

THE ROLE OF POLITICAL CONNECTIONS IN MODERATING THE EFFECT OF BOARD DIVERSITY ON FINANCIAL DISTRESS

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ABSTRACT

The objective of the study is to examine and analyze the role of political connection in moderating the effect of board gender diversity and board size on companies' financial distress. A sample of 46 banking companies listed in Indonesia Stock Exchange between during the 2021-2023 period was selected using a purposive sampling method. Panel data regression were used for data analysis. The results of the research exhibit that board of commissioner gender diversity has no effect on financial distress; board of director gender diversity has a positive effect on financial distress; and board size has a negative effect on financial distress. Political connections cannot moderate the effect of gender diversity, but can moderate the negative effect of gender diversity and the positive effect of board size on financial distress. As the research implication, this finding can provide insights for corporate management and regulators to determine the most effective corporate board design to improve the companies' financial performance and avoid financial distress.

Keywords: Board Diversity, Board Size, Corporate Governance, Political Connection, Financial Distress

INTRODUCTION

Banking plays a crucial role in enhancing the economy of a country, particularly in Indonesia. This is outlined in Law No. 10 of 1998, which states that a bank is a business entity that collects public funds and channels them to the community to improve the living standards of the general public. However, in recent years, Indonesia's economy has faced a downturn due to the Covid-19 pandemic. This has led to financial difficulties for various sectors in Indonesia, including banking. The lockdown policy, which restricted economic activities in Indonesia, resulted in decreased bank revenues (Purwanto et al., 2023). When a company is unable to generate profits, it is at a high risk of financial distress (Ahmad et al., 2022).

Financial distress is an indicator of a company's financial condition. According to Nuswantara et al. (2023), financial distress occurs when a business's financial condition deteriorates to the point just before liquidation or bankruptcy. When a company reports negative cash flows and losses in a given year, it can be said to be experiencing financial difficulties. This is a matter of concern for the company's stakeholders, including creditors, suppliers, employees, and shareholders. When a company experiences financial distress, its financial obligations to stakeholders cannot be met (Muien & Nordin, 2024).

Previous studies have discussed variables that can influence financial distress, one of which is gender diversity on the board of directors (Ali et al., 2021; Guizani & Abdalkrim, 2022; Nuswantara et al., 2023; Muthia et al., 2024). There is literature suggesting that women are more likely to consider risks when making decisions compared to men (Cupák et al., 2021). Additionally, Lucas-Pérez et al. (2015) found that gender diversity can affect the effectiveness of a board of directors. Undoubtedly, a well-composed board of directors can result in efficient operations, thereby avoiding business failures (Guizani & Abdalkrim, 2022).

In recent years, the involvement of women in top managerial positions in companies and organizations in Indonesia has been increasing year by year (Central Bureau of Statistics, 2023). The rising involvement of women in top managerial positions indicates that gender diversity in Indonesian companies is also increasing. Prihatiningtias (2012) in her dissertation states that research on gender equality and women's empowerment in Indonesia is needed to maximize the achievement of national

development programs and promote economic growth. This motivates a deeper understanding of the impact of gender diversity on the financial performance of companies in Indonesia. Abbas and Frihatni (2023) state that female involvement is crucial for company development. With women in top managerial positions, companies expect improved financial performance to support their growth.

In Indonesia, research specifically on gender diversity and financial distress is still limited (Muthia et al., 2024). Therefore, this study is conducted by adding the influence of political connections as a moderating variable to broaden the scope of the research. Indonesia is a developing country with strong political connections in business (Harymawan & Nowland, 2016), making it an interesting subject for research on political connections. Specifically, the research problems raised in this research are whether board diversity, which includes boards gender diversity and boards size, effect financial distress, and whether those relationships are strengthen or weaken by political connection of boards.

