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Profitability, Liquidity, Board Size, and Gender Diversity: Their Impact on Financial Distress

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Abstract
Purpose: This study intends how to examine profitability, liquidity, board size, and gender diversity affect to financial distress in consumer cyclicals companies listed on the Indonesia Stock Exchange between 2021 and 2023.
Methodology/approach: This study applied a quantitative method with purposive sampling, using 137 samples collected from annual reports and official websites then used a data from a company with indicators of potential bankruptcy. Data analysis was conducted using IBM SPSS 26, including descriptive statistics, classical assumption tests, multiple linear regression, and using hypothesis testing.
Results/findings: The study produce profitability has a positive and significant affect. Liquidity, board size, and gender diversity their not significantly affect to financial distress.
Conclutions: High profitability is lead to a lower risk of financial distress in company. Liquidity ratio, board size, and then gender diversity composition variables not directly influence distress risk.
Limitations: This study found that only one independent variable, namely profitability, has a positive significant influence on financial distress.
Contribution: The study contributes to corporate to financial management and can guide investors, policymakers, and company managers in identifying early signs of financial distress through internal financial indicators.

Keywords: *Board Size, Financial Distress, Gender Diversity, Liquidity, Profitability.*

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1. Introduction

Indonesia's economic conditions can significantly influence company performance. An economic downturn may trigger corporate failure and indicate financial distress. Therefore, information on financial distress is crucial for ensuring a company's sustainability (Purba et al., 2024). Declines in company performance must be addressed through improvements in creativity, good corporate governance systems, innovation, and technology. These enhancements and developments can help companies remain competitive in an increasingly dynamic industrial environment (Khoir & Wafiroh 2024).

One example of a financial distress phenomenon in Indonesia occurred in 2024, involving PT Sri Rejeki Isman Tbk (SRIL) or Sritex, which was declared bankrupt on Monday, October 21, 2024. Sritex, one of Indonesia's largest and most reputable textile manufacturers, has long faced financial problems. Evidence of this can be seen as early as September 2023, when the company experienced a capital deficit that worsened its financial condition. One of the main causes of the company's collapse was its

massive debt, amounting to USD 1.6 billion (approximately IDR 24.66 trillion) at an exchange rate of IDR 15,500/USD. This debt far exceeded its total assets, valued at USD 653.51 million (approximately IDR 10.22 trillion). Most of these liabilities consisted of long-term debts and bonds that had already matured. In fact, the company's stock price has been declining drastically since the onset of the pandemic, despite recording an average annual profit growth of 18.5%. However, in 2021, the company reported a loss of USD 1.08 billion (IDR 16.76 trillion). Consequently, the OJK (Indonesia's Financial Services Authority) suspended SRIL's stock trading due to the company's failure to publish its 2022 annual financial report on schedule (Wijayanti, 2024).

A similar case occurred with PT Sepatu Bata Tbk (BATA), which officially closed its factory in Purwakarta, West Java on April 30, 2024. The closure of the factory, which had been operating for 30 years, was driven by the continued production losses. These losses were largely attributed to post-pandemic industrial challenges and rapid shifts in consumer behavior. The market demand for footwear products has declined significantly, leading to an imbalance between production levels and actual market needs. The company recorded its first losses in 2020, amounting to IDR 177.76 billion. In 2021, its net loss decreased to IDR 51.21 billion, a decline of 71.18%, while sales also fell by IDR 438.48 billion, or 4.57%. Additionally, the sharp increase in marketing and selling expenses, which reached IDR 194.02 billion, exerted considerable financial pressure on the company.

In 2022, PT Sepatu Bata Tbk reported another loss of IDR 105.91 billion, a 106.85% increase from the previous year. Although total sales rose by 46.74% (from IDR 643.45 billion to IDR 438.48 billion in 2021), this improvement was offset by a sharp increase in the cost of goods sold, which jumped by 57.99%, from IDR 242.71 billion to IDR 383.43 billion. Consequently, in 2022, the company's net loss worsened by 4.1%, from IDR 58.21 billion to IDR 60.63 billion the following year. Equity also decreased to IDR 319.76 billion, whereas total debt increased to IDR 404.30 billion. The financial condition of PT Sepatu Bata Tbk continued to deteriorate, with a recorded loss of IDR 80.65 billion, marking a 46.74% increase compared to the previous year's loss of IDR 20.43 billion. This situation was further exacerbated by a 0.42% decline in net sales, from IDR 490.57 billion to IDR 488.87 billion (Pramita, 2024).

