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Influence of Business Risk, Profitability and Asset Structure on Debt Policy
(Empirical study of manufacturing companies listed on the IDX for the 2017-2021 period)

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Abstract: *This research aims to analyze the correlation of business risk, profitability and asset structure with debt policy. This research was conducted at manufacturing companies listed on the IDX for the 2017 – 2020 period. The research sample used a purposive sampling method so that 68 companies were obtained, the total sample used was 340 samples. The data used is secondary data from the company's annual report. The analysis technique used is multiple linear regression analysis and the Classical Assumption Test. The results of this research show that business risk has a negative and significant effect on debt policy. Profitability has a positive and insignificant effect on debt policy. Asset structure has a positive and significant effect on debt policy.*

Keywords: Business Risk, Profitability, Asset Structure, Debt Policy.

I. INTRODUCTION

The business world is very diverse in Indonesia, various competitions between businesses are very much carried out to obtain company goals. Competition between companies also requires income funds for operational activities in order to obtain maximum profits. Lending from debt is the largest capital obtained by the company for working capital and the purchase of the company's fixed assets. Debt is a form of loan in the form of goods that have an obligation to be returned to those who have dependents. Within the company, the asset structure is correlated with the debt policy decided by the company. The amount of assets owned can be used as collateral. This shows that it is not difficult for the lender to disburse funds if it is completed

with great collateral. For creditors, observing the asset structure is one of the considerations in disbursing debt (Pratiwi and Yadna, 2017). Asset structure is a comparison both in absolute terms and in relative terms between current assets and fixed assets. Companies that have a high level of profitability tend to do internal funding and

reduce external funding, because external funding has a high risk for the company.

Based on the above phenomena and the differences in research results which show inconsistencies, the authors are interested in studying and researching the factors that influence debt policy in manufacturing companies listed on the Indonesia Stock Exchange. The purpose of this study is to find out and obtain empirical evidence about the effect of business risk, asset structure, and

profitability of debt policies for manufacturing companies listed on the IDX for the 2017-2021 period.

II. LITERATURE REVIEW

2.1 Agency Theory

Agency theory is a theory that seeks to explain the actions or actions of the parties involved in a contractual relationship, especially those carried out by the company or management (Kiswara, 1999: 5 and Kelly, 1993: 183 in Kholmi, 2010).Agency theory explains differences of opinion between management and shareholders that occur as a result of differences of opinion between the two parties (Setiawan, 2021). The close relationship between the shareholders and managers is very affect if the manager is only concerned with himself without thinking about the shareholders.

2.2 Trade Off Theory

The trade off theory further describes the relationship of business risk to debt policy, the theory explains that the trade off theory has a balance pattern between the profit of funds from debt with high interest rates and bankruptcy costs. So in this theory it is explained that if it has not reached a maximum point, debt will be better than selling shares because of the tax shield. However, after reaching the maximum point the use of debt for the company becomes unattractive because the level of increase in profits from the use of debt is not proportional to the increase in bankruptcy costs and agency costs Atmaja (2008: 259).

2.3 Pecking Order Story

That is the theory which states that companies make funding decisions hierarchically from internal to external funding. The funding sequence starts from funds sourced from retained earnings, then debt and finally comes to the issuance of new equity. This means starting from the source of funds with the lowest cost (Myers and Majluf, 1984 in Harjito, 2011).

2.4 Debt policy

Debt policy is a policy regarding decisions taken by companies to carry out their operations by using financial debt (Brigham and Houston, 2017: 78). Debt policy is one of the determinants of the direction of consideration of the amount of short-term (permanent) debt, long-term debt, preferred stock, and common stock (Sheisarvian et.al, 2015).Debt policy is a policy carried out by managers to obtain funding from third parties to carry out company activities and to find out disciplinary behavior carried out by management (Kurnia, 2015). Debt policy greatly affects the company's operational activities, because if the wrong policy is taken, the company will have a high risk of going out of business.

