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The effect of company growth, asset structure, and profitability on debt policy

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Abstract

The goal of this study is to examine how firm growth, asset structure, and profitability affect debt policy. The population of this study consists of the 26 manufacturing enterprises in the subsector of the food and beverage industry that were listed on the Indonesia Stock Exchange (IDX) between 2018 and 2021. A total of 23 companies were selected for sampling using the purposive sampling approach, and quantitative methods were used to collect the data. The method of analysis used multiple linear regression analysis. The findings revealed that profitability had a substantial negative impact on debt policy, whereas firm expansion and asset structure had a considerable favorable impact. The findings of this study can be taken into account by businesses when deciding whether to use internal or external finances for their debt strategies.

Key words: Asset structure, profitability, company growth, debt policy

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INTRODUCTION

The issue of funding is crucial for the growth of a corporation in today's world of commerce. The financing choice attempts to make the business more responsible and examine cost-effective sources of funding to support the company's demands and investments. Companies can typically acquire funding from both internal and external sources. Internal sources include paid-up shares, retained earnings, retained capital, ordinary share capital, and preference shares. External sources include money from third parties or owed creditors (Agustina, 2017). Every organization needs to be able to put solid rules into place if it wants to survive in the evolving business environment. One of them is the debt policy, as any business unquestionably needs money to sustain its operating activities. Consequently, a company's debt management strategy is crucial.

The management of the company can use capital from both internal and external sources to finance operations by implementing a debt policy. The company's capacity to pay off its obligations will also influence the debt policy that will be adopted. The Debt to Equity Ratio was used in this study to gauge debt policy (DER). One of the elements that must be taken into account while making judgments on debt strategy is corporate growth, asset structure, and profitability. A change in the total assets held by the company is a sign of company growth. The ability of a corporation to establish itself in the business world is used to measure growth. Prasetyo (2011) assets that a company's growth and assets are equivalent (both physical assets such as land, buildings, buildings and financial assets such as cash, receivables and so on). In this study, total assets are used as a proxy for the company's growth.

Asset structure compares fixed assets to the overall assets owned by the company; the greater the fixed assets, the more long-term debt the company will use to fund itself. When determining whether to lend money, creditors should analyze the asset structure since a substantial quantity of wealth or assets that can be used as corporate guarantees make it easier for them to provide loans (Prathiwi & Yadnya, 2017). Profitability is the company's ability to generate profits from its operational activities (Hery, 2016). Measurement of profitability can be measured using Return On Assets (ROA) which can show the company's ability to use all of its assets to generate after-tax profits.

Based on the background of the research, the formulation of the problem set is whether there is an influence of company growth, asset structure, and profitability on debt policy. In this study, the impact of company growth, asset structure, and profitability on debt policy in manufacturing firms in the food and beverage industry subsector listed on the Indonesia Stock Exchange for the years 2018–2021 is to be ascertained. Because he is interested in learning more about the effects of independent variables like firm development, asset structure, and profitability on the dependent variable like debt policy, the author is driven to undertake research.

LITERATURE REVIEW

Agency Theory

Agency Theory is a theory that explains the existence of a working relationship between agents and principals. According to agency theory, there is a conflict of interest between shareholders and corporate management, and managers may act or make decisions to advance their own interests at the expense of that of shareholders (Cahyani & Handayani, 2017). Conflicts of interest between shareholders and managers may cause issues for the company. However, there are workarounds for agency issues, and one of them is a debt policy.

Pecking Order Theory

Packing Order Theory is a theory that has a relationship with determining the order of funding decisions where managers will first decide to use retained earnings, debt, and share issuance as a last resort (Putra & Fidiana, 2017). Pecking order theory is a notion that explains a hierarchy within a firm to find the most desired finances. Companies prefer internal finance over borrowing money from outside sources (debt).

