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When Gender Matters: Board Gender Diversity and the Capital Structure-Financial Performance Relationship

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ABSTRACT

Financial performance is a crucial indicator of a company's future sustainability. Thus, inadequate financial outcomes may jeopardize long-term survival, highlighting the importance of examining factors that influence financial performance. This study aims to extend previous research on capital structure by examining its influence on financial performance and testing the moderating role of board gender diversity in this relationship. Using a quantitative causal approach, the population comprises non-financial companies listed on the Indonesia Stock Exchange (IDX). The sample was selected through purposive sampling. Data were analysed using parametric panel data regression with the assistance of EViews. The results provide empirical evidence that capital structure has a negative and statistically significant effect on financial performance. Furthermore, board gender diversity significantly moderates the relationship between capital structure and financial performance. This research is important for two main reasons. First, it is the first study in Indonesia to incorporate board gender diversity as a moderating variable in the capital structure and financial performance nexus, thereby clarifying previously inconsistent findings. Second, it contributes to theoretical development by integrating trade-off theory and Upper Echelons theory in the context of non-financial firms in Indonesia.

INTRODUCTION

Financial performance can reflect a company's prospects for sustainability in the future (J. Chouaibi, 2021). Therefore, failure to achieve good financial performance may endanger the company's long-term viability (Al-Homaidi et al., 2019). Furthermore, robust financial performance is generally linked to greater investor confidence (Song et al., 2020). However, in Indonesia, firms' financial performance has yet to achieve optimal outcomes (Dwiastuti et al., 2019; Wati et al., 2019). Moreover, the financial performance of several non-financial companies during the period 2020–2024 has not demonstrated encouraging results, as illustrated in the following graph:

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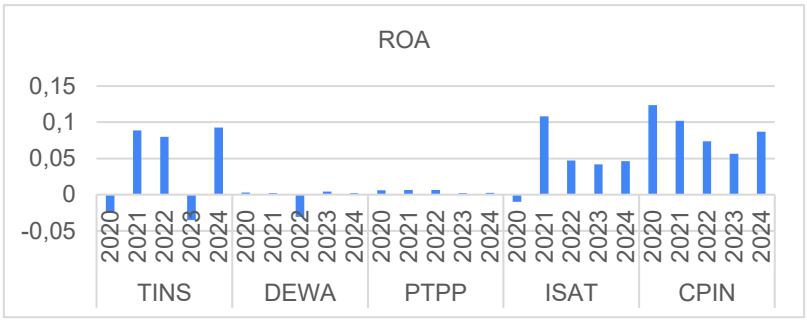

Fig. 1. Growth Financial Performance

Globally, there is a growing trend of associating the optimization of financial performance with the composition of capital, given its strong connection to financial efficiency in the short to medium term (Ayaz et al., 2021; Fahmi & Sawukir, 2025; Mardani et al., 2023; Wirawan et al., 2024). Capital structure refers to the decisions governing how much and what type of funding a firm employs to run its operations and achieve performance goals. A well-balanced capital structure can potentially enhance financial performance. The trade-off theory further underpins this idea, explaining that businesses set their capital structure through a balance between the benefits gained from debt and the risks it entails. This balance can provide a positive assessment, as companies are perceived as capable of meeting obligations and managing operations effectively, thereby increasing investor trust and potentially enhancing financial performance.

Prior researchers Ahmed & Nugraha (2023); Mardani et al. (2023) have emphasized that adopting an optimal capital structure can lead to a reduction in a firm's Weighted Average Cost of Capital (WACC). Once the WACC is minimized, more funds can be allocated to productive activities, including investment projects. Nevertheless, this relationship remains unclear because some previous researchers have argued the opposite that capital structure negatively affects financial performance (Ayaz et al., 2021; Dalci, 2018).

The inconsistent results highlight a gap in existing research on the link between capital structure and financial performance, possibly stemming from limited insight into the determinants of optimal capital structure choices. Moreover, Zhao et al. (2010); Darsono et al. (2025) points out that inconsistencies in prior studies could indicate the presence of a moderating variable capable of enhancing, diminishing, or even altering the direction of the relationship.

