

The Effect of Leverage on Financial Distress: The Moderating Roles of Executive International Experience and CEO Gender in Indonesian State-Owned Non-Financial Enterprises

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ABSTRACT

Financial distress remains one of the most critical challenges affecting the sustainability of state-owned enterprises, particularly in emerging economies where firms are expected to achieve both commercial and public service objectives. This study investigates the influence of leverage on financial distress while examining whether executive international experience and CEO gender strengthen or weaken this relationship. The research employs a quantitative explanatory design using secondary data obtained from the annual reports of Indonesian non-financial state-owned enterprises listed during the 2019–2023 observation period. Sample selection was conducted using purposive sampling based on predetermined criteria. Financial distress was measured using the Altman Z-Score model, whereas leverage was represented by the debt-to-asset ratio. Executive international experience and CEO gender were incorporated as moderating variables. The hypotheses were tested using Moderated Regression Analysis (MRA). The empirical findings reveal that leverage significantly increases the likelihood of financial distress, indicating that excessive dependence on debt financing deteriorates corporate financial stability. Furthermore, executives possessing international professional experience weaken the adverse impact of leverage by contributing broader strategic perspectives, superior risk management capabilities, and more effective financial decision-making. In contrast, CEO gender does not significantly moderate the relationship between leverage and financial distress, suggesting that financial outcomes are more strongly influenced by organizational and governance characteristics than by the demographic attributes of chief executive officers. This study extends the financial distress literature by integrating executive characteristics into the analysis of capital structure decisions within Indonesian state-owned enterprises. The findings provide practical implications for policymakers, boards of commissioners, and shareholders in designing governance mechanisms and executive recruitment strategies that enhance corporate resilience and long-term financial sustainability.

1. Introduction

Financial sustainability has become a strategic concern for organizations operating in highly competitive and uncertain business environments.

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Companies are continuously required to maintain operational efficiency while preserving adequate financial capacity to support long-term growth. Failure to achieve financial stability may gradually lead to financial distress, a condition characterized by deteriorating financial performance, declining profitability, liquidity shortages, and an increasing inability to fulfill contractual obligations. If not addressed through effective managerial intervention, financial distress may eventually result in insolvency, corporate restructuring, or liquidation.

The issue of financial distress is particularly relevant for state-owned enterprises (SOEs). Unlike private corporations that primarily pursue shareholder wealth maximization, SOEs simultaneously perform commercial activities and public service obligations. This dual responsibility frequently exposes them to greater financial pressure because business decisions are not always driven solely by profitability considerations. Consequently, maintaining financial resilience becomes an essential objective for governments, investors, creditors, and corporate stakeholders.

Indonesia's state-owned enterprises contribute significantly to national economic development through infrastructure investment, employment creation, strategic industry management, and public service delivery. Nevertheless, several Indonesian SOEs have experienced financial deterioration over recent years as reflected in declining earnings, increasing debt burdens, liquidity constraints, and restructuring initiatives. These conditions have intensified concerns regarding corporate financial health and highlighted the necessity of identifying determinants that may increase or reduce the probability of financial distress.

Among numerous financial indicators, leverage has consistently been recognized as one of the primary determinants of corporate financial vulnerability. Leverage reflects the extent to which a company finances its assets through debt rather than equity. While debt financing may generate tax advantages and accelerate business expansion, excessive leverage also increases fixed financial commitments, particularly interest and principal repayments. During periods of declining revenue or adverse economic conditions, firms with high leverage generally experience greater financial pressure than firms maintaining more conservative capital structures. Consequently, leverage has frequently been associated with a higher probability of financial distress across various industrial sectors.

Previous empirical studies have generally documented a positive relationship between leverage and financial distress. Firms carrying substantial debt obligations often possess lower financial flexibility, making them more susceptible to operational shocks and economic uncertainty. Nevertheless, existing evidence remains inconclusive because several studies report insignificant or inconsistent findings across industries, institutional

environments, and governance systems. These inconsistencies indicate that the influence of leverage may depend not only on financial structure but also on managerial characteristics capable of improving strategic decision-making and risk management.

