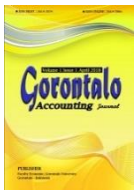

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Corporate Governance Effect on Financial Distress

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Abstract. *This study investigates the impact of corporate governance on the likelihood of financial distress among firms listed on the Indonesia Stock Exchange (IDX) during 2017–2023, encompassing the pre-COVID-19, COVID-19, and post-COVID-19 periods. Using panel logistic regression. The analysis examines governance variables, alongside financial controls such as leverage and profitability. Financial distress is measured using the Altman Z-score model. The findings show that leverage is the most consistent and significant predictor of financial distress across all periods. CEO turnover and BOD President turnover are negatively associated with financial distress, indicating their corrective governance role. Conversely, longer BOD President tenure increases distress risk, while longer average BOD tenure reduces it. Overall, financial structure plays a dominant role, while governance effects vary by context, offering insights for strengthening corporate resilience in emerging markets.*

Abstrak. Penelitian ini bertujuan menganalisis pengaruh tata kelola perusahaan terhadap kemungkinan terjadinya kesulitan keuangan pada perusahaan yang terdaftar di Bursa Efek Indonesia selama periode 2017–2023, yang mencakup masa sebelum pandemi COVID-19, saat pandemi, dan pascapandemi. Metode yang digunakan yakni regresi logistik panel. Analisis ini meneliti variabel tata kelola, bersama dengan kontrol keuangan seperti leverage dan profitabilitas. Kesulitan keuangan diukur menggunakan model Altman Z-score. Hasil penelitian menunjukkan bahwa leverage adalah prediktor yang paling konsisten dan signifikan terhadap kesulitan keuangan di semua periode. Pergantian CEO dan pergantian Presiden Dewan Komisaris berhubungan negatif dengan kesulitan keuangan, menunjukkan peran tata kelola korektif mereka. Sebaliknya, masa jabatan Presiden Dewan Komisaris yang lebih panjang meningkatkan risiko kesulitan, sementara rata-rata masa jabatan anggota Dewan yang lebih panjang justru menguranginya. Secara keseluruhan, struktur keuangan memainkan peran dominan, sedangkan efek tata kelola bervariasi tergantung konteks, memberikan wawasan untuk memperkuat ketahanan perusahaan di pasar negara berkembang.

Keywords:
Corporate Governance;
Economic Crisis;
Financial Distress

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Introduction

In recent years, corporate sustainability has become more than just a strategic ambition. It has become a necessity. Companies are now expected not only to generate profits but also to maintain financial resilience, manage risks carefully, and demonstrate responsible governance. Around the world, many cases of corporate collapse have shown that financial problems rarely occur suddenly. They often begin with weak oversight, ineffective leadership, and poor strategic decisions that gradually erode financial stability. Financial distress, therefore, can be understood as an early warning stage before insolvency, marked by declining profitability, liquidity pressure, and growing debt burdens. Its consequences extend beyond shareholders, affecting creditors, employees, and even overall market confidence.

In emerging markets, the role of corporate governance becomes even more crucial. Institutional environments are still developing, and information asymmetry between managers and owners tends to be higher. According to agency theory, the separation between ownership and management creates potential conflicts of interest, making effective governance mechanisms essential to ensure accountability and alignment of interests (Jensen & Meckling, 1976). Strong boards, transparent reporting systems, and responsible leadership are expected to reduce opportunistic behavior and minimize financial risk. Empirical studies indicate that better governance quality is generally associated with lower financial distress probability (Ghofur & Hersugondo, 2023; Sadaa et al., 2023). However, findings in developing countries remain mixed, partly due to differences in regulatory enforcement and institutional maturity.

In Indonesia, strengthening corporate governance has become a regulatory priority. The Otoritas Jasa Keuangan has introduced various policies requiring listed firms to enhance transparency, accountability, and board effectiveness. Companies listed on the Indonesia Stock Exchange operate under increasing pressure to demonstrate sustainable performance and prudent risk management. Despite these efforts, financial vulnerability continues to emerge in several sectors. The COVID-19 crisis further highlighted structural weaknesses within many firms. Revenue contractions, liquidity constraints, and operational disruptions tested the effectiveness of corporate leadership and governance mechanisms. This context raises an important question regarding whether governance structures truly function as protective mechanisms during periods of both stability and crisis.

