

THE EFFECT OF ESG, FREE CASH FLOW, AND CORPORATE GOVERNANCE ON FINANCIAL DISTRESS

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Abstract

Abstract

Objective- This study aims to analyze the influence of Environmental, Social, and Governance (ESG), Free Cash Flow, and Corporate Governance on Financial Distress in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange for the 2022–2024 period. Financial distress is a condition in which a company experiences a decline in its financial health and difficulty meeting its financial obligations, which can be an early indication of bankruptcy. In recent years, ESG implementation, the ability to generate free cash flow, and good corporate governance have become important concerns because they are considered capable of supporting a company's stability and long-term sustainability.

This study employed a quantitative method with a panel data approach. Purposive sampling was employed to select 93 companies with a total of 279 observations. The research data consisted of secondary data obtained from annual reports and company sustainability reports. Financial distress was measured using the Altman Z-Score model, and ESG was measured using the Sustainability Report Disclosure Index (SRDI) in accordance with the 2021 GRI Standards. Free cash flow was calculated using operational cash flow and capital expenditures, while corporate governance was measured using 15 corporate governance indicators. Data analysis was performed using E-Views 12 software.

The results of the study show that ESG, free cash flow, and corporate governance do not have a significant effect on financial distress.

Findings- This shows that the level of ESG disclosure, the company's ability to generate free cash flow, and the implementation of corporate governance have not been able to optimally reduce the risk of financial distress in non-cyclical consumer sector companies.

Limitations- This research is limited to a research scope that only covers one company sector, and the use of independent variables is still limited.

Originality - This study examines the factors that influence ESG, Free Cash Flow, and Corporate Governance in finding evidence of whether there is a risk of Financial Distress.

Keywords: ESG, Free Cash Flow, Corporate Governance

Introduction

Financial distress is a condition in which a company experiences a decline in financial health, making it unable to optimally meet its financial obligations and potentially leading to bankruptcy (Christine dkk., 2019). This condition generally begins with a decline in the company's ability to generate profits, disrupted cash flow, and an increase in obligations that cannot be met on time. Therefore, analyzing the factors influencing financial distress is important because it can serve as an early warning system for companies, investors, and creditors. Furthermore, financial distress can also be seen in declining sales, increasing operational costs, low liquidity, and even a decline in the company's value in the eyes of investors and the market. If these conditions are not addressed promptly, the company could experience more serious financial difficulties and ultimately bankruptcy (Luthan dkk., 2025).

In recent years, the issue of corporate sustainability has focused not only on profit-making capabilities but also on how companies conduct sustainable business activities. This sustainability concept is reflected in the implementation of Environmental, Social, and Governance (ESG) principles. ESG has become a key concern as investors begin to consider environmental, social, and corporate governance aspects before making investment decisions. According to research conducted by Amel & Serafeim, (2018), companies with good ESG implementation tend to have lower risk levels and are able to maintain long-term business sustainability. Furthermore, ESG implementation is seen as able to improve a company's reputation and reduce financial risks that can trigger financial distress. In an increasingly competitive business environment, companies are required to maintain financial stability and increase their competitiveness. Technological developments, changes in consumer behavior, global economic instability, inflation, and rising raw material prices are challenges that companies must face in carrying out their business activities.

The development of ESG implementation in Indonesia has increased in line with increasing corporate awareness of the importance of sustainable business. (KNKG, 2021) The audit committee plays a role in assisting the board of commissioners in overseeing and ensuring the effective implementation of the internal audit function to support the achievement of the company's objectives. In carrying out its responsibilities, the audit committee uses a systematic and independent approach to assess and improve the effectiveness of risk management, internal control, and corporate governance.

Companies that are able to widely disclose ESG practices are deemed to be committed to sustainability, thereby increasing market confidence and strengthening their position in the face of economic pressures. This increases public and investor trust in the company, creating long-term stability and business sustainability, and the benefits to the company are deemed to far outweigh the sacrifices or costs incurred in implementing them. (Zhahira & Tri, 2024) The implementation of ESG principles within a company can be seen through the preparation of sustainability reports containing information on environmental, social, and corporate governance aspects. The more comprehensive and comprehensive the ESG disclosure, the more likely the company is to be perceived as having good performance quality and a positive corporate image among investors and the public. This can increase stakeholder trust and positively impact the company's long-term sustainability and operational stability. (Etania & Harti, 2024)