Upper Echelons Theory argues that organizational outcomes are partially shaped by the experiences, values, and cognitive capabilities of top executives. Executive characteristics influence strategic choices, corporate governance quality, and organizational responses to uncertainty. Therefore, the relationship between leverage and financial distress may vary according to the competencies possessed by senior executives responsible for financial and strategic decisions.

One executive attribute that has attracted increasing scholarly attention is international professional experience. Executives who have accumulated education or work experience abroad are generally exposed to diverse institutional environments, advanced governance practices, sophisticated financial systems, and global managerial perspectives. Such exposure may improve strategic judgment, enhance risk assessment, and strengthen corporate adaptability when organizations encounter financial challenges. Consequently, executive international experience is expected to reduce the adverse consequences associated with excessive corporate leverage.

Another characteristic that has received growing attention in corporate governance literature is CEO gender. Increasing female representation in executive leadership has stimulated extensive discussion regarding differences in managerial behavior, ethical orientation, communication style, and risk preference. Several studies suggest that female chief executive officers tend to adopt more conservative financial policies and emphasize prudent decision-making, whereas other studies conclude that leadership effectiveness depends more on organizational context than demographic characteristics. These contrasting findings indicate that CEO gender remains an important governance variable requiring further empirical investigation.

Although previous studies have examined leverage, executive characteristics, and financial distress separately, relatively limited evidence simultaneously investigates executive international experience and CEO gender as moderating variables within Indonesian state-owned enterprises. Most prior research has concentrated either on financial indicators or conventional governance mechanisms without considering how executive backgrounds influence the financial consequences of leverage. This limitation creates an important research gap because executive capabilities may determine whether highly leveraged firms successfully manage financial risks or become increasingly vulnerable to financial distress.

Accordingly, this study develops a more comprehensive analytical framework by integrating leverage with executive international experience and CEO gender in explaining financial distress among Indonesian non-financial state-owned enterprises. By combining financial structure and executive characteristics within a single research model, this study extends existing literature concerning corporate financial distress and strategic leadership.

The findings are expected to contribute theoretically by enriching discussions within financial distress, corporate governance, and Upper Echelons Theory. From a practical perspective, the results provide valuable insights for government institutions, boards of commissioners, shareholders, and policymakers in designing executive recruitment policies, strengthening governance quality, and developing sustainable capital structure strategies that improve the long-term financial resilience of state-owned enterprises.

2. Theoretical Framework and Hypotheses Development

2.1. Theoretical Framework

The relationship between leverage and financial distress cannot be adequately explained solely through financial indicators. Corporate financial outcomes are also shaped by managerial characteristics that influence strategic decisions, resource allocation, and risk management. Accordingly, this study adopts Upper Echelons Theory as the primary theoretical foundation and complements it with Agency Theory and Trade-Off Theory to explain how executive international experience and CEO gender may influence the effect of leverage on financial distress.

Upper Echelons Theory, proposed by Hambrick and Mason (1984), argues that strategic decisions and organizational performance are reflections of the cognitive characteristics of top executives. Because executives interpret information based on their knowledge, experience, education, and personal values, companies led by different management teams often respond differently to similar business conditions. Managerial backgrounds therefore become important determinants of corporate outcomes.

The theory emphasizes that executive characteristics serve as observable indicators of managerial cognition. Executives possessing broader professional experience are generally better prepared to evaluate uncertainty, formulate strategic responses, and implement effective organizational policies. Consequently, executive attributes may explain why firms with comparable financial conditions experience different levels of financial performance and financial stability.

Within this study, executive international experience and CEO gender represent managerial characteristics that may influence the effectiveness of corporate financial decisions. Their presence is expected to affect how management controls financial risk arising from debt financing.