Although previous research has examined the relationship between corporate governance and financial distress, most studies emphasize structural characteristics such as board size, ownership concentration, or independence composition. Less attention has been paid to leadership dynamics within the boardroom. In practice, the effectiveness of governance may depend not only on structure but also on experience and leadership continuity. The tenure of Board of Directors members, for instance, may enhance institutional knowledge and strategic consistency. However, excessively long tenure may also reduce independence and adaptability (Livnat, Smith, Suslava, & Tarlie, 2021). Similarly, the tenure of the BOD President may influence strategic direction, monitoring effectiveness, and crisis response capability (Schaedler, Graf-Vlachy, & König, 2022).

CEO turnover represents another important governance mechanism. Leadership change is often viewed as a corrective action in response to poor

performance and as a signal of accountability (Lajmi, Dakhlaoui, Ben Flah, & Arfaoui, 2025). A new CEO may introduce strategic reforms that improve financial conditions. On the other hand, leadership transitions during uncertain periods may create instability and disrupt operations (Sott & Bender, 2025). Despite its relevance, limited empirical evidence explores how CEO turnover interacts with board characteristics in influencing financial distress, particularly across different economic phases.

Moreover, variations in financial distress measurement across prior studies have made comparison difficult. While financial ratios and composite models such as the Altman Z score are widely used, integrating governance variables into distress analysis may provide a more comprehensive explanation of corporate vulnerability (Mokoginta, 2024)). The period surrounding the COVID-19 crisis offers a unique setting to evaluate whether governance effectiveness differs between normal and turbulent conditions.

Based on this background, this study addresses the following research questions. To what extent do corporate governance mechanisms, specifically CEO turnover, BOD President characteristics, BOD President tenure, and average Board of Directors tenure, influence the probability of financial distress among companies listed on the Indonesia Stock Exchange? Do these relationships vary across pre-COVID-19, COVID-19, and post-COVID-19 periods?

This study assumes that governance structures shape managerial decision making, risk management orientation, and financial policies, which ultimately affect corporate financial stability. The scope of the research is limited to publicly listed non financial firms in Indonesia to ensure comparability in regulatory environment and financial reporting standards. The objectives of this research are to analyze the effect of CEO turnover on financial distress probability, to examine the influence of BOD President leadership and tenure on financial stability, and to evaluate the impact of average board tenure on financial distress across different economic phases. Accordingly, this study hypothesizes that CEO turnover significantly affects financial distress probability; that BOD President leadership characteristics influence financial distress; that BOD President tenure affects financial distress; and that average Board of Directors tenure influences financial distress outcomes.

The contribution of this study lies in integrating leadership tenure dynamics and CEO turnover into the financial distress framework within the Indonesian capital market context. By incorporating a comparative analysis across pre crisis, crisis, and post crisis periods and applying consistent distress measurement, this research seeks to provide a more comprehensive understanding of how governance mechanisms function under different economic conditions. Ultimately, the findings are expected to offer practical insights for boards, executives, investors, and policymakers in strengthening corporate financial resilience.

Research Method

This study employs a quantitative approach with an explanatory research design aimed at examining the causal relationship between corporate governance and financial distress. The study is characterized as replication research, as it adopts variables, indicators, and analytical methods from previous studies to ensure reliability and comparability of the results. The research focuses on companies listed on the Indonesia Stock Exchange (IDX), with the population comprising all listed companies during the observation period. The sample is selected based on specific criteria, such as the availability of financial data and corporate governance reports. The study covers a seven-year period, including the pre-COVID-19 period (2017–2019), the COVID-19 period (2020), and the post-COVID-19 period (2021–2023).

