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THE INFLUENCE COMPANY SIZE, ASSET STRUCTURE, COMPANY GROWTH, PROFITABILITY ON DEBT POLICY

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Abstract

Debt policy is one of the decisions that must be considered by a company. There are strengths and weaknesses of the debt policy undertaken which can have an impact on the company itself and investors who will invest their capital in the company. Managers must determine a good debt policy by taking into account the right risks and proportions in order to increase the value of the company. Therefore this study aims to determine the determinants of debt policy in the food and beverage industry sub-sector in the 2014-2018 period. To find out the factors that influence debt policy, this study uses panel data regression analysis with a population of 23 companies and in the sample selection method used is purposive sampling technique. The results showed that there are two variables that affect debt policy, including tangibility which has a positive influence on debt policy and company growth has a negative effect on debt policy. While company size and profitability have no effect on debt policy.

Jel Classification:

H68; L11; L25; D29

Keywords: Debt Policy, Company Size, Asset Structure, Company Growth and Profitability

INTRODUCTION

Funding policy is one of the three fundamental policies of financial management, in addition to investment policy and dividend policy. Funding policy is a decision about choosing the most profitable (rational) alternative in meeting the company's funding needs. This policy covers two things, namely determining the choice of source of funds and determining the amount of funds that should be obtained from the source concerned. According to (Darsono, 2011) financial management is the activity of owners and borrowing companies to obtain the cheapest possible source of capital and use as effectively, efficiently and economically as possible to generate profits. Funding activities, namely activities to obtain sources of funds, both from internal funding sources and external sources of company funds (Angelina, S., & Nugraha, 2020). Using interest-bearing debt has benefits for the company. Tax savings are the value of the amount of tax that can be saved if the company uses debt. From this model it can be stated that companies that do not use loans at all and companies that use investment financing with loans are all bad. The best decision is a moderate decision by considering both financing instruments.

With a debt policy, in addition to

giving companies the advantage of increasing capital and saving taxes, debt policy is one of the policies that can reduce agency problems in the company. Conflict of interest are agency problems that will arise because of differences in interests between management and capital owners. As the agent of the owner, management should act for the prosperity of the owner, but because of the risk that is likely to be accepted by management, then in making decisions they also consider their interests. This difference in interests will lead to agency problems. Agency theory in financial management discusses the existence of relationships agency (Ayunitha, 2020), namely the relationship regarding the separation between ownership and management by the manager (Hastori, Siregar, H., Sembel, R., & Maulana, 2015).

There have been many studies on debt policy both previous research and recent research. But this research still has appeal because it involves funding decisions that are very important for the company. The goal of this study is to determine the factors that affect companies in debt policy. This study has several variables that are used as factors that influence debt policy, as follows:

Table 1. Research Variable

No	Variable	Symbol
1	Size of Company	SIZE
2	Asset Struture	Tangibility
3	Company Growth	Growth
4	Profitability	ROA
5	Debt Policy	DAR

Company size is the company's wealth which is calculated from the total wealth of the company (Nugraha, N. M., & Riyadhi, 2019). Company size is a factor that needs to be considered in determining the level of corporate debt. Large companies tend to be easier to get loans from third parties, because the ability to

access to other parties or collateral owned in the form of assets is greater value compared to smaller companies. Company size with a symbol (*SIZE*) and using a measurement scale Ratios (Brigham, E. F., & Houston, 2011) can be formulated with:

$$Size = \text{Ln Total Assets}$$

Assets are resources that are controlled or owned by an organization to generate economic value or income now or in the future (Adhi, H., & Alfarisi, 2019). A company in general has two types of assets, namely fixed assets and current assets. Asset structure is how much the balance between fixed assets and current assets is allocated in their use. Assets structure with the symbol (*TANGIBILITY*) and using a measurement scale Ratio can be formulated with:

$$Tangibility = \frac{\text{Fixed Asset}}{\text{Total Assets}}$$

Company growth is the increase or decrease in total assets owned by the company. Company growth is calculated as a percentage change in assets in a particular year against the previous year (Gitman, 2012). Company growth in pecking order theory has a positive relationship with funding decisions. In this case, companies with fast growth rates must rely more on external funds. The higher company growth, the expansion financing requires greater funding needs as well. According to the research by (Irawan, A., Rina, A., & Oemar, 2016) debt policy is significantly influenced by company growth. Company growth with the symbol (*GROWTH*) and using a measurement scale Ratios can be formulated with:

$$Growth = \frac{\text{Total Assets (t)} - \text{Total Assets (t-1)}}{\text{Total Assets (t-1)}}$$