However, ESG implementation in Indonesia still faces various challenges. The level of corporate ESG disclosure in Indonesia remains relatively low compared to other countries in the Asian region. Many companies still view ESG as an administrative obligation, rather than a long-term business strategy. As a result, the benefits of ESG implementation in reducing the risk of financial distress have not been optimally realized. Several studies have shown conflicting results regarding the relationship between ESG and financial distress. Research conducted by (Aisyah & Mulyani, 2024) found that ESG had no significant effect on financial distress. However, other studies have shown that companies with high levels of ESG disclosure tend to have a lower risk of financial distress. These differing research findings suggest that the relationship between ESG and financial distress requires further examination.

Besides ESG, another factor that influences a company's financial condition is free cash flow. Free cash flow is the cash flow available after a company meets its operational needs and capital expenditures. According to (Brigham & Houston., 2004) Free cash flow indicates a company's ability to generate cash that can be used to pay dividends, repay debt, or make additional investments. Companies with high free cash flow tend to have more stable financial conditions because they are able to meet their financial obligations effectively. Conversely, low free cash flow can indicate financial problems that could potentially lead to financial distress.

A company's ability to generate free cash flow is crucial, especially in unstable economic conditions. When a company has adequate cash flow, it is easier to maintain its operations despite economic pressures. However, high free cash flow can also create agency conflicts if not accompanied by proper oversight. Management may use these funds for purposes that do not add value to the company, increasing the risk of financial inefficiency. Therefore, effective free cash flow management is necessary for a company to maintain its financial stability and reduce the potential for financial distress.

Another factor considered to influence financial distress is corporate governance. Corporate governance is a system of corporate governance used to regulate the relationship between management, shareholders, and other stakeholders. The implementation of good corporate governance aims to create transparency, accountability, responsibility, independence, and fairness in company management. According to (KNKG, 2021) Governance, the implementation of good corporate governance can improve the quality of supervision of management so that the risk of abuse of authority and manipulation of financial reports can be minimized.

The implementation of good corporate governance is believed to help companies avoid financial distress. Effective oversight by the board of commissioners, audit committee, and independent parties can improve the quality of corporate decision-making, thereby stabilizing the company's financial condition. Furthermore, good corporate governance can also increase investor confidence because companies are perceived as more transparent in conveying financial information. However, several studies have shown conflicting results regarding the effect of corporate governance on financial distress. Research conducted by (Sucipto & Zulfa, 2021) showed that corporate governance had no significant effect on financial distress. The difference in research results suggests that the effectiveness of corporate governance implementation in reducing the risk of financial distress still requires further study.

Financial distress also occurs in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange. This sector provides basic necessities such as food, beverages, pharmaceuticals, and household goods. Although this sector is known to be relatively stable compared to other sectors, several companies still experienced declining financial performance. This decline can be seen in the declining earnings per share growth of several non-cyclical consumer sector companies during the 2021–2023 period. This condition indicates that the non-cyclical consumer sector also faces the risk of financial distress due to economic pressures, rising production costs, and weak purchasing power.

One company experiencing signs of financial distress is PT Dua Putra Utama Makmur Tbk. The company has experienced declining profits and recorded negative earnings per share for several consecutive years,

prompting the Indonesia Stock Exchange to suspend trading in its shares. This situation indicates that companies in the non-cyclical consumer sector remain at risk of financial distress, even though they operate in the basic necessities sector. Therefore, further analysis is needed to determine the factors that can influence financial distress in this sector.

This research is based on the signaling theory put forward by (Spence, 1973). Signaling theory explains that companies provide information to external parties as a signal regarding the company's condition. This information can include financial reports, sustainability reports, or corporate governance information. ESG disclosures, free cash flow, and corporate governance practices can be positive signals to investors if they indicate a healthy company. Conversely, if a company has poor financial health and weak governance, these can be negative signals, increasing investor concerns about the risk of financial distress. Appropriate managerial decisions tailored to the company's circumstances play a crucial role in reducing the risk of financial distress. Therefore, management needs to take immediate strategic action by predicting and evaluating the company's financial condition as early as possible so that the company's financial problems can be addressed promptly. (Junior & Bangun, 2024)

Research on the influence of ESG, free cash flow, and corporate governance on financial distress continues to produce inconsistent results. Some studies find a significant effect, while others show insignificant results. Furthermore, research combining these three variables in a single model is still relatively limited, particularly in non-cyclical consumer sector companies in Indonesia. Therefore, this study was conducted to provide the latest empirical evidence on the influence of ESG, free cash flow, and corporate governance on financial distress in non-cyclical consumer sector companies listed on the Indonesia Stock Exchange for the 2022–2024 period.

