MIX: Jurnal Ilmiah Manajemen

Management Scientific Journal
ISSN (Online): 2460-5328, ISSN (Print): 2088-1231
https://publikasi.mercubuana.ac.id/index.php/jurnal_Mix

The Effect of Corporate Governance and Intellectual Capital on Capital Structure and Financial Distress

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ABSTRACT

Objectives : *This study aims to conduct an in-depth analysis of the influence of corporate governance and intellectual capital on capital structure and financial distress in manufacturing companies on the Indonesia Stock Exchange (IDX) from 2020 to 2022. This study is expected to help companies overcome financial distress problems and determine the optimal capital structure by considering the implementation of good corporate governance and intellectual capital management. This study is also expected to enrich the scientific knowledge of financial management regarding the relationship between corporate governance, intellectual capital, capital structure, and financial distress.*
Methodology : *This research is a study with a quantitative approach. The sampling technique in this study is the purposive sampling method, with the criteria for determining the sample, namely manufacturing companies that are always listed on the IDX from 2020 to 2022. Thus, the final sample in this study is estimated to be 187 manufacturing companies.*
Finding : *The regression analysis and mediation test results show that the Corporate Governance variable does not significantly affect Capital Structure. The Intellectual Capital variable has a significant negative effect on Capital Structure. In addition, the corporate governance variable was found to affect financial distress significantly and negatively. However, Intellectual Capital and Capital Structure were found to have no significant effect on Financial Distress. The Capital Structure variable could not mediate the relationship between Corporate Governance and Intellectual Capital in Financial Distress.*

Keywords*: Independent Commissioner; VAIC; DER; Financial Distress.*

Submitted: 22-12-2024	Revised: 12-06-2025	Accepted:02-07-2025

Article Doi:
http://dx.doi.org/10.22441/jurnal_mix.2025.v15i2.012

p-ISSN: 2088-1231
e-ISSN: 2460-5328

INTRODUCTION

The business world's movement dramatically affects a country's economic conditions. When there is a decline in the business world's movement, this will impact the worsening state of the country's economy. The number of companies experiencing financial distress indicates a decline in the movement of the business world. Financial distress is a financial problem often faced by companies that cannot pay off debts, pay dividends, experience bad credit sales, and experience losses. If the company cannot overcome this problem, the company will go bankrupt.

Based on the Ministry of Industry of the Republic of Indonesia (2023), companies in the manufacturing sector have contributed 19% to the added value of the National Gross Domestic Product (GDP) in 2023, which is the most significant contribution compared to other sectors. However, there are still problems in manufacturing sector companies; in 2020, 66 companies were experiencing financial distress, which was indicated by negative earnings per Share (EPS). 2021 there were 43 companies, which increased in 2022 to 48 companies with negative EPS. This problem shows that few manufacturing sector companies are experiencing financial distress. This problem cannot be ignored because the worst consequence of this problem is bankruptcy. Thus, an in-depth analysis of the factors influencing financial distress in manufacturing companies on the Indonesia Stock Exchange (IDX) is needed. Important factors that influence financial distress are corporate governance, intellectual capital, and capital structure (Dewi & Dana, 2017; Shahwan, 2017; Pulungan et al., 2017; Darmawan, 2017; Anggraini et al., 2020; D'Amato, 2021; Mondayri & Tresnajaya, 2022). Corporate governance can be defined as a system that regulates the relationship between shareholders, the board of commissioners, the board of directors, managers, creditors, employees, and all stakeholders of the company.

One important indicator of corporate governance is the proportion of independent commissioners. Intellectual capital is an intangible asset owned by a company, consisting of human, structural, and relational capital (Duff, 2017). Intellectual capital in a company is instrumental in creating competitive advantage and corporate sustainability (Xu & Wang, 2018). Capital structure can be a combination of using debt and capital or equity to fund company assets (Brigham & Daves, 2018). Capital structure can be measured using financial ratios, namely the debt-to-equity ratio (DER). This study aims to analyze how corporate governance and intellectual capital affect capital structure and financial distress, which companies and academics can utilize. This goal stems from the problems of manufacturing companies on the IDX that experienced financial distress from 2020 to 2022. Addressing this issue is essential not only for corporate sustainability but also for broader economic stability.

Corporate governance research faces significant measurement challenges, particularly in distinguishing between different forms of governance mechanisms and their effectiveness across various contexts (Turnbull, 2012). The traditional focus on accounting-based variables for measuring governance effectiveness creates limitations, as many studies heavily emphasize financial metrics while overlooking market-based indicators that may be more relevant for stakeholders including policymakers and investors (Kouki & Nobility, 2024). Current corporate governance research exhibits substantial geographic bias, with studies predominantly concentrated in developed markets such as the United States, United Kingdom, and Malaysia (Rikah, 2024). This creates a significant gap in understanding governance mechanisms in emerging markets and developing economies, where institutional frameworks and cultural contexts may significantly influence governance effectiveness (Kouki &

p-ISSN: 2088-1231
e-ISSN: 2460-5328

Nobility, 2024). There is a positive significant impact of capital structure on audit committee effectiveness, creating a mutually reinforcing relationship between governance quality and financing decisions (Abu Braik & Al-Thuneibat, 2023) Intellectual capital strengthens good corporate governance, which in turn lowers financial distress, indicating a positive indirect effect of intellectual capital on reducing financial distress (Jati et al., 2023). Intellectual capital also reduces the likelihood of fraudulent financial reporting by lowering financial distress, suggesting it acts as a preventive mechanism against financial instability (Kar & Dasgupta, 2024). Research focusing on Indonesian property and real estate companies from 2017-2021 found that intellectual capital significantly affects financial distress, whereas capital structure (measured by debt-to-equity ratio) and asset structure do not have a significant effect on financial distress (Irfan et al., 2024). Another study on retail companies in Indonesia highlighted intellectual capital's significant positive effect on financial distress, emphasizing that intellectual capital provides hidden value and competitive advantage that improve financial conditions and reduce financial distress risk. However, this study did not emphasize the mediation role of capital structure in the corporate governance–financial distress nexus (Nugroho, 2025)

This study aims to overcome the problem of financial distress by analyzing the influence of three important factors, including corporate governance, intellectual capital, and capital structure. This study will conduct an in-depth analysis of how these factors affect financial distress in manufacturing companies on the IDX from 2020 to 2022. In-depth research related to the influence of corporate governance and intellectual capital on capital structure and financial distress is still very much needed. Until now, no research has been analyzed by integrating the four factors: corporate governance, intellectual capital affecting capital structure, and financial distress. Conducting this research will help companies in the Indonesian capital market overcome financial distress problems and determine capital structure by considering corporate governance and intellectual capital factors.

This research aims to examine the influence of corporate governance, intellectual capital, and capital structure on financial distress in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. Financial distress can threaten a company's stability, and understanding the factors that affect it is crucial for improving decision-making and financial strategies. Corporate governance is vital as it ensures transparency, accountability, and effective decision-making, which can help companies navigate financial challenges. Intellectual capital—the knowledge and skills within the company—helps foster innovation and adaptability, which are essential during economic uncertainty. Meanwhile, the capital structure impacts a company's financial risk, with an optimal mix of debt and equity providing stability. The 2020–2022 period is significant due to the economic disruptions caused by the COVID-19 pandemic, which put many manufacturing companies in a challenging financial position. This research will provide valuable insights to help companies manage their financial risks and build strategies to ensure long-term sustainability in a post-pandemic economy.

