



Gender Diversity Perspective as Moderation: Does Profitability and Capital Structure Affect Financial Distress during Corona Virus Period?

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

Article Information

DOI: 10.9734/SAJSSE/2023/v20i4755

Open Peer Review History:

This journal follows the Advanced Open Peer Review policy. Identity of the Reviewers, Editor(s) and additional Reviewers, peer review comments, different versions of the manuscript, comments of the editors, etc are available here: <https://www.sdiarticle5.com/review-history/111214>

Original Research Article

Received: 24/10/2023

Accepted: 28/12/2023

Published: 29/12/2023

ABSTRACT

Non-cyclical consumer companies are companies that produce or distribute primary goods. Financial distress is a condition where a company experiences financial difficulties before it is finally said to be bankrupt. Financial distress is a serious problem that can lead to bankruptcy and negative things for the company. By identifying factors that contribute to financial distress, companies can take steps to reduce risk and improve financial health. In this study, the factors that can identify financial distress are profitability and capital structure. This study was conducted to determine the effect of profitability and capital structure on financial distress moderated by gender diversity. This research was conducted on non-cyclical companies listed on the IDX in 2019-2022. This research method uses quantitative methods. In the calculation, researchers use the Altman Z Score method for measuring financial distress, ROA for measuring profitability, and DER for measuring capital structure. The results of this study are that profitability has a negative effect on

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financial distress, while capital structure has a positive effect. Gender diversity and profitability variables moderated by gender diversity have no significant effect on financial distress, while gender diversity strengthens the effect of capital structure on financial distress.

Keywords: Financial distress; profitability; capital structure; gender diversity.

1. INTRODUCTION

The corona virus 19 (covid 19) pandemic that is spreading rapidly and is felt in all countries in the world has a huge impact on every life. Various sectors are greatly affected by this covid pandemic. This pandemic has greatly affected the business sector, the national health care system, the food industry, the event industry, education, and global trade Ozili, (2021). The performance of non-cyclical consumer companies in 2019-2021 has decreased. In 2019, it was -16.8%, -11.9% in 2020, and -16% in 2021, this decline occurred during the covid 19 pandemic. In 2022, noncyclical companies experienced an increase in performance, namely by 7.9% and in 2023 by 2.9%. So with the decline in company performance, it is necessary to know the company's financial distress condition even in 2022-2023 which has increased. By predicting the possibility of the company experiencing financial difficulties, the board of directors can make wise decisions and take the right steps to prevent bankruptcy. Company performance can be seen from many aspects including profitability and capital structure. The relation between corporate performance and fd is also consell by gornernance Gender diversity is also an important aspect in the company. Diversity in the board of directors leads to knowledge, creativity and innovation which in turn becomes a

competitive advantage [1]. Women tend to be more cautious in decision-making so that risks can be handled by the company Therefore, a diverse board composition can help streamline the achievement of organizational goals and improve the quality of decisions and policies it makes.

In addition, gender diversity is also one of the things that needs to be considered seeing that in Indonesia gender inequality still occurs in various sectors, one of which is the non-cyclical consumer sector. In this sector there are only 10% female directors from 59 existing companies. Although in Indonesia there are laws that regulate this matter, namely Article 27 Paragraph 1 of the 1945 Constitution and Regarding the Ratification of the Convention on the Elimination of All Forms of Discrimination Against Women, Law Number 7 of 1984 was passed. However, the low proportion of women still indicates that women's accessibility is lower than that of men.