Based on these phenomena, Purwanti and Dewi (2024) found that the emergence of indications of financial distress at the start of bankruptcy will have an impact that emphasizes that early indications of financial distress serve as an early warning system for companies, allowing them to identify potential financial crises before they escalate. Early detection enables firms to implement preventive strategies more quickly and effectively to avoid severe financial breakdowns. Several key factors contribute to financial distress, one of which is profitability.

Profitability is a financial ratio that describes the amount of profit earned from revenue and sales (Purwanti & Dewi, 2024). According to Olivia et al. (2023), a higher Return on Assets (ROA) or profitability value indicates greater profits earned by the company, which means it has the ability to meet its obligations and avoid financial crises. Conversely, when profitability is low, the company generates lower income, which can reduce performance and increase the likelihood of bankruptcy. Kalbuana et al. (2022), Putri and Hendrani (2023), and Purwanti and Dewi (2024) revealed that profitability has a significant negative effect on financial distress. However, studies conducted by Noviyani and Yulianti (2022), Olivia et al. (2023), Suhartono et al. (2024), Joshlyn and Widjaja (2024), Khoir and Wafiroh (2024), and Lestari and Fitranita (2024) concluded that profitability has a significant positive effect on financial distress. Meanwhile, other findings from Irawa and Suyanto (2023), Sari and Estuti (2023), Rusyanti et al. (2024), Noviyana et al. (2024), and Arnu and Nugraha (2024) indicate that profitability has no significant effect on financial distress.

The second factor is liquidity, a financial ratio that refers to a company's ability to use its current assets to pay off its short-term liabilities (Purba et al., 2024). Therefore, when a company's liquidity is high, it is considered capable of meeting its short-term obligations, implying that it is far from the risk of financial distress (Candrayani et al. 2024). Studies by Noviyani and Yulianti (2022), Purwanti and Dewi (2024), Minanari et al. (2024), Khoir and Wafiroh (2024), and Lestari and Fitranita (2024) conclude

that liquidity has a significant positive effect on financial distress. This contrasts with the findings of Irawa and Suyanto (2023), Putri and Hendrani (2023), Suhartono et al. (2024), and Noviyana et al. (2024), who report a significant negative effect of liquidity on financial distress. Meanwhile, research conducted by Utami (2021), Jannah et al. (2021), Pertiwi et al. (2022), Anistasya and Setyawan (2022), Baghaskara and Retnani (2023), Rusyanti et al. (2024), Saudicha and Kautsar (2024), Candrayani et al. (2024), and Arnu and Nugraha (2024) found that liquidity has no significant effect on financial distress.

The third factor is board size, which refers to the number of board commissioners responsible for providing direction and oversight to the board of directors (Kalbuana et al. 2022). A larger board size generally implies a lower risk of financial distress, as more commissioners can strengthen the supervisory functions and improve the quality of company performance. Consequently, companies with a greater number of commissioners are better positioned to minimize potential financial distress (Khoir & Wafiroh, 2024). Kalbuana et al. (2022), Rosadi and Dillak (2023), Olivia P et al. (2023), Manan and Hasnawati (2022), Khoir and Wafiroh (2024), and Ohandi and Puspitasari (2024) indicate that board size has no significant effect on financial distress. The final factor contributing to financial distress is gender diversity, which represents the ratio of women to men in the workplace (Rosadi and Dillak, 2023). Gender diversity reflects the distribution of male and female members on a company's board (Salim and Dillak, 2021). A balanced proportion of men and women within a company can create synergy and enhance the quality of decision-making. Gender diversity can positively impact organizational performance, and as company performance improves, the likelihood of experiencing financial distress decreases (Samudra, 2021).

According to Ramadanty and Khomsiyah (2022), gender diversity has a positive effect on financial distress, whereas Samudra (2021) found a negative relationship between gender diversity and financial distress. Meanwhile, studies by Rosadi and Dillak (2023), Husain et al. (2024), and Khoir and Wafiroh (2024) reveal that gender diversity has no significant effect on financial distress. Based on the aforementioned phenomena and factors influencing financial distress, this study aims to examine the impact of profitability, liquidity, board size, and gender diversity on financial distress in companies within the consumer cyclicals sector during the 2021–2023 period, through a study entitled: "Profitability, Liquidity, Board Size, and Gender Diversity: Their Impact on Financial Distress."