By improving governance, leveraging intellectual capital, and optimizing capital structure, companies can reduce financial distress risks and strengthen their financial resilience in the face of future challenges.

Corporate governance involves relationships between shareholders, the board of commissioners, the board of directors, management, and all stakeholders within a company. The primary goal is to create value for stakeholders, with the proportion of independent commissioners being a key indicator. Independent commissioners, who are not affiliated with

p-ISSN: 2088-1231
e-ISSN: 2460-5328

the principal shareholders, are expected to enhance the supervision and guidance of company management (Martsila & Meiranto, 2013). The higher the proportion of independent commissioners, the better the supervision, which can positively impact a company's financial performance, including profitability. According to Pecking Order Theory (POT), companies with higher profits tend to rely on internal funds (e.g., retained earnings) rather than external debt, thus reducing debt levels and improving capital structure. Kusumo and Hadiprajitno (2017) found that independent commissioners significantly negatively affect capital structure.

Hypothesis 1: Corporate Governance has a significant negative effect on Capital Structure.

Intellectual capital is a key resource for companies, contributing to competitive advantages. It consists of human capital, structural capital, and relational capital (Bontis et al., 2018). Efficient management of intellectual capital enhances financial performance by increasing profits (Sayyidah & Saifi, 2017). According to Pecking Order Theory, companies with higher profits prefer to use internal funds for financing rather than taking on debt, thus reducing the debt-to-equity ratio and improving capital structure. D'Amato (2021) found that higher levels of intellectual capital are associated with lower financial leverage, indicating reduced reliance on debt.

Hypothesis 2: Intellectual Capital has a negative and significant effect on Capital Structure.

The presence of independent commissioners in corporate governance enhances oversight, which helps prevent financial distress by ensuring more effective management. This oversight reduces the possibility of mismanagement, which can lead to financial distress. Empirical research by Salloum and Azoury (2013) found that a higher proportion of board outsiders, such as independent commissioners, significantly negatively affects financial distress.

Hypothesis 3: Corporate Governance has a significant negative effect on Financial Distress.

From the Pecking Order Theory perspective, companies with effective intellectual capital management are better positioned to achieve higher profitability. The resulting high profitability allows companies to use internal funding (e.g., retained earnings), reducing the need for external debt and improving capital structure. Effective intellectual capital management, therefore, reduces the risk of financial distress (Landion & Lastanti, 2019; Pour et al., 2014). Anggraini et al. (2020) found that intellectual capital negatively impacts financial distress.

Hypothesis 4: Intellectual Capital negatively and significantly affects Financial Distress.

Capital structure, defined by the debt-to-equity ratio, reflects a company’s reliance on debt versus equity financing. High levels of debt increase interest obligations, which can increase the likelihood of financial distress (Hardwick & Adams, 1999). Companies with high debt are more vulnerable to financial stress, making the capital structure a critical determinant of financial stability. Pranowo et al. (2010) concluded that capital structure has a significant effect on financial distress.

Hypothesis 5: Capital Structure has a positive and significant effect on Financial Distress.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

Corporate governance, particularly the presence of independent commissioners, contributes to improved financial performance by providing better oversight. This, in turn, reduces the company's reliance on debt and lowers the likelihood of financial distress. Pecking Order Theory posits that companies with strong profitability are more likely to rely on internal funds, reducing their debt-to-equity ratio and mitigating financial distress. Pranowo et al. (2010) also found that capital structure significantly affects financial distress. Therefore, capital structure mediates the relationship between corporate governance and financial distress.

Hypothesis 6: Capital Structure can mediate the relationship between Corporate Governance and Financial Distress.

Intellectual capital is a vital intangible resource that can significantly improve financial performance when effectively managed. Companies that efficiently manage intellectual capital can achieve greater profitability, reducing their reliance on external debt, as explained by Pecking Order Theory. This reduces the debt-to-equity ratio and lowers the possibility of financial distress. D'Amato (2021) found that companies with high levels of intellectual capital tend to have lower financial leverage. According to Pecking Order Theory, a lower debt-to-equity ratio reflects a reduction in the use of debt, thereby decreasing the risk of financial distress. This relationship underscores the mediating role of capital structure between intellectual capital and financial distress.

Hypothesis 7: Capital Structure can mediate the relationship between Intellectual Capital and Financial Distress.

Theoretical Contribution and Distinctiveness of This Research

This study's primary contribution lies in integrating corporate governance, intellectual capital, and capital structure in relation to financial distress, using Pecking Order Theory. While prior research has typically examined these factors in isolation, this research distinguishes itself by investigating how both corporate governance and intellectual capital influence capital structure and financial distress. According to Pecking Order Theory, companies with high profits prefer internal funding, reducing reliance on debt and mitigating financial distress. By focusing on these relationships, this study provides new insights into how companies can use governance and intellectual capital to maintain a balanced capital structure, thereby reducing the risk of financial distress. This approach is particularly relevant for companies in Indonesia's manufacturing sector, where effective management of resources and governance practices is crucial for navigating economic challenges.

This study provides crucial insights into how corporate governance, intellectual capital, and capital structure influence financial distress, especially in the context of the COVID-19 pandemic. The pandemic introduced significant challenges for businesses, making it essential to focus on resilience and strategic decision-making. By analyzing how strong corporate governance, particularly the presence of independent commissioners, can reduce financial distress and guide better decision-making, the study helps companies improve their oversight and crisis management. Additionally, it emphasizes the role of intellectual capital in driving innovation and adaptability, particularly during disruptions like the pandemic. By optimizing capital structure—focusing on internal funding and reducing debt companies can minimize

p-ISSN: 2088-1231
e-ISSN: 2460-5328

financial risk and strengthen their financial resilience. This research offers valuable guidance for businesses to navigate not only the aftermath of COVID-19 but also future financial crises, providing a framework for companies to ensure long-term stability and competitiveness.

METHOD

This study adopts a causality design to explore the cause-and-effect relationships between key variables: Corporate Governance, Intellectual Capital, Capital Structure, and Financial Distress. The primary aim is to examine how Corporate Governance and Intellectual Capital influence Capital Structure and ultimately impact Financial Distress in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2020 to 2022. In this context, Financial Distress serves as the dependent variable, while Capital Structure functions as the mediating variable.

The study employs a quantitative approach, utilizing detailed explanations of the variables, populations, samples, and the analysis techniques employed. The variables in the study include Corporate Governance (independent), Intellectual Capital (independent), Capital Structure (mediating), and Financial Distress (dependent). The population consists of all manufacturing companies listed on the IDX during the years 2020-2022, with the sample being a subset of these companies selected based on specific criteria. The analysis technique includes statistical tools such as regression analysis to determine the relationships between these variables.

The period of 2020-2022 is significant as it encompasses the global impact of the COVID-19 pandemic, which triggered economic instability and financial distress for many companies, particularly in Indonesia's manufacturing sector. The pandemic presented unique challenges for firms, including financial strain, supply chain disruptions, and shifts in market demand. Therefore, analyzing this period allows for a comprehensive understanding of how companies' governance structures and intellectual resources influenced their capital structure decisions and their ability to navigate financial distress during an unprecedented global crisis. By focusing on this period, the study not only provides insights into the immediate effects of the pandemic but also contributes to understanding how companies can better manage their financial strategies in future crises.The research design in this study can be seen in Figure 1.