Agency Theory explains the relationship between shareholders and managers in modern corporations. Jensen and Meckling (1976) state that managers are appointed to manage company resources on behalf of shareholders; however, differences in objectives may generate agency conflicts. Information asymmetry enables managers to possess greater access to corporate information than owners, creating opportunities for decisions that may not fully align with shareholder interests.

Effective corporate governance is expected to minimize these conflicts through improved monitoring, accountability, and managerial discipline. Executive competence constitutes one element of governance quality because capable executives are more likely to formulate sound financing strategies, monitor corporate risks, and maintain financial sustainability. Therefore, managerial characteristics may influence how companies utilize leverage without exposing the organization to excessive financial distress.

Trade-Off Theory explains corporate financing behavior by proposing that firms seek an optimal balance between the advantages and disadvantages of debt financing. Debt provides tax benefits because interest expenses reduce taxable income, thereby increasing firm value. Nevertheless, excessive borrowing simultaneously raises financial obligations, bankruptcy risk, and financial distress costs.

According to this perspective, firms should employ debt only until its marginal benefits equal its marginal costs. When leverage exceeds the optimal level, additional borrowing no longer contributes to firm value but instead weakens financial flexibility and increases financial vulnerability. Therefore, leverage is expected to become an important predictor of financial distress, particularly during periods of economic uncertainty.

Financial distress refers to a condition in which a company experiences substantial deterioration in financial performance before entering formal bankruptcy proceedings. This condition generally develops gradually through declining profitability, weakening liquidity, increasing debt obligations, and reduced operational effectiveness. Firms experiencing financial distress often encounter difficulties meeting debt repayments and maintaining normal business operations.

Financial distress serves as an early warning signal for management, investors, creditors, and regulators because prolonged financial deterioration may ultimately result in insolvency or liquidation. Consequently, identifying determinants of financial distress has become an important area of corporate finance research.

Leverage reflects the proportion of company assets financed through debt. It indicates management's financing strategy and the extent to which external

capital supports business operations. Moderate leverage may facilitate business expansion and improve shareholder returns; however, excessive reliance on debt increases fixed financial commitments and reduces organizational flexibility.

Companies with high leverage generally face greater financial pressure because debt obligations must be fulfilled regardless of operating performance. Consequently, fluctuations in earnings or cash flows may substantially increase the probability of financial distress. For this reason, leverage has consistently been recognized as one of the most influential financial variables in predicting corporate financial difficulties.

Executive international experience refers to professional assignments, managerial positions, or educational activities undertaken outside the executive's home country. Such exposure allows executives to acquire broader perspectives regarding international business practices, financial systems, governance standards, and strategic management.

Executives with international experience are generally expected to demonstrate stronger analytical capabilities, superior risk management skills, and greater adaptability in responding to complex business environments. These competencies may enable organizations to utilize debt more efficiently while minimizing financial risks associated with leverage.

CEO gender has become an increasingly important topic in corporate governance literature because leadership diversity may influence organizational decision-making. Previous studies indicate that male and female executives may exhibit different approaches toward strategic planning, corporate governance, communication, and risk assessment. Nevertheless, empirical findings remain inconclusive regarding whether gender differences consistently influence corporate financial performance.

Rather than assuming that one gender produces superior managerial outcomes, this study evaluates whether CEO gender moderates the relationship between leverage and financial distress. This perspective recognizes that executive diversity may contribute to organizational effectiveness depending on the institutional environment and corporate governance structure.

Overall, the integration of Upper Echelons Theory, Agency Theory, and Trade-Off Theory provides a comprehensive conceptual foundation for explaining how leverage influences financial distress and why executive international experience and CEO gender may alter this relationship within Indonesian non-financial state-owned enterprises. These theoretical perspectives collectively support the development of the research hypotheses presented in the following section.

2.2. Hypotheses Development

Capital structure decisions represent one of the most important financial policies influencing corporate sustainability. Trade-Off Theory explains that debt financing offers tax advantages and may enhance firm value when utilized at an optimal level. However, once debt exceeds the firm's repayment capacity, additional borrowing increases financial obligations, weakens liquidity, and raises the probability of financial distress. Consequently, excessive leverage may reduce financial flexibility and limit management's ability to respond to unfavorable economic conditions.

