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The Effect of Financial Distress and Corporate Governance on the Discretionary Allowance for Impairment Losses

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Abstract
Purpose: This study provides a more accurate picture of how financial distress and corporate governance influence managerial discretion, where the target of this research is the banking industry which is the industry with the largest financial assets. Companies that have large financial assets also have large allowances for impairment losses, and this is the main factor driving accrual-based company profits. This research activity is expected to provide scientific and practical benefits as well as a new view on financial distress, corporate governance and managerial discretion. For the banking industry, it provides an understanding of whether the recognition of allowance for impairment losses can be affected by financial distress and/or corporate governance.
Method: This research uses a multiple linear regression with quantitative data. The sample selection in this study was carried out using a purposive sampling method, which is a sampling method that applies certain criteria according to the research objectives. The population in this study are companies in the banking industry that are listed on the Indonesian Stock Exchange. In this study, five years of observation were carried out from 2017 to 2021.
Result: Based on the results of this study, it can be concluded that financial distress, institutional ownership, proportion of independent commissioners, and proportion of audit committee have no effect on managerial discretion. It refutes the hypotheses regarding the influence of financial distress and corporate governance on managerial discretion over the recognition of allowance for impairment losses. However, the managerial ownership has a positive influence on managerial discretion, which raises a possibility that managers who own shares of a company have a desire to get more benefits from the cost of equity and/or capital gains.
Keywords: *Financial Distress, Institutional Ownership, Managerial Ownership, Independent Commissioners, Audit Committee, Managerial Discretion, Allowance For Impairment Losses, Banking*
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1. Introduction

As we all know, with the development of the financial world that is increasingly advanced, not a few companies nowadays are doing earnings management. Earning or profit plays an important role for a company because earning is a tool to measure success in a business as well as the basis for making decisions for management or investors. Kusuma and Mertha (2021), states that earnings management is the actions or interventions of managers to increase or decrease the profit for the current period of a company they manage without causing an increase or decrease in the company's long-term economic profits. In general, the purpose of earnings management is to trick stakeholders regarding the performance and condition of the company for a particular interest. In managing earnings, companies can do two things. Reduce profit with the aim of saving profits for future periods, or increase profit with the aim of demonstrating good company performance. Purnama (2017) stated that there are several main factors that trigger management to carry out earnings management, including: bonus objective which is usually calculated based on company profit, tax saving motivation, and to increase stock price for funding purpose (Candy et al., 2022).

Sparta and Trinova (2020) convey that allowance for impairment losses, especially on loans are one of the main factors affecting earnings management. In this recent decade, the calculation of allowance for impairment losses in Indonesia has become more complex, especially after the enactment of Indonesian accounting standard ("PSAK") 55 adopted from IAS 39 which has been effective since January 1, 2012; then later replaced by "PSAK" 71 adopted from IFRS 9 which has been effective since January 1, 2020. Prior to the enactment of "PSAK" 55, banks in Indonesia calculated allowance for impairment losses based on the standard method issued by the Indonesian central bank in regulation no. 7/2/PBI/2005. This calculation method is called allowance for possible losses on productive assets, where a standard percentage of allowance for losses is set for each collectability. This method is no longer applicable and has become more complex wherein the amount of the expected loss is measured by calculating the difference between the carrying amount of the financial asset and the present value of the estimated cash flows discounted using the effective interest rate. It becomes even more complex with the enactment of "PSAK" 71 where financial assets must be divided into three stages before calculating the expected loss, and it is necessary to include a forward looking factor. With the calculation of the allowance for impairment losses that is getting more complex, the more gaps there are to play (Agarwal, 2021). Thus, it creates an opportunity for management to exercise discretion.

