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The Effect of Structural Capital, Working Capital Management and Earnings Management on Financial Distress

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ABSTRACT

This study examines the effect of structural capital, working capital management, and earnings management on financial distress. The data used comes from the annual reports of retail companies, which were selected using the purposive sampling method. Multiple linear regression analysis was used to test the hypothesis. The results of the study indicate that earnings management has no effect on financial distress, but structural capital and working capital management have a positive effect on financial distress. These results support the resource-based theory, which states that company resources are unique and essential to achieving sustainable competitive advantage so that companies can identify key resources, innovation, differentiation through unique resources, and company reputation. However, if not done correctly, it will increase costs and bring the company into a state of distress. Further research is also expected to elaborate several theories that can support the results of the study. The results of this study can provide insight for companies in designing strategies to manage resources efficiently, reduce the risk of financial distress, and improve financial performance.

INTRODUCTION

The Covid-19 pandemic has brought challenges to many sectors in the world: the accommodation sector, the food and beverage sector, the transportation sector, the tourism sector, and no exception to the retail sector (Thomas & Jannah, 2020), which plays an important role in improving the Indonesian economy and becoming a liaison for many parties; access for small and medium business actors to the market, increasing product value, creating jobs and absorbing new workers. However, the challenges faced by the retail sector with the emergence of online stores, government regulations regarding activity restrictions, and changes in consumer behavior threaten the *assumption of going concern,* which has the potential to cause *financial distress.* (Aljughaiman et al., 2023) . Financial distress is a condition that describes the financial pressure faced by companies where they are unable to meet existing financial obligations. (Safitri et al., 2023) . In 2019, the percentage of retail companies in the potential bankruptcy zone increased

from 27% in 2019 to 41% in 2020. This increase in percentage represents the potential for bankruptcy that worsened during the Covid-19 pandemic (Ripha & Muyasaroh, 2021)
Several retail companies have experienced financial distress in the past 5 years. Giant, which operates under the auspices of PT Hero Supermarket, was one of those that went bankrupt and closed all outlets at the end of July 2021. In addition to Giant, PT Matahari Department Store Tbk and PT Trikomsel Oke Tbk (Barnas et al., 2021) also experienced the same thing. The low level of consumer visits both online and offline, increased operational costs related to the need for health protocols, and the existence of a lockdown policy have drastically changed people's consumption patterns, which are not balanced by changes in business models, resulting in a significant decrease in the company's net profit in the financial statements, as well as default until maturity. This condition disrupts the company's finances and can cause the company to experience financial distress.

Several situations can indicate the potential for financial distress, including financial performance (Barboza & Altman, 2024), credit risk (Turki et al., 2024), share buybacks (Sakawa et al., 2024), independent auditor disclosures, Environmental, Social, and Governance/ESG, and digital transformation. In addition, excessive debt, wrong strategic policies, dig-and-cover-hole policies, fraud committed by management, and increasingly tight business competition are also the background to companies experiencing *financial distress*. This condition is closely related to failure, bankruptcy, and default in companies. A healthy company is born from proper management of resources and funding. However, not all companies have the ability to manage their business well, so the risk of financial *distress* increases. This increased risk during the COVID-19 pandemic can result in companies losing customer trust, losing access to capital, declining stocks, and decreasing asset values. Thus, it is essential to predict the factors driving *financial distress* early on to get early signs of *financial distress.* (Ding et al., 2023) .
Previous studies have found several factors that can influence financial distress, such as CEO remuneration, corporate governance, structural capital, working capital management, earnings management, political affiliation, Liquidity, Leverage, profitability, macroeconomics, and sales growth. However, these variables tend only to be able to provide an in-depth picture related to the complexity and challenges of corporate management through the identification of strategic decision-making and investment, are unable to reflect risks, can cause misalignment of interests between management and shareholders, are less adaptive to market changes, and cause significant cash problems. The above variables can also burden companies with high costs for the realization of corporate strategy implementation dependence on political relations, and can cause capacity and operational problems in the future.

This is different from the ability of structural capital variables to explain the importance of increasing operational efficiency, innovation, and competitive advantage in order to generate significant returns through standardized processes (Gogan et al., 2015) . Not only structural capital, working capital management variables are also able to explain the relationship related to the efficiency of resource use, cost reduction, increasing profitability, and financial stability. Through working capital management, companies are able to operate smoothly, reduce costs, and take advantage of growth opportunities. To strengthen the view on how to predict financial distress, this study also involves earnings management variables, which define how financial distress can affect managers in reporting finances, which are carried out by reducing profit volatility, increasing company value, and managing stakeholder perceptions (Kazemian & Sanusi, 2015).