The theoretical frameworks used in this study are agency (Jensen & Meckling, 1976) and resource dependence theories (Pfeffer & Salancik, 1978). Through the lens of agency theory, governance and decision making are improved by having diverse boards especially women directors because this may lead to a more careful financial decision which possibly reduce the possibility of financial distress experience. Moreover, resource dependence theory explains that organizations depend on external resources, such as government support and particular regulation, to survive and maintain going concern. Therefore, political connection, as part of the external resources needed by companies, may affect the impact of gender diversity of boards and the possibility of companies in experiencing financial distress.

Political connections are known to be a variable that can influence the likelihood of a company experiencing financial distress. Previous research indicates that political connections affect financial distress (Ahmad et al., 2022; Hadiputra & Windijarto, 2023; Nugrahanti et al., 2020). A company is said to have political connections if one of its owners or board members is currently or has previously held a government or ministry position (Nuswantara et al., 2023). Hadiputra and Windijarto (2023) mention that companies with political connections can leverage this to gain advantages such as information about subsidies or government contracts, which can help improve the company's performance and avoid financial distress.

One sector in Indonesia closely related to politics and the government is the banking sub-sector. In this sub-sector, there are several State-Owned Enterprises (SOEs), where all or most of the company's capital is owned by the government. This allows banking companies to obtain financial aid or loans from the government through political connections. Additionally, Law No. 10 of 1998 explains that banking plays an important role in improving people's living standards and supporting national development. Therefore, the banking sub-sector is suitable for this study.

The research has been conducted by utilizing quantitative approach with 46 banks observed for three years in a row from 2021–2023. Financial distress was measured by Altman Z-score, while board gender diversity was proxied by Blau Index and board size was the number of board members in a company. In the meantime, political connections were considered by dummy variable of 1 or 0. The results show that board gender diversity among commissioners does not affect financial distress. However, gender diversity in the board of directors increases financial distress risk. Larger board size reduces financial distress risk. Political connections do not moderate the effect of gender diversity among commissioners but do moderate the effect of gender diversity in the board of directors, reducing financial distress when connections are present. Political connections also moderate the effect of board size, where a larger board may increase financial distress risk when political ties exist.

LITERATURE REVIEW

Several previous studies have examined the impact of women on corporate boards, such as their influence on company performance (Galbreath, 2018; Maji & Saha, 2021), board effectiveness (Lucas-Pérez et al., 2015), company value (Agyemang-Mintah & Schadewitz, 2018; Syamsudin et al., 2017), and financial distress (Guizani & Abdalkrim, 2022; Muien & Nordin, 2024). Other studies have also explored the effect of board size on company performance and financial distress (García & Herrero, 2021; Yan et al., 2021). However, most of these studies have a limited scope, without linking them to other variables such as the moderating role of political connections. In fact, some research indicates that political connections have an impact on companies, such as on company performance (Islam et al., 2022; Singh et al., 2023), earnings quality (Harymawan & Nowland, 2016), and even financial distress (Ahmad et al., 2022; Nugrahanti et al., 2020). Therefore, this study aims to connect these two variables

to understand the role of political connections in moderating the impact of gender diversity on corporate boards on financial distress.

This research has novelty in contributing to the study of gender diversity in developing countries, specifically in Indonesia. Most studies only use dummy variables or the proportion of women to measure gender diversity on corporate boards (Abbas & Frihatni, 2023; Muthia et al., 2024). In this study, the Blau Index is used to measure gender diversity more accurately, as this method is widely used to measure diversity indices (Maji & Saha, 2021). Additionally, this study employs the Altman Z-score (1968) to measure the level of financial distress of companies. Previous research (Nuswantara et al., 2023) still used the debt-to-equity ratio to measure financial distress conditions.

