The Effect of Growth, Profitability and Institutional Ownership on Debt Policy

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ABSTRACT : The purpose of this research is to discover the impact of Growth, Profitability, and Institutional Ownership on Debt Policy. The independent variables in this study are growth, profitability, and institutional ownership. The dependent variable in this study is debt policy. The population in this study are manufacturing companies listed on the Indonesia Stock Exchange in the 2018 – 2020 period. The study used the purposive sampling method in order to collect the sample. Based on certain criteria, there were 62 of 193 manufacturing companies matched with the sample. The Analytical technique used in this study is multiple linear regression. The analysis was used to test research hypothesis using SPSS 25. The result of this study indicates that growth has a positive effect on debt policy, profitability has a negative effect on debt policy, and institutional ownership has no effect on debt policy.

Keywords : Growth, Profitability, Institutional Ownership, Debt Policy

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1. INTRODUCTION

To achieve the company's goals, it takes a large number of funds to finance the company's operations. Managers need to prepare the company's capital requirements in advance to ensure that there will be no shortage of funds that will hold back the company's operating and investment activities in the future (Chakrabarti & Chakrabarti, 2019). The company's capital can be obtained through internal funding sources in the form of its capital and retained earnings as well as external funding sources from debt.

One of the funding that is widely used by companies is debt policy. The amount of debt used by the company to finance the company is a related policy to the capital structure (Uzliawati et al,2016). Debt policy plays an important role for the company because through debt policy, the company can fund its operational activities and investment in its business (Nurwani, 2020). Then the use of debt can reduce conflicts of interest that occur between the agent and the principal (Jensen & Meckling, 1976). The conflict of interest between the agent and the principal is caused because the agent namely the manager has other goals that are different from the objectives of the principal, namely shareholders.

In addition to having benefits for the company, debt policy also has a weakness. When the debt ratio is higher, the company will be more at risk of facing financial difficulties and the risk of bankruptcy. The reason is that funds sourced from debt have a capital cost in the firm of interest, where the use of high debt will cause an increase in interest expenses and loans that must be paid by the company (Nurjanah & Purnama, 2020). According to Husnan and Pudjiastuti (2015) if the Debt to Equity Ratio (DER) value is above 1 (one) it means that the company has a larger amount of debt than the amount of its capital and this is not following with the theory of optimal debt policy where the amount of company debt should not be higher than its capital, because if the DER value is more than 1 (one) then the risk of the company will increase. This case occurred in several manufacturing companies on the Indonesia Stock Exchange which had an average Debt to Equity Ratio (DER) above 1 (one) as shown in the table below:

TABLE 1. Debt to Equity Ratio (DER) for Manufacturing Companies with Average Values above 1 (one)

No	Company Name	*Debt to Equity Ratio* (DER)			Average Debt to Equity Ratio (DER)
		2018	2019	2020	
1	Tri Banyan Tirta Tbk	1,87	1,90	1,97	1,91
2	Prasidha Aneka Niaga Tbk	1,87	3,34	5,37	3,53
3	Langgeng Makmur Industri Tbk	1,38	1,55	1,83	1,59
4	Wijaya Karya Beton Tbk	1,83	1,95	1,51	1,76
5	Mulia Industrindo Tbk	1,35	1,27	1,15	1,26
6	Pelangi Indah Canindo Tbk	1,85	2,74	3,62	2,74
7	Aneka Gas Industri Tbk	1,11	1,13	1,11	1,12
8	Argha Karya Prima Industry Tbk	1,49	1,23	1,01	1,24
9	Asiaplast Industries Tbk	1,46	0,97	0,97	1,14
10	BerlinaTbk	1,19	1,37	1,56	1,38
11	Yanaprima Hastapersada Tbk	1,80	1,29	1,10	1,40
12	Kedawung Setia Industrial Tbk	1,51	1,06	0,88	1,15
13	Indo Komoditi Korpora Tbk	2,57	2,16	2,43	2,39
14	Gajah Tunggal Tbk	2,35	2,02	1,59	1,99
15	Prima Alloy Steel Universal Tbk	1,38	1,57	2,21	1,72
16	Panasia Indo Resources Tbk	3,31	5,04	17,30	8,55
17	Sunson Textile Manufacture Tbk	1,61	1,57	1,59	1,59
18	Ateliers MecaniquesD'Indonesie Tbk	0,95	1,00	1,48	1,15
19	Voksel Electric Tbk	1,69	1,73	1,62	1,68
20	Tembaga Mulia Semanan Tbk	3,45	2,22	2,05	2,57
21	SLJ Global Tbk	19,30	22,01	-5,70	11,87
22	Sri RejekiIsmanTbk	1,64	1,63	1,75	1,68
23	Sat NusapersadaTbk	3,13	1,29	0,57	1,66