Talking about the industry with the largest allowance for impairment losses, the banking industry is still the main figure. This is because banks have large financial assets, which include: placements, disbursed loans, marketable securities, and other insignificant financial assets. Large financial assets tend to have a larger amount of allowance for impairment losses, which will greatly affect profits on an accrual basis. Thus, the banking industry becomes an interesting subject to examine the discretion of management on the recognition of allowance for impairment losses. One of the important factors that influence managerial discretion is financial distress. This is supported by the results of research from Mustika, Ardheta, and Paembonan (2020), Tsaqif and Agustiningsih (2021). When a company experiences financial distress, managers tend to exercise discretion in order to continue to provide a good signal by showing short-term profit performance that always increases even though the company's condition is in trouble. Although many research results show that financial distress has an effect on managerial discretion, there are also research results which show different results (Sidauruk & Putri, 2022).

Financial distress is a condition where the company's finances are in trouble that occurred before the company went bankrupt. Financial distress occurs when a company fails or is no longer able to meet debtor obligations due to a lack or insufficient funds to run or continue the business again. Financial distress is the stage of decline in the financial condition experienced by a company, which occurs before bankruptcy or liquidation occurs. The diagram below shows the Z-score values of several business sectors listed on the Indonesia Stock Exchange.

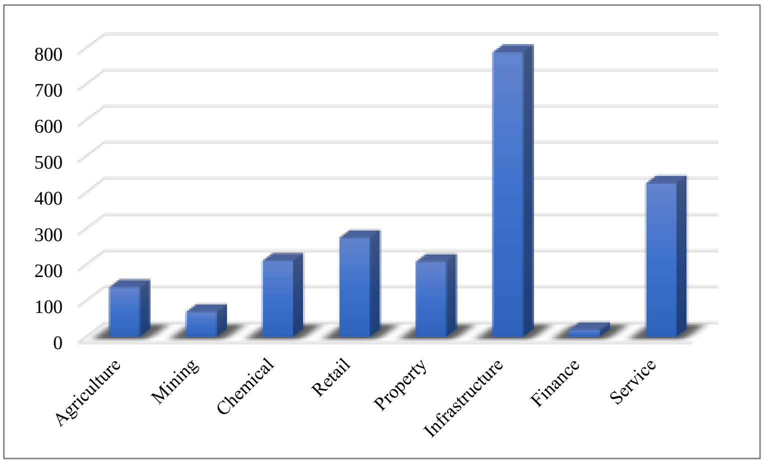

Figure 1. Z-score Value of Listed Companies Based on Business Sector

As can be seen, the lowest Z-score value is in the financial sector, which is dominated by the banking industry. In the last five years, financial sector companies have been the most vulnerable to experiencing financial distress. The phenomenon of financial distress itself often occurs for several reasons, such as: the existence of a series of errors, inappropriate decision making by managers, and related weaknesses that can contribute directly or indirectly to management, as well as the lack of efforts to monitor financial condition so that the use of money is not in accordance with the needs (Finishtya, 2019). Conditions during and after the Covid-19 pandemic are conditions where many companies experience financial distress. The number of companies experiencing financial distress causes banks as lenders to also feel it. This also includes banks in Indonesia. The issuance of regulation from the Indonesian Financial Services Authority ("OJK") no. 11/POJK.03/2020 proves that there are many bank customers in Indonesia who have difficulty paying their debts.

Another important factor that influences managerial discretion is corporate governance. Corporate governance is one of the key elements in increasing economic efficiency which includes a series of relationships between company management, the board of commissioners, shareholders and stakeholders. Efforts to develop corporate governance are aimed at encouraging the optimization of the allocation or use of company resources so that the growth and welfare of company owners can be maintained. In their research, Haj Youssef and Teng (2021) convey that corporate governance and managerial discretion have a bound relationship. Mahrani and Soewarno (2018) also stated that corporate governance influences managerial discretion. Nevertheless, there are several studies that show different results.

So, do financial distress and corporate governance affect managerial direction in companies in Indonesia? And how does it affect the banking industry which is the industry with the largest financial assets? These questions will be answered in this research. This research activity is expected to provide scientific and practical benefits. The results of this study produce new views on financial distress, corporate governance and managerial discretion. For the banking industry, it provides an understanding of whether the recognition of allowance for impairment losses at a bank can be affected by financial distress and/or corporate governance.