Financial distress is a symptom of declining financial conditions before bankruptcy or bankruptcy in a company [2]. Financial distress is a situation when a company faces money difficulties that will potentially experience bankruptcy or bankruptcy if not handled properly. According to Hapsari, [3] Financial distress is a condition where the company's current debt or

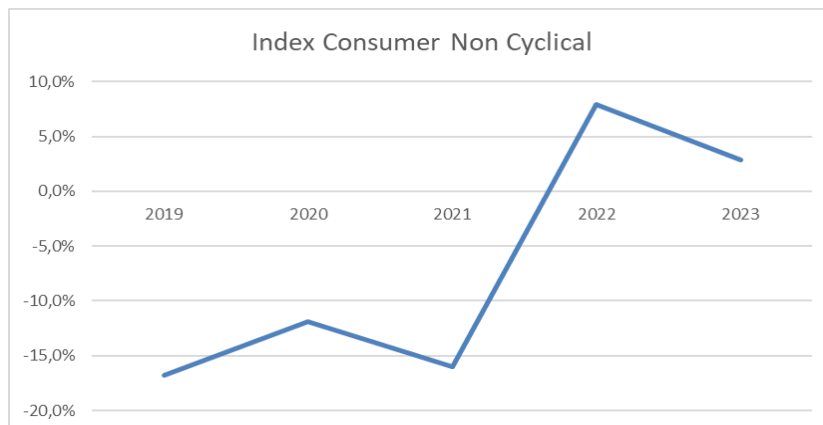


Fig. 1. Graphics historical performance consumer non cyclical

Source : IDX Index Fact Sheet

short-term debt cannot be paid by cash flow and the company is forced to take corrective action. There are three factors that cause financial distress, namely lack of capital, too large a debt burden, and ongoing losses Damayanti et al., [4] Analyzing financial statements is carried out for the measurement of financial difficulties. By measuring financial statements, it can measure the health of the company which can be seen in the ratios contained in the financial statements. Financial distress is related to signal theory because signals in the form of financial statements can be information for investors. In this study using the formula [5]. The Z Score formula is multiplied by -1 to proxy financial distress so that it is easier to draw conclusions [6].

According Sartono, [7] Profitability is the profit earned by the company, both in relation to assets, own capital and sales. Profitability will show the comparison between income and the company's ability to generate profits, so that this ratio will reflect the effectiveness and success of management as a whole [8]. Profitability is seen to assess the company's success in earning profits by utilizing the assets and resources owned by the company [9]. It can be concluded that profitability is a ratio that shows profit in a certain period and shows the success of management in managing a company. Research conducted by Asfali, [10], Susanto Salim, [11], and research from Christine et al., [12] shows profitability has a positive influence on financial distress. The higher the company's profit, the higher the financial distress. This research is inversely proportional to research Dewi et al., [13,14] and Suniah & Herawati, [15].

One of the capital structures is main factors of a company including financial decisions related to long-term debt and short-term debt of a company [16]. According Muslimah et al., [17] There are two sources of company capital, the first is internal, namely retained earnings and the second is external, namely debt, both long-term and short-term debt. In research Akmalia, [18,19] and Fadhillah & Nurdin, [20] claimed that financial distress is positively impacted by capital structure. Contrary to research Nuranti Sri, [21], Salim & Dillak, [11], and research from Mardiah & Amin, [22] which claims that financial distress is negatively impacted by capital structure.

Based on Law No. 40 of 2007 concerning Limited Liability Companies Article 1 The Board of Directors is an organ of the business that, in

accordance with the terms of the articles of association, represents the business both inside and outside of control. It has been given permission to manage the business for its benefit and in compliance with its aims and objectives, and it bears full responsibility for this. Gender diversity in the company is expected to produce a good impact on the company in terms of renewal, creativity, and different views [23]. Study carried out by Putri et al., [24] stated that gender diversity has an influence on profitability. Unlike the studies carried out by LISAIME, [1] which declares gender diversity has an adverse impact on profitability. Meanwhile, research from Maghfiroh & Utomo, [25] states that gender diversity does not affect profitability. Research conducted by Fitri & Erlita, [26] states that gender diversity has a positive effect on capital structure.

