

FINANCIAL DISTRESS PREDICTION IN RURAL BANKS (BPR): EXAMINING THE EFFECT OF GOOD CORPORATE GOVERNANCE (GCG) AND FINANCIAL PERFORMANCE

Azahra Nur Afifah^{1*}, Dewi Susilowati²

¹Master of Science in Accounting, Faculty of Economics and Business, Jenderal Soedirman University, Indonesia

²Accounting, Faculty of Economics and Business, Jenderal Soedirman University, Indonesia

*Email corresponding author: azahra.afifah@mhs.unsoed.ac.id

Article Information: Received, June, 25 2026, **Published, August, 10 2026**

Abstract

This study analyzes the influence of Good Corporate Governance (GCG), liquidity, and profitability on financial distress among Rural Banks (BPR) in 2023. This study employs a quantitative approach using multiple linear regression analysis. The sample comprises 74 BPRs selected through purposive sampling. The data used in this study are secondary, consisting of annual financial statements and governance reports for 2023. The results indicate that GCG has no effect on financial distress. Liquidity, measured using the Loan-to-Deposit Ratio (LDR), has a positive effect on financial distress, suggesting that an increase in the LDR within reasonable limits reflects optimized credit disbursement, thereby reducing the risk of financial distress. Meanwhile, profitability, measured by Return on Assets (ROA), was found to positively affect financial distress, indicating that an increase in BPRs' ability to generate profits can strengthen their financial condition, thereby mitigating financial distress. This study implies that the management of financial performance, particularly liquidity and profitability, plays a crucial role in maintaining the financial stability of BPRs, while the implementation of GCG needs to be substantially improved to have a more effective impact on preventing financial distress.

Keywords: financial distress, good corporate governance, liquidity, profitability, rural banks

INTRODUCTION

Bankruptcy is one of the primary risks that every company must address, as it reflects a failure to sustain business operations. Bankruptcy occurs when a company is unable to manage its operations profitably, resulting in a sustained decline in performance (Humairoh & Nurulita, 2022). This condition is typically preceded by financial distress, which occurs when a company cannot maintain financial stability and is characterized by declining profits, operational losses, and even negative equity (Subardjo et al., 2025). In Indonesia, financial distress is a significant concern, as it can have far-reaching impacts on various stakeholders. Financial distress that is not promptly addressed can escalate into bankruptcy (Subardjo et al., 2025; Pratama et al., 2023), ultimately forcing the company to undertake debt restructuring, business mergers, or even cease operations (Subardjo et al., 2025). Therefore, early detection of potential financial distress is crucial for stakeholders, including investors, creditors, and regulators, to anticipate future risks (Movsesyan & Seissian, 2025; Dwiantari & Artini, 2021).

The banking sector functions as a financial intermediary that mobilizes funds from the public and redistributes them in the form of loans. This role positions banks as a key driver of economic growth through investment activities, financial risk management, and the financing of productive sectors (Putri & Permatasari, 2025). In Indonesia, Rural Banks (BPR) represents a type of bank that

plays a strategic role in supporting the development of Micro, Small, and Medium Enterprises (MSMEs) and enhancing financial inclusion among the community (Anwar & Sinulingga, 2022). Furthermore, BPR contributes to strengthening local and rural economies by facilitating access to financial resources for underserved segments. However, the number of BPRs has declined significantly in recent years due to financial issues (Ibrahim, 2024). According to OJK data, the decline in the number of BPRs in 2023 was influenced by the bankruptcy of 4 BPRs and the merger of 33 BPRs (Mongid, 2024). This figure is higher compared to the decline in BPRs in 2022, which saw only 3 BPRs go bankrupt and 17 BPRs merge (Burhan, 2023). This indicates that BPRs face financial distress risks that threaten their long-term stability and resilience.

Weak implementation of Good Corporate Governance (GCG) is a key factor contributing to financial distress (Firdaus et al., 2026; Soesetio, 2023). Suboptimal GCG implementation results in ineffective multi-tiered oversight, leading to internal problems at BPRs (Aprilia, 2025), including fraud, misconduct between prospective borrowers and lending officers, and fictitious credit schemes (Jelita, 2024; Laras, 2023). Aggressive credit disbursement resulting from fictitious loans can lead to sustained financial risks (Gyarteng et al., 2025; Ciptaningrum & Rispanyo, 2024). According to Muslimin & Bahri (2023) and Mahmud et al. (2021), weak implementation of GCG can hinder a BPR's ability to maintain operational sustainability, thereby increasing the risk of financial distress. Therefore, GCG not only serves as a supervisory mechanism but also forms a crucial foundation for ensuring business sustainability (Firdaus et al., 2026).

The obligation to implement GCG at BPRs has been regulated by the Financial Services Authority (OJK) through Appendix II of Circular Letter No. 8/SEOJK.03/2016 on the Implementation of Corporate Governance for BPR as part of efforts to strengthen BPR governance. These provisions were subsequently refined through OJK Regulation No. 9 of 2024, which governs corporate governance for Rural Banks and Sharia Rural Banks. According to Rehman et al. (2024), the effective implementation of GCG has been shown to mitigate financial risks while driving growth in banking performance. However, BPR business license revocations still frequently occur despite regulations governing the implementation of GCG (Mongid, 2024). This indicates that the effectiveness of GCG implementation in BPRs still needs to be evaluated in preventing financial distress.

Liquidity is another factor influencing financial distress (Ginting et al., 2024; Muafiroh & Hidajat, 2023; Dwiantari & Artini, 2021; Gyarteng, 2021; Diyanto, 2020). Liquidity is a company's ability to meet its short-term obligations on time (Gami et al., 2025; Oktavian & Handoyo, 2023; Dwiantari & Artini, 2021). The level of liquidity in the banking sector can be measured using the Loan to Deposit Ratio (LDR), which compares the amount of loans disbursed to the amount of third-party funds (TPF) (Sirait & Bella, 2025; Ginting et al., 2024; Muafiroh & Hidajat, 2023), thereby reflecting a bank's ability to manage deposits and loans (Putri & Permatasari, 2025). OJK data shows that the LDR increased from 75.83 percent at the end of 2022 to 76.56 percent at the end of 2023 (OJK, 2023). This increase was driven by higher growth in credit disbursements than in TPF during the period from the third quarter of 2022 to the fourth quarter of 2023. This upward trend is evident in Figure 1, which compares credit growth and TPF. In line with the statement by Ciptaningrum & Rispanyo (2024), an increase in credit disbursement that is not matched by TPF growth can elevate the LDR, reflecting liquidity pressure at BPRs (Putri & Permatasari, 2025; Ginting et al., 2024). The more severe the liquidity problems faced by BPRs, the higher the risk of financial distress (Sirait & Bella, 2025; Ginting et al., 2024; Oktavian & Handoto, 2023; Diwanti & Purwanto, 2020).