2. Literature Theory

According to Wijaya and Tifanny (2020) agency theory is the basis used to understand managerial discretion. Agency theory is a theory that explains the relationship between the principal as the owner and the agent as the manager. Managers or management are a party delegated by shareholders to manage and work in the interests of shareholders. Agency problems occur when there is asymmetric information that allows conflicts between principals and agents to arise.There are three assumptions of human nature, namely: humans are selfish, humans have limited thinking power for future perceptions, and humans always avoid risk. Based on these three assumptions, the reliability or truth of information that occurs between humans must always be questioned which tends to lead to information asymmetry. This information asymmetry can ultimately provide opportunities for managers to maximize their welfare and ignore the interests of the principal. This is related to corporate governance which can determine the level of information asymmetry. Information asymmetry conditions can also occur when there is financial distress. Managers whose performance is measured based on the performance of financial reports will be considered bad if financial distress occurs. Therefore, this creates an initiative for managers to carry out discretion. (Almalita, 2017).

2.1 Financial Distress

Financial distress is a condition where the company's finance is not healthy and reflects an alarming situation for the company to go bankrupt (Hestyaningsih, Martini, & Anggraeni, 2020). In this condition, the company is no longer able to pay off financial obligations that are due or must be paid off immediately. The occurrence of financial distress is because the company is unable to maintain and manage the stability of its financial performance. In this condition, management is required to beautify the financial statements of a company with the aim of gaining customer trust and the possibility of obtaining funding (Mustika et al., 2020). The Altman Z-score method is the most frequently used method, and referring to previous information has proven to be accurate as a tool for assessing the health of a company (Noviyani & Yulianti, 2022).

H1: Financial distress has a positive effect on managerial discretion or Z-score value has a negative effect on managerial discretion

According to Finishtya (2019), there are three conditions that can cause financial distress, which are: capital insufficiency, high amount of debt, and continuous loss. To find out financial distress, it is necessary to analyze profitability and leverage. By analyzing the company's profitability, we can understand the company's ability to generate profits from sales, assets and capital. Furthermore, leverage analysis is needed to find out whether the company's debt level is still at a reasonable level.

2.2 Corporate Governance

Corporate governance is defined as the process, both formal and informal by which a company is governed and managed including the legal requirements and policies adopted by the company and the informal culture that is adopted. It is a manifestation of the interaction of stakeholders such as regulators, managers and customers. Corporate governance mechanisms ensure investors get adequate returns on their investment. Corporate governance provides managers with clarity on how to carry out their responsibilities. With the establishment of corporate governance, agents will be able to manage the company for the benefit of the principal (Manan & Hasnawati, 2022). According to Almalita (2017), the corporate governance mechanisms that are often used are: institutional ownership, managerial ownership, the proportion of independent commissioners, and the proportion of audit committees. Institutional ownership is ownership of a company by the government, legal entity, financial institution, foreign institution, funding institution, and/or other institution at the end of the year (Suparlan & Timur, 2019). Institutional ownership has an important role in management, this is because institutional ownership can improve monitoring system so that managers can be discipline in carrying out their business activities. Institutional parties can force company managers to focus more on business performance and avoid opportunities for personal interests (Firman & Widodo, 2022).

H2: Institutional ownership has a negative effect on managerial discretion

Managerial ownership is shares owned by management personally. Theoretically, when the proportion of management ownership is low, there will be an initiative towards the possibility of earnings management behaviour by managers. Almalita (2017) stated that managerial ownership has succeeded in becoming a mechanism for reducing agency problems from managers by aligning the interests of managers with shareholders. The interests of managers with external shareholders can be united if the manager's share ownership is enlarged so that managers will not manipulate profits for their interests.

H3: Managerial ownership has a negative effect on managerial discretion

Independent commissioners are members of the board of commissioners who are not affiliated with the directors, controlling shareholders and other members of the board of commissioners who are free from business relationships or other relationships that may affect their ability to act independently or act solely for the benefit of the company (Mulya, 2022). The proportion of independent board of commissioners plays an important role in the implementation of corporate governance because it is the essence of corporate governance whose responsibility is to guarantee the implementation of the company's strategy and monitor management in managing the company and implementing accountability Suparlan and Timur (2019). Almalita (2017) said that the large size of the board of commissioners will reduce the ability of the board of directors to act arbitrarily because coordination, communication and decision making become more complicated and more coordinated.