Board Gender Diversity and Financial Distress

The development of these hypotheses is based on agency theory. Agency theory is the relationship between company management (agents) who perform their duties on behalf of shareholders (principals) (Jensen & Meckling, 1976). Several studies suggest that gender diversity can enhance the oversight, decision-making, management, and communication roles of a corporate board with shareholders (Ain et al., 2020; García & Herrero, 2021; Muien & Nordin, 2024); according to agency theory, this can help reduce agency problems and conflicts of interest. A reduction in agency problems can lead to the prevention of financial distress in a company (Guizani & Abdalkrim, 2022). Therefore, agency theory posits that board gender diversity can reduce the risk of financial distress through business process efficiency. In line with the above statements, the following hypotheses are proposed:

H1_a: Gender diversity on the board of commissioners has a negative effect on financial distress

H1_b: Gender diversity on the board of directors has a negative effect on financial distress

Board Size and Financial Distress

This variable is based on agency theory, which represents the principal-agent contract relationship between shareholders (principals) and management (agents), where agents perform various services on behalf of principals (Jensen & Meckling, 1976). According to agency theory, an excessively large board size can increase the risk of financial distress. This is explained by Kalbuana et al. (2022), who state that an overly large board size can actually reduce the efficiency of the board in overseeing and managing the company. This can lead to conflicts of interest, where more board members can hinder coordination and communication within the board (Yan et al., 2021). A lack of coordination within the board can result in weakened corporate governance, making it difficult for the company to handle challenging situations. Based on the above description, the following hypothesis is proposed:

H2: Board size has a positive effect on financial distress

The Role of Political Connections in Moderating the Effect of Board Gender Diversity on Financial Distress

Resource dependence theory (Pfeffer & Salancik, 1978) is used to underpin the hypothesis that political connections moderate the effect of board gender diversity on financial distress. Ain et al. (2020) describe resource dependence theory as organizational behavior that requires certain resources to survive. This theory views political connections as an exclusive resource that includes access to external funding information and advantageous contracts for the company (Islam et al., 2022). The benefits of board gender diversity, which provide a wider range of expertise and experience, can be enhanced by the presence of exclusive resources such as political figures with connections, expertise, and experience in politics (Guizani & Abdalkrim, 2022; Hadiputra & Windijarto, 2023). Therefore, resource dependence theory posits that political connections can strengthen the negative impact of board gender diversity on financial distress. Based on this, the following hypotheses are proposed:

H3_a: Political connections strengthen the negative effect of board gender diversity (commissioners) on financial distress

H3_b: Political connections strengthen the negative effect of board gender diversity (directors) on financial distress

The Role of Political Connections in Moderating the Effect of Board Size on Financial Distress

Regarding the role of political connections in moderating the effect of board size, this study uses agency theory to develop the hypothesis. Agency theory refers to the relationship between company

management (agents) who perform their duties on behalf of shareholders (principals) (Jensen & Meckling, 1976). According to Hadiputra and Windijarto (2023), political connections can create agency problems, as political figures tend to prioritize political agendas over the interests of the company. The conflict of interest between management and shareholders resulting from political connections (Nugrahanti et al., 2020) can potentially increase with a larger board size, which may lead to conflicts among board members (Yan et al., 2021). Therefore, based on agency theory, political connections can strengthen the positive impact of board size on financial distress. Hence, the following hypothesis is proposed:

H4: Political connections strengthen the positive effect of board size on financial distress

METHODS

This study uses secondary data, with the sample selection determined using purposive sampling. The criteria established for the sample are that the companies must be from the banking sub-sector listed consecutively on the Indonesia Stock Exchange from 2021 to 2023. Additionally, the sampled companies must have consistently published financial reports during the study period, with financial statements presented in Indonesian Rupiah. After applying purposive sampling, 46 banking companies were obtained for the study period of 2021-2023 (3 years). The total number of samples is 138.