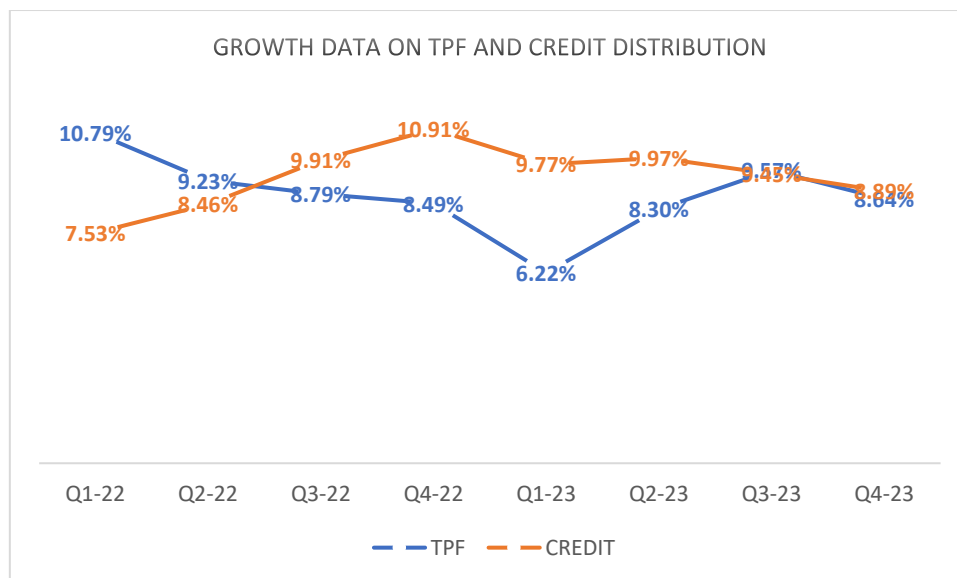


Figure 1. Growth Data on DPK and Credit Disbursement for 2022 and 2023

Source: OJK, 2023

Profitability is also one of the factors influencing financial distress (Wijaya et al., 2024; Nuryani, 2023; Maximillian & Septina, 2022; Dirman, 2020). Profitability is used to measure a bank's ability to generate profits (Gami et al., 2025; Putri & Permatasari, 2025; Maximillian & Septina, 2022). Profitability levels in the banking sector can be measured using the Return on Assets (ROA) ratio (Gami et al., 2025; Nuryani, 2023; Maximillian & Septina, 2022) as it reflects operational efficiency and the ability to generate profits through the utilization of assets (Putri & Permatasari, 2025). Based on OJK data, the profitability of BPRs, as measured by ROA, declined to 1 percent in 2023, compared to 1.74 percent at the end of 2022 (OJK, 2023). Additionally, the ROA of BPRs throughout 2023 showed a gradual decline from the first to the fourth quarter. This trend is evident in Figure 2, which shows a decline in ROA over the observation period. According to Oktavian & Handoyo (2023) and Diwanti & Purwanto (2020), a decline in profitability can increase the risk of financial distress, whereas an increase in profitability can reduce the potential for financial distress.

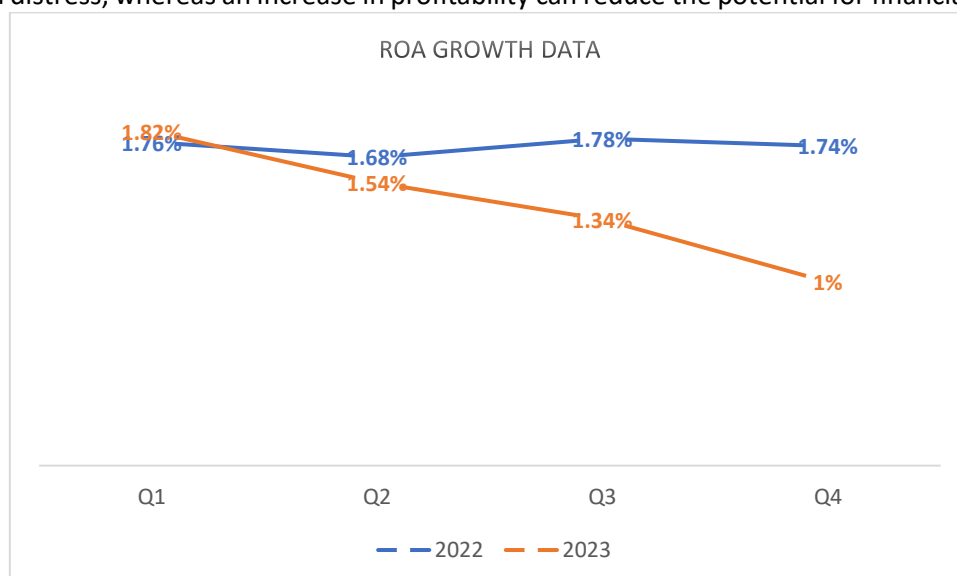


Figure 2. ROA Growth Data for BPRs in 2022 and 2023

Source: OJK, 2023

The Signalling theory (Spence, 1973) posits that companies signal to stakeholders through the financial information they disclose (Godfrey et al., 2010). Positive signals, such as high profitability and maintained liquidity, reflect sound financial conditions and can thus reduce the risk of financial distress (Putri & Permatasari, 2025; Muafiroh & Hidajat, 2023). Conversely, negative signals can heighten stakeholders' concerns regarding the company's sustainability (Diyanto, 2020). Meanwhile, stakeholder theory (Freeman, 1984) emphasizes that companies have a responsibility to meet the interests of various stakeholders (Fontaine et al., 2006). A company's ability to implement good governance and maintain financial performance is crucial for sustaining stakeholder trust and minimizing the risk of financial distress (Musah & Adutwumwaa, 2021).