H4: Proportion of independent commissioners has a negative effect on managerial discretion

The existence of an audit committee is very important for the management of the company. The audit committee is considered as a liaison between shareholders and the board of commissioners with management in dealing with company matters (Almalita, 2017). The Indonesian Audit Committee Association (“IKAI”) defines an audit committee as a committee that works professionally and independently established by the board of commissioners and thus, its task is to assist and strengthen the function of the board of commissioners (or supervisory board) in carrying out the monitoring function of: financial reporting, risk management, auditing, and implementation of good corporate governance in companies.

H5: Proportion of audit committee has a negative effect on managerial discretion

2.3 Managerial Discretion

In accounting we often hear the terms accrual basis and cash basis. The accrual basis approach is more frequently used because it provides a more accurate picture of the company's business operations where revenues are recognized when earned and expenses are recognized when incurred, regardless of whether the cash has been received or paid (Sisdianto, Ramdani, & Fitri, 2019).

The accrual accounting system provides an opportunity for management to manipulate accounting profit or loss. This is known as discretionary accrual or managerial discretion. (Sisdianto et al., 2019) added that managers have the ability to control accruals in the short term which causes the formation of non-neutral financial statements. This is generally aimed at protecting themselves and the company in anticipating unexpected events for the benefit of certain parties.

2.4 Previous Researches

So far, research on the relationship between financial distress and managerial discretion has shown different results. Some of them can be seen in the table below.

Table 1. Previous Researches

No	Hypothesis	Researcher	Research Result
1	H1: Financial distress has a positive effect on managerial discretion or Z-score value has a negative effect on managerial discretion	Mustika et al. (2020)	Financial distress has a significant positive effect on managerial discretion
		Tsaqif and Agustiningsih (2021)	Financial distress has a significant positive effect on managerial discretion
		Sucipto and Zulfa (2021)	Financial distress has no significant effect on managerial discretion
		Tannaya and Lasdi (2021)	Financial distress has no significant effect on managerial discretion

2	H2: Institutional ownership has a negative effect on managerial discretion	Firman and Widodo (2022)	Institutional ownership has a significant negative effect on managerial discretion
		Wijaya and Tifanny (2020)	Institutional ownership has a significant negative effect on managerial discretion
		Suparlan and Timur (2019)	Institutional ownership has no significant effect on managerial discretion
		Almalita (2017)	Institutional ownership has no significant effect on managerial discretion
3	H3: Managerial ownership has a negative effect on managerial discretion	Suparlan and Timur (2019)	Managerial ownership has a significant positive effect on managerial discretion
		Firman and Widodo (2022)	Managerial ownership has a significant negative effect on managerial discretion
		Almalita (2017)	Managerial ownership has no significant effect on managerial discretion
		Wijaya and Tifanny (2020)	Managerial ownership has no significant effect on managerial discretion
4	H4: Proportion of independent commissioners has a negative effect on managerial discretion	Firman and Widodo (2022)	Proportion of independent commissioners has a significant negative effect on managerial discretion
		Karina and Alfarizi (2021)	Proportion of independent commissioners has a significant positive effect on managerial discretion
		Almalita (2017)	Proportion of independent commissioners has no significant effect on managerial discretion
		Pratomo and Hapsari (2018)	Proportion of independent commissioners has no significant effect on managerial discretion
5	H5: Proportion of audit committee has a negative effect on managerial discretion	Firman and Widodo (2022)	Proportion of audit committee has a significant positive effect on managerial discretion
		Mayndarto and Murwaningsari (2021)	Proportion of audit committee has a significant positive effect on managerial discretion
		Almalita (2017)	Proportion of audit committee has no significant effect on managerial discretion
		Wijaya and Tifanny (2020)	Proportion of audit committee has no significant effect on managerial discretion

3. Research Method

The population in this study are companies in the banking industry that are listed on the Indonesian Stock Exchange. In this study, five years of observation were carried out from 2017 to 2021. The sample selection in this study was carried out using a purposive sampling method, which is a sampling method that applies certain criteria according to the research objectives. This study uses secondary data types, namely data obtained indirectly. This data is obtained from published annual reports of companies (banks). Below is a summary of research data.