Financial Distress

This study uses the Altman Z-score (1968) to measure the financial distress of companies. This method involves combining several financial ratios to reflect the financial condition of a company, thereby providing reliable accuracy of results (Hadi & Anggraeni, 2008). Measurement is done by assigning a value of 1 if the company is experiencing financial distress (z-score < 2.6), and a value of 0 if the company is in good financial health (z-score > 2.6) (Azam et al., 2023). The following is the Altman Z-score formula applicable to non-manufacturing companies (Azam et al., 2023):

$$\text{Z-score} = 6,56X_1 + 3,26X_2 + 6,72X_3 + 1,05X_4$$

Description:

X_1 = Working capital / Total assets

X_2 = Retained earnings / Total assets

X_3 = Earnings before interest and tax / Total assets

X_4 = Book value of equity / Total liabilities

Board Gender Diversity

In this study, two types of measurements are used to assess board gender diversity: gender diversity on the board of commissioners and gender diversity on the board of directors. The measurement of board gender diversity is conducted using the Blau Index (Muien & Nordin, 2024). The reason for using this method is that the Blau Index provides a better measurement of diversity compared to dummy variables or proportion-based measurements (Maji & Saha, 2021). The Blau Index can be calculated using the following formula:

$$\text{Blau Index} = 1 - \sum_{i=1}^K P_i^2$$

Description:

P_i = Percentage of each category

K = Number of categories

The Blau Index (BI) value ranges from 0 to $\frac{(K-1)}{K}$. A higher value indicates greater diversity

Board Size

Board size is used as an independent variable in this study. According to Switzer et al. (2018), board size refers to the number of board members in a company. The board size of a company is crucial as board members are responsible for overseeing and managing the company's operations, which, in turn, affects the company's performance. In this study, board size is measured as follows (Yan et al., 2021):

Board size = Total number of board members in the company

Political Connections

The moderating variable used in this study is the company's political connections. A company is considered to have political connections if any member of its board has previously held a position in either national or local government (Hadiputra & Windijarto, 2023). Political connections are qualitative data that can be measured on a nominal scale, so political connections are measured using a dummy variable (Nugrahanti et al., 2020). A value of 1 is assigned if the company has political connections, and a value of 0 is assigned if the company does not have political connections.

Data Analysis Method

This study uses panel data regression analysis because the data is a combination of cross-sectional and time series data. The first step involves conducting descriptive statistical analysis to provide an overview of the characteristics of the variables in the study. Following this, the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test will be used to determine the best model to employ from the three approaches in panel data regression estimation: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The panel data regression model used is as follows:

$$FD_{i,t} = \alpha + \beta_1 GDC_{i,t} + \beta_2 GDD_{i,t} + \beta_3 BS_{i,t} + \varepsilon \dots (1)$$

$$FD_{i,t} = \alpha + \beta_1 GDC_{i,t} * PC + \beta_2 GDD_{i,t} * PC + \beta_3 BS_{i,t} * PC + \varepsilon \dots (2)$$

ANALYSIS

Based on the results of the descriptive statistical analysis, the average value of financial distress (FD) is 0.725, which means that 100 out of 138 banking sub-sector companies are experiencing financial distress. This indicates that most publicly listed banking companies in Indonesia still have poor financial performance. This condition is attributed to the post-pandemic period, where many banking companies are still in the economic recovery phase after experiencing a revenue decline due to the impact of the pandemic (Purwanto et al., 2023).

The gender diversity of the board of commissioners (GDC) and the gender diversity of the board of directors (GDD) are measured using the Blau Index. In this study, the index has a maximum value of 0.5, which signifies perfect diversity, and vice versa. The mean values for GDC and GDD are 0.202 and 0.220, respectively. This indicates that the average gender diversity index for boards of banking companies in Indonesia is relatively low, with values not reaching half of the maximum Blau Index value of 0.5.