Several previous studies have shown inconsistent results regarding the impact of GCG and financial performance on financial distress. Studies conducted in the banking sector by Muslimin & Bahri (2023) and Wijayanti et al. (2018) indicate a positive effect of GCG on financial distress, whereas Mahmud et al. (2021) and Diwanti & Purwanto (2020) indicate a negative effect of GCG on financial distress. On the other hand, studies by Damayanti et al. (2021) and Humaira et al. (2021) indicated that GCG has no effect on financial distress. Research by Muafiroh & Hidajat (2023) found a positive effect of liquidity on financial distress, whereas research by Ginting et al. (2024) found a negative effect. Meanwhile, studies by Putri & Permatasari (2025), Sirait & Bella (2025), and Wijaya et al. (2024) indicate that liquidity has no effect on financial distress. Furthermore, studies by Oktavian & Handoyo (2023), Maximillian & Septina (2022), and Dirman (2020) indicate a positive effect of profitability on financial distress, whereas Putri & Permatasari (2025) find a negative effect of profitability on financial distress.

Previous research has largely focused on banking sector companies listed on the Indonesia Stock Exchange (IDX) (Sirait & Bella, 2025; Ginting et al., 2024; Muafiroh & Hidajat, 2023; Mahmud et al., 2021; Diwanti & Purwanto, 2020), whereas research on BPRs remains limited (Putri & Permatasari, 2025). This study also employs a modified Altman Z-Score to measure financial distress, given the model's applicability to non-manufacturing firms, such as banks (Tania et al., 2021; Zahronyana & Mahardika, 2018). Previous research specifically using GCG indicators in accordance with OJK regulations remains relatively limited (Diwanti & Purwanto, 2020). Meanwhile, this study measures GCG using Appendix II of OJK Circular Letter No. 8/SEOJK.03/2016 on the Implementation of Corporate Governance for BPRs, which comprises 11 assessment indicators.

This study aims to analyze the impact of GCG implementation and financial performance on financial distress at BPRs. Theoretically, this study is expected to contribute to the literature on the role of GCG and financial performance in explaining financial distress. In practice, the results of this study are expected to serve as a basis for BPR management to improve the quality of GCG implementation and financial performance, thereby minimizing the risk of financial distress. For regulators, this study is expected to serve as a basis for formulating and evaluating policies that support the stability of the banking sector. Additionally, for customers and investors, the study's findings can serve as a basis for decision-making. This study focuses on BPRs in Central Java, using 2023 data. The variables examined include GCG, liquidity measured by the LDR, and profitability measured by ROA.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Signalling Theory

Signalling theory (Spence, 1973) posits that the information conveyed by management through financial statements serves as a signal to external parties for assessing a company's performance and sustainability (Muafiroh & Hidajat, 2023; Godfrey, 2010). This information can take the form of good news as a positive signal or bad news as a negative signal (Diyanto, 2020; Godfrey, 2010). Signalling theory plays a crucial role in reducing information asymmetry between management and stakeholders (Ginting et al., 2024; Diwanti & Purwanto, 2020). Therefore,

information on the implementation of GCG and financial performance can serve as a signal to external parties for assessing the company's condition and prospects for sustainability (Muafiroh & Hidajat, 2023).

Stakeholder Theory

Stakeholder theory (Freeman, 1984) addresses an organization's responsibility to provide benefits to all stakeholders with an interest in the organization's activities (Mahajan et al., 2023; Fontaine et al., 2006). This theory emphasizes that every decision made by an organization must consider the interests of various stakeholders, such as employees, customers, the government, suppliers, shareholders, and the general public (Fontaine et al., 2006). One form of this responsibility is realized through the implementation of effective GCG and optimal financial performance management (Gyarteng et al., 2025). This is important for enhancing stakeholder trust, maintaining financial stability, and minimizing the risk of financial distress (Putri et al., 2024; Muslimin & Bahri, 2023).

Financial Distress

Financial distress is a condition that reflects a gradual decline in a company's financial performance before reaching the stage of bankruptcy or liquidation (Platt & Platt, 2002). A company can be said to be experiencing financial distress when it is unable to meet its financial obligations to creditors when they are due (Putri & Permatasari, 2025; Ginting et al., 2024; Mahmud et al., 2021). Additionally, financial distress is typically characterized by indicators of declining performance, including declining profits, operating losses, and negative equity (Subardjo et al., 2025). It is important to identify this condition early because it can signal to management the need to take immediate corrective measures to prevent bankruptcy (Subardjo et al., 2025; Pratama et al., 2023; Platt & Platt, 2002).

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) is a system comprising processes and rules that govern the relationships among various parties within an organization (Muafiroh & Hidajat, 2023). Through POJK No. 9 of 2024, good governance is defined as a corporate management system that encompasses structures, processes, and mechanisms oriented toward stakeholder interests and the creation of sustainable value in accordance with applicable laws, standards, ethical values, and generally accepted practices. Therefore, the implementation of GCG aims to create added value for stakeholders and ensure that corporate management operates transparently, accountably, and sustainably (Muafiroh & Hidajat, 2023; Diwanti & Purwanto, 2020). Based on Appendix II of OJK Circular Letter No. 8/SEOJK.03/2016 on the Implementation of Corporate Governance for BPR, there are eleven GCG indicators that must be implemented by BPRs. These indicators include the performance of the duties and responsibilities of the board of directors; the performance of the duties and responsibilities of the board of commissioners; the composition and performance of the duties or functions of committees; the handling of conflicts of interest; the implementation of the compliance function; the implementation of the internal audit function; the implementation of the external audit function; the implementation of risk management, including the internal control system; the maximum credit limit; the BPR's business plan; and the transparency of financial and non-financial conditions.

Liquidity

Liquidity reflects a bank's ability to meet its short-term obligations in a timely manner (Gami et al., 2025; Oktavian & Handoyo, 2023; Dwiantari & Artini, 2021). Therefore, banks are required to hold adequate liquid assets to ensure operational continuity and financial stability. In banking, the liquidity ratio can be measured using the LDR, which compares the amount of credit disbursed to

TPF (Sirait & Bella, 2025; Ginting et al., 2024; Muafiroh & Hidajat, 2023). The LDR is considered to more accurately reflect a bank's ability to manage its deposit and loan portfolios (Putri & Permatasari, 2025). A high LDR indicates that credit disbursements exceed available funds, potentially leading to liquidity pressure (Putri & Permatasari, 2025; Ginting et al., 2024). These conditions can increase financial risk and heighten the likelihood of financial distress at BPRs (Sirait & Bella, 2025; Ginting et al., 2024; Oktavian & Handoto, 2023; Diwanti & Purwanto, 2020).