2. Literature Review and Hypothesis Development

2.1 Signaling Theory

Signaling Theory is applied in this study to profitability and liquidity. Originally introduced by Spence (1973), the theory explains that parties possessing information (signal senders) attempt to convey true information to those who do not have it (signal receivers). The receivers then interpret the signals and adjust their perceptions accordingly. In a corporate context, signaling theory describes how company management provides signals to shareholders regarding the company's conditions. Management communicates information to investors about potential rewards or returns, which can enhance investors' assessment of the company's performance (P. S. Sari & Estuti, 2023).

According to Irawa and Suyanto (2023), signaling theory emphasizes the motivation to transmit both positive and negative signals between management and investors to influence perceptions of a company's financial position. One way to convey these signals is through financial statement analysis, which can help detect the early indications of financial distress. Investors can assess the level of financial pressure faced by a company by analyzing its financial ratios, which provide insights into its financial stability and performance. These financial indicators determine whether lenders and investors will continue to support a company (Putri & Hendrani, 2023). As concluded by Khoir and Wafiroh (2024), when investors receive positive signals, such as strong profitability and good liquidity, they are more likely to invest in the company. Conversely, if the signals indicate poor financial health or declining performance, investors are discouraged from making investment decisions in that company.

2.2 Agency Theory

Agency Theory is applied in this study to the variables board size and gender diversity. Agency theory explains the relationship between the principal (the investor or owner) and agent (the manager) within a contractual framework. A well-managed relationship between the two parties ensures that both parties effectively achieve their respective goals. The principal's objective generally centers on financial outcomes or investment returns, whereas the agent's focus lies in obtaining satisfaction through financial compensation and fulfilling the terms of the working relationship (Candrayani et al., 2024).

Agency theory plays an important role in companies as a means for managers to disclose all relevant information to shareholders, which helps maximize overall efficiency and minimize the likelihood of the company experiencing financial distress (Saudicha & Kautsar, 2024). This theory also explains the divergence of interests between two parties in a working relationship, which can lead to agency problems. Such conflicts arise when an agent entrusted by the principal with the authority to manage the company acts in ways that do not align with the principal's objectives due to personal interests or self-enrichment motives (Kuntari & Machmuddah, 2021).

2.3 Financial Distress

According to Suhartono et al. (2024), financial distress refers to a condition in which a company is unable to meet its obligations to external parties because of financial difficulties. The symptoms include delays in dividend payments, postponement of financial reporting, the sale of major assets to cover long-term liabilities, low liquidity and profitability ratios, and declining business efficiency (Noviyana et al. 2024). When a company shows signs of financial distress, its financial position begins to deteriorate and may progress to more severe stages of distress. Firms with strong earnings performance are less likely to experience financial distress, whereas those with weak performance face higher risk (Wijaya & Suhendah, 2023). Therefore, management must address financial distress immediately to prevent a full-blown financial crisis, as regulators and investors tend to become more cautious in extending loans or making investments in companies that show signs of distress (Olivia et al., 2023).

A financial crisis often marks the early stage of financial distress, which may arise from poor cash flow, consecutive operating losses or increasing total liabilities. Such conditions reflect that a company's financial position is unstable, although it has not yet reached bankruptcy. Therefore, early intervention is essential to mitigate the risk factors leading to financial distress before they escalate (Febriyanti & Haryanto, 2024). The emergence of financial distress indications in the early stages of bankruptcy can positively impact the company, as it provides an early warning of potential financial crises. This allows companies to take preventive measures more quickly before a full-scale financial crisis occurs (Purwanti & Dewi, 2024).

2.4 Profitability

Profitability refers to a company's ability to generate profit or earnings, which is measured by dividing earnings before interest and taxes (EBIT) by the total assets (Lestari & Fitranita, 2024). A higher profit level indicates that the company's assets are being used efficiently to generate income through operational activities. Conversely, low profits suggest that company assets are not effectively utilized to produce returns (Putri & Hendrani, 2023). A decline in profitability also affects a company's ability to meet its short-term liabilities (Olivia P et al., 2023). According to Febriyanti and Haryanto (2024), companies strive to maintain investor confidence by disclosing positive information, particularly regarding potential profits, in a timely manner, making consistent reporting of operational earnings crucial for sustainability.