Description	Amount
Number of banking industry companies listed on the Indonesia Stock Exchange during 2017-2021	43
(-) Number of sharia banking industry companies	-2
Number of sample companies	41
Number of observation years	5
Number of research samples	205

Figure 2. Summary of Research Data

If there are banks that merge and/or change their names during the research period, then they are made into two banks with the same number of years, all of which are included as research samples. Based on theoretical studies, relevant previous studies, and research hypotheses, the research model is made as shown in the figure below.

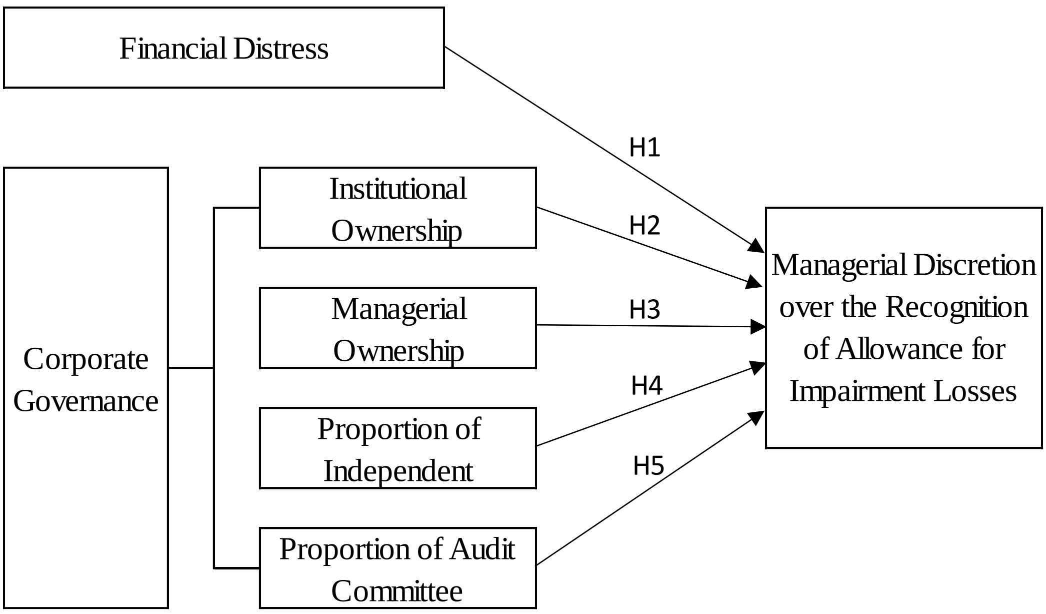

Figure 3. Research Model

3.1 Independent Variables

Independent variables are variables that can influence, explain the dependent variable. In this study, the independent variables are financial distress and corporate governance which is divided into: institutional ownership, managerial ownership, proportion of independent commissioners, and proportion of audit committee.

3.1.1 Financial Distress (FD)

Poor financial reports, especially in reporting earnings and cash flows, indicate financial distress. This condition can create doubts on the part of investors and creditors to provide funds because there is no certainty on the return of funds that have been given. Altman (1968) developed a model for measuring financial distress based on financial statement analysis called the Altman Z-Score. The higher the Z-Score value, the lower the risk of bankruptcy, conversely, if the Z-Score is low, it can increase the risk of bankruptcy (Noviyani & Yulianti, 2022).

$$\mathbf{Z\ t\text{-}_1 = 6{,}56X1\ t\text{-}_1 + 3{,}26X2\ t\text{-}_1 + 6{,}72X3\ t\text{-}_1 + 1{,}05X4\ t\text{-}_1}$$