Many researchers have conducted studies on the impact of capital structure on financial distress [27] but as far as researchers know, there is still no research that uses gender diversity as a moderating variable regarding the impact of financial hardship. This study aims to fill this gap and investigate the benefits of gender diversity as moderation. In addition, this study aims to achieve five objectives. The first objective is to determine the negative effect of profitability on financial distress. The second is to determine the positive effect of capital structure on financial distress. The third objective is to determine the negative effect of gender diversity on financial distress. Fourth, to ascertain the position of gender diversity in strengthening the effect of profitability on financial distress. The fifth objective is to determine the role of gender diversity weakens the impact of financial hardship on capital structure.

2. LITERATURE REVIEW

2.1 Signaling Theory

Signal theory put forward by Spence, [28] explains that the information provider (information owner) provides a sign or signal in the form of data that provides the recipient (investor) with useful information about the state of a company. It can be understood that a signal made by an agent (manager) to investors (outsiders) is a signal with various forms that can be seen directly or observed and must be analyzed to understand it Gumanti, [29]. This theory is directly related to financial distress because the signal in the form of financial

statements (profitability and capital structure) will provide good or bad signals to the agent to assess whether the company is experiencing financial distress or not. Companies are unlikely to experience bankruptcy in the near future and suddenly, therefore financial distress can be experienced by the company concerned as a signal or sign of the possibility of bankruptcy, because financial distress symbolizes a step down in the financial situation before bankruptcy occurs.

2.2 Resource Dependence Theory

Resource dependence theory according to Pfeffer, 1978 in Saputra, [30] the board is seen as an informant and a useful resource for the company. Important information and guaranteed availability of company resources are obtained from the diversity of the board which can benefit the company by networking with outside parties. Dalton et al., [31] say that resource dependence theory considers the board of directors as a tool that provides important information and resources for the company. This theory relates to gender diversity research, namely the diversity of the board of directors plays an important role in decision making so that the company can avoid financial distress. This theory shows the relevance of board characteristics such as gender diversity in providing important strengths and resources for corporate risk management, which entails giving the senior management group counsel and knowledge on how to manage business risks and spot possible risk possibilities. As a result, the company is able to identify, understand, and control risks and has a good chance of survival [32].

2.3 Hypothesis

Profitability is a ratio that can describe the company's ability to earn profits with the company's products produced [33]. The high profit of a company is expected that obligations can be resolved optimally and avoid financial difficulties. The survival of a company in running a business can be obtained by observing the consistency of the level of profitability, namely by obtaining sufficient profits compared to the risks that may occur [34]. In order for the company's profit to increase, the will avoid financial distress. In this study, profitability is indicated to have an adverse impact on financial hardship, this is in line with what was done by Ayuningtyas & Suryono, [35], Dewi et al. [13] and Ariska & Arief [14].

H₁: Profitability has a negative effect on financial distress

Agus Sartono, [7] defines capital structure as the proportion between the amount of short-term debt that has a constant nature, long-term debt, preferred stock and common stock. The company is said to be good and even developing if the company can manage financing well, but the business is allegedly having financial difficulties if the financing is not managed properly and appropriately [36]. It can be said that with a high capital structure, the greater the agency's risk experiencing financial difficulties. It can be said that capital structure has a positive influence on financial distress. This research is in line with research conducted by Darmiasih et al. [19], Fadhilah & Nurdin, [20], and [18]. This is because the higher the capital structure, the greater the company to pay obligations and interest.

H₂ : Capital structure has a positive effect on financial distress

Gender diversity in the board of directors will more or less affect decision making according to [36]. Gender diversity can provide a broader perspective and skills, which can result in better decision making and improved performance. So it is expected to help the company avoid financial difficulties. Loop and Denicola, (2019) say that companies must do several things, one of which is to have more than one woman in the company's management ranks on the grounds that one woman is not enough to support change in the company. With gender diversity in the company, it will make a lot of considerations and a lot of thoughts that result in low financial distress. This is consistent with studies carried out by Samudra, [37], García & Herrero, [27], Abbas & Frihatni, [38].