The data used in this study are secondary data obtained from annual reports and corporate governance reports. Financial distress is measured using the Altman Z-Score method to predict the likelihood of corporate bankruptcy. Data analysis is conducted using panel data regression, which combines cross-sectional and time-series data to identify the effect of corporate governance on financial distress. The analysis is performed using several models based on different time periods to capture variations before, during, and after the pandemic. Furthermore, hypothesis testing is conducted to assess the significance of the independent variables and the role of moderating variables, using STATA statistical software. The results are then interpreted to provide empirical insights into the relationship between corporate governance and financial distress, as well as their implications for corporate governance practices in Indonesia.

Result and Discussion

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ZScore	2825	-193,70	15,41	2,3583	6,49977
CEO Turnover	2825	,00	1,00	,1278	,33391
BOD President Turnover	2825	,00	1,00	,1412	,34833
BOD President Tenure	2825	,00	47,00	6,8800	8,11174
BOD Average Tenure	2825	,00	30,00	5,6947	4,60609
Leverage	2825	,01	75,94	,6187	2,13061
ROA	2825	-4,77	3,61	,0138	,21441
Valid N (listwise)	2825				

Source: Processed data (2025)

The Descriptive Statistics table in this study illustrates the characteristics of data from 2,825 observations covering key variables related to corporate governance and the financial condition of companies listed on the Indonesia Stock Exchange (IDX) for the 2017–2023 period. The Z-Score, a key indicator for measuring a company's level of financial distress using the Altman model, has a minimum value of -193.70 and a maximum of 15.41, with a mean of 2.3583 and a standard deviation of 6.49977. This indicates significant variation between companies, with some companies in very poor financial condition (extremely negative values), while others are relatively healthy.

The CEO Turnover variable has a minimum value of 0 and a maximum of 1, with a mean of 0.1278, meaning that approximately 12.78% of the total observations experienced CEO turnover during the study period. The standard deviation of 0.33391 indicates significant variation in the frequency of executive leadership turnover between companies. This CEO turnover reflects leadership dynamics that can influence the company's strategic policy direction and potential changes in financial risk management.

Meanwhile, BOD President Turnover also showed a minimum value of 0 and a maximum of 1, with a mean of 0.1412 and a standard deviation of 0.34833. This figure indicates that approximately 14.12% of companies experienced a change in President Director during the observation period. This change in position could reflect managerial restructuring efforts or a leadership crisis that could potentially impact organizational stability and the company's financial condition.

For the BOD President Tenure variable, the mean value was 6.88 years with a standard deviation of 8.11174, and a range of 0 to 47 years. This indicates that the tenure of President Directors varies significantly across companies; some are new,

while others have served for very long periods. Long tenures can reflect leadership stability, but they also risk reducing innovation and oversight effectiveness if not balanced with strategic updates.

Furthermore, BOD Average Tenure has an average of 5.6947 years with a standard deviation of 4.60609 and a maximum value of 30 years. This variable reflects the average length of time board members have served at the company. This relatively moderate value indicates that most companies have a mix of experienced and new board members, which theoretically can improve decision-making quality through the combination of experience and fresh perspectives.

Key financial variables, such as Leverage, show an average of 0.6187 with a relatively high maximum value of 75.94 and a standard deviation of 2.13061. This value indicates significant differences in funding structures between companies, with some companies having very high debt levels. High leverage can increase the risk of financial distress due to the large liability burden, especially during unstable economic conditions.

Finally, ROA (Return on Assets) has an average of 0.0138 with a minimum value of -4.77 and a maximum of 3.61, and a standard deviation of 0.21441. This indicates that most companies have relatively low profitability, with some even experiencing losses. A low or negative ROA reflects inefficiency in using assets to generate profits, potentially increasing vulnerability to financial distress.

Table 2. t test (2017-2019)

Variable	t	Sig	Conclusion	Description
CEO Turnover	-2.571	0.008	Significant Negative	H1 Accepted
BOD President Turnover	-3.081	0.020	Significant Negative	H2 Accepted
BOD President Tenure	2.047	0.003	Significant Positive	H3 Accepted
BOD Average Tenure	-3.061	0.029	Significant Negative	H4 Accepted
Leverage	-93.607	0.000	Significant Negative	H5 Accepted
ROA	-2.859	0.030	Significant Negative	H6 Accepted

Source: Processed data (2025)