Description:

Z	= Altman Z-Score
X1	= Working Capital to Total Assets
X2	= Retained Earnings to Total Assets
X3	= Earnings Before Interest and Tax to Total Assets
X4	= Book Value of Capital to Total Debt

The indicators of this formula are as follows:
$Z \geq 2.6$: Not in financial distress, (the greater the Z value, the healthier the company's condition)
$2.6 > Z > 1.1$: Grey Area (cannot be determined whether the company is categorized as healthy or in a financial distress condition)
$Z \leq 1.1$: In financial distress (the smaller the Z value, the more the company is in a financial distress condition)

3.1.2 Institutional Ownership (IO)

Institutional ownership is the percentage of voting rights owned by the institution. In this study, it is measured using the percentage indicator of the number of shares owned by the institution from all outstanding share capital (Almalita, 2017).

$$\mathbf{IO} = \frac{\textbf{Number of Shares Owned by Institutions t-}_{1}}{\textbf{Number of Shares Oustanding t-}_{1}}$$

3.1.3 Managerial Ownership

Managerial ownership is the total share ownership by managers of the total outstanding share capital of the company (Tsaqif & Agustiningsih, 2021).

$$\mathbf{MO} = \frac{\textbf{Number of Shares Owned by Managers t-}_{1}}{\textbf{Number of Shares Oustanding t-}_{1}}$$

3.1.4 Proportion of Independent Commissioners (PIC)

An independent commissioner is a member of the board of commissioners who has no business or family relationship or relationship with related parties in the company which can be measured by the number of independent commissioners compared to the number of commissioners in a company.

$$\mathbf{PIC} = \frac{\textbf{Number of Independent Commissioners t-}_{1}}{\textbf{Number of Commissioners t-}_{1}}$$

3.1.5 Proportion of Audit Committee (PAC)

The size of the audit committee is defined as the existence of an audit committee owned by a company. The audit committee variable in this study was measured using the number of audit committee members in the company (Almalita, 2017). Based on Indonesian Financial Services Authority ("OJK") regulation no. 55/POJK.04/2015, The Audit Committee holds regular meetings at least one time in three months.

$$\mathbf{PAC} = \frac{\textbf{Number of Audit Committee Members t-}_{1}}{\mathbf{4}}$$

3.2 Dependent Variable

This study uses the modified Jones (1991) model to calculate the dependent variable, managerial discretion over the recognition of allowance for impairment losses; which is then adapted to the banking industry. Some of the modifications made in this study are as follows: changing the loan component into productive assets, changing the denominator in the non-accrual discretionary formula into allowance for impairment losses of productive assets, and calculating the total accruals using the standard percentage set by the Indonesian central bank ("PPAP") based on regulation no. 7/2/PBI/2005.

$$\mathbf{DAt = \frac{TAt - NDAt}{APAt}}$$

Description:

DA	= Discretionary Accrual or Managerial Discretion
TA	= Total Accrual (Calculated Using the "PPAP" Method)
NDA	= Non Discretionary Accrual
APA	= Allowance for Impairment Losses of Productive Assets

$$\mathbf{NDAt = \frac{\beta 0 + \beta 1WOt + \beta 2PAt + \beta 3NPAt + \beta 4\Delta NPAt}{APAt}}$$

Description:

NDA	= Non Discretionary Accrual
WO	= Productive Assets Write Off
PA	= Productive Assets
NPA	= Non Performing Assets
ΔNPA	= Difference between NPAt and $NPAt_{-1}$
APA	= Allowance for Impairment Losses of Productive Assets (Calculated Using "PSAK" 55 for 2017 to 2020 and "PSAK" 71 for 2021)

The coefficient values can be obtained by estimating the amount of non-discretionary accruals during the event year by performing linear regression from the following formula:

$$\mathbf{TAt = \frac{\beta 0 + \beta 1WOt + \beta 2PAt + \beta 3NPAt + \beta 4\Delta NPAt}{APAt}}$$

Description:

TA	= Total Accrual (Calculated Using the "PPAP" Method)
WO	= Productive Assets Write Off
PA	= Productive Assets
NPA	= Non Performing Assets
ΔNPA	= Difference between NPAt and $NPAt_{-1}$
APA	= Allowance for Impairment Losses of Productive Assets

4. Results and Discussions

4.1 Descriptive Statistic

Variable	*Mean*	*Std Deviation*	*Minimum*	*Maximum*	*N*
DA	1.060	0.489	0.189	2.523	205
FD	1.300	2.298	- 9.088	9.368	205
IO	0.688	0.285	-	1.000	205
MO	0.116	0.205	-	0.800	205
PIC	0.537	0.125	0.333	1.000	205
PAC	0.998	0.321	0.750	2.500	205

Figure 4 . Descriptive Statistic

- The average value (mean) for the discretionary accrual or managerial discretion (DA) variable is 1.060. The standard deviation value for discretionary accrual or managerial discretion (DA) is 0.489. Discretionary accrual or managerial discretion (DA) has a minimum value of 0.189 which is from PT Bank Mega, Tbk in year 2021 and a maximum value of 2.523 which is from PT Bank MNC Internasional, Tbk in year 2017.
- The average value (mean) for the financial distress (FD) variable is 1.300. The standard deviation value for financial distress (FD) is 2.298. Financial distress (FD) has a minimum value of -9.088 which is from PT Neo Commerce, Tbk in year 2019 and a maximum value of 9.368 which is PT Bank of India Indonesia, Tbk in year 2021.
- The average value (mean) for the intitutional ownership (IO) variable is 0.688. The standard deviation value for intitutional ownership (IO) is 0.285. Intitutional ownership (IO) has a minimum value of 0 and a maximum value of 1, each of which consists of several banks.
- The average value (mean) for the managerial ownership (MO) variable is 0.116. The standard deviation value for managerial ownership (IO) is 0.205. Managerial ownership (MO) has a minimum value of 0 which consists of several banks and a maximum value of 0.800 which is from PT Bank Jago, Tbk (previously PT Bank Artos Indonesia, Tbk) in year 2017 and 2018.
- The average value (mean) for the proportion of independent commissioners (PIC) variable is 0.534. The standard deviation value for proportion of independent commissioners (PIC) is 0.125. Proportion of independent commissioners (PIC) has a minimum value of 0.333 and a maximum value of 1, each of which consists of several banks.
- The average value (mean) for the proportion of audit committee (PAC) variable is 0.998. The standard deviation value for proportion of audit committee (PAC) is 0.321. Proportion of audit committee (PAC) has a minimum value of 0.750 and a maximum value of 2.500, each of which consists of several banks.

4.2 Coefficient of Determination

Regression Statistics	
Multiple R	0.417
R Square	0.174
Adjusted R Square	0.153
Standard Error	0.450
Observations	205

Figure 5. Coefficient of Determination

From the table above, it is known that the results of the test for the coefficient of determination show an R^2 value of 0.174 meaning that the ability of the independent variables (which include: institutional ownership, managerial ownership, the proportion of independent commissioners, and the proportion of audit committees) to explain the dependent variable (managerial discretion over the recognition of allowance for impairment losses) is 17.4% and the remaining 82.6% is influenced by other factors not included in the model.

4.3 Hypothesis Testing

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	8.478	1.696	8.382	0.000
Residual	199	40.255	0.202		
Total	204	48.733			

Figure 6. F-Test

From the results of the F test, it shows an F value of 8.382 with a significant value of 0.000 which is less than 0.050. This result shows that all the independent variables of this study have an effect on the dependent variable simultaneously.