Profitability

Profitability reflects a bank's ability to generate profits through the utilization of its resources (Gami et al., 2025; Putri & Permatasari, 2025; Maximillian & Septina, 2022). Profitability can serve as a benchmark for assessing a company's effectiveness in utilizing and managing its assets and capital (Maximillian & Septina, 2022). Profitability levels in the banking sector can be measured using the Return on Assets (ROA) ratio (Gami et al., 2025; Nuryani, 2023; Maximillian & Septina, 2022). ROA is considered capable of reflecting operational efficiency and the ability to generate profits through the utilization of assets (Putri & Permatasari, 2025). A high ROA value indicates a high level of profitability, thereby reducing the risk of financial distress (Oktavian & Handoyo, 2023; Diwanti & Purwanto, 2020).

Hypothesis Formulation

Based on stakeholder theory (Freeman, 1984), BPRs have a responsibility to manage their business activities in the best interests of stakeholders by implementing GCG optimally. Optimal GCG implementation can help BPRs prevent financial distress (Mahmud et al., 2021). This will send a positive signal to external parties regarding the quality of management and the company's financial health (Muafiroh & Hidajat, 2023). In this study, GCG is measured using a composite score on a 1-5 scale, where higher scores indicate poorer governance quality. Therefore, the higher the GCG score, the greater the decrease in the Altman Z-Score, indicating increased potential for financial distress. Studies conducted by Mahmud et al. (2021) and Diwanti & Purwanto (2020) indicate a negative effect of GCG on financial distress, as measured by the Altman Z-Score.

H1: GCG has a negative effect on financial distress

Based on stakeholder theory (Freeman, 1984), BPRs have a responsibility to maintain stakeholder trust by ensuring sufficient liquidity to support their operational sustainability. Excessively aggressive lending can create liquidity pressure, as reflected in an increasing LDR (Putri & Permatasari, 2025; Ginting et al., 2024). This situation can ultimately increase the risk of financial distress (Sirait & Bella, 2025; Ginting et al., 2024; Oktavian & Handoyo, 2023; Diwanti & Purwanto, 2020). From the perspective of signaling theory (Spence, 1973), this condition sends a negative signal to external parties regarding the company's potential failure to meet its short-term obligations (Sirait & Bella, 2025; Ginting et al., 2024). Therefore, a higher LDR will lead to a lower Altman Z-Score, indicating greater potential for financial distress. Previous research by Ginting et al. (2024) indicates that liquidity has a negative effect on financial distress as measured by the Altman Z-Score.

H2: Liquidity has a negative effect on financial distress

Stakeholder theory (Freeman, 1984) emphasizes that BPRs have a responsibility to achieve optimal performance to meet stakeholders' interests by generating adequate profits. A high level of profitability reflects sound financial performance (Oktavian & Handoyo, 2023; Diwanti & Purwanto, 2020). From the perspective of signaling theory (Spence, 1973), this condition sends a positive signal to external parties regarding the company's prospects for sustainability. Therefore, higher profitability increases the Altman Z-Score, indicating reduced potential for financial distress. Previous studies by Oktavian & Handoyo (2023), Maximillian & Septina (2022), and Dirman (2020) indicate that profitability positively affects financial distress, as measured by the Altman Z-Score.

H3: Profitability has a positive effect on financial distress

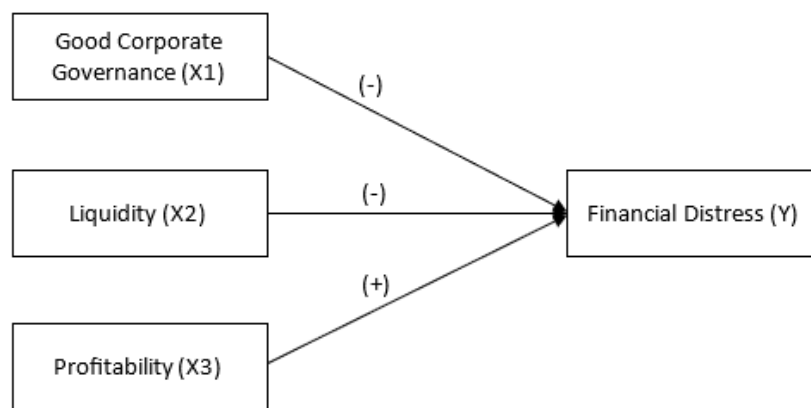


Figure 3. Research Model

RESEARCH METHODS

This study employs a quantitative method, examining relationships between variables using statistical analysis of numerical data (Hartono, 2017). The population in this study consists of all BPRs operating in Central Java. The sample was selected using purposive sampling based on the following criteria: BPRs registered with the Indonesian Association of Rural Banks (PERBARINDO) in Central Java that had financial statements and governance reports for the year 2023. Based on these criteria, 74 BPRs were selected as the research sample. The data used are secondary, obtained through documentation, namely by collecting information from financial statements and governance reports published by each BPR. The measurement of variables in this study is presented in Table 1.

Table 1. Variable Measurements

Variable	Description	Measurement	Source
Financial Distress (Y)	A situation in which a company's financial performance deteriorates prior to bankruptcy or liquidation.	$Z = 6.56X_1 + 3.26X_2 + 6.72X_3 + 1.05X_4$ Notes: X_1 = working capital/total assets X_2 = retained earnings/total assets X_3 = earnings before interest and taxes/total assets X_4 = book value of equity/total liabilities $Z\text{-Score} > 2.6$ = Healthy $1.1 < Z\text{-Score} < 2.6$ = gray area $Z\text{-Score} < 1.1$ = financial distress.	(Almeyda et al., 2025; Muafiroh & Hidajat, 2023; Pratama et al., 2023; Soesetio, 2023; Humairoh & Nurulita, 2022; Damayanti et al., 2021; Diwanti & Purwanto; 2020)
GCG (X1)	A corporate management system focused on stakeholder interests and the creation of sustainable value in accordance with applicable regulations and standards.	Composite score: $1.0 \leq X < 1.8$ = Excellent $1.8 \leq X < 2.6$ = Good $2.6 \leq X < 3.4$ = Fair $3.4 \leq X < 4.2$ = Poor $4.2 \leq X < 5.0$ = Very poor	(OJK, 2024; OJK, 2016)
Liquidity (X2)	A bank's ability to meet its short-term obligations on time.	$LDR = \frac{\text{Total credit}}{TPF} \times 100\%$	(Putri & Permatasari, 2025; Sirait & Bella, 2025;