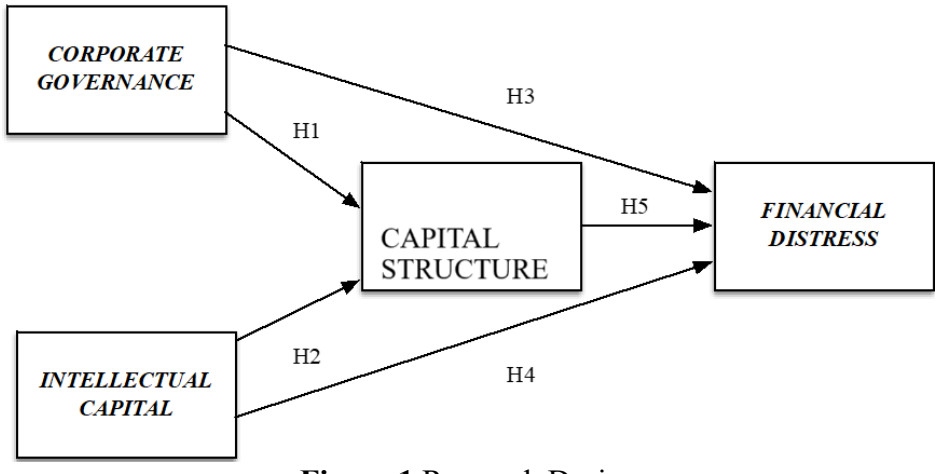

Figure 1 Research Design

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e-ISSN: 2460-5328

All data in this study are quantitative data. Based on the source, data can be divided into primary and secondary data. Primary data is data that is collected specifically to carry out the research project being carried out (Saunders, 2016). Certain parties have collected secondary data for other purposes (Saunders, 2016). This study uses secondary data, where all data such as corporate governance, intellectual capital, capital structure, and financial distress can be obtained from the annual financial reports of each company published on the IDX website or the company's official website. This study aims to determine the effect of corporate governance and intellectual capital on the company's capital structure and financial distress in manufacturing companies listed on the IDX. Thus, the population in this study is all manufacturing companies listed on the IDX in 2020 - 2022, namely 195 companies. The sampling technique in this study is the purposive sampling method. The purposive sampling method is a sampling technique based on criteria determined by the researcher. The sampling criteria used in this study are manufacturing companies listed on the IDX from 2020 to 2022 and have complete financial reports. 187 companies meet the sample criteria. In this case, the sampling criteria include:

- Manufacturing Companies Listed on IDX (2020-2022): The study focuses on manufacturing companies that are officially listed on the IDX during the years 2020, 2021, and 2022. This ensures the sample includes companies in a specific sector that is highly relevant for the study's focus on financial distress and capital structure.
- Availability of Complete Financial Reports: The selected companies must have complete financial reports for the years 2020, 2021, and 2022. This criterion ensures that the data required for the analysis of financial distress, corporate governance, intellectual capital, and capital structure is available and reliable for the entire period of study.

After applying these criteria, 187 companies met the sample requirements. This purposive sampling method is suitable because it ensures that the selected companies provide relevant and sufficient data to examine the cause-and-effect relationships among the variables under study. By focusing on these 187 companies, the study can gather insights that are specific to the manufacturing sector on the IDX and can provide a deeper understanding of the factors influencing financial distress and capital structure during the post-pandemic period.

Corporate Governance (X1) is a series of relationships between shareholders, the board of directors, commissioners, management, and other stakeholders. In this study, CG in manufacturing companies on the IDX in 2020-2022 is proxied by the proportion of independent commissioners by dividing the number of independent commissioners in the company by the total number of commissioners. The scale of this data is ratio data.

Intellectual Capital (X2) in this study is proxied by the value-added intellectual coefficient (VAIC). VAIC is measured based on the value added (VA) created from human capital efficiency (HCE), capital employed efficiency (CEE), and structural capital efficiency (SCE) developed by Pulic (1998). VAIC is measured in manufacturing companies on the IDX in 2020-2022. The scale of this data is ratio data.

Capital Structure (Y1) reflects the proportion of debt and equity used in a company. In this study, SM in manufacturing companies on the IDX in 2020-2022 is proxied using the debt-to-equity ratio (DER) by dividing debt by company capital. The scale of this data is a ratio and the unit times.

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$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Capital}}$$

Financial Distress (Y2) is the financial difficulties of manufacturing companies on the IDX in 2020-2022, which is measured by determining the criteria, namely companies with negative EPS in one reporting period. This variable is a dummy variable. If a company experiences financial distress, it will be given a score of 1, and companies that do not experience financial distress will be given a score of 0.

The first data analysis conducted in this study was descriptive statistical analysis. Descriptive statistical analysis is a data analysis method used to describe or depict the data that has been collected (Sugiyono, 2017). Descriptive statistical analysis in this study will calculate the average, standard deviation, and percentage of sample data for all variables with ratio and nominal data, such as corporate governance, intellectual capital, modal structure, and financial distress. The second data analysis conducted in this study is inferential analysis. Inferential analysis is used to test the hypothesis formulated in this study. The inferential analysis technique used in this study is multiple linear regression analysis to test hypotheses 1 and 2. In addition, this study uses logistic regression analysis because it uses a dependent variable, which is a dummy variable with more than one independent variable. All analyses are done through the Statistical Package for Social Science (SPSS) program. Furthermore, this study uses the path analysis method. Path analysis is used in this study to determine whether the independent variable has a direct or indirect effect on the dependent variable. Logistic regression analysis determines how each independent variable influences its dependent variable. The multiple regression equation and logistic regression of the empirical model of this study can be written in equations 1 and 2 below.:

$$Y_1 = \alpha_1 + \beta_{11}X_1 + \beta_{12}X_2 + e \quad \text{.....(1)}$$

$$ln\frac{P}{1-P} = \alpha_2 + \beta_{21}X_1 + \beta_{22}X_2 + \beta_{23}Y_1 + e \quad \text{.....(2)}$$

Information:

$ln\frac{P}{1-P}$ = Probability of financial distress (dummy variable, given a value of 1 if financial distress occurs, and 0 if non-financial distress)

α = Regression constant

β = Regression coefficient of independent variables

X_1 = Corporate Governance

X_2 = Intellectual Capital

Y_1 = Capital Structure

e = Residual error

Path analysis was used in this study to test mediation, which can be seen in the following explanation:

• If X is significant to Y1 the hypothesis is accepted, Y1 is significant to Y2. If the hypothesis is accepted, and X is significant to Y1, and the hypothesis is accepted, then the variable Y1 is a half mediation variable.

• If X is significant to Y1 and the hypothesis is accepted, Y1 is significant to Y2, and the hypothesis is accepted. At the same time, if X is not significant to Y2, Y1 is a full mediation variable.

• If X is not significant to Y1, and Y1 is significant to Y2, and the hypothesis is accepted, Y1 is not a mediation variable.

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e-ISSN: 2460-5328

This study uses secondary data, so to determine the model's accuracy, it is necessary to test several classical assumptions used in this study. Classical assumptions are tested for normality, multicollinearity, autocorrelation, and heteroscedasticity (Gujarati, 2011). The normality test determines whether the regression model's confounding variables or residuals have a normal distribution. The multicollinearity test is carried out to test whether the regression model finds a correlation between independent variables. The autocorrelation test is carried out to test whether there is a correlation between the linear regression model's confounding errors in period t and period t-1. The heteroscedasticity test is used to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another.

RESULTS AND DISCUSSION

Descriptive statistical analysis was conducted to provide an overview or description of the research variables, which consist of corporate governance (CG), intellectual capital (IC), capital structure (DER), and financial distress (FD), through the average value (mean), maximum value, minimum value, and standard deviation. Complete descriptive statistics can be seen in Table 1.