Companies with high leverage are required to allocate a significant proportion of their cash flows to interest and principal repayments. During periods of declining profitability or economic uncertainty, these mandatory obligations become increasingly difficult to fulfill, thereby increasing the likelihood of financial deterioration. Firms with relatively conservative financing structures generally possess greater flexibility in maintaining operational stability than firms relying heavily on external debt.

Previous empirical studies have consistently reported that leverage is positively associated with financial distress. Companies carrying substantial debt obligations are generally more vulnerable to cash flow shortages, declining profitability, and increased bankruptcy risk. These findings indicate that leverage constitutes an important predictor of corporate financial health. Based on the theoretical arguments and previous empirical evidence, the first hypothesis is formulated as follows:

H1: Leverage has a positive effect on financial distress.

Upper Echelons Theory suggests that strategic organizational outcomes are influenced by the background and competencies of top executives. Executives with international professional experience are expected to possess broader managerial knowledge, stronger analytical capabilities, and greater exposure to advanced governance practices. These competencies may improve the quality of financial decision-making, particularly in situations involving complex financing strategies and financial risk.

International experience enables executives to develop a global perspective regarding capital allocation, corporate governance, and risk management. Such knowledge may assist firms in designing more efficient financing policies, optimizing debt utilization, and implementing early corrective actions when financial conditions deteriorate. Therefore, companies managed by internationally experienced executives may be better equipped to control the negative financial consequences associated with high leverage.

Although leverage generally increases the probability of financial distress, executive international experience may weaken this relationship by improving

managerial effectiveness and organizational adaptability. The moderating role of executive experience therefore becomes particularly relevant for state-owned enterprises operating within dynamic and uncertain business environments. Accordingly, the second hypothesis is proposed as follows:

H2: Executive international experience weakens the positive relationship between leverage and financial distress.

Corporate governance literature increasingly recognizes leadership diversity as an important determinant of organizational performance. CEO gender has attracted considerable academic attention because leadership styles, risk preferences, and strategic decision-making may differ across executives. Several studies suggest that female chief executive officers tend to adopt more prudent financial policies, emphasize long-term organizational sustainability, and exercise greater caution when evaluating investment and financing decisions.

From the perspective of Upper Echelons Theory, demographic characteristics may shape managerial cognition and influence strategic choices. If female executives demonstrate more conservative financial behavior, they may reduce excessive borrowing and strengthen financial monitoring, thereby mitigating the adverse impact of leverage on corporate financial stability. Nevertheless, previous empirical findings remain inconclusive, indicating that the influence of CEO gender may vary according to organizational context, governance quality, and institutional characteristics.

Considering these theoretical arguments, CEO gender is expected to moderate the relationship between leverage and financial distress by influencing managerial responses to financial risk. Therefore, the third hypothesis is formulated as follows:

H3: CEO gender weakens the positive relationship between leverage and financial distress.

The three hypotheses collectively establish the conceptual foundation of this study by explaining the direct influence of leverage on financial distress and the potential moderating effects of executive international experience and CEO gender. The proposed research model extends previous studies by integrating corporate financing decisions with executive characteristics within the context of Indonesian non-financial state-owned enterprises.

This study develops a conceptual framework based on the integration of Trade-Off Theory, Agency Theory, and Upper Echelons Theory. The framework proposes that leverage directly influences financial distress, while executive international experience and CEO gender function as moderating variables that may alter the strength of this relationship.

From the perspective of Trade-Off Theory, companies with higher leverage are exposed to greater financial obligations arising from interest expenses and debt repayments. Excessive debt financing reduces financial flexibility and increases the probability of financial distress, particularly when firms experience declining profitability or adverse economic conditions. Therefore, leverage is expected to exert a direct positive effect on financial distress.