Debt Policy

Debt Police is an effort made by management to obtain external funding that is used to carry out operational activities. Debt policy will have an impact on discipline for managers to optimize the use of existing funds. Because large enough debt will cause financial difficulties or risk bankruptcy. The company is considered risky if it has a larger debt portion in its capital structure, but on the contrary if the company uses little or no debt, the company is considered unable to take advantage of additional external capital that can improve the company's operations (Ozkan, 2001). In agency theory, the employment of debt policy is related to agency conflict, where it can be a compromise between shareholders and management.

Company Growth

Company Growth is the total assets where the growth of past assets will describe the profitability and growth in the future. Businesses with strong sales growth will need to invest more in numerous asset types, including both fixed and current assets. Companies with strong growth rates, as opposed to those with low growth rates, favor borrowing money from outside the company or taking on debt (Weston & Brigham, 2009).

Asset Structure

Asset Structure is the distribution of funds among the various current and fixed asset components. It will be simpler for businesses with a significant asset structure to obtain finance. Asset assets are described as economic benefits that are extremely likely to be received or controlled by the company in the future as a result of previous transactions and are anticipated to give economic benefits in generating money in the future (Santoso, 2019).

Profitability

Profitability has a purpose to determine the company's ability to generate profits derived from business activities it does within a certain period. The goal of profitability is to assess a company's capacity to produce profits from the commercial activities it engages in within a specific time frame. As a result of their ability to earn high profits and only employ small quantities of debt, businesses with high levels of profitability will prioritize using their profits to finance their needs (Brigham & Houston, 2010). Thus, the company's revenues enable it to more fully utilize its internal resources and meet its finance demands.

HYPOTHESIS DEVELOPMENT

The Effect of Corporate Growth on Debt Policy Corporate

Growth is a business accomplishment that is distinguished by an increase or decrease in the company's assets. A high growth rate demonstrates that the business is capable of making the best use of its resources. Therefore, the company's growth can be used to determine its level of success. According to Ariyasa et al (2019), the company's expansion will be accompanied by an improvement in operating performance, which will boost the company's credibility with third parties. According to research by Nurjanah & Purnama (2021), corporate growth significantly improves the debt policy. According to Vidyasari et al (2021), however, firm growth has no bearing on debt management.
H_1: Company growth has an effect on debt policy

The Effect of Asset Structure on Debt Policy Asset

Structure is a determinant of how much is allocated for each asset component, both in current assets and in fixed assets (Susilawati, 2012). The amount of debt that must be borrowed from outside sources can be calculated based on the size of the company's assets. Debt will be used as a priority by businesses whose assets are primarily fixed assets to finance their demands. This may show how asset structure affects debt policy. According to (Asiyah & Khuzaini, 2019; Carlin & Purwaningsih, 2022), the asset structure significantly and favorably affects debt policy. However, according to Utami & Ngumar (2019), the asset structure has little bearing on the debt strategy.
H_2: Asset structure affects debt policy

The Effect of Profitability on Debt Policy

Profitability can measure the company's ability to generate profits by using the sources of funds owned such as assets, capital or company sales. Companies with a high level of profitability will tend to use less debt. This is because the company will prefer funding for its operations using the company's internal funds with the assumption that the company will allocate most of its profits to retained earnings (Rona, 2012). According to the pecking order idea, internal company finance is given priority in this statement. Profitability has a detrimental impact on debt policy, according to research by (Nurfathirani & Rahayu, 2020). Although Prathiwi & Yadnya (2017) study indicates that profitability has a favorable impact on debt policy.
H_3: Profitability affects debt policy

RESEARCH METHOD

Quantitative research methods were utilized to analyze the data. The manufacturing firms in the subsector of the food and beverage industry that are listed on the Indonesia Stock Exchange for the years 2018 through 2021 make up the population of this study. The information used comes from financial statements and annual reports of manufacturing enterprises that were downloaded from the IDX website. Purposive sampling was employed in this study, and samples were selected based on the following criteria: (1) Manufacturing businesses in the food and beverage industry subsector that were listed on the IDX between 2018 and 2021. (2) The annual financial accounts contain all of the information on the necessary variables.