Profitability can be used to assess the amount of profit generated in each period, relative to the revenue obtained from sales and investments. It serves as an important indicator for investors to evaluate a company's performance and future prospects (Purwanti & Dewi, 2024). In other words, as stated by Irawa and Suyanto (2023), low profitability may lead to financial difficulties and trigger financial distress due to insufficient internal funding. Supported by Signaling Theory, high profitability provides a positive signal to external stakeholders, indicating strong financial health and a lower likelihood of

financial distress (Lestari & Fitranita, 2024). This theory aligns with the findings of previous studies conducted by Utami (2021), Anistasya and Setyawan (2022), Olivia P et al. (2023),Suhartono et al. (2024), Joshlyn and Widjaja (2024), Khoir and Wafiroh (2024), Lestari and Fitranita (2024), and Shafitranata and Octavia (2025), which collectively demonstrate that profitability has a positive and significant effect on financial distress.
H1: Profitability has a positive and significant effect on financial distress

2.5 Liquidity

Liquidity refers to a company's ability to meet all its short-term obligations using the available current assets when payments are due (Purwanti & Dewi, 2024). This ratio indicates how capable a company is of fulfilling its short-term debts when they reach maturity. The capacity of management to utilize current assets to cover current liabilities serves as a measure of liquidity. A higher liquidity level reflects a company's stronger potential to meet its financial obligations and reduce financial pressure through its current assets (Purba et al., 2024). When a company's current assets exceed its current liabilities, it results in a higher liquidity ratio, indicating a lower likelihood of experiencing financial distress (A. Pand Sari & Se (iring, 2022).

A high liquidity ratio also corresponds to a higher Springate score, which is used as a financial distress measurement tool; therefore, companies with high liquidity are more likely to avoid financial distress (Khoir and Wafiroh, 2024). Firms that can maintain strong liquidity levels are generally considered financially healthy and stable (Lestari & Fitranita, 2024). According to Kuntari & Machmuddah (2021), this aligns with Signaling Theory, which posits that high liquidity sends a positive signal to external parties that the company is financially sound and capable of meeting its obligations, thereby minimizing the risk of financial distress. Consistent with this theoretical framework, prior studies by A. P.andndndand A. P. and A. P.have showand that Sari & Sandmbiring (and022), Purwa, nti & Deandi (2024), MinaandaAndandhland (20and4)andhoir & anandiroh (202and), dan Lestari & Fitranita (2024) found that liquidity has a positive and significant effect on financial distress.
H2: Liquidity has a positive and significant effect on financial distress

2.6 Board Size

Board size refers to the total number of members on a company's board of commissioners (Rosadi & Dillak, 2023). The board of commissioners plays a supervisory role over the company's management, whereas the board of directors is directly responsible for managing operations and making strategic decisions that influence the company's financial condition. A larger board of directors is generally beneficial for a company because it introduces a greater diversity of opinions and perspectives, which can help identify risks and prevent potential financial distress. Conversely, a smaller board may limit the range of insights and increase the likelihood of poor decision-making, thereby increasing the risk of financial distress. Moreover, an effective board of commissioners that performs its monitoring duties properly can reduce the likelihood of financial distress by ensuring managerial accountability and improving the overall governance quality (Natalia & Rudiawarni, 2022).

Based on Agency Theory, the relationship between the board of commissioners (principals) and the board of directors (agents) reflects an agreement to achieve mutual organizational goals. The board of directors holds significant responsibility for managing the company effectively and must regularly report its performance and financial condition to the board of commissioners (Nuswantara et al., 2023). Consistent with this theoretical perspective, previous studies by Kalbuana et al. (2022), Rosadi and Dillak (2023), and Olivia P et al. (2023) have shown that board size has a positive and significant effect on financial distress, implying that a larger and more effective board enhances oversight and decision-making quality, which in turn strengthens a company's financial resilience.
H3: Board size has a positive and significant effect on financial distress

2.7 Gender Diversity

According to Ramadanty and Khomsiyah (2022), gender diversity refers to the proportion of female members serving on a company's board of commissioners. The presence of gender diversity within an

organization is expected to have positive effects, such as fostering creativity, innovation, and more balanced perspectives in corporate decision-making (Samudra, 2021). Many global companies have increasingly appointed women to senior positions, including directorships and board memberships, recognizing their strategic contributions to governance and overall organizational performance (Rosadi & Dillak, 2023).