A potential moderating variable is board gender diversity, as greater gender diversity within the board may provide broader perspectives and influence corporate decision-making. The presence of female board members may contribute to more comprehensive risk assessment and greater consideration of the long-term consequences of financial decisions. This perspective is consistent with Upper Echelons Theory, which posits that organizational decisions and outcomes are influenced by the characteristics and cognitive perspectives of top-level decision makers. Accordingly, board gender diversity may influence how capital structure decisions are evaluated and implemented, thereby affecting the relationship between capital structure and financial performance.

The novelty of this research is based on prior studies that have mostly examined the relationship directly (Abdi et al., 2021; Bardos et al., 2020; Cho, 2022; S. Chouaibi et al., 2021; Masliza et al., 2021; Suttipun & Thanyaorn, 2021; Yordudom & Suttipun, 2020). For instance, Ahmed & Nugraha (2023) investigated the relationship between capital structure and financial performance in manufacturing companies listed on the Tehran Stock Exchange (TSE). This study seeks to fill the gap by offering fresh perspectives on capital structure within Asian and Middle Eastern markets, framed through the lens of agency theory.

Based on prior studies, there are still variables that have been largely overlooked and identifying these could produce a new research model capable of addressing inconsistencies in previous findings. The present research addresses this gap by incorporating board gender diversity as a possible moderating factor in the link between capital structure and financial performance. The investigation centers on Indonesian non-financial firms, which typically exhibit greater variation in their capital structure profiles.

This research is important for several reasons. First, this is the inaugural study in Indonesia to examine board gender diversity as a moderating factor in the capital structure and financial performance relationship, aiming to shed light on earlier conflicting results. Secondly, this research contributes to theoretical development by integrating trade-off theory and Upper Echelons Theory to explain the

relationship between capital structure and financial performance and the moderating role of board gender diversity.

Capital Structure

Capital structure denotes the mix of debt and equity a company uses to finance its operations. Although Jaros & Bartosova (2015) contend that, in a perfect market, capital structure has no impact, real-world factors such as taxation, bankruptcy expenses, and information asymmetry render it significant. The trade-off theory suggests that firms strive to balance the tax benefits of debt against the risk of bankruptcy, whereas the pecking order theory argues that companies prefer to use internal financing first, followed by debt, and then equity, in order to minimize costs associated with information asymmetry. Thus, capital structure reflects both financial policy and corporate strategy (Ahmed & Nugraha, 2023; Mardani et al., 2023).

Financial Performance

Financial performance reflects how effectively a company attains its economic objectives, commonly assessed using metrics like Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). ROA gauges asset efficiency in generating net income, ROE measures shareholder returns, and NPM reflects profit margins. Previous studies employ ROA (Ahmed & Nugraha, 2023; Masliza et al., 2023; Rohendi et al., 2024) or ROE (Abdi et al., 2021; DasGupta, 2021).

Hypothesis Development

The Effect of Capital Structure on Financial Performance

In corporate financial management, capital structure represents a key strategic choice, determining the mix of debt and equity used to fund business operations. This research employs the Debt-to-Equity Ratio (DER) to gauge capital structure, illustrating the proportion of external financing compared to internal equity. When managed effectively, debt can function as a leverage mechanism that strengthens a firm's capacity to deliver higher returns on equity, ultimately boosting overall financial performance. However, excessive debt can increase interest expenses and financial risk.

This study interprets the link between capital structure and financial performance through the lens of trade-off theory, which asserts that firms weigh the advantages of debt, like tax savings, against possible financial downsides, such as challenges in fulfilling obligations, to arrive at an optimal financing mix. Moderate debt usage provides leverage benefits that can increase firm value and shareholder profitability, as reflected in higher ROE.

This condition is particularly relevant for non-financial companies in Indonesia, where the use of external financing is still common, especially for business expansion purposes. As long as management can manage debt efficiently, an optimal capital structure can strengthen financial stability and yield higher returns for shareholders. In addition, earlier research indicates that selecting an optimal capital structure has the potential to enhance a firm's overall financial outcomes (Ahmed & Nugraha, 2023; Ayaz et al., 2021; Mardani et al., 2023).

H1: Capital structure has a positive influence on financial performance.