Table 1 Descriptive Statistics of Research Variables

Variables	Minimum	Maximum	Mean	Std. Deviation
CG	0.00	1.00	0.42	0.12
IC	-78.65	38.17	1.72	5.42
DER	-30.15	114.29	1.11	5.63
FD	0.00	1.00	0.28	0.45

Sources: Data Processed, 2024

The results of this study provide important insights into the state of corporate governance, intellectual capital, capital structure, and financial distress among manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2022 period. Each variable's descriptive statistics provide a deeper understanding of the financial health and governance practices within the manufacturing sector, as well as the potential links to financial distress.

Corporate Governance (CG):

Minimum Value (0.00) and Maximum Value (1.00): The CG variable ranges from 0.00 to 1.00, showing a significant variation across companies in the IDX. A value of 0.00, like that of ETWA Tbk in 2021, suggests the absence of independent commissioners, which may indicate poor governance and limited oversight. On the other hand, a value of 1.00, as seen with RMBA Tbk, signifies a company with a fully independent board, which could enhance oversight, transparency, and decision-making.

Average Value (0.42) and Standard Deviation (0.12): The average CG value of 0.42 suggests that, on the whole, companies in this sample have a moderate level of corporate governance. A standard deviation of 0.12 indicates a relatively low level of variation among the companies

p-ISSN: 2088-1231
e-ISSN: 2460-5328

in terms of their governance practices, meaning that most companies have somewhat similar governance structures. However, the variation still exists, which could imply differing levels of commitment to corporate governance standards across the sector.

Intellectual Capital (IC):

Minimum Value (-78.65) and Maximum Value (38.17): The wide range in IC, from a very low value of -78.65 to a high of 38.17, highlights significant differences in how companies manage their intangible assets, including human, structural, and relational capital. The negative value of IC for ARGO Tbk in 2021 may indicate an erosion of intellectual capital, possibly due to poor management, loss of talent, or declining R&D efforts. Conversely, a high value like 38.17 for BRNA Tbk in 2021 suggests strong intellectual capital management, likely associated with competitive advantages, innovation, and higher financial performance.

Average Value (1.72) and Standard Deviation (5.42): The average of 1.72 for IC shows that, on average, companies are managing their intellectual capital to some degree, but the high standard deviation of 5.42 indicates substantial variability. This variability suggests that some companies are excelling in leveraging their intangible assets, while others are underperforming or even mismanaging these resources, which can be a key factor in their financial stability and competitiveness.

Capital Structure (DER):

Minimum Value (-30.15) and Maximum Value (114.29): The extreme values of the Debt-to-Equity Ratio (DER) show significant discrepancies in how companies structure their capital. The negative value of -30.15, seen with MYTX Tbk in 2021, could reflect a negative equity position, indicating financial distress or improper accounting practices. On the other hand, the high value of 114.29 suggests that some companies are highly leveraged, relying heavily on debt to finance their operations. This could increase financial risk and lead to potential financial distress if the companies fail to manage their debt effectively.

Average Value (1.11) and Standard Deviation (5.63): The average DER of 1.11 indicates that, on average, companies maintain a balanced approach between debt and equity. However, the high standard deviation of 5.63 shows significant variation in the capital structures of different companies. Some companies might be excessively leveraging debt, which could increase their vulnerability to financial distress, while others may have a more conservative approach.

Financial Distress:

Dummy Variable (0 or 1): The financial distress variable is a dummy variable, with a value of 1 indicating that a company is experiencing financial distress and 0 indicating that it is not. The average value of 0.28 suggests that, on average, 28% of the companies in the sample were in financial distress during the 2020-2022 period. This implies that a significant portion of the manufacturing sector has faced challenges, likely exacerbated by the economic impacts of the COVID-19 pandemic, supply chain disruptions, and other financial difficulties.

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Standard Deviation (0.45): The standard deviation of 0.45 shows a relatively large spread in the financial distress experiences of these companies, indicating that while a subset of companies is financially stable, a notable number are struggling.

Meaning and Implications of the Results:
The findings reveal the diverse financial health and governance practices across manufacturing companies on the IDX. The variation in corporate governance and intellectual capital suggests that governance structures and the management of intangible assets are not uniform, which could significantly influence companies' ability to manage financial distress. Capital structure, with its high variability, reflects different strategies for managing debt, where some companies may be highly leveraged, increasing their financial risk. The presence of financial distress in 28% of the companies highlights the challenges faced by the sector, especially in the aftermath of the COVID-19 pandemic.

These results emphasize the need for better governance practices and more effective management of intellectual capital to improve resilience against financial distress. Companies with better governance and intellectual capital may be more capable of managing their capital structure in a way that minimizes the risk of financial difficulties. The findings also underscore the importance of strategic decision-making in capital structure, particularly for companies in the manufacturing sector, where financial instability can have cascading effects on operations and market performance.

Strength and Suitability Testing of Equation Model 1

Strength and suitability testing of the model is carried out on the empirical model. Considering that the research model in this dissertation is described in 2 regression equation models, the empirical model testing is carried out in 2 stages of testing. The first stage of empirical model testing is carried out on the CG and IC variables predicted to affect DER. The second testing stage is carried out on the CG, IC, and DER variables predicted to affect FD.

The strength and suitability testing of the research model includes the test results on equation model 1 and equation model 2. Testing on equation model 1 presents the test results regarding the influence of CG and IC variables on DER. Testing on equation model 2 presents the test results regarding the influence of CG, IC, and DER variables on FD.

The results of testing the research model will also present the status of the DER variable as a mediating variable. DER is a mediating variable of the CG and IC variables influencing FD.

The empirical model of this research is described into two regression equation models, and its testing is carried out in stages using the multiple regression analysis method and logistic regression analysis. Testing using multiple regression analysis requires several requirements that must be met in order to produce a goodness-of-fit model. The requirements must be met, including the normality of error (residual) and classical assumptions. So, a good regression model requires that the dependent and independent variables be normally distributed or close to regular and free from classical assumptions, including multicollinearity, heteroscedasticity, and autocorrelation (Ghozali, 2011). The equation model 1 in this study is: DER = a1 + b11CG + b12IC + e1. The equation consists of 1 dependent variable, namely Capital Structure (DER), and two dependent variables, namely Corporate Governance (CG) and Intellectual Capital (IC).

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e-ISSN: 2460-5328

The Normality Test aims to test the extent to which the distribution of sample data corresponds to the normal distribution (Hair et al., 2014). In the regression model, the t-test and F-test statistics assume that the residual values follow a normal distribution (Gujarati, 2011). The data normality test in this study was carried out using the Kolmogorov-Smirnov (K-S) method. The normality test results in Table 2 show a Sig value of 0.240 (p>0.05). This indicates a normal distribution in the data so that the data can be used for further regression analysis.

Table 2 Results of Normality Test of Equation Model 1

One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			459
Normal Parameters[a,b]	Mean		0.000
	Std. Deviation		0.335
Most Extreme Differences	Absolute		0.048
	Positive		0.048
	Negative		-0.026
Test Statistic			0.048
Asymp. Sig. (2-tailed)			.013[c]
Monte Carlo Sig. (2-tailed)	Sig.		.240[d]
	99% Confidence Interval	Lower Bound	0.229
		Upper Bound	0.250

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. Based on 10000 sampled tables with starting seed 1585587178.