Operational Variable

Table 1. Operational Variable

Variable	Description	Formula
Debt Policy	The Debt to Equity Ratio (DER) serves as a proxy for policy debt.	$DER = \frac{Total\ Debt}{Total\ Equity}$
Company growth	Changes in total assets serve as a proxy for corporate growth.	$GROWTH = \frac{Total\ Assets_t - Total\ Assets_{t-1}}{Total\ Assets_{t-1}}$
Asset structure	The ratio between fixed assets and total assets is used to calculate the assets structure variable.	$AS = \frac{Fixed\ Assets}{Total\ Assets}$
Profitability	Return On Assets (ROA) serves as a proxy for profitability.	$ROA = \frac{Net\ Profit}{Total\ Assets}$

Method of Data Analysis

Descriptive statistical analysis was used for the analysis, together with the four classic assumption tests of normality, multicollinearity, heteroscedasticity, and autocorrelation. The analytical method in this study uses multiple linear regression analysis and hypothesis testing with the determinant coefficient (R2), F test, and t test.

RESULTS AND DISCUSSION

Descriptive Analysis

Descriptive analysis tests were run in order to give a summary of a data set's findings. Descriptive analysis's goal is to give a general overview of the number of samples, the maximum value, the minimum value, the average value (mean), and the standard deviation of each variable (Ghozali, 2013).

Table 2. Deskriptive Analysis Results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Company Growth	88	-0.199	1.676	.116476	.259753
Assets Structure	88	0.059	0.802	.374213	.205816
Profitability	88	-0.154	0.607	.073583	.108201
Debt Policy	88	-2.127	3.338	.823687	.736911
Valid N (listwise)	88				

Source: Results of Data Analysis SPSS v.26, 2022

According to Table 2, the study employed 88 samples of data. The company's growth was determined to have the following descriptive characteristics: mean of 0.116476, standard deviation of 0.2597531, lowest value of -0.1998, highest value of 1.6761. The asset structure has a mean value of 0.374213 and a standard deviation of 0.2058163, with the lowest value being 0.0592 and the highest being 0.8022. The profitability index ranges from -0.1544 to 0.6072, with a mean of 0.073583 and a standard deviation of 0.1082019. Debt policy's ranges from -2.1273 to 3.3389, with a mean of 0.823687 and a standard deviation of 0.7369117.

The Classic Assumption Test

According to the findings of the study's classical assumption test, the regression model's normalcy assumption was met by the normality test, which yielded a significant value of 0.155 > 0.05, indicating that the data were normally distributed. Multicollinearity test shows that there is no correlation between variables, because the value of sig. (2-tailed) the independent variable obtained has met the requirements, namely the VIF value < 10 and tolerance > 0.1. Furthermore, this study's heteroscedasticity test demonstrates that the regression model does not experience heteroscedasticity. Company growth was 0.613 > 0.05, asset structure was 0.725 > 0.05, and profitability was 0.316 > 0.05. These are the numbers obtained for each variable.

The Durbin-Watson value of 2.107 was calculated using the autocorrelation test results. The results of calculations using the formula dU < DW < (4-dU) are 1.7243 < 2.107 < 2,2757. It can be said that this study has no autocorrelation.

Analysis of Multiple Linear Regression Analysis

In this study, the multiple linear regression equation can be formulated as follows:

$$\mathbf{DP = \alpha + \beta_1.CG + \beta_2.AS + \beta_3.P + e}$$

Linear regression analysis on this study is used to predict the relationship between the variables of company growth, asset structure, and profitability on debt policy. The results of the analysis can be seen in Table 3, based on the table, the analysis of the multiple linear regression equations in this study are:

$$\mathbf{DP = 0.628 + 0.837\ CG + 0.858\ AS - 3.030\ P + e}$$

The results of the hypothesis test show that the constant is 0.628, meaning that if there is no company growth, asset structure, and profitability, the value of debt policy is 0.628. The company's growth coefficient is 0.837, if each additional 1 level of the company's growth variable, the value of debt policy will increase by 0.837. The coefficient of asset structure is 0.858, if for every additional 1 level of the asset structure variable, the value of debt policy will increase by 0.858. The profitability regression coefficient is -3.030, if each additional 1 level of profitability variable, the value of debt policy will decrease by 3.030.