The Moderating Role of Board Gender Diversity on Capital Structure and Financial Performance

The study's second hypothesis examines whether board gender diversity plays a moderating role in the link between capital structure and financial performance. Capital structure represents a strategic financial choice, illustrating the mix of debt and equity employed to finance a firm's operations. A well-structured capital mix can shape a firm's risk-return balance, thereby impacting its financial performance.

In financial theory, capital structure decisions are closely associated with trade-off theory, which posits that firms attempt to balance the tax benefits of debt with the possible bankruptcy costs or increased financial risk resulting from high leverage. Nonetheless, the success of these decisions is largely shaped by the quality of corporate governance, particularly the characteristics of the board of directors.

This perspective is further supported by Upper Echelons Theory, which suggests that organizational outcomes are influenced by the characteristics and cognitive perspectives of top-level decision makers. Accordingly, board gender diversity may shape how capital structure decisions are evaluated and implemented. One characteristic highlighted in modern governance is board gender diversity. Female board members are perceived to adopt a more cautious approach, assess risks more comprehensively, and display greater sensitivity to long-term implications. Hence, the presence of gender diversity on the board may influence the link between capital structure and financial

performance, especially by encouraging financial decisions that are more cautious and focused on long-term outcomes. This argument is consistent with Upper Echelons Theory, which emphasizes that organizational outcomes are influenced by the characteristics and perspectives of top-level decision makers. Board gender diversity reflects differences in the experiences and cognitive perspectives represented in the boardroom. Such diversity may influence how financial risks are evaluated and how capital structure decisions are implemented. Therefore, board gender diversity may strengthen the effectiveness of capital structure decisions in influencing financial performance.

H2: The diversity of gender within the board of directors moderates the effect of capital structure on a company's financial performance.

MATERIALS AND METHODS

This research adopts a causal design to empirically examine how board gender diversity moderates the link between capital structure and financial performance. The study population includes non-financial firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. Samples were chosen through purposive sampling, considering the availability of data on capital structure, financial performance, and board gender diversity. The final sample comprised 51 companies and 255 firm-year observations.

Financial performance, serving as the dependent variable, is measured using ROA, calculated by dividing Net Income by Total Assets (Abdi et al., 2021; Aboud & Diab, 2019; Behl et al., 2021; Chauhan & Kumar, 2018; Cho, 2022; Sadiq et al., 2020; Thahira & Mita, 2021; yiwei, Menfeng Gong, Xiuye Zhang, 2018). The independent variable, capital structure, is represented by the DER, defined as the ratio of Total Debt to Total Equity. The moderating variable, board gender diversity, is measured using Blau's Index. The index is calculated as $Blau\ Indeks = 1 - \sum_{i=1}^{n} {p_1}^2$ where p_1 represents the proportion of board members in gender category i, and n denotes the number of gender categories.Control variables include firm size, firm age, and leverage (Behl et al., 2021; Drempetic et al., 2020; Feng & Wu, 2021). Leverage is proxied by the Debt-to-Asset Ratio (DAR), calculated as total debt divided by total assets. Although both DER and DAR are debt-related measures, DER captures the relative composition of debt and equity, whereas DAR reflects the proportion of assets financed by debt. Accordingly, DER and DAR are retained as distinct measures because DER captures the relative financing structure of the firm, while DAR reflects its overall debt exposure in relation to the asset base. This distinction supports their simultaneous inclusion in the model. Firm size is measured using the natural logarithm of total assets, whereas firm age is measured based on the number of years since the firm's establishment. The research framework is illustrated in the model below:

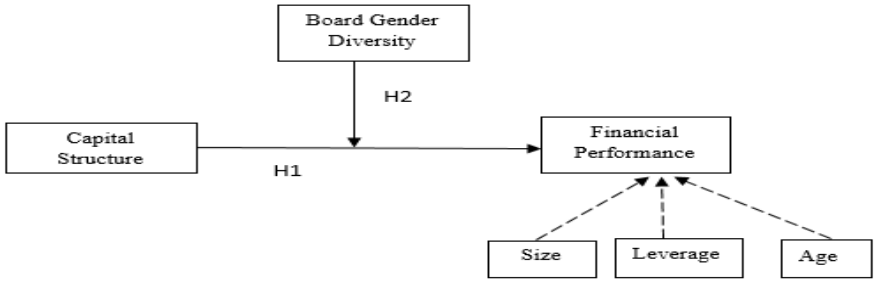

Fig. 2. Research Model

The empirical models estimated are:

$$FP = \beta_0 + \beta_1 CS + \beta_2 BGD + \beta_3 Size + \beta_4 Leverage + \beta_5 Age + \varepsilon_1 \quad (1)$$

$$FP = \beta_0 + \beta_1 CS + \beta_2 BGD + \beta_3 (CS \times BGD) + \beta_4 Size + \beta_5 Leverage + \beta_6 Age + \varepsilon_1 \quad (2)$$

CS denotes capital structure, FP denotes financial performance, and BGD denotes board gender diversity. Data are analyzed using parametric panel data regression with E-Views, as this method accommodates multi-period firm-level data, controls for unobserved heterogeneity, and enables moderation testing. The second model includes the interaction term between capital structure and board gender diversity (CS × BGD) to examine the moderating effect of board gender diversity on the relationship between capital structure and financial performance. A statistically significant coefficient of the interaction term indicates the presence of a moderating effect.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistical analysis was used to provide an overview of the characteristics of each variable analyzed. A summary of the descriptive statistics for all variables in the study is presented in the following table:

Table 1. Descriptive Statistics

	ROA	CS	BGD	Leverage	Size	Age
Mean	0.064826	2.334917	0.184087	0.874786	31.12940	44.52941
Median	0.051335	0.896034	0.166667	0.485184	31.28940	43.00000
Maximum	0.819960	190.3070	0.750000	40.89958	33.78996	71.00000
Minimum	-0.185812	0.112285	0.000000	0.100950	27.34438	17.00000
Std. Dev.	0.093977	11.97109	0.189063	3.611492	1.204811	13.16664
Skewness	2.663823	15.27865	0.903999	9.740954	-0.809758	0.127648
Kurtosis	20.04943	240.2837	3.068111	99.34171	4.216535	2.092231
Jarque-Bera	3390.087	608146.4	34.78088	102651.0	43.59216	9.447960
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.008880
Sum	16.53074	595.4039	46.94221	223.0704	7937.998	11355.00
Sum Sq. Dev.	2.243236	36399.98	9.079188	3312.890	368.6989	44033.53
Obs.	255	255	255	255	255	255

The mean ROA is 0.0648 (6.48%), ranging from a minimum of -0.1858 to a maximum of 0.8200. A standard deviation of 0.0940 shows that financial performance varies relatively little across the sample. This average figure indicates that most non-financial companies in Indonesia are still able to generate relatively stable profits from their assets, although some companies are experiencing significant losses with negative ROA. The wide range of values indicates a gap between companies with high asset efficiency and those less efficient at optimizing their assets. This could reflect differences in industry sectors and the operational strategies employed by each company.

The average DER is 2.3349, indicating that, on average, companies depend more on debt than on equity. The wide range (0.1123 to 190.3070) reflects substantial differences in financing strategies. Based on these findings, it can be concluded that non-financial companies in Indonesia continue to rely heavily on leverage as their primary source of financing. Moreover, the considerable variation in leverage levels across firms reflects the diversity of their financial profiles and strategic orientations. Some companies tend to adopt a more aggressive approach by employing higher levels of debt in their capital structure to support business expansion. In contrast, others take a more prudent stance by maintaining conservative capital structures. This condition highlights substantial differences within Indonesia's non-financial industries, where capital-intensive firms generally exhibit higher debt-to-equity ratios (DER) compared to labor-intensive firms.

Board gender diversity averages 18.41%, ranging from 0% to 75%, indicating that some firms have no female board members while others achieve substantial representation. These findings indicate that the level of gender diversity on the boards of directors of non-financial companies in Indonesia remains relatively low. This suggests that women's involvement on boards is not yet fully viewed as a strategic position. In fact, some companies have no female board members at all, reflecting that the organizational culture in the non-financial sector in Indonesia does not fully support the principle of gender equality. However, a different situation was also found in some companies that actually have a relatively high female composition, reaching 75%. This situation shows that some companies are beginning to pay more attention to gender diversity as part of their corporate strategy, which also serves as a positive signal for the realization of more inclusive corporate governance.