H₃ : Gender diversity has a negative effect on financial distress

Gender diversity within the company should provide positive elements for the company in terms of innovation, creativity, and different perspectives [23]. Dalton et al., [31] state that resource-dependence theory considers the board of directors as an important information and resource provider for the company. It can be said that the existence of gender diversity in the board of directors is expected to provide new ideas and be able to make good decisions. So that company profits increase and are expected to

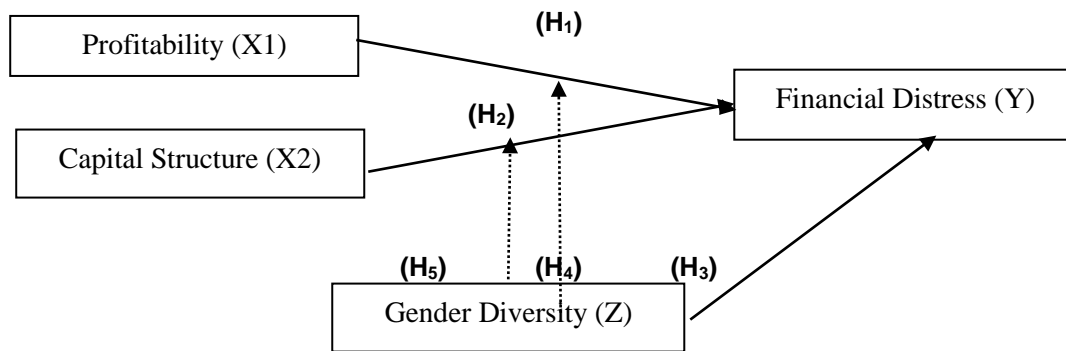


Fig. 2. Conceptual framework

avoid financial distress. The diversity of human resources on the board that makes this resource special will affect the company's actions, which have an impact on company profits [39].

H₄ : Gender diversity strengthens the effect of profitability on financial distress.

The presence of women on the board of directors illustrates the diversity of the board of directors, this diversity makes the decision-making process more dynamic Kristanti, (2019). In [36] states that there are differences in decision making and information processing between men and women. gender diversity in the board of directors creates economic benefits, namely reducing debt costs [40]. Gender consisting of women and men is considered to have a risk-related response in different ways, so gender diversity makes directors have more ideas and alternatives for determining capital structure decisions [41]. So it can be said that gender diversity is expected to maximize decision making for companies to avoid financial distress. It can be said that gender diversity can make effective decisions so as to reduce the risks that can affect the capital structure.

H₅ : Gender diversity weakens the effect of capital structure on financial distress.

3. METHOD

This study aims to ascertain the impact of financial distress as the dependent variable between the independent variables, namely profitability and capital structure with gender diversity as a moderating variable. The research was conducted on non cyclical consumer sector companies listed on the IDX and the company's website. There were 54 companies with a total of 195 research observations. Purposive sampling was used to select the sample, and the IDX-

listed non-cyclical consumer companies met the criteria with the main board in 2019-2022 because in 2019 to 2021 non-cyclical companies experienced a decline even though in 2022 they experienced an increase but did not guarantee that the sector did not experience financial distress, provide annual reports and data according to the required variables, and use rupiah currency in financial statements.

This research uses Stata software with panel data regression analysis. There are three different types of models namely Ordinary Least Square (OLS), Fixed Effect (FE), and Random Effect (RE) in [42] analysis. Using the Breusch and Pagan Lagrangian Multiplier Tests, we evaluate the random effects regression model against the traditional least squares regression model. For panel data regression, the Chow test compares the OLSE with the fixed effects model, while the Hausman test chooses between the two. A single equation model is used to test the conjectures in this investigation. Using model (1), this study investigates how profitability, capital structure, and percentage of women on the board of directors affect financial distress. The model also tests gender diversity as a moderator on the relationship between profitability and capital structure.

$$FD = \alpha + \beta_1 \text{Profit} + \beta_2 \text{SM} + \beta_3 \text{GD} + \mu + \varepsilon \quad (1)$$

$$FD = \alpha + \beta_1 \text{Profit} + \beta_2 \text{SM} + \beta_3 \text{GD} + \beta_4 \text{Profit} * \text{GD} + \beta_5 \text{SM} * \text{GD} + \mu + \varepsilon \quad (2)$$