This study uses structural capital, working capital management, and earnings management in predicting financial distress, where the three variables provide a comprehensive approach to predicting financial distress related to the financial condition and operations of the company so that the company is able to gain an earlier understanding of the financial condition.

These three variables are potential elements used to predict financial distress studies. However, the variables of structural capital, working capital management, and earnings management in previous studies were carried out when the company's condition did not have problems that could disrupt the country's economy. This is different from the research currently being conducted, which involves two conditions, namely, during and after the Covid-19 pandemic. This is very important and relevant in uncertain economic conditions so that it can be information for management decisions.

Understanding retail companies' structural capital in the context of financial distress plays an essential role in supporting the performance of human capital, such as the system of procedures and knowledge that underlies business operations (Ma et al., 2023). In Indonesia, structural capital has not received serious attention because it has only been recognized since the existence of PSAK No. 19, which was later revised in 2000. Optimizing structural capital is one of the decisive determinants of the success of a company in building the company's foundation. Through this optimization effort, companies can produce innovations, provide added value, ensure efficient operations, and face technological advances for the company's survival (Wei et al., 2023). However, when a company experiences financial distress, structural capital can have a significant impact that can hinder investment in technology used to maintain the company's operational activities.

In addition to optimizing *structural capital*, companies can also pay adequate attention to *working capital management* to meet maturing financial obligations and future costs (Akgun & Karatas, 2020). In uncertain situations such as financial distress, working capital management is an essential factor for the sustainability of a company's finances in managing financial distress. The importance of controlling working capital management is due to the daily financial operations used to ensure that the company has sufficient liquidity to carry out the company's operational activities, including managing receivables, payables, cash management, and short-term investments. Working capital management indirectly ensures the stability of the company's operations by supporting the stability, health, and productivity of the business, so managers need to know the right cash movements related to operations, investments, and financing in the company system (Nuzula, 2016).

Effective working capital management can improve the company's cash flow management and earnings management. Earnings management is found to be widely adopted by companies as a tool to manipulate profits, such as improving the quality of financial reports and influencing the market (Ayuputri et al., 2023). Earnings management is interesting to study because it can show how the picture is related to the behavior of managers in preparing financial reports and reporting their business activities, which can result in the emergence of specific motivations, thus encouraging managers to manage financial data (Agustia, 2017). Through earnings management, companies can position themselves to avoid market sanctions and falling stock prices (Jackson, 2018). However, in situations of financial distress, earnings management can worsen the situation, reduce investor confidence, and increase uncertainty (Waqas & Md-Rus, 2018).

Bringing *financial distress* in the context of COVID-19 is essential because of the continuity of sales, fixed costs, and sales strategies, along with supply and supply chain dependencies (Mulyaningsih et al., 2021), which are things that have emerged during the Covid-19 pandemic. The retail sector has an impact on the economy as a whole (Devi et al., 2020), and that a decline in sales reflects an economic downturn such as market uncertainty and a decline in people's purchasing power (Prayogo & Sukim, 2021). This study seeks to understand the overall impact, company conditions, and potential management evaluations to mitigate and respond to the risk of financial distress.

This study primarily aims to examine the influence of structural capital, working capital management and earnings management on financial distress in the context of the current and

post-Covid-19 pandemic which is expected to be able to identify the presence or absence of financial distress early on in a company. The relationship was tested to pay attention to the retail sector listed on the IDX in 2020-2023 using the Altman Z-Score method. Theoretically, this study can provide insight and knowledge regarding the influence of structural capital, working capital management, and earnings management on financial distress based on resource-based theory. While in practice, this study can be used as a consideration for investors/potential investors when analyzing financial statements, improving company performance through resources, providing an overview for management, and being able to adapt to change.