Firm size, calculated as the natural logarithm of total assets, has an average value of 31.1294 and ranges from 27.3443 to 33.7899, indicating that the sample consists of medium to large-sized firms. Leverage averages 0.8748, meaning that 87% of assets are funded by liabilities, with some firms exhibiting extremely high leverage (max 40.8996). Firm age averages 44.53 years, with considerable variation (17 to 71 years).

Table 2. Multicollinearity Test

Variable	Centered VIF
CS	7.473
BGD	1.121
CS × BGD	7.479
Leverage	3.854
Size	4.229
Age	1.255

The potential presence of multicollinearity was assessed using the Variance Inflation Factor (VIF). To mitigate non-essential multicollinearity associated with the interaction term, the predictor variables were mean-centered prior to constructing the CS × BGD interaction term. Based on Table 2, the centered VIF values range from 1.121 to 7.479, with the highest value observed for the CS × BGD interaction term. Since all values are below the threshold of 10, the results indicate that multicollinearity is not a serious concern in the regression model.

Model Selection Tests

Regression model selection was conducted using three types of tests: the Chow Test, the Hausman Test, and the Lagrange Multiplier Test. These three tests were conducted to find the most appropriate model for the study among the Common Effects Model (CEM), the Fixed Effects Model (FEM), and the Random Effects Model (REM). The model selection process is as follows:

Chow Test

Table 3. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.986972	(50,198)	0.0000
Cross-section Chi-square	177.619461	50	0.0000

The probability value of the Cross-section F was below 0.05, indicating that FEM was more appropriate than CEM.

Hausman Test

Table 4. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	13.041877	6	0.0424

The probability value for the Cross-section random effect was 0.0424, below the 0.05 threshold, suggesting that FEM was preferred over REM.

Regression Results

Table 5. Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.336530	0.760329	-1.757831	0.0803
CS	-0.013919	0.006991	-1.991116	0.0478
BGD	0.245381	0.078561	3.123447	0.0021

CS x BGD	0.000600	0.000304	1.971928	0.0500
Lev	0.003493	0.003684	0.948339	0.3441
Size	0.040617	0.025812	1.573579	0.1172
Age	0.002497	0.003572	0.699036	0.4853

The Fixed Effect Model (FEM) estimation indicates that the DER has a coefficient of -0.013919 with a p-value of 0.0478, showing significant impact on ROA at the 5% level. Conversely, board gender diversity has a coefficient of 0.245381 and a p-value of 0.0021, suggesting a positive and statistically significant effect on ROA. Furthermore, the interaction term between capital structure and board gender diversity (CS × BGD) has a positive coefficient of 0.000600 with a probability value of 0.0500. This finding indicates that board gender diversity moderates the relationship between capital structure and financial performance at the 5% significance level.

Goodness-of-Fit

Table 6. Goodness-of-Fit

Weighted Statistics			
R-squared	0.542110	Mean dependent var	0.064826
Adjusted R-squared	0.412605	S.D. dependent var	0.093977
S.E. of regression	0.072025	Sum squared resid	1.027156
F-statistic	4.186034	Durbin-Watson stat	2.239118
Prob (F-statistic)	0.000000		

The adjusted R-squared of 0.412605 indicates that the model accounts for 41.26% of the variation in financial performance. Although the model explains a substantial proportion of the variation in financial performance, the remaining unexplained variation suggests that other factors may also influence firm performance. These factors may include firm-specific characteristics, corporate governance mechanisms, investment and operational efficiency, and macroeconomic conditions that are not incorporated into the present model. In addition, industry-specific characteristics may contribute to differences in financial performance, as non-financial firms operate across sectors with distinct asset structures, business risks, and operational environments.

Discussion

The Effect of Capital Structure on Financial Performance

The results indicate that capital structure has a negative and statistically significant effect on financial performance, as evidenced by the DER coefficient of −0.013919 and a probability value of 0.0478. Accordingly, the first hypothesis, which predicts a positive effect of capital structure on financial performance, is not supported. This finding indicates that greater reliance on debt is associated with lower financial performance among non-financial companies in Indonesia.