Source: Secondary data from idx.co.id (Processed data, 2022)

Based on table 1 there are 23 companies that have an average value of Debt to Equity Ratio above 1 (one). This means that the company has a higher level of debt than its capital so it is very risky for the company. Therefore, managers as agents are required to use debt policy optimally, namely debt policy that can minimize the use of capital cost and maximize firm value.

Debt Policy can be affected by other factors, one of them is growth. The increasing growth of the company will encourage the company to expand its business so that in carrying out its expansion activities the company will require large additional funds, where these funds can be sourced from debt. Previous research conducted by Nurjanah and Purnama (2020) showed results that growth has a positive effect on debt policy. However, research conducted by Li and Stathis (2017) show that growth has a negative effect on debt policy. Meanwhile, Safitr iand Wulanditya (2017) shows that growth has no effect on debt policy.

The next factor after growth that can affect debt policy is profitability. Basdekis, et al (2020) stated that to see a picture of the company's development, profitability must be combined with the company's debt level. The existence of free cash flow that comes from profitability often creates agency problems in the company. Therefore, to reduce agency problems with profitability, a debt policy can be used. An increase in debt will reduce agency conflict and will reduce the excess cash flow in the company so that it can limit the possibility of opportunistic behavior carried out by the management (Wahidahwati, 2002). Previous research conducted by Prathiwi and Yadnya (2017)that show profitability has a positive effect on debt policy. However, Sharma (2018) shows that profitability has a negative effect on debt policy. Meanwhile, Ramadhani and Barus (2018) show that profitability has no effect on debt policy.

Another factor that can affect debt policy is Institutional ownership. Institutional shareholding has the right to control company management through an effective monitoring process (Indy, Uzliawati, Mulyasari, 2022). In other words, institutional ownership has the right to monitor managers in using their debt policy. Previous research conducted by Hayat, et al (2018) that show institutional ownership has a positive effect on debt policy. Meanwhile, research conducted by Utami and Ngumar (2019)shows that institutional ownership has a negative effect on debt policy. However,Ahyuni, et al (2017) show that institutional ownership has no effect on debt policy.

Many studies on debt policy have been carried out, but there are still inconsistencies in the result of previously studied on the factors that influenced debt policy.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1 *Agency Theory*

Agency Theory explains the contractual relationship between the manager of the company or management (agent) and the shareholders (principal). The Agency problem starts from the inability of shareholders to manage the company by themselves so they hire other parties, namely agents. Managers as an agent have the power to make decisions for the profit of shareholders, so managers must act in the interests of shareholders. However, in practice sometimes the decisions made by managers are against the interests of shareholders. This is because of the information asymmetry that occurs between managers and shareholders, where managers know more information about the company that is not owned by the shareholders. Linda, et al (2017)explain that agency problems can occur for two reasons, namely between shareholders (principals) and managers (agent) and between shareholders (principals) and bondholders (creditors). Agency problems will result in agency costs, so managers and shareholders try to reduce agency costs in a certain way. Several alternatives that can be used to reduce agency costs, one of which is through the use of debt. Jensen and Meckling (1976) explain that the use of debt can reduce conflicts between principal and agent.

2.2 *Growth Impact on Debt Policy*

Agency theory explain that when a company has low growth, then agency cost will appear so debt should be issued (Jensen, 1986). As the company grows, the manager will try to maximize their company by expanding their business. Companies with high growth rates tend to require large funds to develop their businesses. If the company's internal funds are not sufficient to finance this growth, then the company will use external funds from debt to fund the company's growth (Brigham & Houston, 2019:503). From the description above, the first hypothesis to be tested in this research is:
H1: Growth has a positive effect on debt policy.