LITERATURE REVIEW

Resource Based Theory

This study examines the prediction of financial distress by involving structural capital, working capital management, and earnings management variables. It also includes resource-based theory (RBT) to identify key resources, innovation, differentiation through unique resources, and corporate reputation. RBT is an approach that influences resource management strategies (Barney et al., 2021). RBT was first discovered by, who stated that a company's capabilities or resources are unique and important in achieving a sustainable competitive advantage. This theory is widely established as a managerial framework used by companies in determining the organization's important resources (Utami & Alamanos, 2023). Focus RBT is based on company performance where RBT explains an internal approach that focuses on the organization's internal resources which are aimed at explaining company resources so that they cannot be imitated perfectly which are a source of sustainable advantage (Kozlenkova et al., 2014).

In this study, structural capital (which includes organizational infrastructure, technology, and managerial systems) is a resource that is considered important in the context of RBT, because well-managed structural capital can create operational efficiency, innovation, and product differentiation, which ultimately support the company's competitiveness. Furthermore, working capital management in RBT is seen as a very important resource in managing cash flow and maintaining the company's financial stability. Well-managed working capital will allow companies to survive in challenging situations, avoid financial distress, and even take advantage of growth opportunities in the market. If companies have the capability to manage working capital efficiently, they can reduce unnecessary costs and maximize profit potential, which in turn supports the company's financial sustainability.

Earnings management, as another variable in this study, can also be analyzed through the RBT perspective, because proper earnings management can improve stakeholder perceptions and enhance the company's reputation. Although earnings management is often criticized for being able to obscure the actual financial condition, in the RBT framework, it is seen as an effort to manage the company's reputation resources in maintaining the trust of investors and other stakeholders. At the same time, this practice can provide a positive signal even though the company's financial condition is not entirely healthy.

Financial distress is closely related to financial difficulties that can threaten the sustainability of a company's operations in the last few years (Luthfiyanti & Dahlia, 2020). Financial difficulties result in large debt burdens, lack of capital, and financial reports reaching negative figures (Junjun et al., 2016). Financial distress in a company can be caused by various factors, such as insufficient capital, poor operational performance, high debt, market changes, and ineffective management (Carolina et al., 2018). Financial difficulties that characterize financial distress can represent the company's inability to pay maturing obligations (Liu et al., 2022). If a company experiences financial distress, the same impact is also felt by internal and external stakeholders (Wanke et al., 2015). Companies with financial distress are more focused on

reducing costs to maintain credit ratings (Michalkova et al., 2018).

Several methods are offered to predict financial distress. One of them is the Ohlson O-Score Model, this model uses accounting variables such as net income, total assets and net equity to predict financial distress. (Nida et al., 2024) . In addition to the Ohlson O-Score , the Springate Model can also be used and this model is simpler using only the debt to equity ratio and the ratio of profit before tax and interest to total assets (Winarso & Edison, 2020). There is also the Altman Z-Score measurement model. The Altman Z-Score model uses financial ratios such as liquidity, profitability, leverage, activity and size used to generate a financial distress probability score. (Sutra & Mais, 2019) . This model is one of the most famous financial prediction models because it is easy to understand, focuses on financial variables, can be used in various sectors and has been widely tested (Chong et al., 2022) and produces a prediction accuracy rate of up to 95% (Nofitasari & Nurulrahmatia, 2021). For this reason, this study relies on the Altman Z-Score measurement model.

Hypotheses Development

Structural capital is one of three parts of intellectual capital. Resource-based Theory (Wernerfelt, 1984) states that the long-term success of a company is highly dependent on the effective and efficient use of its resources. Significantly, structural capital becomes a valuable asset in the form of knowledge, skills, and experience that can improve company performance (Saragih, 2019). Optimal management of structural capital will improve company performance and avoid distress conditions. (Purba & Saragih, 2021) . Unlike the two studies, this study emphasizes the importance of companies not only relying on machines to control the company but also paying attention to structural capital. Although structural capital is recognized as essential to be managed further, many companies face challenges in managing and utilizing the structural capital they have.

Good structural capital management can produce new ideas or innovations that are useful for facing competition and technological progress. Research by Dore & Teixeira (2023) and Timoty et al. (2023) found that structural capital has a positive relationship with financial distress, which also responds to research;; and Rahmadhani, (2023) which found the opposite results. Both have accommodated concerns about the influence of structural capital on financial distress but have not included research on retail companies when conditions are unstable in terms of income prospects and loss of purchasing power during the COVID-19 pandemic. This study then responds to this need by involving structural capital variables to predict financial distress in the context of the current and post-COVID-19 pandemic. It proposes the hypothesis that structural capital has a negative effect on financial distress.

