/index.php/jptam/article/view/13287

Savitri, N. N. A., & Rochdianingrum, W. A. (2020). Pengaruh Likuiditas, Pertumbuhan Penjualan, dan Ukuran Perusahaan Terhadap Financial Distress Dengan Profitabilitas Sebagai Variabel Moderating. Jurnal Ilmu Dan Riset Manajemen, 11(6), 1–22.

Sonia, R. E., Yuliusman, Y., & Wijaya Z, R. (2024). Analisis Prediksi Kebangkrutan Dengan Model Altman Z-Score, Model Springate, Model Zmijewski Dan Model Gover Sebelum Dan Setelah Pandemi Covid-19 " Studi Pada Perusahaan Sektor Kesehatan Yang Terdaftar Di Bei Periode 2018-2021." Jurnal Manajemen Terapan Dan Keuangan, 13(01), 271–282. https://doi.org/10.22437/jmk.v13i01.31847

Spence, M. (1973). Job market signaling. Quarterly Journal of Economics, 87(3), 355–374. https://doi.org/10.2307/1882010

Sugiyono. (2023). Metode Penelitian Kuantitatif dan Kualitatif. In Ready to Dive. https://doi.org/10.2307/jj.7616639.20

Wati, L. R., Rinofah, R., & Maulida, A. (2022). Pengaruh profitabilitas , ukuran perusahaan dan corporate governace terhadap financial distress pada perusahaan perbankan yang terdaftar di bursa efek indonesia dengan keputusan pendanaan sebagai moderating. Jurnal Ekonomi, Keuangan Dan Manajemen, 18(2), 285–293. https://doi.org/10.29264/jinv.v18i2.10420

Widhiastuti, N. L. P., & Pradnyani, I. G. A. A. (2024). Peran Profitabilitas Sebagai Pemoderasi Determinan Financial Distress Perusahaan Pertambangan. Akurasi : Jurnal Studi Akuntansi Dan Keuangan, 7(2), 421–442. https://doi.org/10.29303/akurasi.v7i2.598

Yuliani, R., & Rahmatiasari, A. (2021). Pengaruh Corporate Governance terhadap Financial Distress dengan Kinerja Keuangan sebagai Variabel Moderating (Perusahaan Manufaktur di BEI). Reviu Akuntansi Dan Bisnis Indonesia, 5(1), 38–54. https://doi.org/10.18196/rabin.v5i1.11333