2.5 Business risk

According to Ricky W. Griffin and Ronald J. Ebert (2013), risk is an uncertain event in the future, so that business risk is the uncertainty about the estimated profit or loss that the company will experience while carrying out its operational activities. Business risk in the company can affect the company's survival and as a benchmark for the company in paying its debts

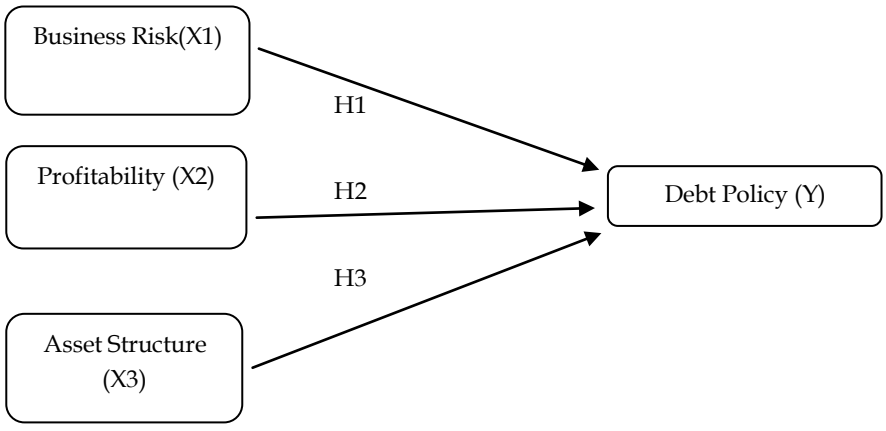
2.6 Asset Structure

According to Riyanto (2011), Asset Structure is a balance or comparison both in absolute terms and in dynamic terms between current assets and fixed assets. What is meant by the absolute meaning is the comparison in nominal form, while what is meant by the dynamic meaning is the comparison in the form of a percentage. Based on the explanation above, it can be concluded that the asset structure is the resources owned by the company that are used in its operations.

2.7 Profitability

Profitability is the ratio used to measure a company's ability to generate net profit based on a certain level of assets (Mamdug, 2014: 81). Profitability is the ability of a company to earn profit (profit) in a certain period (Hery, 2017: 7). Companies with a high rate of return on investment use relatively small debt because a high rate of return allows the company to finance most of its internal funding (Susilawati et.al, 2021).

2.8 Research Framework and Hypothesis Development



Companies with a fairly high level of business risk will choose to avoid funding from debt because it can reduce the level of liquidity owned by the company (Pratiwi and Yadnya, 2017). return of debt obligations. Business risk is a risk experienced by every company in the absence of certainty. A high level of business risk will affect a decrease in funding from a company's debt. This is in accordance with the trade off theory which explains that if a company takes a large enough funding, the higher the risk it will experience.This is in line with research conducted by Suhartatik and Budiarti (2018) which explains that business risk has a negative and insignificant effect on debt policy. The results of research from Indy Sekar Sari and Nungki Pradita (2021) explain that business risk has a negative and insignificant effect on debt policy. Meanwhile, the research results from Mulianti, 2010 and Murtiningtyas 2012 found a negative and significant relationship between business risk and debt policy.

H1: Business Risk has a negative and significant effect on Debt Policy.

According to Kasmir (2015) profitability is a ratio to assess a company's ability to make a profit. The profitability ratio describes the company's financial changes from year to year so that it can be used as an analytical material to determine the next policy. Profitability can be used as an evaluation material for the effectiveness of company performance. Because if the level of profitability is high, the company's performance can run well. Companies with a high rate of return on investment use large debt because the high rate of return allows the company to finance most of the funding. Companies that are able to generate large profits can provide high trust for creditors to provide debt to the company. The results of research from Sovi Azahra Ayu Fardianti (2021) state that Profitability has a significant and significant effect on Debt Policy, research from Indi Sekar Sari and Nungki Pradita (2021) states that Profitability has a negative and significant effect on Debt Policy. Research results from Lila Anggada Junita (2020) say that Profitability has no effect on debt policy.

H2: Profitability has a positive and insignificant effect on Debt Policy.