Sources: Data Processed, 2024

Classical assumption testing involves testing multicollinearity, heteroscedasticity, and autocorrelation to meet the assumption requirements specified in the linear regression analysis technique or Ordinary Least Square (OLS). Table 3 shows the results of the classical assumption test, multicollinearity, heteroscedasticity, and autocorrelation.

Table 3 Results of Classical Assumption Testing of Equation Model 1

Independent Variable	Multicollinearities (VIF)	Heteroskedasticities	Autocorrelation (DW-test)
Corporate Governance (CG)	1,001	t = 1,595 ; sig = 0,111	1,932
Intellectual Capital (IC)	1,001	t = -1,467; sig = 0,143	1,932

Sources: Data Processed, 2024

p-ISSN: 2088-1231
e-ISSN: 2460-5328

a. Multicollinearity Testing

The Variance Inflation Factor (VIF) test is used to test whether there is a multicollinearity symptom in the regression equation. If the VIF value is less than 10, there is no multicollinearity problem between the independent variables (Ghozali, 2011). The results of the VIF test produce VIF values for all independent variables that are less than 10 so that all independent variables are free from the problem of multicollinearity. The results of the multicollinearity test in Table 3 produce VIF values for each independent variable that are less than 10 (VIF <10), so it can be concluded that all independent variables included in the regression model are free from the multicollinearity problem.

b. Heteroscedasticity Testing

The Glejser test tests whether there is a heteroscedasticity symptom in the regression equation. This test is carried out to test whether or not there is a relationship between the independent variables and the residuals. If the independent variables regressed with the absolute residual value are not statistically significant (sig-t = > 0.05), then the regression model is free from the problem of heteroscedasticity (Ghozali, 2011). The results of the heteroscedasticity test, as presented in Table 3, show that all independent variables included in the regression model are statistically insignificant (sig = > 0.05) in affecting the residual. Hence, the regression model is free from the problem of heteroscedasticity.

c. Autocorrelation Testing

Testing for the presence or absence of autocorrelation symptoms in the regression model uses the Durbin-Watson test. The values of dL, dU, 4-dU, and 4-dL samples of 187 with α = 0.05 are 1.843 (dL), 1.851 (dU), 2.149 (4-dU), and 2.157 (4-dL). So, if the Durbin-Watson value is between dU and 4-dU or 1.851 and 2.149, the regression model is free from autocorrelation symptoms. The results of the autocorrelation test with the Durbin-Watson Test, as presented in Table 3, show that the DW-test value is 1.932, meaning the regression model is free from autocorrelation symptoms.

Table 4 Results of R-Square Calculation and Significance of F Equation 1

Model	R	R Square	Adjusted R Square
1	.123a	0.150	0.110

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.794	2	0.397	3.516	.031b
	Residual	51.493	456	0.113		
	Total	52.287	458			

a. Dependent Variable: DER

b. Predictors: (Constant), IC, CG

Sources: Data Processed, 2024

Model Suitability Testing

Model suitability testing (goodness of fit) is done by looking at the R-square value. The R-square value explains the ability of independent variables to influence the dependent variable. Meanwhile, the F significance explains the level of significance of the influence of independent variables simultaneously on the dependent variable.

The test results with the SPSS program, which can be seen in Table 4, show that the Rsquare

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value is 0.110, and the F values are 3.516 with a sig. 0.031. So, the Corporate Governance (CG) and Intellectual Capital (IC) variables included in the regression model can explain the Capital Structure (DER) by 11% percent. In comparison, the remaining 89% percent is explained by other factors not included in the regression model. The F Test results show that the independent variables in this equation simultaneously affect the dependent variable because the significance value of 0.031 is smaller than 0.05.

Testing the Strength and Suitability of Equation Model 2

Equation model 2 in this study is $ln\frac{P}{1-P} = a_2 + b_{21}CG + b_{22}IC + b_{23}DER + \varepsilon_2$. The equation consists of 1 dependent variable, Financial Distress (FD), and three dependent variables, Corporate Governance (CG), Intellectual Capital (IC), and Capital Structure (DER). The feasibility of the regression model is assessed using the Hosmer and Lemeshow test. The test results can be seen in Table 5.

Table 5 Hosmer and Lemeshow Test Results

Step	Chi-square	df	Sig.
1	7.566	8	.477

Sources: Data Processed, 2024

Table 5 shows that the value of Chi-square is 7.566 with a significance value of 0.477. Based on the test results, the significance value is more significant than 0.05, so it is concluded that the model can predict the value of its observations or be accepted because it fits the actual data. Testing to assess the entire model can be done by comparing the value of -2 Log Likelihood (LL) at block number = 0 with the value of -2 Log Likelihood (LL) at block number = 1. The test results can be seen in Table 6 as follows.

Table 6 Comparison of Initial -2LL Values with Final -2LL Values

-2LL beginning (Block Number = 0)	533.572
-2LL end (Block Number = 1)	524.873

Sources: Data Processed, 2024

In Table 6, the initial -2LL value is 533.572, and the final -2LL value has decreased to 524.873. The decrease in the -2LL value indicates that the regression model being tested is good, meaning that the hypothesized model fits the data. The determination coefficient can be assessed from the value of the Nagelkerke R Square. The test results are presented in Table 7 as follows.

Table 7 Results of the Determination Coefficient Test

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	524.873a	.190	.270

Sources: Data Processed, 2024

Table 7 shows that the Nagelkerke R Square value is 0.270. This value means that the independent variable can explain 27% of the variability of the dependent variable. In

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comparison, the remaining 73% is explained by other variables outside the research model or those not included in this study.

Multiple Regression Testing
Regression Testing Equation 1
Regression equation 1 consists of Corporate Governance (CG) and Intellectual Capital (IC) variables as independent variables and Capital Structure (DER) as dependent variables. The form of the equation is as follows:
DER = a1 + b11CG + b12IC + e1.

The regression analysis conducted in this study provides valuable insights into the relationships between Corporate Governance (CG), Intellectual Capital (IC), and Capital Structure (DER). According to the regression equation derived, DER = 0.882 + 0.084CG - 0.024IC, the Corporate Governance (CG) variable, despite its theoretical importance, does not show a statistically significant effect on Capital Structure (DER). This suggests that, within the context of manufacturing companies listed on the Indonesian Stock Exchange during the 2020-2022 period, the proportion of independent commissioners or the overall governance structure does not significantly influence the company's capital structure decisions. It is possible that factors such as market conditions, the company's overall financial strategy, or other internal and external dynamics play a more decisive role in determining how companies structure their debt and equity financing, rather than the governance structure alone.

On the other hand, the Intellectual Capital (IC) variable demonstrates a significant negative relationship with Capital Structure (DER) at a 1% significance level. This means that companies with higher levels of intellectual capital—characterized by valuable intangible assets such as human capital, structural capital, and relational capital—tend to rely less on debt and more on equity or internal sources of funding. The negative coefficient of -0.024 implies that for each unit increase in IC, the debt-to-equity ratio decreases. This could be due to the fact that companies with strong intellectual capital may prefer to finance their operations with retained earnings or equity funding rather than taking on debt. Since intellectual capital is intangible and cannot be easily pledged as collateral, these companies may find it more advantageous to avoid the risks associated with high levels of debt. This finding supports the idea that companies with rich intellectual resources are more likely to focus on sustainable, equity-based growth rather than relying on external debt.