For the board size (BS) variable, the average number of board members in Indonesian banking companies is 11.319. The maximum board size is 26 members, while the minimum board size is 5 members. Furthermore, the descriptive analysis of the moderation variable, political connection (PC), shows a mean value of 0.645, meaning that 89 out of 138 banking companies in Indonesia during the 2021-2023 period have political connections. The results of the descriptive analysis are presented in Table 1 below:

Table 1 Descriptive Statistics Results

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
FD	0,725	1	1	0	0,448
GDC	0,202	0,219	0,5	0	0,199
GDD	0,220	0,278	0,5	0	0,185
BS	11,319	10	26	5	4,752
PC	0,645	1	1	0	0,480

Source: Data Processing Results, 2024

The study was conducted using panel data regression. There are three estimation models in panel data: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

To select the best model, three tests can be performed: the Chow Test, Hausman Test, and Lagrange-Multiplier Test. Below is a summary of the model selection process presented in Table 2:

Table 2 Summary of the Model Selection Process

Test Type	Model Estimation	P-Value	α	Selected Model
Chow Test	CEM – FEM	0,000	0,05	FEM
Hausman Test	FEM – REM	0,017	0,05	FEM
Lagrange-Multiplier Test	CEM – REM	0,000	0,05	REM

Source: Data Processed, 2024

Based on the tests above, the selected model for this study is the Fixed Effect Model (FEM). This can be observed from the Chow Test results, which were used to choose between the Common Effect Model (CEM) and FEM. The cross-section Chi-square probability value obtained was 0.000, which is less than the alpha value, indicating that the chosen estimation method in the Chow Test is FEM. Next, the Hausman Test was conducted to determine the best estimation model between FEM and the Random Effect Model (REM). The probability value for the cross-section random test was 0.0165, which is less than the alpha value, indicating that FEM is preferred over REM according to the Hausman Test. Finally, the Lagrange-Multiplier Test was performed to choose between the CEM and REM models. The Breusch-Pagan probability value obtained was 0.000, indicating that REM was selected in the Lagrange-Multiplier Test. However, since the Hausman Test indicated that FEM is better than REM, the estimation model used in this study is the Fixed Effect Model (FEM).

Hypothesis Testing Results

Table 3 as under has summarized the results of hypothesis testing. Each result has been described in detailed and justified based on the past studies in the sections below the table.

Table 3 Result of Hypothesis testing

	Hypothesis	β	Sig.	Result
H1 _a	Gender diversity of the Board of Commissioners has a negative effect on financial distress	-0,097	0,692	Rejected
H1 _b	Gender diversity of the Board of Directors has a negative effect on financial distress	0,542	0,085	Rejected
H2	Board size has a possitive effect on financial distress	-0,037	0,056	Rejected
H3 _a	Political connections strengthen the negative effect of board gender diversity (commissioners) on financial distress	0,290	0,502	Rejected
H3 _b	Political connections strengthen the negative effect of board gender diversity (directors) on financial distress	-1,966	0,000	Accepted
H4	Political connections strengthen the positive effect of board size on financial distress	0,148	0,000	Accepted

Source: Data Processing Results, 2024

Gender diversity of the board of commissioners does not affect financial distress

Based on the hypothesis testing results, gender diversity of the Board of Commissioners does not affect financial distress, leading to the rejection of Hypothesis H1a. This is inconsistent with agency theory, which posits that gender diversity can enhance the monitoring role of the Board of

Commissioners to reduce conflicts of interest and mitigate the risk of financial distress (Ain et al., 2020). The result may be attributed to the very low average gender diversity index in the study sample, which is 0.202. Consequently, such a low diversity index may not significantly impact the effectiveness of the Board of Commissioners in monitoring the company (Fitroni & Feliana, 2022), and therefore, does not contribute to reducing financial distress. This finding contrasts with previous research (Muthia et al., 2024), which indicated that gender diversity of the Board of Commissioners does affect financial distress. However, this finding aligns with the study by Kalbuana et al. (2022), which found that gender diversity of the Board of Commissioners does not impact financial distress.