H1: Structural capital has a negative effect on financial distress.

Working capital management is a company obligation (Ramiah et al., 2016) That has a direct impact on the company's liquidity and profitability to maximize the company's value and maintain a long-term competitive advantage for the company. Lack of understanding of planning and ability to manage working capital management led adequately to financial distress experienced by PT Electronic City Indonesia Tbk and PT Ace Hardware. For this reason, working capital management is one of the keys to preventing financial distress in companies that requires companies to not only rely on access to external resources but also on the company's ability to manage and utilize the resources they have effectively, in line with RBT theory. (ElBannan, 2021) . Research Muigai & Nasieku (2021) found that working capital management is positively related to financial distress. Onyango & Ngahu (2018), Habib & Kayani (2022), and Minyoso & Otuya (2023) found the opposite situation where working capital management is negatively related to financial distress. Although both have considered concerns related to the influence of working

capital management on financial distress, the context of the Covid-19 pandemic, which is an extreme situation that has the potential to cause financial distress, has not been included. This study then hypothesizes that working capital management has a negative effect on financial distress and uses the characteristics of working capital management to predict financial distress in the context of the current and post-Covid-19 pandemic.

H2: Working capital management has a negative effect on financial distress

Improvement-oriented earnings management practices are more commonly used in companies with high financial levels. This method can be applied by accelerating the recognition of costs and income (Kurniawansyah, 2018) and selling or improving assets to influence financial figures (Panjaitan & Muslih, 2019) This is done to avoid market sanctions and falling stock prices (Ngo et al., 2022) . Earnings management is influenced by financial distress , thus providing an incentive for management to execute these practices in order to continue to show better performance (Damayanti & Nugrahanti, 2022). The success of this practice utilizes accounting policies as a means to cover up illegal actions (Ghazali et al., 2015) .

In the context of resource-based theory, Earnings management can be understood as profit management that can be understood as one of the strategic resources owned by the company, which leads to the utilization of internal resource-capabilities to achieve certain goals, such as maintaining the company's image in the eyes of the market or protecting stock prices from negative impacts. Companies that have unique resources and capabilities that cannot be easily imitated by competitors can develop sustainable competitive advantages. In this case, earnings management carried out by management functions as a form of resource management that aims to create financial stability, although sometimes it is done in a way that does not fully reflect the company's real performance.

Jacoby et al., (2016), Li et al., (2020), Rakshit & Paul, (2020), and Wiratno et al., (2023) found that earnings management is positively related to financial distress, while Luu (2023) and Sayidah et al., (2020) found that earnings management is negatively related to financial distress . Although both researchers have considered doubts related to the effect of earnings management on financial distress, the results of previous studies indicate inconsistencies, and that similar situations have not been studied in the context of the Covid-19 pandemic. Responding to this need, researchers include earnings management variables during and after the Covid-19 pandemic, and propose that earnings management has a positive effect on financial distress.

H3: Earnings management has a positive effect on financial distress

RESEARCH METHOD

This study uses retail companies listed on the Indonesia Stock Exchange (IDX) in the period 2020-2023 as sample members with direct data access through the official website of the Indonesia Stock Exchange, namely (http://www.idx.co.id) as many as 40 companies. In the data collection process, documentation is used to collect data and information in various forms, such as books, archives, documents, written figures, images, and websites, which provide information about this research problem. The documentation used in this study includes the financial statements of retail companies for the period 2020-2023. The members of the research sample were selected through a *purposive sampling method* which aims to explore various factors that influence *financial distress* by comparing stable retail companies with companies experiencing financial difficulties. This is important to provide a deeper understanding of the dynamics that occur in the retail sector and produce 16 company samples (Rachman et al., 2024 . The criteria for sampling the study are as follows in Table 1. This study involves financial distress as the dependent variable, and structural capital, working capital management, and earnings management as independent variables. Working capital management is represented by the

proxies of cash management, inventory management, and accounts receivable management

Multiple linear regression analysis requires fulfillment of classical assumption tests; normality test, multicollinearity test, autocorrelation test and heteroscedasticity test (test results attached). This study conducted classical assumption tests using One Sample Kolmogorov Smirnov for normality test, Variance Inflation Factor (VIF) and Tolerance for multicollinearity, heteroscedasticity using the Glejser test and Durbin Watson (DW) for autocorrelation.