H1: CEO Turnover Has a Significant Negative Effect on Financial Distress

The t-test results show that CEO Turnover has a t-value of -2.571 with a significance level of 0.008, indicating a significant negative effect on financial distress. This means that an increase in CEO turnover actually reduces the level of financial distress. During the 2017–2019 period, the economic environment was relatively stable before the pandemic, so CEO turnover was viewed as a strategic step to improve managerial quality, strengthen control, or replace ineffective leaders. According to the literature, CEO turnover often serves as a positive signal that the board is intervening to enhance corporate governance and improve company performance (Lajmi et al., 2025). Thus, in this period, CEO Turnover functioned as a governance mechanism that enhanced investor confidence and reduced distress risk.

H2: BOD President Turnover Has a Significant Negative Effect on Financial Distress

The t-value of –3.081 with a significance level of 0.020 indicates that the turnover of the President Director has a significant negative effect on financial distress during 2017–2019. Changes in this top leadership position signal managerial evaluation by the board to improve organizational effectiveness. A newly appointed President Director typically brings a more responsive leadership style and strategies better aligned with market needs. According to (Ghofur & Hersugondo, 2023), turnover in the executive chairman role enhances supervisory effectiveness and strengthens governance quality, thereby reducing vulnerability to financial distress.

This finding shows that leadership changes served as an effective risk-mitigation effort even before the pandemic.

H3: BOD President Tenure Has a Significant Positive Effect on Financial Distress

BOD President Tenure has a t-value of 2.047 with a significance level of 0.003, showing a significant positive effect on financial distress. This means that the longer a President Director serves, the higher the likelihood of financial distress. During the 2017–2019 period, companies led by long-serving President Directors may have faced challenges such as declining innovation, limited new perspectives, and entrenchment—where leaders become overly dominant and difficult to evaluate objectively. Hafnidah, Gustomo, Prasetio, & Abdurrahman (2025) argue that long tenure can reduce leadership dynamism and result in less adaptive decision-making. Therefore, this result indicates that long tenure is not always advantageous, especially when it is not accompanied by the ability to adapt to changing business environments ahead of the digital disruption era.

H4: BOD Average Tenure Has a Significant Negative Effect on Financial Distress

BOD Average Tenure has a t-value of –3.061 with a significance level of 0.029, indicating a significant negative effect on financial distress. This shows that the higher the average tenure of board members, the lower the risk of distress. The board's collective experience plays an important role in providing broader strategic insight, deeper understanding of company operations, and stronger risk-management capabilities. Modern literature, such as Ghonim, Khashaba, Al-Najaar, & Khashan (2022), emphasizes that board experience aligned with organizational dynamics enhances supervisory effectiveness and improves the quality of strategic decisions. This finding is consistent with the board's role as a stabilizing force for maintaining company direction, especially before the pandemic when companies operated in a competitive yet relatively stable market environment.

H5: Leverage Has a Significant Negative Effect on Financial Distress

The Leverage variable has a t-value of –93.607 with a significance level of 0.000, making it the strongest factor influencing financial distress during the 2017–2019 period. This significant negative effect shows that the higher the leverage, the greater the company's risk of experiencing financial distress. Before the pandemic, companies with high debt burdens were exposed to risks such as declining cash flow, rising interest expenses, and reduced ability to meet obligations. This aligns with Modigliani & Miller (1958) and the findings of Mokoginta (2024), which emphasize that leverage is a primary determinant of distress because it directly affects financial stability. Therefore, leverage was the most crucial factor explaining distress in the pre-COVID-19 stable economic environment.

H6: ROA Has a Significant Positive Effect on Financial Stability (Reducing Financial Distress)

ROA has a t-value of –2.859 with a significance level of 0.030, showing that ROA has a significant negative effect on financial distress. This means that the higher a company's profitability, the lower its likelihood of distress. During the 2017–2019 period, profitability reflected operational efficiency and overall financial health. Companies with high ROA were able to manage their assets effectively and generate stable earnings, giving them the capacity to withstand financial pressure. Research by Breuer, Haas, & Mersmann (2025) and Manuari & Devi (2023) supports the notion that profitability is a key protective factor against bankruptcy risk. Therefore, ROA served as an essential component in maintaining financial stability before the onset of the crisis.