Table 3. Results of Data

	Model	Unstandaedized B	t	Sig.	Colline arity Statistics	
					Tol.	VIF
1	(Constant)	.628	4.074	.000		
	Company Growth	.837	3.205	.002	.970	1.031
	Assets Structure	.858	2.605	.011	.972	1.029
	Profitability	-3.030	-4.900	.000	.998	1.002
Dependent Variabel: Debt Policy						
					F	Sig.
R		.556[a]	Regression		12.518	.000
R Square		.309				
Adj. R Square		.284				
Std. Error of the Estimate		.62343				
Durbin-Watson		2.107				

Source: Results of Data Analysis SPSS v.26, 2022

Determinant Coefficient Test

The Adjusted R Square on the coefficient regression shows the magnitude of the determinant coefficient's value. According to table 3, the adjusted R square is 0.284, or 28.4%. The factors of firm development, asset structure, and profitability thus have a contributory effect of 28.4% on debt policy, it can be concluded.

F Test

The F test is used to simultaneously determine whether there is an effect of the company's growth variables, asset structure, and profitability on debt policy. So it can be concluded that the variables of company growth, asset structure, and profitability simultaneously affect debt policy.

t Test

This study's t test to determine how each independent variable affects the dependent variable. According to table 3, the test findings are as follows: (1) The firm growth variable has a t count of 3.205 and a sig. t of 0.002 < 0.05, which indicates that the company's growth significantly influences the debt policy in a positive way. (2) The variable asset structure has a t value of 2.605 and a sig. t of 0.011 < 0.05, which means that the asset structure significantly influences the debt policy. (3) Since the variable profitability has a t value of -4,900 and a sig. t of 0.000 < 0.05, indicating that profitability significantly affects debt policy negatively.

Discussion

Based on the results of data analysis in table 3, it shows that the calculated F value is 12,518 and the significance value is 0.000 < 0.05, which means H_0 rejected and H_1 accepted. So it can be concluded that the variables of company growth, asset structure, and profitability simultaneously affect debt policy.

The results showed that the company's growth variable had a regression coefficient value of 0.837 where the direction of the correlation was positive, the t-count value was 3.205, and the t-significance was 0.002 < 0.05. The asset structure has a regression coefficient value of 0.858 with a positive correlation direction, t count of 2.605, and significant t of 0.011 < 0.05. Profitability has a regression coefficient value of -3.030 where the direction of the correlation is negative, the t value is -4.900, and significant t 0.000 <0.05. From the results obtained, a significant value of t < 0.005 means that H_0 rejected and H_1 accepted. It can be concluded that company growth and asset structure have a positive and significant effect on debt policy, while profitability has a negative and significant effect on debt policy.

The results of this study can support previous research conducted by Nurjanah & Purnama (2021) which states that company growth has a significant positive effect on debt policy, Carlin & Purwaningsih (2022) which states that asset structure has a significant positive effect on debt policy, and (Adnin, 2021; Nurfathirani & Rahayu, 2020) which states that profitability has a negative and significant effect on debt policy.

The results obtained indicate that companies that have high corporate growth and asset structure can affect the use of external funds (debt). The company's ability to pay debts can facilitate the acquisition of debt from external parties, this can be proven by the value of the assets obtained. While companies with low profitability will prioritize internal funding because they are able to finance the company's operational activities, the use of debt is relatively small. This is in accordance with the pecking order theory which states that the company will prioritize funding from internal sources.

CONCLUSION

Based on the research, the sample data amounted to 88 financial statements from 23 manufacturing companies in the food and beverage industry sub-sector during the 2018-2021 period. The results showed that there was a simultaneous significant influence in the simultaneous testing of company growth, asset structure, and profitability on debt policy. While partially the company's growth has a significant positive effect on debt policy, asset structure has a significant positive effect on debt policy, and profitability has a significant negative effect on debt policy.

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