2.3 *Profitability Impact on Debt Policy*

Companies with high levels of profitability usually use small amounts of debt because they used internal funds for repayment (Brigham & Houston, 2019:503). However, if the company's internal funding needs are not sufficient, the company can use external funds from debt. Agency theory explains that profitability has a positive impact on debt policy. This is because a company that has high profitability will have an excess of free cash flow (Jensen, 1986). The existence of an excess of free cash flow can make managers as agents who have self-interest will use an excess of free cash flow for their interest. Then, in this situation the use of debt needs to be used by the company because accordance with agency theory debt can be used to limit opportunistic behavior by management. From the description above, the second hypothesis to be tested in this research is:
H2: Profitability has a positive effect on debt policy.

2.4 *Institutional Ownership Impact on Debt Policy*

Based on agency theory, institutional ownership has an important role to reduce agency problems that occur between managers and shareholders (Jensen & Meckling, 1976). Utami and Ngumar (2019) explain that the existence of share ownership by the institution will lead to an increase in control over the decision made by managers, including the use of debt policy. In this case, institutional ownership will reduce the opportunistic actions by managers in using debt, because institutional investors are indirectly involved in monitoring all actions taken by managers in using debt policy. From the description above, the third hypothesis to be tested in this research is:
H3: Institutional ownership has a negative effect on debt policy.

From all the descriptions above, the model in this research for Growth, Profitability, and Institutional Ownership Impact on Debt Policy is as follows:
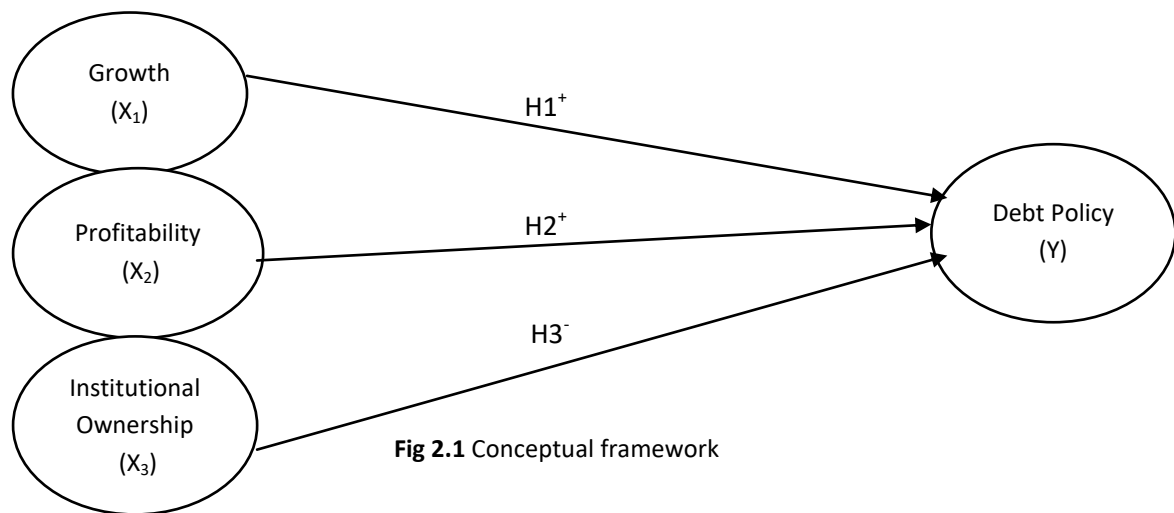
Fig 2.1 Conceptual framework

3. RESEARCH METHODS

3.1 Methods

This research is quantitative. The Object of this research are growth, profitability, institutional ownership, and debt policy on manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the 2018 – 2020 period.

Data used in this research is secondary data, taken from financial statements and an annual report obtained from the official website on the Indonesia Stock Exchange namely www.idx.co.id.

The Population in this research are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 – to 2020. The Method used to determine the sample is purposive sampling and obtained 62 manufacturing companies that became the sample for this research.

The research data that has been collected will be analyzed through several stages of testing, namely descriptive statistics. Then the classical assumption test is carried out to test the feasibility of the regression model which will be used to test the research hypothesis by using multiple linear regression analysis data. Data processing in this research uses SPSS (Statistical Product and Service Solutions) Version 25.