The ability and success of a company in obtaining profits related to sales, assets and investments are measured using the profitability ratio. If a company has high

profitability then the level of debt at the company will decrease or in other words it can be said the company will avoid external financing. Studies by (Husnan, S., & Pudjiastuti, 2012) show that abnormal returns (ie differences in real profits and profits in accordance with the equilibrium model) on the announcement day and the day after the announcement from companies that increase debt, are positive. While companies that reduce *leverage* actually get abnormal returns negative on the day of the announcement and the day after. Abnormal returns positive mean that the profits obtained by investors are greater than the benefits that should be (according to the equilibrium model, for example with CAPM) (Nugraha, N. M., & Susanti, 2019). Profitability with symbols (*ROA*) and using a measurement scale Ratios can be formulated with:

$$ROA = \frac{\text{EAT}}{\text{Total Assets}}$$

Debt policy is a policy to obtain sources of funds and financing for companies to cover the costs of the company's operational activities taken by management (Horne, J. C., M, J., & M, 2009). In addition, the company's debt policy also functions as a monitoring mechanism for the actions of managers taken in managing the company. Debt policies can be influenced by company-specific characteristics that affect the company's debt supply curve or demand for debt. Debt policy with a symbol (*DAR*) and using a measurement scale Ratio can be formulated with:

$$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$$

METHODS

This research is a type of research with a quantitative approach. The data used in this study was obtained by the Indonesia Stock Exchange. The type of data used is secondary data derived from the financial statements of each company. Furthermore, this research uses the additional information needed obtained from articles, journals, text books and so on. The data used in this study is panel data, which is a combination of cross section data and data time series. To be able to achieve the research objectives, companies used in the food and beverage industry sub-sector from 2014 to 2018. With a population of 17 companies and sampled, 16 companies met the criteria with purposive sampling technique. The statistical methods used in this study were tested by classic assumptions. A proper regression model can be identified through the classical assumption test.

Statistical requirements that must be met in multiple value regression analyzes are called classical assumption tests. The classic assumption test used in linear regression with the approach Ordinary Least Square (OLS) includes tests of

normality, autocorrelation, heteroscedasticity and multicollinearity. However, not all classic assumption tests must be performed on every linear regression model using the OLS approach. The classic assumption tests conducted in this study are tests of normality, heteroscedasticity and multicollinearity. Normality test is a test of data that is carried out to see the regression model whether the dependent and independent variables have been normally distributed or not (Octavia, D., & Nugraha, 2020). If the probability value > 0.05 then the distribution of the regression model is normal. If the probability value < 0.05 then the distribution of the regression model is not normal.

RESULTS AND DISCUSSION

Normality Test Results

Decisions on whether or not residual normality test results are simple by comparing the JB Probability (Jerque-Bera) values calculated with an alpha level of 0.05 (5%). The basis for decision making is that the data is normally distributed if probability > 0.05 , but data is not normally distributed if probability < 0.05 .

Figure 1. Normality Test Results

From Figure 1, the JB Probability Value is $0.200596 > 0.05$. Because the probability value is greater than 5% error, the data is normally distributed.

Heteroscedasticity Test Results

For heteroscedasticity test using the white test shows that there is no heteroscedasticity problem because the P -

value obs * R-square > 0.5 with a value of 0.0621 > 0.05.

Table 2. Heteroscedasticity Test Results

Information	Coefficient
Prob. F (4.75)	0.0605
Obs * R-Squared	0.0621
<i>Scaled Explained SS</i>	0.1999

Source: Data processed with Eviews 10.0

Multicollinearity Test Results

Multicollinearity test results that have been done by researchers show that there is

no multicollinearity problem due to the value of (VIF) < 10.

Table 3. Multicollonearity Test

VariableResearch	Multicollonearity (VIF)
Size of the Company	1.025408
Tangibility	1.025408
<i>Growth</i>	1.022446
Profitability	1.123277

Source: Data processed with Eviews 10.0

Model Test

The results of the Chow test, the Hausman test and the Lagrange Multiplier

test used as a regression model test indicate that the Random Effect is a suitable model in calculating this research.