Table 3. t test (2020)

Variable	t	Sig	Conclusion	Description
CEO Turnover	-2.152	0.003	Significant Negative	H1 Accepted
BOD President Turnover	-2.325	0.013	Significant Negative	H2 Accepted
BOD President Tenure	2.471	0.004	Significant Positive	H3 Accepted
BOD Average Tenure	-3.753	0.007	Significant Negative	H4 Accepted
Leverage	-52.486	0.000	Significant Negative	H5 Accepted
ROA	-6.963	0.000	Significant Negative	H6 Accepted

Source: Processed data (2025)

H1: CEO Turnover Has a Significant Negative Effect on Financial Distress

The t-test results show a t-value of –2.152 with a significance level of 0.003, indicating that CEO Turnover has a significant negative effect on financial distress in 2020. This means that higher CEO turnover is associated with lower levels of financial distress. During the COVID-19 pandemic, many companies replaced their CEOs as an emergency measure to address the crisis. According to Lajmi et al., (2025), CEO turnover during a crisis often signals that the board is taking corrective action to fix strategic mistakes or poor performance caused by external conditions. New CEOs frequently introduce recovery strategies such as cost efficiency, operational restructuring, and financial reorganization. Therefore, CEO turnover in 2020 served as a risk mitigation tool that helped reduce the likelihood of financial distress.

H2: BOD President Turnover Has a Significant Negative Effect on Financial Distress

The variable BOD President Turnover has a t-value of –2.325 with a significance level of 0.013, indicating a significant negative effect on financial distress. This finding shows that replacing the President Director during the pandemic played an important role in reducing the risk of distress. In 2020, many companies faced supply chain disruption, declining demand, and liquidity pressures, prompting closer evaluation of leadership effectiveness. Changes in the top executive position indicate efforts to appoint leaders who are more adaptive and responsive to crisis situations. According to Ghofur & Hersugondo (2023), leadership turnover can enhance decision-making quality and improve governance effectiveness, especially in turbulent economic conditions. Thus, BOD President Turnover became a strategic step to strengthen governance during the pandemic.

H3: BOD President Tenure Has a Significant Positive Effect on Financial Distress

With a t-value of 2.471 and a significance level of 0.004, BOD President Tenure is shown to have a significant positive effect on financial distress in 2020. This means that the longer a President Director serves, the higher the likelihood of financial distress. In a crisis that demands rapid adaptability, long-tenured leaders may struggle to respond to drastic environmental changes. Long tenure can lead to entrenchment, where leaders become overly comfortable with established management styles and resistant to new strategic directions. Weis (2025) explains that long tenure may reduce leadership flexibility, especially during a crisis. Therefore, companies with long-serving President Directors were more vulnerable to distress in 2020 due to limited responsiveness to pandemic disruptions.

H4: BOD Average Tenure Has a Significant Negative Effect on Financial Distress

BOD Average Tenure has a t-value of –3.753 with a significance level of 0.007, demonstrating that the collective experience of board members has a significant negative effect on financial distress. This finding indicates that companies with more

experienced boards face a lower risk of distress. During the pandemic, the board's experience was crucial for providing strategic guidance, risk oversight, and mature assessment of business threats. Ghonim et al., (2022) note that moderate to high board tenure enhances organizational resilience because experience becomes a key asset when navigating external pressures. As a result, companies with experienced boards were more capable of quickly adapting strategies and maintaining financial stability during COVID-19.

H5: Leverage Has a Significant Negative Effect on Financial Distress

The variable Leverage has a t-value of –52.486 with a significance level of 0.000, showing a very strong significant negative effect on financial distress in 2020. This finding confirms that higher leverage greatly increases the likelihood of financial distress. During the pandemic, companies with high debt burdens faced extreme pressure due to declining revenue and limited cash flows. According to Mokoginta (2024), leverage is the most critical distress factor during crises because it increases default risk and reduces financial flexibility. The economic conditions in 2020 amplified the impact of leverage, making highly leveraged companies significantly more vulnerable to bankruptcy.