This research is expected to contribute to the development of knowledge in the fields of accounting, finance, and corporate governance. Furthermore, the research findings are expected to inform companies' efforts to improve the quality of ESG disclosures, manage free cash flow, and implement corporate governance to minimize the risk of financial distress. For investors, this research is expected to provide a source of information for investment decision-making, particularly in assessing a company's financial condition and sustainability.

Literature review and hypothesis development

Signal theory was put forward by (Spence, (1973)). This theory explains that companies will provide information to external parties as a signal regarding the company's future condition and prospects. This information can take the form of financial reports, annual reports, or sustainability reports, which investors use to assess the company's quality. Signaling theory posits that company management has more complete information than external parties, thus encouraging the company to provide relevant information to reduce information asymmetry between management and investors.

According to signaling theory, companies in good financial condition tend to send positive signals through transparent disclosure of information, such as ESG disclosures, cash flow, and good corporate governance practices. Conversely, companies experiencing financial problems will send negative signals that can undermine investor confidence in the company's business continuity. Therefore, signaling theory is used in this study to explain the relationship between ESG, free cash flow, and corporate governance and financial distress.

Financial Distress

Financial distress is a condition where a company experiences a decline in financial capacity, making it difficult to meet its financial obligations. This condition is often considered the initial stage before a company goes bankrupt. According to (Sembiring et al., 2022), financial distress can be detected through financial ratio analysis using the Altman Z-Score model. This condition is typically characterized by declining company profits, disrupted cash flow, and increasing debt burdens.

From a signaling theory perspective, financial distress can be a negative signal to investors and creditors because it indicates a decline in a company's financial health. When a company experiences financial difficulties, investors tend to doubt its ability to maintain its business continuity. Therefore, companies need to provide relevant and transparent information to reduce investor concerns about the risk of bankruptcy.

Environmental, Social, and Governance (ESG)

ESG is a concept that integrates environmental, social, and governance aspects into a company's operational activities. ESG disclosure is carried out through sustainability reports as a form of corporate responsibility to the environment and society. ESG implementation is considered to enhance a company's reputation, strengthen stakeholder relationships, and support long-term business sustainability.

Based on signaling theory, ESG disclosure can be a positive signal to investors because it reflects a company's commitment to sustainable business practices. Companies that disclose ESG extensively are perceived as more transparent and have lower business risks than those that do not provide optimal ESG disclosure. Therefore, ESG disclosure is expected to increase investor confidence and reduce the likelihood of financial distress.

Free Cash Flow

Free cash flow is the cash flow available after a company meets its operational needs and capital expenditures. According to Eugene F. Brigham, free cash flow indicates a company's ability to generate cash that can be used to pay dividends, settle liabilities, and support business development.

In signaling theory, free cash flow is crucial information investors use to assess a company's financial condition. High free cash flow can be a positive signal, indicating the company has strong financial capabilities and is able to meet its financial obligations. Conversely, low free cash flow can be a negative signal, indicating liquidity issues that could potentially increase the risk of financial distress.

Corporate Governance

Corporate governance system used to regulate and oversee the relationship between management, shareholders, and other stakeholders. The implementation of corporate governance aims to create transparency, accountability, and effective oversight in company management.

In signaling theory, the implementation of good corporate governance can be a positive signal to investors because it demonstrates that the company is managed professionally and transparently. Companies with good governance tend to be better able to control risks, mitigate conflicts of interest, and maintain financial stability. Therefore, the implementation of good corporate governance is expected to reduce the likelihood of a company experiencing financial distress.

Hypothesis Development

The Impact of ESG on Financial Distress

Good ESG disclosure reflects a company's commitment to environmental, social, and corporate governance sustainability. In signaling theory, ESG disclosure is a positive signal for investors because it demonstrates a company's social responsibility and ability to manage business risks sustainably. Information regarding the company's business impact on the environment and society, as well as how the business is run sustainably, can be conveyed to stakeholders through ESG disclosure (Aprilina et al., 2025). Companies with high ESG disclosure tend to gain greater investor trust, thereby improving the company's financial stability. Research conducted by Pumomo et al. (2023) shows that ESG negatively impacts financial distress. This finding indicates that the higher the level of performance disclosed through ESG, the lower the level of financial distress. Furthermore, research (Aisyah and Mulyani, 2024) that shows that ESG negatively impacts financial distress also indicates that ESG disclosure negatively impacts financial distress.