Explanation:

FD : Financial Distress
 α : Constant
 β : Regression Coefficient
 Profit : Profitability
 SM : Capital Structure

GD : Gender Diversity

3.1 Operational Definition

Financial distress is the study's dependent variable. One circumstance is financial trouble where the company cannot pay obligations due to financial difficulties [30]. The higher the value of financial distress, the more the company avoids financial distress, so that in this study financial distress used the Altman Z Score 1968 formula with the development of the Z Score formula multiplied by -1 to proxy financial distress so that it is easier to draw conclusions in accordance with Li et al. [6].

$$ZSCORE : 0.3X1 + 1.0X2 + 1.4X3 + 1.2X4 + 0.6X5$$

Description :

- X1 = Net profits/Total Assets
- X2 = Sales/Total Assets
- X3 = Retained earnings/Total Assets
- X4 = Working capital/Total Assets
- X5 = Market value of equity/Total Liabilities

The independent variables of this study are profitability and capital structure. Profitability Profitability ratio is a ratio used to measure the company's ability to earn profits generated from sales and investment income [33]. Profitability uses the ROA (Return Of Asset) formula in accordance with research conducted by [43] to calculate profitability. $ROA = \text{Net Profit} / \text{Total Asset} \times 100\%$. Meanwhile, the capital structure uses the Debt to Equity Ratio (DER) formula in accordance with research conducted [21]. $DER = \text{Total Debt} / \text{Total Equity} \times 100\%$.

Moderation in this study is gender diversity. The proportion of women directors compared to the

overall number of directors in the company are compared in this study to determine the gender diversity variable. In accordance with the research formula conducted by [11]. $GD = \text{Number of Women Directors} / \text{Total Directors} \times 100\%$.

4. RESULTS AND DISCUSSION

There are three different types of models namely Ordinary Least Square (OLS), Fixed Effect (FE), and Random Effect (RE) in [42] analysis. In the table, the outcomes of descriptive statistical testing are acquired in the manner described below:

The standard deviation value of profitability is 0.8994618 with a minimum value of -0.251 and a maximum value of 13.777. The average owned by 54 companies and 195 observations is 0.1319538, this shows that non-consumer non-cyclical companies can generate profits of 13.19% of revenue. Capital structure shows a standard deviation value of 3.450371. The minimum value is 0.33 and the maximum value is 29.317. The average owned by 54 companies with 195 observations is 1.741769, this shows that every 1 unit increase in capital structure, financial distress will increase by 1.741769. Gender diversity has a deviation value of 0.1714128 with a min value of 0 and a maximum value of 0.75. The average owned by 54 non-cyclical consumer companies is 0.1031525, this shows that there are only 10% female directors and the remaining 90% male directors. Financial distress has a deviation value of 4.563055. The minimum value is -49.613 and the maximum value is 3.247. The average owned by 59 non-cyclical consumer companies is -3.00497, this mean value shows that the average non-cyclical consumer sector company has experienced financial difficulties for 3 years.

Table 1. Descriptive statistics results

Variable	Mean	Std. Dev.	Min	Max
Profitabilitas	0.1319538	0.9884188	-.251	13.777
Struktur modal	1.741769	3.450371	0.033	29.317
Gender diversity	0.124841	0.1714128	0	0.75
Financial distress	-3.636785	4.563055	-49.613	3.247

Source: Processed Data (2023)

Preliminary Test: For the preliminari test results there are three tests, there are the chow test, the Breusch and Pagan test, and the haustman test.