As stated by Khoir and Wafiroh (2024), including women on corporate boards can help minimize the risk of financial distress. Female leaders are often perceived as more cautious and risk-averse in financial decision-making, which reduces the likelihood of financial mismanagement. Thus, a higher level of gender diversity on the board tends to correlate with a lower probability of financial distress. Based on Agency Theory, principals delegate authority to agents to ensure the company's sustainability. A gender-diverse board provides broader perspectives, as both male and female directors contribute unique insights to enhance decision-making effectiveness (Husain et al. 2024). In line with this reasoning, Ramadanty and Khomsiyah (2022) found that gender diversity has a positive and significant effect on financial distress, suggesting that balanced gender representation can improve corporate governance and mitigate financial risks.
H4: Gender diversity has a positive and significant effect on distress.

2.8 Conceptual Framework

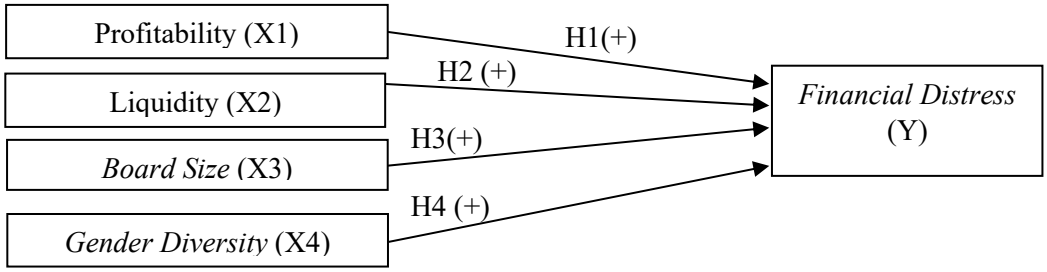

Figure 1. Conceptual Framework

3. Research Methodology

3.1 Population and Sampling Technique

This study employed purposive sampling, which, according to Agustianti et al. (2022), involves selecting samples based on predetermined criteria. The data used in this research are secondary data, with the first qualification being consumer cyclical companies that have published annual reports and are listed on the Indonesia Stock Exchange (IDX) as well as on their official company websites during the 2021–2023 period. The second qualification was that the sample data must indicate a financial distress value greater than 0.862. Based on these criteria, 137 samples were obtained. This study is quantitative and uses IBM SPSS version 26 software as the analytical tool. This study also emphasizes the use of several statistical tests, including Descriptive Statistics, Multiple Linear Regression Analysis as the main analytical technique to examine the effect of independent variables on the dependent variable, Classical Assumption Tests (Multicollinearity Test to test the correlation among independent variables, Normality Test to test the data distribution, Heteroscedasticity Test to determine whether the regression model has constant variance, and Autocorrelation Test to identify correlations among residuals), Coefficient of Determination, and Hypothesis Testing (F-test and t-test)

Table 1. Sample Population of Consumer Cyclicals 2021–2023

No	Description	2021	2022	2023	Total
1	Sample data of companies in the consumer cyclicals sub-sector that published annual financial reports	116	129	140	385
2	Sample data from the consumer cyclicals sub-sector with indications of financial distress	78	81	78	237

3	Extreme data elimination resulting in 137 remaining samples	53	57	27	137

Source: processed data, 2025

3.2 Operational Definition and Measurement

This study aims to examine the influence of independent variables on the dependent variable. This study uses one dependent variable, financial distress, measured using the Springate model. The independent variables consist of four variables: profitability (X1), measured using the Return on Assets (ROA) formula; liquidity (X2), measured using the Current Ratio (CR); board size (X3), measured by the total number of board commissioners; and gender diversity (X4), calculated based on the number of female commissioners compared to the total number of board commissioners.