Table 4. Panel Data Regression Test Results

Research Variables	Prob.
Company Size	0.0836
Tangibility	0.0070
<i>Growt</i>	0.0017
Profitability	0.4379
R-Squared	0.1816

Source: Data processed with Eviews 10.0

Statistical test results show that the Prob F-statistic value < 0.05, meaning that there is a relationship between the independent variables (Tangibility and Growth) with the dependent variable (Debt Policy). The coefficient of determination test indicates that the independent variable has the ability of 18.16% (adjusted R2 value) to explain variations in the dependent variable, the remaining 81.84% is influenced by other factors outside the variables examined in this study.

In table 4 above the hypothesis test results show that only the Tangibility and Growth variables have an influence on capital structure. Another variable is

company size and Profitability has no influence on debt policy.

Discussion

The significant level of company size is 0.0836 > 0.05. Because the probability value is greater than 0.05, the debt policy of the food and beverage industry sub-sector in the 2014-2018 period is not significantly affected by the company size variable. If the size of the company is getting bigger, it will be easier for the company to obtain a capital loan from the creditor, due to the creditor's confidence in the size of the company. (Sutrisno, 2013) in a study conducted by (Nuraina, 2012). Company Size shows that

it influences debt policy. Furthermore, research conducted by (Suryani, A. D., & Khafid, 2015) shows that debt policy is not influenced by company size.

The significant level of asset structure is $0.0070 < 0.05$. This shows that the asset structure variable significantly influence the debt policy of the food and beverage industry sub-sector in the 2014-2018 period because the probability value is less than 0.05. In the research conducted by (Prathiwi, D. I., & Yadnya, 2017), it shows that the structure of assets does not significantly influence debt policy. Whereas research by (Indana, 2015) concerning shows that debt policy is significantly influenced by asset structure. Furthermore, research conducted by (Prathiwi, D. I., & Yadnya, 2017), shows that debt policy is not influenced by asset structure.

The significant level of company growth was $0.0017 < 0.05$. Because the company's growth value is smaller than 0.05, the debt policy of the food and beverage industry sub-sector in the 2014-2018 period is significantly influenced by the company's growth variable. The company's growth indirectly affects significant equity funding even in circumstances where bankruptcy costs are low. So companies with high growth will have debt ratios lower compared to companies with low growth (Rodoni, A., & Ali, 2014). Debt policy is significantly negatively affected by the company's growth. In a similar study (Indahningrum, R. P., & Handayani, 2018) showed that debt policy is not influenced by company growth. Meanwhile, according to (Irawan, A., Rina, A., & Oemar, 2016) shows that company growth has a significant relationship with debt policy.

Profitability has a significant level of $0.4379 > 0.05$. Because the probability value is greater than 0.05, the debt policy of the food and beverage industry sub-sector in the 2014-2018 period is not significantly affected by the company size variable. If the profitability of the company gets higher, the company's responsibility to fund the

company from external funds will be lower. Thus it can be concluded that debt policy is significantly affected negatively by profitability. In a similar study regarding the effect of profitability on debt policy conducted by (Husna, R., 2016) shows that debt policy is partially and simultaneously significantly affected by profitability. Furthermore, the research conducted by (Sheisarvian, R. M., Sudjana, N., & Saifi, 2015), shows that debt policy is not influenced simultaneously by profitability.

CONCLUSION

Based on the results of research and discussion of the influence of company size, asset structure, company growth and profitability on debt policy in the food and beverage industry sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2014-2018. So it can be concluded that the size of the company has no effect on the debt policy of the food and beverage industry sub-sector companies listed on the Indonesia Stock Exchange for the 2014-2018 period. This is because the size tendency of the company in that period is relatively stable. Meanwhile, the asset structure affects the debt policy of the food and beverage industry sub-sector companies listed on the Indonesia Stock Exchange for the 2014-2018 period. The size of the asset structure is one of the determinants for a company to implement debt policy. Some companies make more use of external funds to assist operational activities and get more opportunities to increase company value.

Furthermore, company growth affects the debt policy of the food and beverage industry sub-sector companies listed on the Indonesia Stock Exchange for the 2014-2018 period. The lower the company's growth, the higher the company needs external funding, and conversely the higher the company's growth, the lower the company's need for external funding. Profitability has no effect on debt policy in food and beverage industry sub-sector companies listed on the Indonesia Stock Exchange in 2014 -2018. Profitability has

the inverse effect on debt policy. The higher the company's profitability, the lower the decision to use external funds because the company will take more advantage of the availability of funds that come from internally. Meanwhile, if the level of profitability is low, the company will need more external funding to assist the company in carrying out its operational activities.

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