Diagnostic Test:

Table 2. Heteroscedasticity and serial correlation test results

	Model 1	Model 2
Full Sample		
Heteroscedasticity		
LR Chi2	258.63	286.30
Prob > Chi2	0.0000	0.0000
Serial Correlation		
F	595.522	760.361
Prob > F	0.0000	0.0000

Source: Processed Data (2023)

In this study, the normality test was not used because according to [44], the normality test only tests the distribution of 1 variable. This test uses heteroscedasticity testing and random effect correlation. The results of this study for heteroscedasticity models 1 and 2 are Prob> Chi2 of 0.0000 so that heteroscedasticity symptoms exist. To overcome this problem, researchers use Robust Standars Error in testing. Testing the correlation of models 1 and 2, namely Prob> F of 0.0000 so in order for correlational symptoms to exist.

Table 3. Hypothesis test results

Model 1

Variabel Independen	Variabel Dependen	FD			
		Coef.	Std. Err	z	P> z
Const		-3.665102	0.4538114	-8.08	0.000
Profitability		-3.14391	0.0187158	-167.98	0.000*
Capital Structure		0.2110594	0.0862854	2.45	0.014*
Gender Diversity		1.062184	1.268484	0.84	0.402
R-squared within		0.7209			
Chi2		30454.27			
Prob > Chi2		0.0000			
No. Observation		195			

*5% significance

Model 2

Variabel Independen	Variabel Dependen	FD			
		Coef.	Std. Err	z	P> z
Const		-2.496509	0.4161097	-6.37	0.000
Profitability		-3.163216	0.0289966	-93.89	0.000*
Capital Structure		0.1057441	0.0529249	2.16	0.046*
Gender Diversity		-6.042839	1.996566	-1.93	0.002*
Profitability_Gender Diversity		-6.758974	4.163526	-1.62	0.105
Capital Structure_Gender Diversity		3.182465	0.4161097	3.28	0.001*
R-squared within		0.7044			
Chi2		12277.90			
Prob > Chi2		0.0000			
No. Observation		236			

*5% significance

Source: Processed Data (2023)

4.1 Profitability Has a Negative Effect on Financial Distress

The study's findings show that financial distress is significantly and negatively impacted by profitability. Seen in the coefficient value of -3.14391 so that the impact of profitability is detrimental. In the $P > |z|$ table, profitability is 0.000, this shows that profitability has a significant effect on financial distress. This shows that the higher the profitability, the financial distress will be avoided. This means that as profit increases, financial distress decreases. In accordance with signaling theory which with a signal in the form of a high profitability report will make investors interested so that the company avoids financial difficulties. This higher profit indicates better company performance, thus building investor confidence to invest in a company [45]. With high profits can provide the company with resources to pay the company's short-term debts.

The high profit of the company shows that the company makes a profit from investment and sales, so that it can reduce company expenses [46]. Avoiding financial distress by generating high profits so that investors are interested in investing [47]. This is in line with the research of Ayuningtyas & Suryono, [35], Dewi et al., [13], and Ariska et al, [14]. In cases where the business's asset management to profit is more efficient and effective. Based on the above statement, H_1 is accepted.

4.2 Capital Structure Has a Positive Effect on Financial Distress

The results of this study indicate that capital structure has a positive and significant effect on financial distress. In the coefficient table shows a number of 0.2110594 so that the capital structure has a positive impact on financial distress. The value of $P > |z|$ shows the number 0.014, This suggests that financial distress is significantly influenced by the capital structure. This shows that with the high capital structure seen in short debt or high long-term debt, the potential for financial hardship is also high. In accordance with signaling theory with signals in the form of financial statements, namely capital structure reports consisting of short and long term debt, the greater the likelihood of financial distress due to poor signals from financial statements that cause investors not to invest. If the company has more debt and not enough equity, the company is more at risk of financial distress. This is

because debt has interest and principal installments that are regularly paid.

The more companies use short-term debt or long-term debt, the more difficult it will be to make payments at a specified time or in the future because the debt exceeds the amount of assets owned [48]. Debt used in large amounts can pose a high risk to the company, especially the company's inability to fulfill its obligations Akmalia, [18]. This is in line with the research of Darmiasih et al., [19], [20], and [18]. Based on the above statement, H_2 is accepted.