Overall, these results suggest that, for the companies in the sample, Corporate Governance alone does not appear to be a decisive factor in shaping capital structure, whereas Intellectual Capital plays a crucial role in influencing how companies finance their operations. The findings underscore the importance of intangible assets in capital structure decisions, particularly for firms that emphasize innovation, knowledge, and intellectual property as key drivers of their competitive advantage. These insights can be valuable for managers, policymakers, and investors who are interested in understanding the factors that influence capital structure decisions in the context of Indonesian manufacturing companies during a period marked by economic uncertainty and the aftermath of the COVID-19 pandemic.

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Table 8 Summary of Regression Test Results for Empirical Model Equation 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.882	0.070		12.603	0.000
	CG	0.084	0.157	0.025	0.535	0.593
	IC	-0.024	0.009	-0.122	-2.614	0.009

a. Dependent Variable: DER

Sources: Data Processed, 2024

Table 9 Summary of Regression Test Results for Empirical Model Equation 2

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	CG	-3.229	1.143	7.984	1	0.005	0.040
	IC	-0.018	0.063	0.082	1	0.775	0.982
	DER	-0.084	0.320	0.069	1	0.793	0.919
	Constant	0.434	0.567	0.586	1	0.444	1.544

a. variable (s) entered on step 1: CG, IC, DER.

Sources: Data Processed, 2024

Regression Testing of Equation 2

Regression equation 2 consists of Corporate Governance (CG), Intellectual Capital (IC), and Capital Structure (DER) variables as independent variables and Financial Distress (FD) as dependent variables. The form of the equation is as follows:

$$\ln \frac{P}{1-P} = a_2 + b_{21}CG + b_{22}IC + b_{23}DER + \varepsilon_2$$

Regression testing was conducted using logistic regression analysis, and the SPSS 21 program was used. The summary of regression test results on equation model 2 can be seen in Table 9. Based on Table 9, the regression equation can be written as follows: FD = 0.434 – 3.229CG – 0.018IC – 0.084DER. The IC and DER variables do not significantly affect FD because their significance values exceed 0.05. Corporate Governance (CG) statistically significantly negatively affects Financial Distress (FD) at the 1% significance level. Corporate Governance (CG) has a statistically significant negative effect on Financial Distress (FD) at the 1% significance level. This means that better corporate governance—reflected by the presence of independent commissioners and the general governance structure of the company—has a protective effect against financial distress. Specifically, the negative coefficient of -3.229 suggests that as corporate governance improves, the likelihood of a company experiencing financial distress decreases. This could be because companies with stronger governance structures are better able to manage risks, make sound financial decisions, and provide effective oversight of the company's

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management, thereby reducing the chances of financial distress. The result supports the view that strong corporate governance practices help companies navigate economic challenges and prevent financial instability.

Intellectual Capital (IC) and Capital Structure (DER) do not have a statistically significant effect on Financial Distress (FD), as the significance values for both variables are greater than 0.05. This indicates that, within the context of this study, intellectual capital and capital structure do not directly influence whether a company experiences financial distress. The absence of significance for IC suggests that while intellectual capital may play a role in the company's long-term growth and profitability, it does not have a direct impact on the company's financial stability in the short term, particularly in the context of financial distress. Similarly, Capital Structure (measured by the Debt-to-Equity Ratio) does not appear to significantly affect the likelihood of financial distress in this sample, despite its theoretical link to financial risk. This could be due to other factors, such as market conditions, liquidity management, or overall financial strategy, which might influence the company's ability to avoid financial distress more than just the capital structure itself.

Overall, the results suggest that Corporate Governance plays a critical role in mitigating financial distress, while Intellectual Capital and Capital Structure do not show a significant direct impact. These findings are important because they highlight the value of good governance in maintaining financial stability, particularly during uncertain times, such as the aftermath of the COVID-19 pandemic. In a period where companies faced economic turbulence, those with strong governance structures may have been better positioned to navigate challenges and avoid financial distress.

The significance of Corporate Governance aligns with prior research, which emphasizes the importance of board oversight, transparency, and accountability in maintaining financial health and resilience. For practitioners, this finding suggests that improving corporate governance mechanisms—such as having a higher proportion of independent commissioners or implementing more rigorous internal controls—could be a key strategy in reducing the likelihood of financial distress and enhancing long-term financial stability.

Mediation testing tests whether a variable acts as an intermediary or mediating variable to mediate the relationship between the independent and dependent variables (Ghozali, 2011). Path analysis is used to test the influence of the mediating variable. Path analysis extends multiple regression analysis to estimate the causal relationship between variables (causal model) previously determined based on theory (Ghozali, 2011). Mediation testing is conducted on the empirical research model, wherein in the empirical model of this study, there is one mediating variable, namely capital structure. The results of this test will show whether the independent variables in the model have a direct or indirect effect on the dependent variable. The magnitude of the influence of each independent variable on the dependent variable is indicated by the p-value, which describes the path and path coefficient. The path coefficient is calculated based on the structural equation, namely the hypothesized regression equation. In this study's empirical model, there are two regression equations.
The empirical model in this study consists of two hypothesized regression equations, each as follows:

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equation 1: $DER = a_1 + b_{11}CG + b_{12}IC + \varepsilon_1$.

equation 2: $\ln \frac{P}{1-P} = a_2 + b_{21}CG + b_{22}IC + b_{23}DER + \varepsilon_2$

Equation 1 consists of two independent variables, CG and IC, and one dependent variable, DER. The results of the regression analysis calculation of equation 1 are:

DER = 0,882 + 0,084CG - 0,024IC.

The regression analysis results show that the GC variable does not significantly affect DER. Meanwhile, IC has a significant negative effect on DER. Equation 2 consists of three independent variables, CG, IC, and DER, and one dependent variable, FD. The results of the calculation of the regression analysis of equation 2 are:

FD = 0,434 – 3,229CG – 0,018IC – 0,084DER.

The regression analysis results indicate that Intellectual Capital (IC) and Capital Structure (DER) do not significantly affect Financial Distress (FD). This suggests that these two variables do not directly influence whether a company faces financial distress, at least within the parameters of this study. On the other hand, Corporate Governance (CG) is found to have a negative and significant effect on financial distress. This means that companies with stronger corporate governance mechanisms are less likely to experience financial distress, which aligns with previous research that highlights the importance of governance in maintaining financial stability.

However, the main question arising from these results is whether Capital Structure (DER) serves as a mediating variable between Corporate Governance (CG) and Financial Distress (FD). The regression results in Equation 1 (for CG and IC) and Equation 2 (for DER and FD) form the basis of the empirical research model. To assess whether DER is a mediator, path analysis is performed, which involves the following steps:

1. Hypothesis Testing for CG and IC on DER and DER on FD:
The first step in the path analysis is to examine the significance values (sig-t) for the relationships between CG and DER, and IC and DER. Similarly, the significance of DER on FD is tested. The objective is to determine whether these relationships are statistically significant. If the statistical results show that both CG and IC significantly affect DER, and that DER significantly affects FD, then it can be concluded that DER is indeed a mediating variable in the relationship between CG (or IC) and financial distress.

2. Determining the Mediation Role of DER:
If the tests in Step 1 are significant and support the hypothesis that DER influences FD, we move to the second step: determining whether DER acts as a mediating variable. This involves multiplying the beta coefficients from the regression equations. The beta coefficient for CG and IC on DER reflects the strength of their influence on DER, while the beta coefficient for DER on FD shows the strength of DER's influence on financial distress.