Financial Distress (Y)

Khoir and Wafiroh (2024) describe financial distress as a financial crisis experienced by a company, accompanied by a decline in funds. The measurement in this study uses the Springate model, as follows:

$$S = 1{,}03A + 3{,}07B + 0{,}66C + 0{,}4D$$

A = (Current Assets – Current Liabilities) / Total Assets
B = Earnings Before Interest and Taxes (EBIT) / Total Assets
C = Earnings Before Tax (EBT) / Current Liabilities
D = Sales / Total Assets
A company is considered to be in a healthy financial condition when S > 0.862. Conversely, when S < 0.862, a company is categorized as having the potential to experience financial distress.

Profitability (X1)

Khoir and Wafiroh (2024) define profitability as a financial ratio used to determine the amount of profit generated from the contribution of a company's assets. The calculation uses the Return on Assets (ROA) formula as follows:

$$ROA = \frac{Net\ Income}{Total\ Assets} \times 100\%$$

Liquidity (X2)

Kuntari and Machmuddah (2021) explain liquidity as a company's ability to meet its short-term obligations using its current assets. The measurement instrument used is the Current Ratio (CR), calculated as follows:

$$CR = \frac{Current\ Assets}{Current\ Liabilities} \times 100\%$$

Board Size (X3)

The board of commissioners provides direction and oversight to the board of directors in corporate governance (Kalbuana et al. 2022). The calculation used in this study measures board size as follows:

$$BS = \sum \text{Board Commissioners}$$

Gender Diversity (X4)

Gender diversity refers to the representation of men and women within a company. According to Khoir and Wafiroh (2024), it is calculated by comparing the number of female commissioners to the total number of commissioners, as follows:

$$GD = \frac{\sum Female\ Commissioners}{\sum Board\ Commissioners}$$

4. Results and Discussion

4.1 Results

4.1.1 Descriptive Statistics

Table 2. Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Profitability	137	-.1212	.0807	-.015482	.0416196
Liquidity	137	.0025	8.8004	1.237140	.9932598
Board Size	137	2	7	3.31	1.293
Gender Diversity	137	.0000	.6667	.107609	.1779249
Financial Distress	137	-1.3094	.8563	.097108	.4818897
Valid N (listwise)	137				

Source: Data processed using SPSS (2025)

Based on the results of the descriptive statistical analysis, the research data consisted of 137 observations.

- The profitability variable (X1) has a minimum value of –0.1212, and a maximum value of 0.0807. The mean value was –0.015482, whereas the standard deviation was 0.0416196.
- The liquidity variable (X2) has a minimum value of 0.0025 and a maximum value of 8.8004. The table also indicates a mean value of 1.237140 with a standard deviation of 0.9932598.
- The board size variable (X3) has a minimum value of 2 and a maximum value of 7. The mean was 3.31, with a standard deviation of 1.293.
- The gender diversity variable (X4) shows a minimum value of 0.0000 and a maximum of 0.6667. The mean recorded was 0.107609, while the standard deviation was 0.1779249.
- Finally, the financial distress variable (Y) has a minimum value of –1.3094 and a maximum value of 0.8563. The mean value was 0.097108, with a standard deviation of 0.4818897.

4.1.2 Classical Assumption Test

Table 3. Classical Assumption Test

No	Test Type	Sig.	Durbin Watson	Tolerance	VIF	Description
1	Normality	0.086				Passed
2	Multicollinearity					Passed
	X1			0.955	1.047	
	X2			0.959	1.043	
	X3			0.918	1.089	
	X4			0.915	1.093	
3	Heteroscedasticity					Passed
	X1	0.831				
	X2	0.729				
	X3	0.880				
	X4	0.237				
4	Autocorrelation		1.900			Passed

Source: Processed Data (2025)

Based on Table 3, the normality test shows a significance value greater than 0.05, indicating that the data were normally distributed. The multicollinearity test results showed tolerance values greater than 0.10 and VIF values less than 10, indicating that the model was free from multicollinearity issues. Furthermore, the heteroscedasticity test in Table 3 demonstrates significance values greater than 0.05,

indicating that the regression model does not exhibit heteroscedasticity. The autocorrelation test showed a Durbin-Watson (DW) value of 1.900, and based on this result, the model was concluded to be free from autocorrelation.