The classical assumption test begins by ensuring that the research data is normally distributed or not (Hair et al., 2018) . The normality test can be seen in the normal PP plot of Regression standardized residual graph or with the One Sample Kolmogorov Smimov test. If the test value or probability is greater than the significance level (p>0.005), it indicates that the research data is normal. This test shows a value of 0.085 which means asymp.sig>0.05 so it can be concluded that the research data is normally distributed. Furthermore, a multicollinearity test is carried out which is used to test whether there is a correlation between independent variables (Hair et al., 2018) . Statistical identification shows whether or not there are symptoms of multicollinearity which can be done by looking at the VIF (Variance Inflation Factor) value. If the tolerance value ≥ 0.10 or VIF value ≤ 10 then there is no multicollinearity and if the tolerance value ≤ 0.10 or VIF value ≥ 10 then there is multicollinearity. The test results obtained tolerance values of 0.980, 0.987, and 0.992 which means the tolerance value> 0.01 and VIF 1.008, 1.013, and 1.021 which means the VIF value <10. Thus, it can be concluded that there are no symptoms of multicollinearity in the regression model.

Then, a heteroscedasticity test is carried out which is used to see whether there is inequality in the residual value variance between the independent variables. (Hair et al., 2018) . This study uses the Glejser test. If the sig value is <0.05, the data is free from heteroscedasticity. The test results show a sig value of 0.001 <0.05. This means that there are no symptoms of heteroscedasticity. Finally, the autocorrelation test is carried out to determine whether there is a correlation between the disturbing error in period t and the error in period t-1 (previously) or not. The results of the autocorrelation test can be seen based on the Durbin Watson value, if the Durbin Watson value is greater than the dU value (DW> dU) then the model does not contain autocorrelation. A good regression model is one that is free from autocorrelation (Hair et al., 2018) . The test results show a Du value (1.6946) <Durbin Watson (1.869) <4-du (2.3054) which means there is no autocorrelation.

Table 1. Samples Criteria

Criteria	Amount
Retail companies listed on the Indonesia Stock Exchange (IDX)	40
Retail companies that present consecutive financial reports and use the rupiah currency during 2020-2023	(1)
Retail companies that have experienced a decline in value for one consecutive year in the observation period 2020-2023	(14)
Retail companies that never experienced a decline in value in the 2020-2023 observation period	(9)
Total selected samples	16
Number of research data: total samples multiplied by years of observation (16 x 4 = 64)	64

Source: processed data 2024

RESULT AND DISCUSSION

The results of the descriptive statistical test output in table 3 show the number of data studied as many as 64 samples. The first variable, structural capital which is an indicator of the company's fixed capital shows quite large variations in the data sample, which can reflect a significant influence on other variables. However, the large standard deviation indicates that its influence can vary between observations. As the second variable, working capital management refers to how the company manages current assets and short-term liabilities. With a negative average and a large standard deviation in the results of the statistical test, it can be concluded that working capital management varies greatly and has a significant impact on the company, but it is possible that some companies have serious problems in managing their working capital.

Earnings management as the third variable has a very large variation value in earnings management which can indicate that there are likely companies that use very different earnings management tactics, and this can have a major effect on the company's financial performance or stability. The results of the correlation between research variables from 2020 to 2023 are shown in table 4. Structural Capital has a significant negative relationship with financial distress, which means that companies with higher levels of structural capital tend to have lower levels of financial distress, although this relationship is relatively weak. Working Capital Management has a significant negative correlation with financial distress, which indicates that better working capital management can help reduce the risk of financial distress. Meanwhile, for the third variable, Earnings management does not show a significant correlation with financial distress, which means that earnings management does not directly affect the level of financial distress of companies in this data. The correlation between structural capital and working capital management or earnings management is very small, indicating that these three variables do not significantly influence each other.