The negative relationship suggests that the costs and risks associated with debt may outweigh its potential tax benefits. As debt increases, firms face greater financial obligations and higher financial risk, which may constrain their ability to generate returns from assets. From the perspective of trade-off theory, this result suggests that the sampled firms may have exceeded their optimal capital structure, causing the marginal costs of debt to surpass its benefits. Consequently, additional debt may place greater pressure on firms' financial resources and adversely affect profitability.

This finding is consistent with Dalci (2018), who found that financial leverage negatively affects corporate profitability due to agency problems and financial distress. Similarly, Suitri & Luh (2023)) reported that certain debt-based capital structure measures negatively affected ROA among Indonesian manufacturing firms. Overall, the findings suggest that the effect of capital structure on financial performance depends on a firm's ability to manage debt-related risks and maintain an optimal financing structure.

The Moderating Role of Board Gender Diversity on Capital Structure and Financial Performance

The second hypothesis of this study proposes that board gender diversity moderates the effect of capital structure on financial performance. This hypothesis is based on the assumption that boards of directors that are more gender-diverse tend to adopt more prudent financial decision-making, oriented toward balancing risk and return. Thus, a company's capital structure is likely to be more effective and positively influence financial performance when the board of directors exhibits higher gender diversity.

The empirical results support the hypothesis, showing that the interaction between capital structure and board gender diversity has a coefficient of 0.000600 with a p-value of 0.0500, indicating a positive and statistically significant effect on financial performance. The positive interaction coefficient indicates that board gender diversity strengthens the relationship between capital structure and financial performance. In other words, higher board gender diversity attenuates the negative effect of capital structure on financial performance.

These findings align with Upper Echelon Theory, which states that corporate strategy is influenced by the cognitive characteristics of top executives. Gender diversity on boards of directors reflects these characteristics, with the presence of female directors tending to encourage more prudent risk management and a focus on corporate sustainability. In the context of capital structure, gender diversity plays a role in encouraging more prudent debt management, thus aligning with enhancing the company's reputation and value. Thus, gender diversity on boards of directors not only strengthens oversight mechanisms but also contributes to achieving a more efficient capital structure and positively impacting financial performance.

Board gender diversity has indeed been proven to strengthen the relationship between capital structure and financial performance. The involvement of women on the board provides different perspectives, tighter oversight functions, including in the management of funding sources. Previous research supports this, showing that with gender diversity, companies tend to be more cautious in using debt (Krisyadi et al., 2023; Pahala et al., 2025; Wirawan et al., 2024). Furthermore, when debt is used as a funding source, they will strive to improve the use of existing assets, thereby impacting financial performance, particularly in terms of return on assets. Furthermore, gender diversity can improve the quality and dynamism of corporate governance, which helps reduce the use of unproductive assets. For this reason, board gender diversity is suitable as a moderating variable that can enhance the effect of capital structure on financial performance.

CONCLUSIONS AND SUGGESTION

This study concludes that capital structure has a negative and statistically significant effect on financial performance. This finding indicates that a higher reliance on debt relative to equity is associated with lower financial performance among non-financial companies in Indonesia. However, board gender diversity significantly moderates this relationship, suggesting that greater gender diversity can strengthen the relationship between capital structure and financial performance.

This study has several limitations. First, financial performance is measured solely using Return on Assets (ROA), which may not fully reflect a company's overall financial performance or market value can provide additional insights. Second, the sample is limited to non-financial companies in Indonesia, thus limiting the generalizability of the findings to other sectors, particularly the financial industry or companies operating across borders. Third, the moderating variables used in this study are limited to gender diversity on the board of directors, while other factors related to governance such as institutional ownership, board independence, or audit quality may also influence the relationship between capital structure and financial performance.

Therefore, further research can be developed by measuring financial performance using other indicators, such as Return on Equity (ROE) or Tobin's Q. Furthermore, the scope of the study can be expanded to include both financial and non-financial companies, resulting in more comprehensive results. Future research can also enrich the analysis by using other moderating variables or examining the relationship through mediating variables as an alternative perspective.

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