Furthermore, sound ESG implementation can enhance a company's reputation and strengthen relationships with stakeholders. This can help companies obtain funding and maintain business continuity, thereby reducing the risk of financial distress. Previous research by Prameswari showed that ESG negatively impacts financial distress. Based on this description, the hypothesis proposed in this study is:

H1: ESG has a negative effect on financial distress.

The Effect of Free Cash Flow on Financial Distress

A *high free cash flow* ratio indicates that the company has the ability to generate cash from its operational activities, thus adequately meeting its financial obligations. In signaling theory, this condition is a positive signal for investors because it reflects the company's financial stability and ability to maintain its operational activities (Wijaya and Suhendah, 2023). Research by Septiarni et al. (2025) found that free cash flow has a negative effect on financial distress. The results show that high free cash flow is an indication of low financial distress. This is consistent with research (Junior and Bangun, 2024), which indicates a low influence on financial distress.

Companies with adequate free cash flow tend to have a lower risk of financial distress because they are able to repay debt, finance investments, and maintain business continuity. Conversely, low free cash flow can indicate liquidity issues, which increase the risk of financial distress. Research conducted by Septiarni shows that free cash flow negatively impacts financial distress.

Based on this explanation, the research hypothesis is formulated as follows:

H2: Free cash flow has a negative effect on financial distress.

The Influence of Corporate Governance on Financial Distress

Corporate governance encompasses policies and mechanisms designed to coordinate, implement, and oversee the relationship between company management and stakeholders (Purwanti and Kurniawan, 2023). The implementation of good corporate governance can increase the effectiveness of oversight of company management, allowing for more transparent and accountable decision-making. In signaling theory, good corporate governance is a positive signal for investors because it indicates that the company has a control system capable of minimizing the risk of irregularities and financial problems. Research conducted by Abrori et al. (2023) shows that corporate governance negatively impacts financial distress. The results indicate that

good corporate governance can encourage transparency and accountability in more efficient company resource management and reduce the risk of financial distress.

Companies with good corporate governance practices tend to be better able to maintain financial stability and reduce the risk of financial distress. Effective oversight from the board of commissioners, audit committee, and independent parties can help companies optimally manage financial risk. Research conducted by Abrori shows that corporate governance has a negative effect on financial distress.

Based on this description, the hypothesis proposed is:

H3: Corporate governance has a negative effect on financial distress.

Research methods

This study uses a quantitative method with an associative approach to determine the effect of Environmental, Social, and Governance (ESG), free cash flow, and corporate governance on financial distress. The study was conducted on non-cyclical consumer sector companies listed on the Indonesia Stock Exchange for the 2022–2024 period. The Sustainability Report Disclosure Index (SRDI) is a basis for measuring the level of ESG disclosure. Free cash flow reflects the company's financial condition and is calculated using the formula from (Ross dkk., 2000). This study assesses the effectiveness of corporate governance using 15 indicators. Corporate governance calculations are based on research by Tanjung (2023).

The data used in this study is secondary data obtained from annual reports and sustainability reports of companies accessed through the Indonesian stock exchange and the official websites of each company. The sampling technique used was purposive sampling with several specific criteria, resulting in 93 companies as research samples, with a total of 279 observations over three months.

Results and Discussion

Based on research indicators on ESG variables, Free Cash Flow, Good Corporate Governance, and Financial Distress, the collected data is then processed using appropriate data analysis techniques to answer each problem formulation so that research results are obtained.