Upper Echelons Theory further suggests that organizational outcomes are not determined solely by financial policies but are also influenced by the characteristics of top executives. Executives with international professional experience are expected to possess broader strategic knowledge, stronger analytical capabilities, and greater familiarity with global governance practices. These competencies enable management to formulate more effective financing strategies and improve corporate resilience when debt levels are relatively high. Consequently, executive international experience is proposed to weaken the positive relationship between leverage and financial distress.

Similarly, CEO gender is incorporated as a moderating variable because leadership diversity may influence managerial decision-making, risk perception, and financial policy implementation. Previous studies indicate that executive demographic characteristics may shape organizational responses to financial uncertainty. Accordingly, this study examines whether CEO gender changes the magnitude of the relationship between leverage and financial distress within Indonesian non-financial state-owned enterprises.

Based on these theoretical arguments, the proposed conceptual framework consists of one independent variable (leverage), one dependent variable (financial distress), and two moderating variables (executive international experience and CEO gender). The relationships among these variables are illustrated in Figure 1.

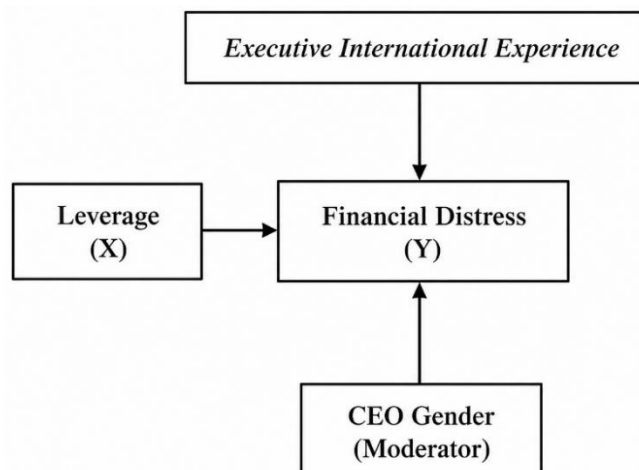


Figure 1. Conceptual Framework

H1 : Leverage → Financial Distress (+)

H2 : Executive International Experience moderates the relationship between Leverage and Financial Distress.

H3 : CEO Gender moderates the relationship between Leverage and Financial Distress.

The conceptual model demonstrates that leverage is hypothesized to directly increase the likelihood of financial distress. At the same time, executive international experience and CEO gender are expected to influence the strength of this relationship by enhancing or constraining managerial effectiveness in responding to financial risk. The model therefore integrates financial policy with executive characteristics to provide a more comprehensive explanation of financial distress in Indonesian state-owned non-financial enterprises.

3. Research Method

This study employed a quantitative explanatory research design to examine the influence of leverage on financial distress and to investigate the moderating roles of executive international experience and CEO gender. The quantitative approach was selected because it enables hypothesis testing through objective measurement of financial indicators and statistical analysis of the relationships among variables.

The research utilized secondary data collected from the audited annual reports and corporate governance reports of Indonesian non-financial state-owned enterprises (SOEs). Financial statements and governance information were obtained from the official websites of each company and the Indonesia Stock Exchange (IDX). The observation period covered five consecutive years, from 2019 to 2023, allowing the study to capture variations in financial conditions before and after the economic disruption associated with the COVID-19 pandemic.

The population consisted of all Indonesian non-financial state-owned enterprises listed on the Indonesia Stock Exchange during the observation period. Financial institutions, including banks and insurance companies, were excluded because they operate under different financial regulations and capital structures. Sample selection was conducted using purposive sampling to ensure that only firms satisfying the research criteria were included. Companies were selected if they (1) were classified as non-financial state-owned enterprises, (2) published complete annual reports for the 2019–2023 period, (3) disclosed information regarding executive characteristics, and (4) provided sufficient financial data to calculate all research variables.