Variable	Description	Measurement	Source
Profitability (X3)	A bank's ability to generate profits through the utilization of resources.	$ROA = \frac{Net\ income}{Total\ assets} \times 100\%$	Ginting et al., 2024; Muafiroh & Hidajat, 2023; Zahronyana & Mahardika, 2018) (Putri & Permatasari, 2025; Ginting et al., 2024; Oktavian & Handoyo, 2023; Maximillian & Septina, 2022; Dwiantara & Artini, 2021; Dirman, 2020)

Source: data processed (2026)

The data analysis technique employs multiple linear regression to test the effect of independent variables, namely, GCG, liquidity, and profitability, on the dependent variable, financial distress. The regression model used is as follows:

$$Financial\ Distress = \alpha + \beta_1 GCG + \beta_2 Liquidity + \beta_3 Profitability + e$$

Notes:

α = constant

β = regression coefficient

e = error term

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
GCG	74	1.00	3.00	1.943	0.371
Liquidity	74	62.29	170.67	98.190	23.720
Profitability	74	-4.28	7.72	2.693	1.927
Financial Distress	74	0.34	4.83	1.789	0.946
Valid N	74				

Source: Data analyzed using SPSS 27, 2026

Based on the descriptive statistics presented in Table 2, this study involved a sample of 74 BPRs. The GCG variable ranged from 1.00 to 3.00, with a mean of 1.943 and a standard deviation of 0.371. This mean value indicates that, in general, the implementation of GCG in BPRs falls into the "good" category. Furthermore, the liquidity variable has a minimum value of 62.29 and a maximum of 170.67, with a mean of 98.190 and a standard deviation of 23.720. The LDR mean value, which is close to 100, indicates that most BPRs have a relatively high level of credit disbursement compared to TPF. Meanwhile, the profitability variable ranges from -4.28 to 7.72, with a mean of 2.693 and a standard deviation of 1.927. This means that, in general, BPRs have a fairly good ability to generate profits by utilizing their assets, despite the high number of bankruptcies. The financial

distress variable ranges from 0.34 to 4.83, with a mean of 1.789 and a standard deviation of 0.946. This mean value indicates that, in general, BPRs fall into the “grey area” category and are thus at risk of experiencing financial distress. Meanwhile, the mean of each variable exceeds its standard deviation, indicating that the data have a relatively good distribution.

Hypothesis Testing

Table 3. Hypothesis Testing

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Adj. R ²
	B	Std. Error	B			
Constant	-1.219	0.594		-2.054	0.044	0.373
GCG	0.404	0.237	0.158	1.705	0.093	
Liquidity	0.018	0.004	0.445	4.705	0.000	
Profitability	0.177	0.046	0.361	3.846	0.000	

Source: Data analyzed using SPSS 27, 2026

Based on the data analysis in Table 3, the following multiple linear regression equation was obtained:

$$\text{Financial Distress} = -1.219 + 0.404\text{GCG} + 0.018\text{Liquidity} + 0.177\text{Profitability} + e$$

According to the hypothesis test results presented in Table 3, the GCG variable has a coefficient of 0.404 and a p-value of 0.093, which is greater than 0.05 (0.093 > 0.05); therefore, this effect is not significant. Consequently, GCG does not influence financial distress, and H1 is rejected. Furthermore, the liquidity variable has a coefficient of 0.018, indicating a positive direction with a p-value of 0.000, which is less than 0.05 (0.000 < 0.05). This indicates that the liquidity has a positive and significant effect on financial distress. However, the direction of this effect does not align with the initial hypothesis stating a negative relationship, so H2 is rejected. Meanwhile, the profitability variable has a coefficient of 0.177, indicating a positive direction with a p-value of 0.000, which is less than 0.05 (0.000 < 0.05). This indicates that profitability positively affects financial distress, so H3 is accepted. In addition, the adjusted R² value is 0.373, indicating that the independent variables comprising GCG, liquidity, and profitability influence the dependent variable of financial distress by 37.3 percent; the remainder is explained by other variables not analyzed in this study.

Discussion

The Effect of Good Corporate Governance (GCG) on Financial Distress

The results of the study indicate that GCG has no effect on financial distress, as proxied by the Altman Z-Score. Based on stakeholder theory (Freeman, 1984), the optimal implementation of GCG should maintain the operational sustainability and financial stability of BPRs, thereby benefiting all stakeholders. Furthermore, from the perspective of signalling theory (Spence, 1973), optimal GCG implementation is expected to send positive signals to external parties regarding management quality and the company’s sound condition (Muafiroh & Hidajat, 2023). However, the results of this study indicate that GCG has not yet played an effective role in mitigating the risk of financial distress at rural banks. This situation suggests that the current implementation of GCG has not fully aligned with stakeholders’ interests and has not sent a strong signal to external parties about the company’s financial condition.

The mean value of GCG based on descriptive statistics is 1.943, indicating that, in general, the implementation of GCG at BPRs is in good condition. However, this condition does not fully reflect the effectiveness of GCG implementation in practice. This is because the application of GCG tends to remain administrative in nature or limited to regulatory compliance, thus failing to reflect

the actual conditions at BPRs (Blesia et al., 2023; Wijayati, 2022; Humaira et al., 2021). These findings indicate a gap between the results of GCG self-assessments and actual implementation in the field. In other words, although GCG is formally rated as good, it does not necessarily prevent financial distress. These findings align with those of Damayanti et al. (2021) and Humaira et al. (2021), who state that GCG has no effect on financial distress.