Multiple Linear Regression Analysis

Table 1. Results of Multiple Linear Regression Analysis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-13.03132	148,2992	-0.087872	0.9301
ESG	13.92738	166,6827	0.083556	0.9335
FCF	2.13E-05	0.000495	0.043102	0.9657
CG	10.66970	43.95473	0.242743	0.8085

Source: E-Views Output 12, 2026

The data analysis method in this study is Multiple Regression, where the equation is known as:

$$FD = \alpha - \beta_1ESG - \beta_2FCF - \beta_3CG + \varepsilon$$

$$FD = -13.03132 + 13.92738*ESG + 2.13331*FCF+ 10.66970*CG + \varepsilon$$

1. The constant value of -13.03132 indicates that when the ESG, Free Cash Flow, and Corporate Governance variables are considered constant, Financial Distress experiences a decrease of -13.03132, assuming other variables remain constant.
2. The ESG variable (X1) has a positive regression coefficient of 13.92738. This indicates that if ESG decreases by one unit, Financial Distress (Y) will increase by 13.92738, assuming other variables remain constant.
3. The Free Cash Flow variable (X2) has a positive regression coefficient of 2.13331. This means that if Financial Distress increases by one unit, then Financial Distress (Y) will also increase by 2.13331, assuming other variables are held constant.
4. The Corporate Governance variable (X3) has a regression coefficient value of 10.66970. This means that every one-unit increase in company size will increase Financial Distress (Y) by 10.66970, assuming other variables in the regression model remain constant.

Hypothesis Testing

Table 2. Results of the Determination Coefficient (R2) Test

R-squared	0.374027
Adjusted R-square	0.049069

Source: E-Views Output 12, 2026

Based on the Adjusted R-squared, the Adjusted R-squared value was 0.049069, or 4.9%. This result indicates that ESG, free cash flow, and corporate governance variables only explain 4.9% of the effect on financial distress. The remaining 95% is influenced by factors outside this study.

This indicates that the three variables' ability to explain changes in financial distress is still low. Therefore, a company's financial distress is likely more influenced by other factors not included in this study.

Taken together, ESG, free cash flow, and corporate governance have also not been able to provide a strong influence on corporate financial distress.

Table 3. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-13.03132	148,2992	-0.087872	0.9301
ESG	13.92738	166,6827	0.083556	0.9335
FCF	2.13E-05	0.000495	0.043102	0.9657
CG	10.66970	43.95473	0.242743	0.8085

Source: E-Views Output 12, 2026

1. The ESG variable has a significance value of $0.9335 > 0.05$. This indicates that Good Corporate Governance does not significantly influence Financial Distress.
2. The Free Cash Flow variable has a significance value of $0.9657 > 0.05$. Thus, Financial Distress does not significantly influence Financial Distress.
3. The Corporate Governance variable has a significance value of $0.8085 > 0.05$. These results indicate that company size does not significantly influence financial distress.

Discussion

The Impact of ESG on Financial Distress

The results of the hypothesis testing indicate that the ESG variable has a significance value of 0.9335, or greater than 0.05, with a positive regression coefficient of 13.92738. This indicates that the first hypothesis is rejected, thus concluding that ESG has a positive but insignificant effect on financial distress. This means that increased ESG disclosure tends to be followed by increased financial distress, but this effect is not statistically strong enough.

The results of this study indicate that ESG implementation has not been able to optimally reduce the risk of financial distress in non-cyclical consumer sector companies. In theory, ESG should be a positive signal for investors because it reflects a company's commitment to sustainability, social responsibility, and good corporate governance. However, in this study, this signal has not received a strong response from the market or investors.

This situation can arise because ESG implementation requires high costs, such as investments in environmentally friendly technology, corporate social programs, and improvements to governance systems. These expenses can increase a company's operational costs, which in the short term can actually increase financial pressure. Furthermore, some investors in developing countries still focus more on short-term profits than on the long-term benefits of ESG implementation. As a result, ESG disclosure has not had a significant impact on reducing the risk of financial distress.

The Effect of Free Cash Flow on Financial Distress

The results of the hypothesis test indicate that the free cash flow variable has a significance value of 0.9657, or greater than 0.05, with a positive regression coefficient of 2.13331. Therefore, the second hypothesis is rejected, concluding that free cash flow has a positive but insignificant effect on financial distress. This indicates that an increase in free cash flow tends to be followed by an increase in financial distress, but this effect is not statistically significant.

In theory, high free cash flow should be a positive signal for investors, demonstrating a company's ability to generate cash flow to meet operational and financial obligations. However, this study shows that increasing free cash flow does not necessarily reduce the risk of financial distress.

This can occur because the company's free cash flow has not been optimally utilized to improve its financial condition. Some companies may use these funds more for business expansion, short-term liability payments, or other operational needs, thus not having a direct impact on reducing the risk of financial distress. Furthermore, high free cash flow can also open up opportunities for opportunistic management actions if company oversight is ineffective.