H6: ROA Has a Significant Positive Effect on Financial Stability (Reducing Financial Distress)

ROA has a t-value of –6.963 with a significance level of 0.000, meaning that ROA has a significant negative effect on financial distress in 2020. Higher profitability reduces the likelihood of distress. Profitability served as a key factor enabling companies to survive the pandemic, as firms with strong ROA had better financial reserves to manage revenue drops and rising operational costs. Studies by Breuer et al., (2025) and Manuari & Devi (2023) emphasize that profitability provides a financial buffer that protects firms during crises. Therefore, ROA played an essential role in maintaining financial stability during 2020.

Table 4. t test (2021-2023)

Variable	t	Sig	Conclusion	Description
CEO Turnover	-2.355	0.023	Significant Negative	H1 Accepted
BOD President Turnover	-2.199	0.043	Significant Negative	H2 Accepted
BOD President Tenure	2.813	0.016	Significant Positive	H3 Accepted
BOD Average Tenure	-3.834	0.007	Significant Negative	H4 Accepted
Leverage	- 100.993	0.000	Significant Negative	H5 Accepted
ROA	-7.374	0.000	Significant Negative	H6 Accepted

Source: Processed data (2025)

H1: CEO Turnover Has a Significant Negative Effect on Financial Distress

The t-test results show that CEO Turnover has a t-value of –2.355 with a significance level of 0.023, indicating that this variable has a significant negative effect on financial distress. This means that the more frequently a company changes CEOs, the lower the level of financial distress experienced. In the 2021–2023 period, many companies implemented leadership restructuring in response to post-pandemic uncertainty. CEO turnover is seen as a corrective governance mechanism, indicating that the board of directors is taking decisive action to improve performance and increase management effectiveness. According to Lajmi et al., (2025), a new CEO typically brings improvement strategies, managerial innovations, and changes to the operational structure that can strengthen the company's financial condition. Thus, CEO turnover is a positive signal to investors and stakeholders that the company is working to emerge from distress, thereby reducing the risk of financial distress.

H2: BOD President Turnover Has a Significant Negative Effect on Financial Distress

A t-value of –2.199 and a significance level of 0.043 indicate that BOD President Turnover has a significant negative effect on financial distress, thus accepting hypothesis H2. Replacing the President Director is a company's effort to improve governance effectiveness, especially if the previous leadership is deemed to have failed to manage financial risks. During the post-COVID-19 economic recovery period, the decision to replace the President Director is a strong indicator that the company is striving to improve strategic direction, enhance performance discipline, and strengthen management integrity. According to Ghofur & Hersugondo (2023), changes in top leadership can enhance oversight, improve strategic coordination, and provide new impetus for the financial recovery process. Therefore, BOD President Turnover, in this context, can reduce the potential for financial distress.

H3: BOD President Tenure Has a Significant Positive Effect on Financial Distress

The t-test results showed a t-value of 2.813 with a significance level of 0.016, indicating that BOD President Tenure has a significant positive effect on financial distress. This means that the longer the President Director serves, the higher the company's risk of financial distress. This effect can occur because excessively long tenures can lead to an "entrenchment effect," where leaders become overly powerful, less open to criticism, and tend to maintain old strategies despite changing market conditions. Weis (2025) explain that long tenure can reduce the objectivity of supervision and hinder adaptation to changes in the business environment. In the 2021–2023 period, when companies are required to undergo rapid transformation and adjustments post-pandemic, long-tenured leaders can become a barrier due to their lack of flexibility in adapting strategies to new situations. This explains why companies with long-tenured President Directors are more vulnerable to financial distress.

H4: BOD Average Tenure Has a Significant Negative Effect on Financial Distress

The BOD Average Tenure variable has a t-value of –3.834 with a significance level of 0.007, indicating that the higher the average tenure of board members, the lower the risk of financial distress. The board's collective experience provides in-depth knowledge of company dynamics, risk management, and business strategy, thereby strengthening oversight and decision-making processes. This finding aligns with Panicker & Koswatte (2025) who stated that boards with moderate to high experience are better able to navigate economic changes and provide organizational stability. Unlike the tenure of the President Director, which can pose a risk of entrenchment, the board's collective experience actually strengthens governance. Therefore, BOD Average Tenure is a protective factor that reduces the likelihood of financial distress during the 2021–2023 period.