The Effect of Liquidity on Financial Distress

The results of the study indicate that liquidity, as measured by the LDR, has a positive effect on financial distress, which is proxied by the Altman Z-Score. These results suggest that an increase in the LDR is accompanied by an increase in the Altman Z-Score, implying that the financial condition of BPRs improves and the risk of financial distress decreases. However, the direction of this relationship does not align with the initial hypothesis, which predicted a negative relationship; thus, H2 is not supported. Based on descriptive statistics, the average liquidity value of 98.190 remains within a reasonable range. According to Ginting et al. (2024), the LDR is considered healthy if it falls within the range of 78 percent to 100 percent. This indicates that the liquidity level of BPRs in this study is relatively well-maintained, so that an increase in the LDR actually reflects the optimization of credit disbursement, which remains within safe and productive limits. This condition contributes to improved financial performance, as reflected in the rise in the Altman Z-Score.

From the perspective of stakeholder theory (Freeman, 1984), BPRs have a responsibility to maintain stakeholder trust through optimal liquidity management. A reasonable increase in the LDR can reflect a BPR's ability to perform its intermediation function effectively, namely, channeling funds collected from the public into productive loans (Sirait & Bella, 2025; Muafiroh & Hidajat, 2023). Furthermore, based on signalling theory (Spence, 1973), an increase in the LDR, within reasonable limits, can signal to external parties that the BPR is capable of managing funds productively and generating income. These findings indicate that a high LDR does not necessarily reflect poor liquidity conditions.

In the context of BPR, an increase in credit disbursements, accompanied by strong credit quality, can boost interest income, thereby improving financial performance and increasing the Altman Z-Score (Muafiroh & Hidajat, 2023). The discrepancy between the research findings and the hypothesis suggests that the impact of the LDR on financial distress is highly dependent on management's ability to manage credit risk and maintain asset quality. Therefore, under certain conditions, a high LDR does not always have a negative impact; rather, it can serve as an indicator of good intermediation performance if managed optimally (Muafiroh & Hidajat, 2023). These findings align with those of Muafiroh & Hidajat (2023), who found a positive effect between liquidity and financial distress.

The Effect of Profitability on Financial Distress

The results of the study indicate that profitability, as proxied by ROA, positively affects financial distress, as measured by the Altman Z-Score. These findings suggest that an increase in ROA is accompanied by an increase in the Altman Z-Score, implying that BPRs' financial condition improves and the risk of financial distress decreases. Based on the descriptive statistics, the average ROA of 2.693 indicates that, in general, BPRs generate profits through the utilization of their assets. This reflects that the financial performance of BPRs is in fairly good condition, although several BPRs still incur losses. This condition indicates that BPRs' ability to generate profits is a critical factor in maintaining financial stability and enhancing the company's resilience against potential financial risks. Additionally, adequate profitability levels enable BPRs to strengthen their capital base and sustainably improve operational performance (Ginting et al., 2024).

From the perspective of signalling theory (Spence, 1973), high profitability signals to external parties the company's prospects and management's ability to allocate resources efficiently. Furthermore, based on stakeholder theory (Freeman, 1984), BPRs have a responsibility to achieve

optimal performance to meet stakeholders' interests, one of which is generating adequate profits. The results of this study indicate that increased profitability plays a crucial role in strengthening a company's financial condition (Dirman, 2020). The higher the profit generated, the greater the company's ability to cover operational costs and meet its obligations, as reflected in an increase in the Altman Z-Score (Oktavian & Handoyo, 2023; Dirman, 2020). These findings support the research by Oktavian & Handoyo (2023), Maximillian & Septina (2022), and Dirman (2020), which demonstrate a positive influence of profitability on financial distress.

CONCLUSION

This study aims to analyze the effects of GCG, liquidity, and profitability on financial distress at BPRs in 2023. Based on the analysis results, it can be concluded that GCG has no effect on financial distress. Liquidity has a positive effect on financial distress, but the direction of this effect does not align with the proposed hypothesis. Meanwhile, profitability has been shown to positively affect financial distress, indicating that higher profitability can reduce the risk of financial distress. The results of this study indicate that optimal credit management and the ability to generate high profits can improve a company's financial stability, thereby preventing financial distress in BPR.

The results of this study have practical implications for BPR management to pay closer attention to financial performance management, particularly in improving profitability and maintaining the quality of credit disbursement. The high LDR value, which remains within reasonable limits, indicates that optimal credit disbursement can improve financial performance when balanced with sound risk management. Furthermore, the implementation of GCG needs to be improved not only administratively but also substantively to have a significant impact on the company's financial condition. For regulators, these findings can serve as a reference for policy evaluation, particularly in strengthening oversight of GCG implementation and BPR liquidity stability. Meanwhile, for customers and investors, these findings can serve as a reference for decision-making.

This study has several limitations, namely a relatively small sample size and coverage limited to BPRs in Central Java Province; consequently, the findings cannot yet be broadly generalized. Additionally, the study period utilized data from only one year, so it cannot provide a long-term picture of the financial condition of BPRs. Future research is recommended to use a larger sample size and cover a more diverse range of regions to ensure the results are more representative. Furthermore, future studies are encouraged to employ longer observation periods to provide a more comprehensive understanding of financial distress among BPRs.

BIBLIOGRAPHY

- Almeyda, C. S., Bueno, J. G., Koval, V., Maldonado, N. R., Kryshthal, H., & Zharikova, O. (2025). Predicting financial distress in the food production sector: a dual-model approach using Z-score and O-score methods. *Discover Sustainability*, 1-18. doi:<https://doi.org/10.1007/s43621-025-01348-w>
- Anwar, F., & Sinulingga, G. (2022). Membuka Peluang di Tengah Tantangan: Analisis Kesiapan Bank Perkreditan Rakyat (BPR) dalam Berkompetisi dengan Bank Digital di Era Fintech. *Jurnal Manajemen Riset Bisnis Indonesia*, 11, 48-59.
- Aprilia, Z. (2025, Januari 7). *Mayoritas BPR Tutup Akibat Fraud, Ini Modus-Modusnya*. (CNBC Indonesia) Retrieved Oktober 21, 2025, from <https://www.cnbcindonesia.com/market/20250107162440-17-601415/mayoritas-bpr-tutup-akibat-fraud-ini-modus-modusnya>