From a signaling theory perspective, free cash flow is one piece of information that can indicate a company's liquidity status to investors. However, this study's findings indicate that this signal is not strong enough to influence investors' perceptions of a company's financial condition. This suggests that investors may consider

other factors, such as profitability and sales stability, rather than solely looking at the size of a company's free cash flow.

The results of this study align with Dirman's research, which stated that free cash flow has no effect on financial distress. However, these results differ from the research. (Septiarni et al., 2025) which shows that free cash flow has a negative effect on financial distress, as well as research (Widyaningrum et al., 2018), which states that free cash flow has a positive effect on financial distress.

The Influence of Corporate Governance on Financial Distress

The results of the hypothesis testing indicate that the corporate governance variable has a significance value of 0.8085, or greater than 0.05, with a positive regression coefficient of 10.66970. Therefore, the third hypothesis is rejected, concluding that corporate governance has a positive but insignificant effect on financial distress. This indicates that increased corporate governance implementation tends to be followed by increased financial distress, but the relationship is not strong enough to be considered significant.

In theory, the implementation of good corporate governance should be a positive signal to investors and creditors, demonstrating that the company has sound oversight, control, and management systems in place. Effective corporate governance is expected to help companies mitigate the risk of financial distress and increase investor confidence in the company's performance.

However, the results of this study indicate that the implementation of corporate governance in non-cyclical consumer sector companies has not been optimal. This may be because corporate governance remains a formality or is merely to comply with regulatory requirements, thus not being effectively implemented in the company's oversight and decision-making processes. Consequently, the implementation of corporate governance has not been able to provide a tangible impact in reducing the risk of financial distress.

Based on signaling theory, the implementation of good corporate governance should provide investors with confidence that a company has a transparent and accountable management system. However, this study shows that this signal is not strong enough to influence investors' assessment of a company's financial condition. This suggests that investors may still be more focused on a company's financial condition than on the quality of corporate governance.

The results of this study are in line with research (Febriyanti & Khalifaturofi'ah, 2023), which states that corporate governance does not have a significant effect on financial distress. The research (Phania, 2025) also shows that improving the quality of corporate governance is not strong enough to prove a significant influence on financial distress.

Closing

Based on research conducted on non-cyclical consumer sector companies listed on the Indonesia Stock Exchange for the 2022–2024 period, it can be concluded that Environmental, Social, and Governance (ESG), free cash flow, and corporate governance variables do not significantly influence financial distress. These results indicate that the level of ESG disclosure, the company's ability to generate free cash flow, and the implementation of good corporate governance have not been able to make a strong contribution to reducing the risk of financial distress. Therefore, these three variables cannot be considered the main factors influencing financial distress in non-cyclical consumer sector companies.

Based on signaling theory, ESG disclosure, free cash flow, and corporate governance implementation should be positive signals to investors and external parties regarding a company's health and prospects for sustainability. Companies that optimally implement ESG, maintain stable cash flow, and maintain good corporate governance will generally garner greater investor trust, as they are perceived as capable of maintaining business continuity. However, this study indicates that these signals are not yet strong enough to influence a company's financial distress. This may be because ESG and corporate governance implementation in some companies remains a formality and has not been fully implemented in their operational activities. Furthermore, free cash flow management has not been fully effective in supporting a company's financial stability, thus significantly reducing the risk of financial distress.

The results of this study also indicate that a company's financial distress is likely influenced by factors other than the variables used in the study. These factors include profitability, leverage, liquidity, company size, sales growth, macroeconomic conditions, and management's operational capabilities. The low coefficient of determination in this study indicates that ESG, free cash flow, and corporate governance variables only partially explain financial distress, while the remainder is largely influenced by other factors not examined.

Therefore, further research is expected to incorporate additional variables related to the company's financial condition and external factors to achieve broader and more comprehensive results. Furthermore, it is recommended that future research expand the research object to other company sectors and extend the observation period to provide more accurate results regarding the factors influencing financial distress.

For companies, the results of this study are expected to serve as evaluation material for improving the quality of ESG implementation, free cash flow management, and more effective and sustainable corporate governance. With more optimal implementation, companies are expected to maintain financial stability, increase investor confidence, and minimize the risk of future financial distress.

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