Variable Measurement

Financial distress was treated as the dependent variable and measured using the **Altman Z-Score**, which is widely recognized as a reliable indicator for evaluating corporate financial health. Lower Z-Score values indicate a greater probability of financial distress.

Leverage served as the independent variable and was measured using the **Debt-to-Asset Ratio (DAR)**, representing the proportion of total assets financed through debt. A higher ratio indicates greater dependence on external financing.

Executive international experience was specified as the first moderating variable. This variable was measured using a dummy indicator, where a value of 1 was assigned if the chief executive had international educational or professional experience and 0 otherwise. CEO gender was included as the second moderating variable and was also measured using a dummy variable. A value of 1 represented companies led by a female Chief Executive Officer, while 0 represented companies led by a male Chief Executive Officer.

Data Analysis

The data analysis was performed using **Moderated Regression Analysis (MRA)** to evaluate both the direct effect of leverage on financial distress and the moderating effects of executive international experience and CEO gender. MRA was considered appropriate because it enables the examination of interaction effects between the independent variable and moderating variables within a single regression model.

Prior to hypothesis testing, descriptive statistics were calculated to summarize the characteristics of the research variables. Classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were subsequently conducted to ensure that the regression model satisfied the assumptions required for reliable statistical inference.

The direct relationship between leverage and financial distress was examined using the following regression equation:

$$[FD = \alpha + \beta_1 LEV + \epsilon]$$

Where **FD** denotes financial distress, **LEV** represents leverage, α is the intercept, β_1 is the regression coefficient, and ϵ is the error term.

To examine the moderating effects of executive international experience and CEO gender, interaction terms were incorporated into the regression model as follows:

$$[FD = \alpha + \beta_1 LEV + \beta_2 EIE + \beta_3 CG + \beta_4 (LEV \times EIE) + \beta_5 (LEV \times CG) + \epsilon]$$

Where:

FD = Financial Distress

LEV = Leverage

EIE = Executive International Experience

CG = CEO Gender

LEV × EIE = Interaction between leverage and executive international experience

LEV × CG = Interaction between leverage and CEO gender

α = Constant

β₁–β₅ = Regression coefficients

ε = Error term

The hypotheses were evaluated using a significance level of 5% ($\alpha = 0.05$). A statistically significant regression coefficient indicates empirical support for the proposed hypothesis, whereas an insignificant coefficient suggests that the corresponding relationship is not supported. The results obtained from the regression analysis were subsequently interpreted to explain the influence of leverage on financial distress and the moderating roles of executive international experience and CEO gender in Indonesian non-financial state-owned enterprises.

4. Results and Discussion

Descriptive statistics were first examined to provide an overview of the characteristics of the research variables during the observation period. The analysis indicates that the sampled Indonesian non-financial state-owned enterprises exhibited variations in financial structure, executive characteristics, and financial performance. Such variation demonstrates that the selected sample adequately represents different organizational conditions and provides a suitable basis for hypothesis testing.

The distribution of leverage reflects differences in firms' financing policies. While several companies relied on relatively conservative debt financing, others maintained substantially higher debt proportions to support operational activities and long-term investments. These differences suggest that capital structure

decisions remain an important strategic issue for state-owned enterprises operating in dynamic business environments.

The financial distress indicator also showed considerable variation among firms. Some enterprises maintained strong financial conditions throughout the observation period, whereas others experienced financial pressure associated with increasing liabilities, declining profitability, and reduced operational efficiency. These findings imply that financial resilience differs across organizations despite operating under similar institutional ownership.

Regarding executive characteristics, the sample included companies led by executives with and without international professional experience, as well as firms managed by both male and female chief executive officers. The presence of these variations supports the inclusion of executive international experience and CEO gender as moderating variables within the proposed research model.

Prior to hypothesis testing, the regression model satisfied the required statistical assumptions, indicating that the estimated relationships among variables could be interpreted appropriately. The moderated regression analysis was subsequently employed to evaluate the direct influence of leverage on financial distress and the moderating effects of executive international experience and CEO gender.