- Binekasri, R. (2024, Januari 30). *LPS: Banyak BPR Bangkrut Gara-Gara 'Dimaling' Pemiliknya*. (CNBC Indonesia) Retrieved Oktober 21, 2025, from CNBC Indonesia: <https://www.cnbcindonesia.com/market/20240130162812-17-510214/lps-banyak-bpr-bangkrut-gara-gara-dimaling-pemiliknya>
- Blesia, J. U., Trapen, E., & Arunglamba, R. S. (2023). The Moderate Effect of Good Corporate Governance on Carbon Emission Disclosure and Company Value. *The Indonesian Journal of Accounting Research*, 151-182.
- Burhan, F. A. (2023, Februari 23). *Jumlah BPR Sepanjang 2022 Merosot, Ini Penyebabnya*. Retrieved from Finansial Bisnis: https://finansial.bisnis.com/read/20230223/90/1631227/jumlah-bpr-sepanjang-2022-merosot-ini-penyebabnya#goog_rewarded
- Ciptaningrum, G. A., & Rispantyo. (2024). Pengaruh Biaya Operasional & Pendapatan Operasional (BOPO), Capital Adequacy Ratio (CAR), dan Loan Deposit Ratio (LDR) terhadap Non Performing Loan (NPL) (Studi Kasus pada Bank yang Terdaftar di BEI Periode 2021-2023). *Jurnal Ilmiah Manajemen Ekonomi Dan Akuntansi*, 68-74. doi:<https://doi.org/10.62017/jimea>
- Damayanti, I., Kumalasari, R. E., & Sholihah, S. (2021). Pengaruh GCG, Rasio Keuangan, Arus Kas, dan Ukuran Perusahaan Terhadap Financial Distress pada Perbankan. *Jurnal Computech dan Bisnis*, 15, 120-129.
- Dirman, A. (2020). Financial Distress: The Impacts of Profitability, Liquidity, Leverage, Firm Size, and Free Cash Flow. *International Journal of Business, Economics and Law*, 17-25.
- Diwanti, N. S., & Purwanto. (2020). The Influence of Financial Ratios and Good Corporate Governance Toward Financial Distress on Islamic Banks in Indonesia. *Journal of Management Studies*, 1-17. doi:<http://dx.doi.org/10.33021/firm.v5i1.984>
- Diyanto, V. (2020). The Effect of Liquidity, Leverage and Profitability on Financial Distress. *Indonesian Journal of Economics, Social, and Humanities*, 127-133. doi:<https://doi.org/10.31258/ijesh.2.2.127-133>
- Dwiantari, R. A., & Artini, L. S. (2021). The Effect of Liquidity, Leverage, and Profitability on Financial Distress (Case Study of Property and Real Estate Companies on the IDX 2017-2019). *American Journal of Humanities and Social Sciences Research*, 367-373.
- Firdaus, A., Afiah, N. N., Suharman, H., & Fitrijanti, T. (2026). Corporate Governance Structures and Firm Value: The Mediating Role of Financial Distress in ASEAN Construction Companies. *International Journal of Financial Studies*, 1-17. doi:<https://doi.org/10.3390/ijfs14010024>
- Fontaine, C., Haarman, A., & Schmid, S. (2006). *The Stakeholder Theory*.
- Gami, E. R., Pakpahan, D. R., Hou, A., & Hecimovic, A. (2025). The Impact of Liquidity, Leverage, and Profitability Ratios on Financial Distress. *Quantitative Economics and Management Studies*, 604-611. doi:<https://doi.org/10.35877/454RI.qems4036>
- Ginting, N. A., Munthe, K., & Purba, A. M. (2024). Pengaruh ROA, LDR, CR, dan NPL Terhadap kondisi Financial Distress pada Perusahaan Perbankan yang Terdaftar di Bursa Efek Indonesia Periode 2019-2022. *KUKIMA : Kumpulan Karya Ilmiah Manajemen*, 64-83.

- Godfrey, J., Hodgson, A., Tarca, A., Hamilton, J., & Holmes, S. (2010). *Accounting Theory*. Milton: John Wiley & Sons Australia, Ltd.
- Gyarteng, K. A. (2021). Corporate Financial Distress: The Impact of Profitability, Liquidity, Asset Productivity, Activity and Solvency. *Journal of Accounting, Business and Management*, 104-115. doi:10.31966/jabminternational.v28i2.447
- Gyarteng, K. A., Coleman, J. A., & Eserifa, O. E. (2025). Financial Sustainability and Credit Risk: Evidence from Listed Banks in Ghana. *SN Business & Economics*, 1-24. doi:10.1007/s43546-025-00861-4
- Hartono, J. (2017). *Metodologi Penelitian Bisnis*. Yogyakarta: BPFE UGM.
- Humaira, J., Barnas, B., & Kristianingsih. (2021). Pengaruh Kinerja Keuangan dan Penerapan GCG terhadap Potensi Kebangkrutan pada PT Bank Muamalat Indonesia Tbk. *Journal of Applied Islamic Economics and Finance*, 1, 373-383.
- Humairoh, F., & Nurulita, s. (2022). The Effect of Corporate Governance on Financial Distress. *Jurnal Riset Akuntansi Kontemporer*, 237-242. doi:https://doi.org/10.23969/jrak.v14i2
- Ibrahim, M. (2024, Juni 21). *OJK Ungkap Tiga Tantangan yang dihadapi Industri BPR. Apa Saja?* (Infobanknews.com) Retrieved Oktober 21, 2025, from infobanknews.com: https://infobanknews.com/ojk-ungkap-tiga-tantangan-yang-dihadapi-industri-bpr-apa-saja/
- Jelita, I. N. (2024, Oktober 14). *BPR pada Bangkrut, Kalah Saing dengan Bank Komersial dan Bank Digital*. Retrieved from Media Indonesia: https://mediaindonesia.com/ekonomi/708858/bpr-pada-bangkrut-kalah-saing-dengan-bank-komersial-dan-bank-digital
- Laras, A. (2023, Desember 6). *Profil Bank Bangkrut Terbaru, BPR Persada Guna dari Pasuruan*. Retrieved from Finansial Bisnis: https://finansial.bisnis.com/read/20231206/90/1721428/profil-bank-bangkrut-terbaru-bpr-persada-guna-dari-pasuruan
- Mahajan, R., Lim, W. M., Sareen, M., Kumar, S., & Panwar, R. (2023). Stakeholder Theory. *Journal of Business Research*, 1-16.
- Mahmud, A. J., Handajani, L., & Waskito, I. (2021). Analisis Pengaruh Kinerja Keuangan dan Good Corporate Governance Terhadap Financial Distress (Studi Kasus Pada Perusahaan Perbankan di BEI Tahun 2016-2018). *Risma*, 1, 55-66. doi:https://doi.org/10.29303/risma.v1i4.107
- Maximillian, N., & Septina, F. (2022). The Effect of Profitability, Liquidity, and Solvency on Financial Distress of Textile and Garment Companies in Indonesia. *Jurnal Ecodemica: Jurnal Ekonomi, Manajemen, dan Bisnis*, 150-161. doi:https://doi.org/10.31294/eco.v6i2
- Mongid, A. (2024, Maret 19). *Bersih-Bersih Industri Bank Perekonomian Rakyat*. (Detik Finance) Retrieved Oktober 21, 2025, from Detik Finance: https://finance.detik.com/berita-ekonomi-bisnis/d-7249175/bersih-bersih-industri-bank-perekonomian-rakyat