Structural capital, working capital management, and earnings management simultaneously have a significant effect on financial distress, according to the simultaneous test result table; the significance value is 0.001, which means sig <0.05. This means that the worse the internal management of an organization, the greater the possibility of the company facing financial problems. The R-square value of 22.9% indicates that structural capital management, working capital management, and earnings management can contribute 22.9% of the variation in financial distress. On the other hand, other variables outside the research variables contribute 77.1%. In addition, this finding supports the conclusion that, after testing the hypothesis related to the variables of structural capital and working capital management, both have a positive and significant impact on the variable of financial distress. While for earnings management as the third variable has a significance value greater than 0.05, which indicates that the third variable does not affect the variable y, namely financial distress, which means that the company does not pay attention to financial conditions when using earnings management practices.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Structural capital	64	3803326535	3.E+13	1.27E+12	3.877E+12
Working capital management	64	-2624.97	182.02	-145.5392	432.60754
Earnings management	64	-8.E+14	4.E+14	-1.87E+13	1.271E+14
Financial distress	64	-797.00	10.22	-56.3275	137.49222

Source: Processed data 2024

Table 4. Correlation Table

	Structural capital	Working capital management	Earnings management
Structural capital			
Working capital management	0.088		
Earnings management	0.110	-0.011	
Financial distress	-0.258*	-0.417**	0.054

Source: Processed data 2024

Table 5. Results of F Test and T Test

F Test

	Model	Sum of Squares	df	Mean Square	F	Sig
1	Regression	7260856364	3	2420285454.7	5.935	.001
	Residual	24468941524	60	407815692.07		
	Total	31729797888	63			

T-test

Model		Unstandardized B	Coefficients. Std. Error	Standardized Beta Coefficients	t	Sig
1	(Constant)	13594.216	2861.261		4.75	<.001
	Structural capital	-1.342E-9	.000	-.232	-2.024	.047
	Working capital management	-20,523	5.905	-.396	-3.475	<.001
	Earnings management	1.332E-11	.000	.075	.661	.511
R Square						22.9%

Source: Processed data 2024

The results of the hypothesis testing in the study resulted in a positive influence *of structural capital* on *financial distress,* thus indicating that H1 was rejected, which could provide a different view from the expectations of the RBT theory which assumes that good internal resource management will generate profits. This study found that companies experiencing financial distress actually have complex structural capital, which often focuses on illiquid assets or assets that are difficult to optimize and require large investment costs (Ayotte, 2020) . In the context of RBT, even though the company has resources in the form of structural capital, if these resources are not managed optimally or are not in line with market needs and the company's financial condition, then the structural capital can actually become a burden that worsens the company's financial condition.

According to Widhiadnyana & Ratnadi, (2019) companies that have large structural capital tend to have high fixed cost burdens and low financial flexibility, which can increase their vulnerability to financial distress. In the RBT perspective, flexibility or the ability to adapt to external and internal changes is one of the important characteristics of resource-capabilities that provide competitive advantage. When companies are trapped in a rigid structure or face

investments that require high fixed costs, they become more vulnerable to market changes or unexpected financial pressures. In addition, Nazaruddin & Daulay, (2019) stated that structural capital should be used to create value for the company. However, if the company does not have the ability to manage structural capital effectively, these assets can actually become a source of additional risk that has the potential to cause financial difficulties. Ardalan & Askarian, (2014) stated that companies that have large structural capital but cannot manage their assets wisely will face challenges in optimizing return on investment and maintaining financial stability. This shows that although structural capital can be a very valuable resource, its success depends heavily on the company's ability to utilize it efficiently.

In situations where companies face market changes or financial stress, investments in illiquid or difficult-to-optimize structural capital can be a source of additional risk. From an RBT perspective, structural capital that is not managed properly or that is not aligned with the company's capabilities and needs can lead to an imbalance in cash flow, which in turn worsens the situation of financial distress. RBT emphasizes the importance of capabilities in managing resources to generate value and competitiveness. If a company's capabilities in managing structural capital are low, the company will have difficulty optimizing the potential of structural capital to support its long-term goals (Dore & Teixeira, 2023). This study is in line with the findings of previous studies conducted by Timoty et al., (2023) and Pradana & Chalid, (2023) which found that *structural capital* has a positive effect in predicting the financial condition of a company. These results are similar even though the years and samples used are different. Both companies in the manufacturing, real estate and retail sectors have a low level of management which results in financial difficulties for the company. On the other hand, the results of Rahmadhani (2023) are contrary to the results of the research, they believe that if the company manages its structural capital properly it will be better and will not disrupt the company's condition.