4.1.3 Multiple Linear Regression and Hypothesis Testing

Table 4. Results of Multiple Linear Regression and Hypothesis Testing

No	Test Type	Unstandardized B	T	Sig.
1	Constant	0.047	0.508	0.612
	Profitability	7.508	9.806	0.000
	Likuidity	0.025	0.767	0.445
	Board Size	0.044	1.755	0.082
	Gender Diversity	-0.095	-0.519	0.605
2	F–Probability	0.000		
3	R Square	0.449		
4	Adjusted R Square	0.432		

Source: Processed Data (2025)

Regression Equation:

$Y' = a + b1X1 + b2X2 + b3X3 + b4X4$

$Y' = 0.047 + 7.508 + 0.025 + 0.044 - 0.095$

Description:

Y' = *Financial Distress*
a = Constant
b1,b2,b3.b4 = Regression coefficients
X1 = Profitability
X2 = Liquidity
X3 = *Board Size*
X4 = *Gender Diversity*

Explanation of the Results

The profitability coefficient is 7.508, with a significance value of 0.000 < 0.05, indicating that profitability has a positive and significant effect on financial distress. This implies that each increase in profitability results in an increase in financial distress. The liquidity coefficient is 0.025 with a significance value of 0.445 > 0.05, meaning that liquidity does not significantly affect financial distress. The board size coefficient is 0.044, with a significance value of 0.082 > 0.05, showing that board size does not significantly affect financial distress; therefore, changes in board size do not influence financial distress. The gender diversity coefficient is –0.095, with a significance value of 0.605 > 0.05, indicating that gender diversity does not significantly affect financial distress.

Based on Table 4, the R Square value is 0.449 (44.9%), and the adjusted R Square is 0.432 (43.2%). Furthermore, the F-test with a significance level of α = 5% (0.05) produces a value of 0.000 < 0.05, meaning that profitability (X1), liquidity (X2), board size (X3), and gender diversity (X4) collectively have a significant effect on financial distress (Y). In conclusion, profitability, liquidity, board size, and gender diversity jointly influence financial distress in consumer cyclical companies during the period 2021–2023.

4.2 Discussion

4.2.1 The Effect of Profitability (X1) on Financial Distress (Y)

Based on Table 4, profitability (X1) has a positive and significant effect on financial distress (Y) in consumer cyclical companies during 2021–2023. This finding is consistent with the proposed hypothesis, which states that profitability has a significant positive influence on financial distress; thus, H1 is accepted. The study applies the Springate model as a measurement tool for financial distress, indicating that when profitability (ROA) increases, the Springate value increases, and vice versa. High

profitability is considered capable of providing sufficient funding to avoid financial difficulties (Khoir & Wafiroh, 2024).
According to signal theory, a high profitability value provides a positive signal that the company is in a strong and healthy condition. When a company generates substantial profit, it sends a positive message to investors and external stakeholders that the firm is stable and far from a financial crisis. An increase in profit allows companies to meet their obligations and maintain operations, thereby reducing the likelihood of financial distress (Purwanti & Dewi, 2024).. These results align with several previous studies (Utami, 2021); Anistasya & Setyawan (2022); Olivia P et al. (2023); Suhartono et al. (2024); Joshlyn & Widjaja (2024); Khoir & Wafiroh (2024); Lestari & Fitranita (2024), which similarly conclude that profitability has a significant positive effect on financial distress.

4.2.2 The Effect of Liquidity (X2) on Financial Distress (Y)

The results of the data analysis in this study indicate that liquidity does not significantly affect financial distress in consumer cyclical companies during 2021–2023. This finding is not aligned with the proposed hypothesis stating that liquidity has a significant positive influence on financial distress; therefore, H2 is rejected. This result also contradicts signal theory, which emphasizes the importance of financial signals—whether good or bad—in financial reports to stakeholders, including creditors, investors, and other parties. Liquidity ratios reflect a company's ability to meet its short-term liabilities using current assets. Based on the findings, it can be interpreted that a high or low liquidity ratio, as measured by the current ratio (CR), does not influence the likelihood of financial distress. The underlying reason is that most sample companies in the consumer cyclicals sector during 2021–2023 possessed current assets that were significantly higher than their current liabilities, indicating their ability to settle their short-term obligations (Utami, 2021).