H5: Leverage Has a Significant Negative Effect on Financial Distress

Leverage has a t-value of –100.993 and a significance level of 0.000, making it the most dominant and significant variable influencing financial distress. This negative effect indicates that the higher the leverage, the greater the risk of distress, meaning leverage is a major trigger for financial problems. In the post-pandemic period, many companies still carry large debt burdens taken on during the crisis, so increased leverage increases the risk of default, reduces financial flexibility, and increases interest expenses. Leverage is a strong predictor of financial distress due to the high default risk posed by the burden of liabilities (Modigliani & Miller, 1958; Mokoginta, 2024; Wijaya & Rasyid, 2022). With a very large t-value, these results confirm that a company's debt structure is a critical factor in determining its post-pandemic financial health.

H6: ROA Has a Significant Positive Effect on Financial Stability (Reducing Financial Distress)

ROA showed a t-value of –7.374 with a significance level of 0.000, indicating that the higher a company's profitability, the lower the likelihood of financial distress. A high ROA indicates a company's ability to utilize assets to generate profits, ultimately strengthening financial stability. In the 2021–2023 period, companies with strong profitability had greater financial resilience to withstand economic pressures, meet obligations, and maintain positive cash flow. Strong profitability serves as a financial buffer that prevents companies from entering distress (Manuari & Devi, 2023). Thus, ROA is a crucial factor in maintaining a company's financial health during the post-pandemic recovery period.

Table 5. t test (2017-2023)

Variable	t	Sig	Conclusion	Description
CEO Turnover	-3,047	0,025	Significant Negative	H1 Accepted
BOD President Turnover	-2,305	0,044	Significant Negative	H2 Accepted
BOD President Tenure	4,494	0,000	Significant Positive	H3 Accepted
BOD Average Tenure	-4,465	0,000	Significant Negative	H4 Accepted
Leverage	-83,056	0,000	Significant Negative	H5 Accepted
ROA	19,348	0,000	Significant Positive	H6 Accepted

Source: Processed data (2025)

H1: CEO Turnover Has a Significant Negative Effect on Financial Distress

The t-test results show that the CEO Turnover variable has a t-value of -3.047 with a significance level of 0.025 (<0.05), indicating a significant negative effect on financial distress. This means that a higher frequency of CEO turnover is associated with a lower likelihood of financial distress. This finding supports the hypothesis that CEO replacement can serve as a positive signal to investors and the market, showing that the board of directors is taking corrective actions to improve company performance. CEO changes are often followed by business restructuring and greater managerial efficiency, which can strengthen financial stability (Lajmi et al., 2025). This result aligns with the study by (Prasetya & Carolina, 2023), which found that the implementation of Good Corporate Governance (GCG) helps reduce financial distress risks through more effective managerial oversight. Therefore, CEO turnover acts as an internal control mechanism that restores company performance to a healthier trajectory.

H2: BOD President Turnover Has a Significant Negative Effect on Financial Distress

The BOD President Turnover variable has a t-value of -2.305 with a significance level of 0.044 (<0.05), indicating a significant negative effect on financial distress. This means that changes in the President Director position reduce the likelihood of financial distress. Leadership changes in this position signal strategic efforts by the company to improve ineffective management practices. An active and effective board of directors can lower the probability of financial collapse through better strategic oversight. This result is also consistent with Ghofur & Hersugondo (2023), who emphasized that strong governance mechanisms, including leadership evaluation, help sustain corporate financial health. Thus, BOD President turnover represents the company’s adaptive response to internal challenges and serves as a positive signal of governance improvement.