The regression results demonstrate that leverage constitutes an important determinant of financial distress. Firms relying more heavily on debt financing tend to experience greater financial pressure because increasing financial obligations reduce operational flexibility and increase repayment commitments. Consequently, excessive leverage limits the organization's capacity to absorb unexpected economic shocks and increases the likelihood of financial deterioration.

The interaction analysis further indicates that executive international experience influences the relationship between leverage and financial distress. Executives possessing international exposure appear to contribute broader strategic perspectives, stronger financial management capabilities, and greater familiarity with international governance practices. These competencies enable organizations to manage debt more effectively and reduce the adverse financial consequences associated with excessive leverage.

In contrast, the interaction between leverage and CEO gender does not demonstrate sufficient evidence to suggest that gender consistently alters the relationship between leverage and financial distress. This finding indicates that corporate financial outcomes are influenced primarily by organizational capabilities, governance quality, and strategic managerial decisions rather than demographic characteristics alone.

The findings indicate that leverage represents a significant factor influencing corporate financial distress. Companies with greater dependence on debt financing generally experience higher financial risk because debt obligations must be fulfilled regardless of business performance. When operating income declines, firms with substantial leverage face increasing pressure to maintain liquidity while simultaneously meeting interest and principal repayments.

This result is consistent with Trade-Off Theory, which argues that debt financing provides economic benefits only when maintained at an optimal level. Beyond that point, additional borrowing increases bankruptcy costs, reduces financial flexibility, and ultimately weakens corporate financial stability. Consequently, firms with excessive leverage become increasingly vulnerable to financial distress.

The finding also supports previous empirical studies reporting that leverage is one of the strongest financial indicators for predicting corporate financial difficulties. For Indonesian state-owned enterprises, debt financing should therefore be accompanied by effective financial planning, prudent investment evaluation, and comprehensive risk management to ensure long-term sustainability.

The analysis suggests that executive international experience reduces the adverse effect of leverage on financial distress. Executives who have acquired international educational or professional experience generally possess broader knowledge regarding financial management, strategic planning, corporate governance, and organizational transformation.

Upper Echelons Theory explains that executive backgrounds influence managerial cognition and organizational decision-making. Internationally experienced executives are more likely to introduce innovative management practices, improve strategic risk assessment, and develop financing policies that enhance organizational resilience. Consequently, companies led by internationally experienced executives may demonstrate greater capability in controlling financial risks associated with debt financing.

These findings emphasize that executive competence constitutes an important intangible organizational resource capable of strengthening corporate financial sustainability. Therefore, executive recruitment policies should consider international managerial exposure as one criterion for improving governance quality and strategic effectiveness.

The empirical evidence indicates that CEO gender does not substantially alter the relationship between leverage and financial distress. Although previous studies frequently associate gender diversity with differences in leadership style and risk preference, the present findings suggest that demographic

characteristics alone are insufficient to explain variations in corporate financial performance.

One possible explanation is that strategic financial decisions within state-owned enterprises involve collective governance mechanisms rather than individual executive preferences. Boards of commissioners, audit committees, government regulations, and institutional oversight collectively shape financing decisions and corporate risk management. Consequently, organizational governance may exert a stronger influence on financial outcomes than the gender of the chief executive officer.

This finding does not imply that gender diversity lacks organizational value. Instead, it indicates that leadership effectiveness depends primarily on managerial competence, professional experience, strategic capability, and governance quality rather than demographic characteristics.

The findings contribute to the corporate finance literature by integrating executive characteristics into the relationship between leverage and financial distress. Previous studies have predominantly emphasized financial indicators, whereas the present study demonstrates that managerial backgrounds also play an important role in determining corporate financial resilience.

From a practical perspective, the results suggest that policymakers and shareholders should not evaluate financial sustainability solely from capital structure decisions. Equal attention should be devoted to executive selection, leadership development, and governance practices that strengthen organizational capability in managing financial risk. State-owned enterprises are therefore encouraged to balance debt utilization with effective strategic leadership to improve long-term financial performance and organizational sustainability.