3.2 Research Variable

The dependent variable, Debt Policy is measured by using the Debt to Equity Ratio (DER). The DER formula is as follows:

$$DER = \frac{Total\ Liabilities}{Total\ Equity}$$

The independent variable, Growth is measured using Asset Growth. The Asset Growth is as follows:

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

Where:
Total Asset (t)   = Current year's total assets
Total Assets (t-1) = Previous year's total asset

Profitability is measured by using the Return on Asset ratio (ROA). The formula for ROA is as follows:

$$ROA = \frac{Earning\ After\ Tax}{Total\ Asset}$$

The Institutional ownership formula is as follows:

$$Institutional\ Ownership = \frac{Number\ of\ Institutional\ shares}{Number\ of\ shares\ issued}$$

4. RESEARCH RESULT

4.1 Variable Description

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2018 – to 2020. The year 2018 – 2020 was taken because the data for that year was relatively recent. The final sample of this study was 62 companies in 3 years of observation so the total number of samples was 186 observations. Based on sample selection criteria, there are 15 data that are not used because these data are data that deviate too far from the other data in a data set (outliers). So the company data that is processed to be used as research amounted to 171 samples.

4.2 Analysis Statistic Descriptive

Descriptive statistics describe data seen from the maximum, minimum, average value (mean), and standard deviation of each variable (Ghozali, 2018). The variables used include growth (GR), Profitability (PROF), Institutional Ownership (IO), and Debt Policy (DP). The following is a table of descriptive statistical test results:

Table 2. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
GR	171	-0,44	3,28	0,0823	0,29747
PROF	171	-0,05	0,26	0,0307	0,03819
IO	171	0,02	1,00	0,6319	0,20918
DP	171	0,07	3,34	0,9167	0,65594

Source: Data is processed by researcher with SPSS25 (2022)

4.3 Classical Assumption Test

The result of the classical assumption test, namely normality, multicollinearity, heteroscedasticity, and autocorrelation tests are explained as follows:

Table 3.Classical Assumption Test

Variable	Monte Carlo Sig. (2-tailed)	Tolerance	VIF	Sig	Durbin Watson
Growth_GR (X1)		0,957	1,045	0,476	
Profitability_PROF (X2)	0.086	0,947	1,056	0,469	1.868
Institutional Ownership_IO (X3)		0,973	1,028	0,127	
N = 171					

Source: Data is processed by researcher with SPSS25 (2022)

Based on table 3 the results of the residual normality test show the Monte Carlo Sig value of 0.086 which is greater than alpha ($\alpha = 0.05$), which means that the residual data in this study is normally distributed. The multicollinearity test result in table 3 shows the variables Growth, Profitability, and Institutional Ownership have a tolerance value > 0.10 and a variance inflation factor (VIF) < 10, this shows that there is no multicollinearity in the regression model. The heteroscedasticity test shows that the variables Growth, profitability, and Institutional ownership have a significance value above 0.05, which means that there is no heteroscedasticity. The result of the previous test showed that there was an autocorrelation. Therefore, to treat autocorrelation, the Cochrane orcutt test was used by transforming the data into a lag form. From the results of this analysis, it can be seen that the Durbin Watson generated from autocorrelation test is 1.868. Table Durbin Watson obtained the lower limit value (dl) is 1.713 and the upper limit value (du) is 1.785 at a significance level of 0.05. Where du<dw< 4- du is 1.785 < 1.868 < 4 – 1.785 (2.214). So it can be conclude that there is no autocorrelation.

4.4 The results of the Feasibility Test Model (Goodness of Fit)

4.4.1 Results of the Coefficient of Determination Test (R Square)

Table 4. Coefficient of Determination Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,395[a]	,156	,141	,60800

Source: Data is processed by researcher with SPSS25 (2022)

Based on Table 4the value of the coefficient of determination can be seen from the Adjusted R Square value of 0.141 or equal to 14.1% which means that the independent variables in the form of growth, profitability, and

institutional ownership affect debt policy by 14.1%, while the remaining 85.9% is influenced by other variables not examined in this study.

4.4.2 F test Results

Table 5. F Test Result

	F	Sig
Dependent: DP	10,289	,000[b]
Sig* 0,05		

Source: Data is processed by researcher with SPSS25 (2022)

Based on Table 5 it is known that Fcount value is 10.289, and Ftable is 2.66 with a significance value of 0,000. Fcount 10,289 is greater than Ftable 2.66 and the significance value is less than 0,05 (5%). So it can be conclude that the independent variables growth (GR), profitability (PROF), institutional ownership (IO) together affect debt policy.