H3: BOD President Tenure Has a Significant Positive Effect on Financial Distress

The t-test results show that BOD President Tenure has a t-value of 4.494 with a significance level of 0.000 (<0.05), indicating a significant positive effect on financial distress. This implies that the longer a President Director serves, the higher the company's likelihood of experiencing financial distress. This suggests that extended tenure may lead to reduced leadership effectiveness, entrenched decision-making, or a lack of innovation. Weis (2025) found that excessively long tenure can lead to dominant behavior within the board, reducing objectivity in decision-making. Similarly, Chikunda, Bhuiyan, Houqe, & Nguyen (2025) found a curvilinear relationship between board tenure and firm performance—experience is beneficial up to a point, but too much tenure can hinder adaptability. Thus, long tenure among board leaders can increase the risk of financial distress due to reduced openness to change and innovation.

H4: BOD Average Tenure Has a Significant Negative Effect on Financial Distress

The t-value of -4.465 with a significance level of 0.000 indicates that BOD Average Tenure has a significant negative effect on financial distress. This means that a longer average tenure among board members reduces the likelihood of financial distress. A board with more experienced members possesses deeper knowledge of company operations, enabling more strategic and cautious decision-making. According to Chikunda et al., (2025) board experience contributes to organizational stability and resilience during crises. Furthermore, Ghofur & Hersugondo (2023) highlighted that good corporate governance quality, including stable board composition, strengthens financial performance and reduces the risk of financial distress. Therefore, maintaining an experienced and consistent board is crucial for long-term financial health.

H5: Leverage Has a Significant Negative Effect on Financial Distress

The analysis shows that Leverage has a t-value of -83.056 with a significance level of 0.000, indicating a significant negative effect on financial distress. This means that higher leverage increases the company's risk of financial distress. This finding supports Modigliani & Miller's (1958) capital structure theory, which states that high debt ratios increase interest burdens and default risk, especially during revenue downturns. Mokoginta (2024) also found that excessive leverage is a key indicator of financial distress, as it heightens a company's vulnerability to economic fluctuations. Similarly, Wijaya & Rasyid (2022) revealed that high debt ratios significantly reduce firm value and increase financial crisis potential. Therefore, prudent debt management is essential to maintain financial stability and minimize distress risks.

H6: ROA Has a Significant Positive Effect on Financial Stability (Reducing Financial Distress)

The ROA (Return on Assets) variable has a t-value of 19.348 with a significance level of 0.000, indicating a significant positive effect on financial health, implying that higher profitability reduces the likelihood of financial distress. ROA reflects a company's efficiency in generating profits from its assets, serving as a measure of financial strength and resilience. Manuari & Devi (2023) found that strong financial performance minimizes financial distress risks by enhancing a company's ability to meet its obligations. Similarly, Handriani, Ghozali, & Hersugodo (2021) stated that high profitability combined with good governance provides protection against financial crises. Therefore, maintaining a positive ROA is critical for ensuring financial sustainability and preventing bankruptcy.

Conclusions and Recommendarions

This study investigated the relationship between corporate governance and financial distress in Indonesian listed firms from 2017 to 2023, segmented into three key economic phases: pre-COVID-19, during COVID-19, and post-COVID-19 recovery. The findings consistently highlight leverage as the most robust and significant factor influencing financial distress across all periods, reaffirming the critical role of capital structure in firm stability, particularly during economic shocks. In contrast, corporate governance indicators show limited and period-specific effects. CEO turnover showed a positive but statistically insignificant association with financial health, while President Director turnover was significantly associated with higher financial distress only in the post-COVID period. Other governance metrics, such as board tenure and firm size, were not significant predictors.

These findings indicate that financial distress in Indonesian firms is predominantly driven by financial structure rather than governance factors, except in specific crisis-recovery contexts. However, this study has several limitations. It relies solely on the Altman Z-score as a proxy for financial distress, covers a relatively short seven-year period, and may be affected by outliers or omitted variables not fully captured in the model. Furthermore, generalization beyond Indonesia or to private firms should be approached with caution.

Future research should consider a broader set of governance variables, including board composition, diversity, CEO duality, and crisis response mechanisms, possibly incorporating interaction or mediation models to capture more nuanced effects. Additionally, using alternative distress measures and cross-country comparisons could enhance generalizability. From a practical standpoint, the findings highlight the importance for policymakers and corporate leaders to manage leverage carefully, especially in volatile environments. Strengthening governance practices—particularly during periods of transition—may support long-term resilience, although their impact appears to be more situational than structural.

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