If the product of the beta coefficients of CG and IC on DER is greater than the beta coefficient of DER on FD, this indicates that the indirect effect of CG and IC on financial distress (through DER) is stronger and more efficient than their direct effect on financial distress. In other words, DER acts as a mediator, making the influence of CG and IC on FD more effective when mediated through capital structure.

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On the other hand, if the direct effect of CG or IC on FD is stronger than the indirect effect through DER, then the direct effect is more efficient than the indirect influence of DER. This would suggest that capital structure, in this case, does not serve as a strong mediator and that corporate governance or intellectual capital directly impacts financial distress.

3. Implications of Mediation Analysis:
If the path analysis confirms that DER is a mediator, it would suggest that capital structure plays a critical role in how corporate governance influences financial distress. This finding would imply that improving corporate governance does not just directly impact financial distress but also does so by influencing how a company structures its capital (its debt and equity balance). In turn, this capital structure impacts the likelihood of financial distress. This would highlight the importance of managing not only governance practices but also ensuring that companies maintain a balanced and sustainable capital structure to mitigate the risk of financial distress.

However, if DER does not significantly mediate the relationship, this would suggest that the governance mechanisms themselves are sufficient to protect companies from financial distress, and the structure of their capital might not play as significant a role as expected.

In conclusion, the path analysis helps to clarify whether capital structure plays a mediating role in the relationship between corporate governance and financial distress. The results from this analysis will provide valuable insights into whether companies should focus on improving their corporate governance mechanisms, altering their capital structures, or both, to minimize the risk of financial distress.

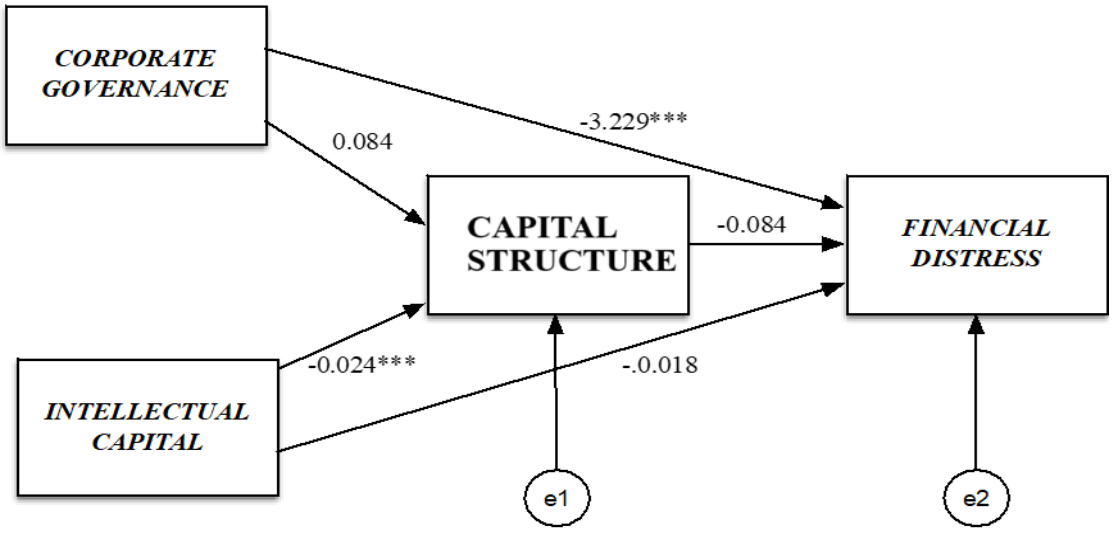

Figure 1 Empirical Model Path Analysis

*significance level 10%
**significance level 5%
***significance level 1%
Sources: Data Processed, 2024

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The results of the path analysis, as in Figure 1, can be interpreted as in Table 10 below.

Table 10 Interpretation of Empirical Model Path Analysis

Variables	Information	Capital Structure (DER)	Financial Distress (FD)
Corporate Governance (CG)	It has no significant effect on DER and has a significant effect on FD	No effect	Significant Effect
Intellectual Capital (IC)	It has a significant effect on DER and is not significant on FD	Significant Effect	No effect
Capital Structure (DER)	It has no significant effect on FD	-	No effect

Sources: Data Processed, 2024

The regression analysis results of equation 1 show that the corporate governance variable has a positive regression coefficient of 0.084 with p> 0.05. This shows that the level of independent commissioners does not significantly affect the capital structure of manufacturing companies on the IDX in 2020-2022. These results do not support the first hypothesis (H1), which states that corporate governance positively and significantly affects capital structure. Corporate governance has no significant effect on capital structure.

The regression analysis results of equation 1 show that the IC variable has a negative regression coefficient of -0.024 with p <0.05. This shows that the IC level significantly affects the capital structure of manufacturing companies on the IDX in 2020-2022. These results support the second hypothesis (H2), which states that IC negatively and significantly affects capital structure. IC has a significant negative effect on capital structure.

The regression analysis results of equation 2 show that the corporate governance variable has a negative regression coefficient of -3.229 with p <0.05. This shows that corporate governance significantly negatively affected financial distress in manufacturing companies on the IDX in 2020-2022. These results support the third hypothesis (H3), which states that corporate governance negatively and significantly affects financial distress. Corporate governance has no significant effect on financial distress. The regression analysis results of equation 2 show that the IC variable has a negative regression coefficient of -0.018 with p> 0.05. This shows that the IC level does not significantly affect financial distress in manufacturing companies on the IDX in 2020-2022. These results do not support the fourth hypothesis (H4), which states that IC positively and significantly affects financial distress. IC has no significant effect on financial distress.

The regression analysis results of equation 2 show that the capital structure variable has a negative regression coefficient of -0.084 with p> 0.05. This shows that the capital structure level does not significantly affect financial distress in manufacturing companies on the IDX in 2020-2022. These results do not support the fifth hypothesis (H5), which states that capital structure positively and significantly affects financial distress. Capital structure has no significant effect on financial distress. Capital structure has no significant effect on financial distress. Therefore, there is no mediation in this relationship, so capital structure does not mediate the effect of corporate governance and intellectual capital on financial distress. This means there is no cascading effect from corporate governance and intellectual capital to

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e-ISSN: 2460-5328

capital structure and financial distress. Thus, the sixth (H6) and seventh (H7) hypotheses are rejected.

Discussion

This study examined the relationships between corporate governance (CG), intellectual capital (IC), capital structure (DER), and financial distress (FD) in manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2022. The regression analysis results provided interesting insights, with some results aligning with theoretical expectations, while others contradicting common hypotheses. Below is a more detailed discussion of these findings, tying them to relevant theories and practical implications.

1. The Influence of Corporate Governance on Capital Structure

The regression results indicate that corporate governance, represented by the level of independent commissioners, does not significantly affect capital structure in manufacturing companies, with a positive regression coefficient of 0.084 and a p-value greater than 0.05. This finding contradicts the first hypothesis (H1), which posited that corporate governance positively and significantly impacts capital structure.

Corporate governance is expected to play a crucial role in guiding financial decisions, including how companies structure their capital. The lack of a significant effect could be attributed to other more influential factors such as the industry characteristics or macroeconomic conditions in Indonesia. For instance, manufacturing companies might be more influenced by industry-specific norms or government policies on financing than by their governance structures. This is consistent with agency theory, which highlights the role of governance in mitigating conflicts of interest between managers and shareholders. However, agency theory assumes a direct influence of governance on corporate decisions, which might not hold universally, especially in environments where other variables, such as market conditions or regulatory factors, dominate the decision-making process.