Another reason is that stakeholders—including creditors, investors, and other decision-makers—tend to pay less attention to liquidity ratios that measure a company's ability to settle short-term debts. Investors are more concerned with long-term debt risks and potential returns in the form of profits. Therefore, liquidity does not influence financial distress (Baghaskara & Retnani, 2023). This study is consistent with the findings of Utami (2021), Jannah et al. (2021), Pertiwi et al. (2022), Anistasya and Setyawan (2022), Baghaskara and Retnani (2023), Rusyanti et al. (2024), Saudicha and Kautsar (2024), Candrayani et al. (2024), and Arnu and Nugraha (2024), all of which conclude that liquidity does not significantly affect financial distress.

4.2.3 The Effect of Board Size (X3) on Financial Distress (Y)

The findings of this study show that board size does not significantly affect financial distress in consumer cyclical companies during 2021–2023. This result does not align with the proposed hypothesis, which states that board size has a significant negative influence on financial distress; therefore, H3 is rejected. The descriptive analysis also shows that the average value of the board size variable is only 3.31, indicating that, on average, the number of commissioners is small. Based on agency theory, the board of commissioners acts as the principal, while the board of directors acts as the agent to achieve organizational goals. The board of directors is responsible for managing the company and is authorized by the board of commissioners to provide continuous reports on the company's status.

A larger board size potentially increases the likelihood of financial distress in consumer cyclical companies. A larger board may lead to decreased performance due to communication barriers, difficulties in monitoring, and delays in decision-making, which may increase the level of financial distress in the long term (Prasetyo et al., 2023). However, the results of this study show that the size of the board—whether large or small—does not influence decision-making or company performance and, therefore, does not affect financial distress (Khoir and Wafiroh, 2024). These findings are consistent with those of Ohandi and Puspitasari (2024) and Khoir and Wafiroh (2024), who also concluded that board size does not significantly affect financial distress.

4.2.4 The Effect of Gender Diversity (X4) on Financial Distress (Y)

This study finds that gender diversity does not affect financial distress in consumer cyclical companies during 2021–2023. This result does not align with the proposed hypothesis, which states that gender diversity has a significant positive influence on financial distress; therefore, H4 is rejected. The hypothesis assumed that a balanced proportion of men and women within a company would create synergy and a better balance in decision-making. It also suggests that gender diversity within the board enhances the quality of decisions through diverse perspectives, experiences, and approaches contributed by each individual.

According to agency theory, an agent is granted authority by the principal to take responsibility for a company's sustainability. Based on the proposed hypothesis, gender diversity influences financial distress. However, the findings contradict this assumption, showing that gender diversity has no effect on financial distress (FD). Gender diversity, particularly the inclusion of women on the board, does not impact the likelihood of financial distress. The descriptive analysis shows that the average proportion of gender diversity is only around 10%, indicating that female representation on the board of commissioners is limited to approximately one-tenth of the total membership of the board. This low representation may contribute to the insignificant effect of gender diversity on financial distress. These findings are consistent with those of previous studies by Rosadi and Dillak (2023), Husain et al. (2024), and Khoir and Wafiroh (2024), all of which state that gender diversity does not affect financial distress.

5. Conclusion

The first conclusion of this study indicates that the independent variable, profitability, has a significant positive effect on financial distress. When profitability increases, financial distress (measured using the Springate model) also increases, signifying a healthier financial condition. The Springate score reflects that a higher value indicates financial stability, while a lower score suggests potential financial difficulties or bankruptcy among consumer cyclical companies during 2021–2023. Thus, the profitability variable implies that an increase in company profits raises the Springate score, indicating that the company is less likely to experience financial distress or bankruptcy. Second, the liquidity variable shows no significant effect on financial distress, implying that having a higher proportion of current assets compared to current liabilities does not necessarily reduce the likelihood of financial distress among consumer cyclical companies in 2021–2023. Third, board size has no significant effect on financial distress. This finding suggests that the number of board members, whether large or small, does not substantially influence decision-making, supervision, or performance degradation, which could trigger financial distress in these companies. Finally, gender diversity has no significant effect on financial distress. This result means that the ratio of female members on the board of commissioners does not affect the likelihood of financial distress among consumer cyclical companies during the study period.

5.1 Limitations and Future Research

This study has certain limitations, primarily that only one independent variable—profitability—was found to significantly influence the financial distress. Therefore, future research should include additional variables, such as financial leverage, audit committees, and firm size, to enhance the understanding of factors that may affect financial distress. Expanding the research scope and time period may provide deeper and more comprehensive insights.

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