Gender diversity of the board of directors positively affects financial distress

The hypothesis test results indicate that gender diversity of the Board of Directors positively affects financial distress, leading to the rejection of Hypothesis H1b. This result is inconsistent with agency theory, which suggests that gender diversity on the board can reduce agency problems, leading to increased business efficiency and reduced risk of financial distress (Guizani & Abdalkrim, 2022). This inconsistency may be due to the general tendency of women to be more risk-averse in decision-making (Cupák et al., 2021). This affects the high-risk, high-return concept, where the presence of women on the Board of Directors could lead to decision-making with lower risk and consequently lower returns. Such low returns could potentially contribute to financial distress (Kalbuana et al., 2022). This finding contradicts previous research (Guizani & Abdalkrim, 2022; Muien & Nordin, 2024), which found that gender diversity on the Board of Directors negatively impacts financial distress. However, this finding is consistent with studies by Nuswantara et al. (2023) and Kalbuana et al. (2022), which reported that gender diversity on the Board of Directors positively affects financial distress.

Board size negatively affects financial distress

The test results indicate that board size negatively affects financial distress, leading to the rejection of Hypothesis H2 as well. This implies that as the board size of a company increases, the company's performance improves, thereby reducing the risk of financial distress. This finding is inconsistent with agency theory, which states that a larger board size can lead to agency problems and increase the risk of financial distress (Yan et al., 2021). On the other hand, this result aligns with resource dependence theory, which posits that a larger board size can reduce the risk of financial distress by providing access to more professional resources for the company (Yan et al., 2021). A larger board size offers advantages in strategy formulation and broader external networking to help the company achieve its goals (Ibrahim, 2019). This is supported by García and Herrero (2021), who state that a larger board size indicates more knowledge and expertise among board members, leading to better board performance and minimizing the risk of financial distress. This finding is consistent with previous research (García & Herrero, 2021; Ibrahim, 2019), which found that board size negatively affects financial distress.

Political connection does not moderate the effect of gender diversity of the board of commissioners on financial distress

The hypothesis testing results indicate that political connection does not moderate the negative effect of gender diversity on the Board of Commissioners on financial distress, leading to the rejection of H3a. This finding is inconsistent with resource dependence theory, which views political connection as an exclusive resource that could strengthen the influence of board gender diversity in mitigating financial distress (Hadiputra & Windijarto, 2023). This result occurs because the Board of Commissioners does not directly manage the company but acts as a supervisory and advisory body to the company's management (Kalbuana et al., 2022). On the other hand, political connection only provides benefits in terms of information access to external funding and advantageous contracts for the company (Islam et al., 2022; Nugrahanti et al., 2020), which do not enhance the role of the Board of Commissioners in overseeing the company. Additionally, the very low average gender diversity index of the commissioners might be one reason why political connection cannot strengthen the effect of gender diversity on the Board of Commissioners, as a very low diversity index does not significantly influence financial distress (Fitroni & Feliana, 2022). This finding is contrary to the research by Nuswantara et al. (2023), which found that political connection can moderate the negative effect of Board of Commissioners' gender diversity on financial distress.

Political connection moderates the negative effect of gender diversity on the board of directors on financial distress

The results of the analysis show that political connection can moderate the negative effect of gender diversity on the Board of Directors on financial distress, meaning H3b is accepted. This finding aligns with resource dependence theory, which posits that political connections can moderate the negative impact of gender diversity on the Board of Directors on financial distress through exclusive resources that the company can utilize (Hadiputra & Windijarto, 2023). Gender diversity on the Board of Directors, which provides professional resources with a variety of skills and knowledge, can be enriched by the presence of political figures who offer connections and experience in the political sphere (Guizani & Abdalkrim, 2022; Islam et al., 2022). Moreover, political connections can also provide information such as external funding and favorable contracts for the company, which can support the skills and knowledge gained from gender diversity on the Board of Directors in managing the company and gaining a competitive advantage (Nugrahanti et al., 2020). Therefore, the influence of gender diversity on the Board of Directors in avoiding financial distress is further strengthened. This result is consistent with the research by Nuswantara et al. (2023), which found that political connections can moderate the negative impact of gender diversity on the Board of Directors on financial distress.