4.3 Gender Diversity Has a Negative Effect on Financial Distress

The study's findings show that diversity in gender has no bearing on people's financial hardship. The $P > |z|$ value of gender diversity is 0.402, this value indicates that gender diversity has no significant effect. This research is not in accordance with the resource dependence theory because there are still few companies that use female directors in leadership. In accordance with the results of this study, there is only 10% female leadership and the remaining 90% is led by men. While gender diversity is an important aspect of corporate governance, it appears that female directors are still underrepresented.

According to Ariska, [14] Since women now have a more positive role in the workplace, there is a notable increase in the quantity of female professionals. Still, a lot of businesses still don't think that women belong within the directors' board. Gender diversity therefore has no bearing on financial hardship. This research is not in line with research from [37,27,38], but in line with research [49,50], [11]. Based on the above statement, H_3 is rejected.

4.4 Gender Diversity Strengthens the Relationship between Profitability and Financial Distress

Gender diversity test strengthens the relationship between profitability and financial distress, namely the absence of a significant effect on gender diversity in moderating profitability on financial distress. In the $P > |z|$ table produces a value of 0.105, this states that there is no influence of gender diversity in moderating. This means that the amount of gender in the board of directors does not affect the company's profit.

Although gender diversity is important, the company's profit comes from sales which are determined by customer demand and product quality. Resource dependence theory suggests that gender diversity can provide companies with broader perspectives and skills, which can lead to appropriate decision making and better performance. However, gender diversity's effect on financial distress may be limited compared to other factors.

Gender diversity does not moderate profitability on financial distress because in the statistical test, it is found that the average gender diversity is only 10% of female directors in non-cyclical consumer companies. So that female directors do not contribute greatly and are not dominant in decision making. The small number of companies that use female directors in leadership is also the reason why this variable has no effect [11]. Men are considered stronger and bolder in making decisions, while women are considered to tend to be subtle and emotional [51]. Based on the above statement, H_4 is rejected.

4.5 Gender Diversity Weakens the Relationship between Capital Structure and Financial Distress

The gender diversity test strengthens the relationship between capital structure and financial distress. Seen in the coefficient value of 3.182465 so that it has a positive effect. Significant effect with a $P > |z|$ value of 0.001. This proves that with more gender diversity in the board of directors, there are many ideas and thoughts that make decision making less effective. Resource dependence theory suggests that gender diversity can provide companies with broader perspectives and skills, which can lead to wise decision-making and better performance. However, the impact of gender diversity on financial distress may be limited compared to other factors.

This is because most of the large consumer goods agencies with both high and low capital structure balance do not even have a single female director. Even agencies led by female directors do not prove that the capital structure of the agency led is low [52]. In providing a new perspective, the presence of female directors still does not make more effective decisions [53]. Based on the above statement, H_5 is rejected.

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

Based on research that has been conducted, the results obtained where profitability has a positive and significant effect on financial distress. This is because the profit generated can be used to fulfill the company's obligations. The capital structure variable has a positive effect on financial distress because the more debt the company has, the more the company will be at risk of financial distress. The next result is that there is no effect of the gender diversity variable on financial distress and gender diversity does not moderate the effect of profitability on financial distress. This is because there are still few women in the board of directors so that women do not contribute greatly to decision making and the delivery of ideas. Finally, the results show that gender diversity strengthens the effect of capital structure on financial distress. Companies that have female directors in them do not guarantee that the company will have low debt if it is not supported by optimizing company performance.

5.2 Suggestion

In accordance with the conclusions that have been described, suggestions for further research can be obtained, namely the addition of a research period so that it can describe the results of research with longer-term conditions, the addition of variables in the study and the use of other calculation methods to measure the dependent variable so that further research can have more influence on financial distress. It is recommended that future researchers when examining Gender diversity's impact on financial distress should choose research objects that have more female boards of directors in order to better represent gender diversity in companies.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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