4.5 Hyphotesis

4.5.1 T Test Result

Table 6. T Test Result

Model	Hyphotesis	B	PrediksiArah	T-statistic	Sig.	Note	Conclusion
(Constant)		1,274		8,437	0,000		
GR → DP	H1	0,512	Positive	3,198	0,002	Significant	Accepted
PROF → DP	H2	-5,472	Negative	-4,360	0,000	Significant	Not Accepted
IO → DP	H3	-0,366	Negative	-1,621	0,107	No Significant	Not Accepted
Sig ** 0,05 (5%)							

Source: Data is processed by researcher with SPSS25 (2022)

Based on the results of the t test in Table 6 the significance value of growth is 0.002 < 0,05. So it can be concluded that growth has a significance positive effect on debt policy partially, it can be said that hypothesis 1 is accepted. The profitability variable has a significance value of 0.000 < 0.05. So it can be concluded that profitability has a significance negative effects on debt policy partially, it can be said that hypothesis 2 is rejected.

The institutional ownership variable has significance value of 0.107 > 0.05. So it can be concluded that institutional ownership has no effect on debt policy partially, it can be said that hypothesis 3 is rejected.

4.5.2 Multiple Linear Regression Test Result

Based on the regression results in Table 6 the following regression equation can be arranged:

$$DP = 1.274 + 0.512\ GR - 5.472\ PROF - 0.366\ IO + e$$

4.6 Discussion

4.6.1 The effect of Growth on Debt Policy

The result of testing the first hypothesis (H1) show that growth has a positive effect on debt policy. This mean that the first hypothesis is accepted. The result of this hypothesis mean that the higher growth of a manufacturing companies listed on the Indonesian Stock Exchange period 2018 – 2020 will increase the company's debt policy. This research is in accordance with agency theory, where the companies tend to use debt to finance company growth and reduce agency problems that occur in the company. This study is in line with the results of research conducted by Nurjanah and Purnama (2020) and Al-Hunnayan (2020) which state that growth has a positive effect on debt policy.

4.6.2 The effect of Profitability on Debt Policy

The result of testing the second hypothesis (H2) shows that profitability has negative effect on debt policy. The test result show that the second hypothesis is rejected. The result of this test means that when company's profitability increases, the company tend to use funds from internal sources compared to funds sources from debt. This research is not in accordance with agency theory. This study is in line with the results of research conducted by Sharma (2018), Saif-Alyousfi et al (2020) and Zakaria and Salawa, (2020) which state that profitability has a negative effect on debt policy.

4.6.3 The effect of Institutional Ownership on Debt Policy

The result of testing the third hypothesis (H3) shows that institutional ownership has no effect on debt policy. The test result shows that the third hypothesis is rejected and this research is not in accordance with agency theory. The result of this test means that the level of share ownership by institution manufacturing companies listed on the Indonesian Stock Exchange period 2018 – 2020 will not affect the company's debt policy. This

study is in line with the results of research conducted by Ahyuni, et al (2017) which state that institutional ownership has no effect on debt policy.

5. CONCLUSION

The purpose of this research is to find out the influence of growth, profitability, and institutional ownership on debt policy in manufacturing companies listed on the Indonesian Stock Exchange (IDX). The dependent variable is debt policy, while the independent variables are growth, profitability, and institutional ownership. Based on the results of the statistical test and discussion of the analysis of the previous chapter, show that growth has a positive effect and significant on debt policy. This indicates that the higher growth of the company, the higher the debt policy. Second, profitability has a negative effect and significant to debt policy. This shows that the higher profitability of the company, the lower possibility of the company using a debt policy. Third, institutional ownership has no effect on debt policy. This shows that the amount of share ownership by institutional investors has no effect on the debt policy carried out by the company.

The implicated of this research to Manufacturing Companies that listing on the Indonesian Stock Exchange (IDX). The Company must optimize the use of debt, especially in carrying out investment and expansion activities aimed at increasing assets and the sale of the company so that the debt policy carried out can run optimally.

The limitation of this research is to make data normally distributed, there are some data from a sample of companies that are not used because these data are data that deviate too far from the other data in a data set (outliers). In addition, this research is only using manufacturing companies sample that listed on the Indonesian Stock Exchange (IDX) in 2018 – 2020, so the result has not optimal. So the suggestions for the next research that can add the observation year period to make it longer and add other variables that have a relationship with debt policy, to get better results.

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