5. Conclusions, Limitations, and Recommendations

5.1 Conclusions

This study examined the effect of leverage on financial distress and investigated whether executive international experience and CEO gender moderate this relationship in Indonesian non-financial state-owned enterprises. The proposed research model integrates financial policy with executive characteristics to provide a broader understanding of the determinants of corporate financial distress.

The findings indicate that leverage remains a major factor influencing corporate financial vulnerability. A higher proportion of debt financing increases fixed financial commitments and reduces organizational flexibility, making firms more susceptible to financial difficulties when operating performance

deteriorates. These findings support the view that prudent capital structure management is essential for maintaining long-term financial sustainability.

The study also highlights the strategic importance of executive international experience. Executives with international exposure are expected to possess broader managerial knowledge, stronger analytical capabilities, and greater familiarity with global governance practices. These competencies contribute to more effective financial decision-making and improve the organization's ability to manage risks associated with debt financing. Consequently, executive international experience plays an important role in strengthening corporate financial resilience.

Conversely, CEO gender does not appear to substantially alter the relationship between leverage and financial distress. This finding suggests that corporate financial outcomes are influenced more strongly by managerial competence, governance quality, and organizational decision-making processes than by demographic characteristics alone. Therefore, leadership effectiveness should be evaluated primarily on the basis of professional capability, strategic vision, and governance performance.

Overall, this study contributes to the literature by extending the application of Upper Echelons Theory within the context of corporate financial distress. By incorporating executive characteristics into the analysis of leverage, the research offers a more comprehensive framework for explaining financial stability among Indonesian state-owned enterprises.

5.2 Limitations

Several limitations should be acknowledged when interpreting the findings of this study. First, the analysis focuses exclusively on Indonesian non-financial state-owned enterprises; therefore, the results may not be directly applicable to private companies, financial institutions, or firms operating in different institutional environments.

Second, the research examines financial distress using leverage as the principal explanatory variable together with two executive characteristics. Other determinants, including profitability, liquidity, firm size, corporate governance mechanisms, ownership concentration, macroeconomic conditions, and business risk, were not incorporated into the research model. The omission of these variables may limit the overall explanatory power of the analysis.

Third, executive characteristics were represented by executive international experience and CEO gender only. Additional managerial attributes such as educational background, tenure, age, professional certification, leadership style, and board diversity may provide a more comprehensive explanation of strategic decision-making and corporate financial performance.

Finally, this study relies on secondary data derived from published annual reports. Consequently, the analysis is restricted to publicly disclosed information and cannot capture qualitative managerial factors that may influence organizational performance.

5.3 Recommendations

Based on the findings and research limitations, several recommendations are proposed for both managerial practice and future academic research. For corporate management, maintaining an optimal capital structure should become a strategic priority. Companies should continuously evaluate their debt capacity, strengthen financial risk management, and ensure that financing decisions remain consistent with long-term organizational sustainability. Excessive dependence on debt financing should be carefully monitored to reduce the possibility of financial distress.

Boards of commissioners and government shareholders are encouraged to consider executive competencies when selecting senior management. International professional experience may provide valuable strategic perspectives that improve governance quality, strengthen financial decision-making, and enhance organizational adaptability in increasingly competitive business environments.

Future researchers are encouraged to expand the research scope by including private enterprises, multinational corporations, and firms from different industrial sectors to improve the generalizability of the findings. Further studies may also incorporate additional financial indicators, governance variables, executive characteristics, and macroeconomic factors to develop a more comprehensive model of financial distress. Employing longitudinal designs, panel data techniques, or cross-country comparative analyses may provide deeper insights into the interaction between financial policy, executive leadership, and corporate sustainability.

The integration of broader organizational, governance, and environmental factors is expected to enrich future research and contribute to the development of more effective strategies for preventing financial distress and improving the long-term performance of Indonesian corporations.

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