2. The Influence of Intellectual Capital on Capital Structure

The second hypothesis (H2), which suggested a negative relationship between intellectual capital and capital structure, is supported by the regression results, which show a significant negative regression coefficient of -0.024 ($p < 0.05$). This implies that higher intellectual capital (IC) is associated with a more conservative capital structure, meaning companies with high IC are less likely to rely heavily on debt financing.

Intellectual capital represents a company's knowledge, innovation, and human capital, which can enhance operational efficiency and profitability. Companies with a high level of IC may rely less on external financing (debt), preferring to leverage their intellectual assets for revenue generation. This finding aligns with resource-based theory (RBV), which posits that companies with valuable, unique, and non-replicable resources (like intellectual capital) can gain competitive advantage and reduce their dependence on external financing sources. The implication for firms is that investing in intellectual capital could lead to more sustainable financial structures, reducing their need for external debt.

3. The Effect of Corporate Governance on Financial Distress

Corporate governance was found to significantly and negatively affect financial distress, with a regression coefficient of -3.229 ($p < 0.05$), supporting the third hypothesis

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(H3). This suggests that better corporate governance practices help reduce the likelihood of financial distress in manufacturing companies.

This result is consistent with agency theory, which argues that effective corporate governance mechanisms reduce managerial risk-taking and encourage better decision-making, thus decreasing the risk of financial distress. When independent commissioners are involved in the governance structure, they can oversee management activities, reduce the likelihood of risky financial practices, and ensure more transparency and accountability in financial reporting. This in turn minimizes the chances of financial distress. In practice, this finding underscores the importance of enhancing corporate governance structures in companies, particularly in emerging markets like Indonesia, where such practices can mitigate financial instability.

4. The Effect of Intellectual Capital on Financial Distress

The regression analysis shows that intellectual capital does not significantly affect financial distress, with a regression coefficient of -0.018 and a p-value greater than 0.05, contradicting the fourth hypothesis (H4).

While intellectual capital is expected to improve operational efficiency and innovation, which should ideally reduce financial distress, this result suggests that its impact might be more indirect or mediated by other factors such as management practices or external market conditions. The absence of a significant effect may also indicate that the way companies manage and leverage their intellectual capital does not directly translate into reduced financial risk. This could point to a need for companies to improve the integration of their intellectual capital into their strategic planning and operational decisions. Additionally, dynamic capabilities theory may provide an explanation: companies with strong intellectual capital must also possess the dynamic capabilities to adapt their resources effectively to changing environments, which can have a more direct impact on reducing financial distress.

5. The Effect of Capital Structure on Financial Distress

Capital structure was found to have no significant effect on financial distress, with a regression coefficient of -0.084 and a p-value greater than 0.05, contradicting the fifth hypothesis (H5). This suggests that the proportion of debt in a company's capital structure does not directly influence the likelihood of financial distress in the context of Indonesian manufacturing firms during the study period.

While trade-off theory and pecking order theory suggest that the structure of a company's capital (debt vs. equity) directly influences its financial stability, this study suggests that other factors such as company size, management quality, and operational efficiency may have more pronounced effects on financial distress. Companies in Indonesia may have alternative risk management strategies or sources of funding that reduce the reliance on capital structure for financial stability. The implications are that companies may need to focus more on operational and managerial efficiency rather than purely on their financing decisions to avoid financial distress.

6. The Mediating Role of Capital Structure

Finally, the study concludes that capital structure does not mediate the relationship between corporate governance, intellectual capital, and financial distress. The sixth (H6) and seventh (H7) hypotheses are therefore rejected.

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The lack of a mediating effect suggests that capital structure does not play an intermediary role in transmitting the influence of corporate governance or intellectual capital on financial distress. This finding challenges the common assumption that capital structure is a critical mediator in the relationship between governance and financial performance. This aligns more with direct effects models, where corporate governance and intellectual capital directly influence financial distress, rather than through the intermediary of capital structure. Companies may need to focus on strengthening their governance and intellectual capital directly, without expecting capital structure to mediate these relationships.

Research Implications

This study provides several important implications for both practitioners and researchers:

Corporate Governance: Companies must prioritize the continuous improvement of corporate governance practices to minimize the risk of financial distress. Effective governance mechanisms, such as independent board oversight and transparent decision-making processes, play a crucial role in managing risks and ensuring long-term financial stability. As corporate governance directly impacts the mitigation of financial distress, it is essential that companies remain proactive in adopting best practices and adapting to evolving regulatory standards.

Intellectual Capital: While intellectual capital (IC) significantly influences capital structure, its impact on financial distress requires further exploration. Future research should consider examining additional moderating or mediating factors that may better explain the relationship between IC and financial distress. Intellectual capital is increasingly recognized as a vital asset, but its effects on financial health are complex and influenced by various internal and external variables. Expanding the research to include these factors could offer more nuanced insights and lead to more effective management strategies.

Capital Structure: Companies should adopt a holistic approach when managing their capital structure, ensuring that both external and internal factors are given due consideration. Relying solely on capital structure decisions to mitigate financial distress may not be sufficient. A more comprehensive strategy that incorporates industry dynamics, market conditions, and organizational behavior could help firms better navigate financial challenges. Additionally, companies should periodically reassess their capital structure to remain adaptable to changing economic and industry conditions, ultimately improving their resilience in the face of financial distress.

CONCLUSION

The purpose of this study is to analyze the effect of Corporate Governance (CG), Intellectual Capital (IC), and Capital Structure (DER) on Financial Distress (FD) in manufacturing companies listed on the IDX for the period 2020-2022. The sample consisted of 187 companies, and the regression model used in the study was found to be suitable and strong, fitting the data well. The results of the regression analysis and mediation test show that Corporate Governance does not significantly affect Capital Structure, while Intellectual Capital has a significant negative effect on Capital Structure. Additionally, Corporate Governance significantly and negatively affects Financial Distress, while Intellectual Capital and Capital Structure have no significant effect on Financial Distress. Moreover, the study finds that Capital Structure does not mediate the relationship between Corporate Governance (CG) and Intellectual Capital (IC) on Financial Distress (FD). However, potential weaknesses

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of the study should be addressed, including sample constraints, measurement validity, and omitted variable bias. The study focused on manufacturing companies listed on the IDX, which may limit the generalizability of the findings to other sectors or regions. Future research could expand the sample to include companies from other sectors or regions for a broader comparison. The study also relied on financial data from annual reports, which could be subject to measurement issues, particularly when dealing with subjective factors such as the quality of corporate governance or the level of intellectual capital. Future studies could explore more comprehensive measures or alternative data sources to improve accuracy. Furthermore, omitted variables, such as macroeconomic factors or industry-specific risks, might have influenced the results, and future research could include additional variables or employ advanced statistical techniques to reduce omitted variable bias. The period 2020-2022 was chosen due to the unique impact of the COVID-19 pandemic, which caused significant economic disruptions and reshaped corporate behavior, governance, and financial strategies. The pandemic likely influenced companies' capital structure decisions, either prompting them to reduce debt due to uncertainty or seek more aggressive financing strategies. This period also represents a phase of recovery, where companies restructured operations and governance frameworks, providing an opportunity to study the impact of these changes on financial distress. Additionally, the heightened focus on corporate governance during the pandemic makes this time frame particularly relevant for understanding how companies adapted to new challenges. Thus, the 2020-2022 period offers valuable insights into corporate resilience and financial management during a crisis and recovery phase, making the findings crucial for understanding the dynamics of corporate governance, intellectual capital, and capital structure on financial distress.

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