Hypothesis testing results in a positive effect *of working capital management* on *financial distress*, which means that H2 is rejected. The results of this study are not in line with the initial hypothesis that expects a negative relationship. The explanation of the results that are not in accordance with this hypothesis can be explained through competing theories, namely Liquidity Preference Theory and Agency Theory, which emphasize that inefficient working capital management can worsen the company's financial condition. According to Enqvist et al., (2014) ineffective working capital management, such as excess inventory, bad debts, or increasing debt, can drain a company's liquidity. When a company is unable to manage cash flow efficiently, it can cause difficulties in paying debts and other obligations, which in turn increases the risk of financial distress. (Sunaryo et al., 2021) . This is also supported by research by Simon et al., (2018) that companies that cannot maintain a balance between current assets and current liabilities often face serious liquidity problems. This statement is also in accordance with the results of the descriptive analysis that poor working capital management can cause severe liquidity problems.
Poor working capital management can trigger a snowball effect, where a small problem in liquidity can escalate into a larger financial crisis (Burney et al., 2021) . This confirms the importance of efficient working capital management in preventing financial distress. On the contrary, this study supports the research findings Moussa, (2019) and Habib & Kayani, (2022) who found that working capital management has a positive effect in predicting the company's financial distress condition . This is different from the research of Novilia & Rasyid, (2022) who found that profitability and firm performance increase if firms convert their assets quickly and effectively into cash. This suggests that efficient asset conversion can improve liquidity and reduce the risk of financial distress, in line with the view of Agency Theory which emphasizes the importance of owners and managers in maintaining a balance between risk and working capital management.

Hypothesis testing results that earnings management has no effect on financial distress, indicating that H3 is rejected. This result is inconsistent with the initial hypothesis, which is based on descriptive analysis showing that in general, earnings management tends to be related to a decrease in financial distress in the retail sector. However, companies with poor financial conditions can still carry out earnings management. This is done by management to create the impression of good performance and maintain the company's image, which is used to attract investors. (Yasar & Yalcin, 2024). This study is in line with research conducted by Sayidah et al., (2020) ; Ghazali et al., (2015) and Nurmayanti, (2021) which show that earnings management has a limited impact on financial distress. Because earnings management tends to be temporary, its impact is also not significant enough to affect financial distress in a sustainable manner (Hasty & Herawaty, 2017) so that it does not have a positive effect on financial distress . In this context, competing theories such as Signaling Theory can be used to explain this phenomenon. Signaling Theory argues that companies that carry out earnings management try to give a positive signal to investors even though the company's financial condition is actually bad. Therefore, earnings management may not have a direct effect on financial distress in the short term, but rather focuses more on maintaining market perceptions of the company's financial performance.

However, these results contradict the research of Zamri et al., (2022) and Aljughaiman et al., (2023) that companies experiencing financial stress manipulate earnings using the REM approach both before and during the pandemic. Agency Theory also provides an additional perspective that suggests that owners or managers facing financial stress can engage in earnings management to reduce negative perceptions of the company and avoid worse consequences, such as falling stock prices or losing investors. Meanwhile, research by Thu, (2023) states that there is a high risk of financial distress for companies that manipulate earnings by increasing the value of discretionary accruals. Thus, although the results of this study indicate that earnings management does not have a significant effect on financial distress, relevant theories such as Signaling Theory and Agency Theory can explain that this practice functions as a tool to manage market perceptions and does not always indicate a substantial change in the risk of long-term financial distress.

CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

Structural capital, working capital management, and earnings management have a role in influencing financial distress, proper and efficient management of the three aspects is highly dependent on the company's ability to utilize them optimally. Theories such as Resource Based Theory, Signaling Theory, and Agency Theory provide additional insights into how companies can manage financial resources and strategies to reduce the risk of financial distress and improve long-term performance. In general Practically, the findings of this study provide insight for companies in designing strategies to manage resources efficiently, reduce the risk of financial distress, and improve financial performance. Proper management of structural capital, working capital, and earnings management can help companies survive in difficult financial situations and increase their competitiveness. By understanding the influence of these three variables, companies can design more efficient financial policies and anticipate risks better. The limitation of this study is that the sample used is limited to 16 companies because there are companies that do not meet the criteria so they are excluded from this study. The determination value generated from the research variables is 22.9% where this value is very low, so that further research can add independent variables such as *Credit Default Swaps* (CDS) *Spread, Litigation* , Legal Risk, and *R&D Intensity* which can be used to predict *financial distress* . Further research can also use primary data using the survey method to determine the condition of the company in order to add new insights with the primary data used in the study

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