- Movsesyan, S., & Seissian, L. A. (2025). Analysis of Financial Distress Factors in The Mining Industry: Empirical Study of The Developing Market. *Journal of Governance and Regulation*, 218-229. doi:10.22495/jgrv14i1art20
- Muafiroh, C. P., & Hidajat, T. (2023). Pengaruh Good Corporate Governance dan Financial Ratios terhadap Financial Distress Perusahaan Perbankan. *Ecobisma (Jurnal Ekonomi, Bisnis, dan Manajemen)*, 136-155.
- Musah, A., & Adutwumwaa, M. Y. (2021). The Effect of Corporate Governance on financial Performance of Rural Banks in Ghana. *International Journal of Financial, Accounting, and Management*, 305-319.
- Muslimin, D. W., & Bahri, S. (2023). Pengaruh GCG, Ukuran Perusahaan, dan Sales Growth Terhadap Financial Distress. *Owner: Riset dan Jurnal Akuntansi*, 7, 293-301. doi:https://doi.org/10.33395/owner.v7i1.1249
- Nuryani, N. J. (2023). Analysis of Financial Performance on the Prediction of Financial Distress in the Indonesia Stock Exchange. *Jurnal Pendidikan Ekonomi*, 254-265. doi:10.31932/jpe.v8i1.1526
- OJK. (2016). Lampiran II Surat Edaran Otoritas Jasa Keuangan Nomor 8 / SEOJK.03/2016 Tentang Penerapan Tata Kelola Bagi Bank Perkreditan Rakyat.
- OJK. (2023). Laporan Surveillance Perbankan Indonesia Tahun 2023.
- OJK. (2024). POJK Nomor 9 Tahun 2024 Tentang Penerapan Tata Kelola Bagi Bank Perekonomian Rakyat dan Bank Perekonomiah Rakyat Syariah.
- Oktavian, E., & Handoyo, S. E. (2023). The Effect of Leverage, Profitability, Liquidity Ratio, and Inflation towards Financial Distress Study from the Manufacturing Industry in Indonesia. *International Journal of Management Science and Application*, 11-27. doi:https://doi.org/10.58291/ijmsa.v2n1.111
- Platt, H., & Platt, M. B. (2002). Predicting Corporate Financial Distress: Reflections on Choice-Based Sample Bias. *Journal of Economics and Finance*, 26, 184-199.
- Pratama, A. W., Zatira, D., & Suharti, E. (2023). Good Corporate Governance and Effect on Financial Distress. *International Social Sciences and Humanities*, (pp. 1412-1422). doi:https://doi.org/10.32528/issv2i3
- Putri, L. E., & Permatasari, D. (2025). The Effect of Financial Ratios on Financial Distress with the Springate Approach. *Malia*, 39-57. doi:10.35891/ml.v13i2.3267
- Putri, R. N., Putri, J. K., Christanti, R., & Nugroho, A. H. (2024). Investigating the Impact of Green Banking on Efficiency Strategy: Evidence from Indonesia. *The Indonesian Journal of Accounting Research*, 157-178.
- Rehman, A., Mehmood, W., & Gharaibeh, F. A. (2024). The Nexus Between Country Governance and Non-Performing Loans in South Asian countries. *Discover Sustainability*, 1-22. doi:https://doi.org/10.1007/s43621-025-01142-8

- Sirait, D. S., & Bella. (2025). Capital Adequacy, Loan to Deposit Ratio, and Financial Distress Risk in the Banking Sector. *International Journal of Accounting, Finance and Tax Research*, 56-65. doi:<https://doi.org/10.51747/d8th1y48>
- Soesetio, Y. (2023). Good Corporate Governance Mechanisms and Financial Performance in Controlling Financial Distress. *International Journal of Business and Social Science*, 14-26. doi:<https://doi.org/10.54099/aijbs.v3i1.542>
- Subardjo, A., Susila, M. R., & Sari, J. (2025). Early Warning Financial Distress Model for Listed Companies in Indonesia-Based Machine Learning Markov Chain Monte Carlo. *Wseas Transactions on Business and Economics*, 1370-1380. doi:10.37394/23207.2025.22.111
- Tania, S., Pratiwi, L. N., & Laksana, B. (2021). Prediksi Kebangkrutan Menggunakan Metode Altman Z-Score . *Indonesian Journal of Economics and Management*, 628-633.
- Wijaya, F. D., Lasmana, A., & Melani, M. M. (2024). The Effect of Liquidity, Profitability, Leverage and Activity on Financial Distress. *Jurnal Ilmiah Manajemen Kesatuan*, 1377-1388. doi:10.37641/jimkes.v12i4.2550
- Wijayanti, K. N., Sari, I. A., & Indriasih, D. (2018). Pengaruh Risk Profile, Good Corporate Governance, Earnings, dan Capital Terhadap Prediksi Financial Distress pada Bank Perkreditan Rakyat. *Permana*, 9, 87-106.
- Wijayati, N. (2022). Form over Substance: The Board Governance Practices in Indonesia . *The Indonesian Journal of Accounting Research*, 1-28.
- Zahronyana, B. D., & Mahardika, D. P. (2018). Capital Adequacy Ratio, Non Performing Loan, net Interest Margin, Biaya Operasional Pendapatan Operasional, dan Loan to Deposit Ratio terhadap Financial Distress. *Jurnal Riset Akuntansi Kontemporer*, 90-98.