Variable	*Coefficients*	*Standard Error*	*t Stat*	*P-value*
Intercept	1.127	0.195	5.783	0.000
FD	- 0.003	0.014	- 0.217	0.829
IO	0.081	0.113	0.720	0.473
MO	0.973	0.160	6.075	0.000
PIC	- 0.199	0.258	- 0.772	0.441
PAC	- 0.125	0.100	- 1.257	0.210

Figure 7. t-Test

The results of testing the effect of financial distress (FD) variable show a t value of 0.217 and a significance value of 0.829 (> 0.05) which indicates financial distress has no significant effect on managerial discretion. Therefore, the first hypothesis (H1) which states that financial distress has a positive effect on managerial discretion is not supported. This is also inseparable from the strict supervision of the Indonesian Financial Services Authority ("OJK"). Not wanting to repeat past mistakes where many banks in Indonesia were liquidated during the crisis, OJK was formed in 2012 to oversee the financial services sector in Indonesia where the banking industry is the largest. Therefore, during a distress situation, OJK usually tightens its supervision.

The results of testing the effect of institutional ownership (IO) variable show a t value of 0.720 and a significance value of 0.473 (> 0.05) which indicates institutional ownership has no significant effect on managerial discretion. Therefore, the second hypothesis (H2) which states that institutional ownership has a negative effect on managerial discretion is not supported. This may be due to a lack of knowledge and concern for supervision in Indonesia, so that parent companies tend not to supervise and leave it entirely to the management of subsidiary companies.

The results of testing the effect of managerial ownership (MO) variable show a t value of 6.075, a significance value of 0.000 (< 0.05), and a positive coefficient which indicates that managerial ownership has a positive significant effect on managerial discretion. Therefore, the third hypothesis (H3) which states that managerial ownership has a negative effect on managerial discretion is not supported. However, it supports the research results from Suparlan and Timur (2019), in which creates a possibility that the bigger the company's shares owned by a manager, the manager will tend to exercise discretion in order to get more benefit from the cost of equity and/or capital gain.

The results of testing the effect of proportion of independent commissioners (PIC) variable show a t value of 0.772 and a significance value of 0.441 (> 0.05) which indicates proportion of independent commissioners has no significant effect on managerial discretion. Therefore, the fourth hypothesis (H4) which states that proportion of independent commissioners has a negative effect on managerial discretion is not supported. This may be due to the lack of implementation of the monitoring function by commissioners in Indonesia. The management of the company has full authority and the commissioners tend to receive reports from management and prepare monitoring reports based on the reports received.

The results of testing the effect of proportion of audit committee (PAC) variable show a t value of 1.257 and a significance value of 0.210 (> 0.05) which indicates proportion of audit committee has no significant effect on managerial discretion. Therefore, the fifth hypothesis (H5) which states that proportion of audit committee has a negative effect on managerial discretion is not supported. Along with the lack of oversight function of the commissioners in Indonesia, the audit committee tasked with assisting the board of commissioners also tends to exercise less supervision over company management. This also includes the company's bookkeeping process and financial reports.

5. Conclusion and Suggestions

So far, research on the effect of financial distress and corporate governance on managerial discretion or discretionary accruals still shows mixed results. This study provides a more accurate picture of how financial distress and corporate governance influence managerial discretion, where the target of this research is the banking industry which is the industry with the largest financial assets. Companies that have large financial assets also have large allowances for impairment losses, and this is the main factor driving accrual-based company profits. This research also takes the right period, during and after the Covid-19 pandemic, where in this condition many companies experienced financial distress and of course it also had an impact on the banking industry.

Based on the results of this study, it can be concluded that financial distress, institutional ownership, proportion of independent commissioners, and proportion of audit committee have no effect on managerial discretion. It refutes the hypotheses regarding the influence of financial distress and corporate governance on managerial discretion. However, the managerial ownership has a positive influence on managerial discretion, which raises a possibility that managers who own shares of a company have a desire to get more benefits from the cost of equity and/or capital gains.

Limitations and Future Research

This research only examines several independent variables that influence managerial discretion, which are financial distress and corporate governance. Based on the results of the coefficient of determination test, the results show that the financial distress and corporate governance variables only explain the managerial discretion variable by 17.4%, which means that there are still 82.6% of other variables that can influence managerial discretion. This is a challenge for researchers to find out about these other variables which of course can later provide benefits for practitioners and also company stakeholders to be aware of and/or provide a more detailed picture when conducting an analysis.

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