Political connection moderates the positive effect of board size on financial distress

The study found that political connections can moderate the positive effect of board size on financial distress, meaning H4 is accepted. This result supports agency theory, which suggests that political connections can moderate the positive impact of board size on financial distress by intensifying conflicts of interest between management and stakeholders due to political connections (Islam et al., 2022). This finding arises because a larger board size tends to create more conflicts of interest and agency costs (Yan et al., 2021), and these conflicts become more pronounced with the presence of political figures who prioritize political agendas over corporate agendas (Hadiputra & Windijarto, 2023). As the board size of a company increases, the number of competing interests among board members also increases, which can harm the overall interests of the company (Manzaneque et al., 2016). This issue is further exacerbated by the involvement of political figures who intervene in company management to achieve political goals rather than focusing on maximizing company performance (Nugrahanti et al., 2020). This finding is consistent with previous research, which has shown that political connections can moderate the positive effect of board size on financial distress (Nuswantara et al., 2023).

CONCLUSION

This study aims to examine the role of political connections in moderating the effect of board gender diversity on the risk of financial distress. To achieve this goal, a purposive sampling approach was used to select banking sub-sector companies listed on the Indonesia Stock Exchange during the years 2021-2022, resulting in a sample size of 138. Based on the results obtained, board gender diversity measured by the diversity of commissioners does not have an effect on the likelihood of financial distress. Conversely, when measured by the diversity of the board of directors, the results show that board gender diversity in the board of directors actually has a positive effect on financial distress. This indicates that the presence of gender diversity in the board of directors can increase the risk of financial distress for the company. Additionally, the study also shows that board size has a negative effect on financial distress. This finding demonstrates that a larger number of board members reduces the risk of financial distress for the company.

Furthermore, the study found that political connections cannot moderate the effect of board gender diversity among commissioners on financial distress. On the other hand, political connections can moderate the negative effect of board gender diversity among directors on financial distress. This means that when a company has political connections, gender diversity in the board of directors can actually reduce the occurrence of financial distress. Additionally, the study indicates that political connections can moderate the positive effect of board size on financial distress. This finding suggests that if a company has political connections, a larger number of board members may increase the risk of financial distress for the company.

The research contributes in some ways. It enhances gender diversity measurement by using the Blau Index, offering greater accuracy than previous methods. The study also improves financial distress assessment by applying the Altman Z-Score, which is more reliable than the Debt-to-Equity Ratio. Furthermore, it also explores how political connections moderate the link between gender diversity and financial distress. These findings provide valuable insights into managing financial distress risks and offer practical implications for policymakers and practitioners in optimizing board diversity and political ties. However, this study is limited in measuring political connections, as it relies on identifying board members with prior political roles. This approach overlooks connections through networks or relationships with political figures, excluding companies without politically experienced board members but with other forms of political ties.

This study has several implications. Firstly, the research results can be practically utilized by providing insights to company management in Indonesia on determining the composition of board members to prevent financial distress. Secondly, companies should consider the presence or absence of political connections in the company by paying attention to the size of the board and the gender diversity of its members. Thirdly, companies might add political connections if they have a relatively small board size and high board gender diversity. Conversely, when a company has a large board size, it is better not to include political connections in the board composition. Future researchers are advised to expand the criteria for measuring political connections in sample companies. This could include government ownership, past contracts with the government, or relationships with the government during the research period. This will help improve the accuracy of measurements and lead to better results.

ACKNOWLEDGMENT

This research was conducted with the financial support of the Faculty of Economics and Business, Universitas Brawijaya. We extend our deepest gratitude to the faculty for providing the funding and resources that made this study possible. The commitment to advancing academic research has greatly facilitated the completion of this work.

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