If the company has a large asset structure, the company can have more debt (Brigham & Houston, 2014). The trade-off theory explains that a company can increase its debt as long as the company still has fixed assets that will be used as collateral. Therefore, if a company has more fixed assets than current assets, the company will predominantly use long-term debt. This is because long-term assets can act as collateral to obtain funding from debt (Tijow et al. 2018). Ikeu Nuranah and Dendi Purnama (2020) state that asset structure has a positive and significant effect on debt policy. Research conducted by Aggista Puspita Dewi and Ani Wilujeng Suryani (2019) also states that asset structure has a positive and significant effect on debt policy.

H3: Asset Structure has a positive and significant effect on Debt Policy.

III. METHOD

3.1 Population, Sample, and Sampling Method

The population in this study uses data from manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2021 period wich are accessed from www.idx.co.id. The criteria used in this study are as follows:

a. Manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2021 period.
b. Financial reports that have been published by the company consistently every period.
c. Other industrial sector companies do not use the dollar exchange rate.
d. Manufacturing companies that generate profits during the current period.

The sample selection technique used was a purposive sample. Purposive sampling is a sample collection technique with certain considerations (Sugiyono, 2017). The sample data obtained were 68 manufacturing companies in the 2017-2021 period so that a sample of 340 was obtained.

3.2 Variable Operational and Variable Measuremen

3.2.1 Debt Policy

Sugiyono (2016: 39) the dependent variable is the variable that is affected or is the result of the independent variable. The dependent variable (Y) in this study is debt policy. In calculating the debt policy using the following formula:

DER=(Total Debt)/(Total Equity)

3.2.2 Business Risk

Calculation of business risk can be measured using EBIT (Standard Deviation Earning Before Interest and Taxes), with the following formula:

Risk=EBIT/(Total Assets)

3.2.3 Profitability

Tala and Karamoy (2017), Calculation of profitability ratios can use Return On Assets (ROA) which can be measured using the formula:

ROA=(Net Income)/(Total Assets)

3.2.4 Asset Structure

Calculation of asset structure can be measured using the following formula:

Asset Structure=(Total Fixed Assets)/(Total Assets)

IV. FIGURES AND TABLE

4.1 Research and Result and Discussion

4.1.1. Descriptive Statical Analysis

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Risiko Bisnis	330	.00	.73	.1152	.11695
Profitabilitas	330	.00	.92	.0899	.09664
Struktur Aset	330	.00	1.83	.3690	.21508
Kebijakan Hutang	330	.00	3.39	.7337	.61892
Valid N (listwise)	330				

Based on table, it illustrates that the amount of data used in this study was 330 samples. The descriptive variable obtained is that business risk has the lowest value of 0.00 from the Steel Pipe Industry of Indonesia Tbk company in 2017, the Trias Sentosa Tbk company in 2017 and the Kimia Farma company in 2020, the highest value is 0.73 from the Multi Prima Sejahtera Tbk in 2017, the average value is 0.1152 and the standard deviation is 0.11695.

Profitability has the lowest value of 0.00 from the company Argha Karya Prima Industry Tbk in 2017, the Steel Pipe Industry Company of Indonesia Tbk in 2017, PT Buana Artha Anugrtah Tbk in 2017, the Company Kirana Megatara Tbk in 2019, the Company Kimia Farma Tbk in 2020, and Sekar Bumi Tbk Company in 2020, the highest value is 0.92 from the Merk Tbk company in 2020, the average value is 0.0899 and the standard deviation value is 0.9664.

Asset Structure has the lowest value of 0.00 from the Buana Artha Anugrah Tbk Company in 2019 and 2020, the highest value is 1.83 from the Indal Aluminum Industry Tbk Company in 2019, the average value is 0.3690 and the standard deviation value is 0.21508. The debt policy has the lowest value of 0.00 from Buana Artha Anugrah Tbk Company in 2020, the highest value is 3.39 from Indal Aluminum Industry Tbk Company in 2017, the average value is 0.7337 and the standard deviation value is 0. 61892.

4.1.2 Normality Test

Based on the empirical experience of several statisticians, data with more than 30 digits (n > 30) can be assumed to be normally distributed. Because this study uses the CLT assumption where the statistical model can be shown that if most of the randoms are freely and identically distributed, then several exceptions, including the distribution of the numbers tend to be normally distributed if the number of variables exceeds 30 samples.

4.1.3 Multicollinearity Test

Coefficient		
Model	Colline arity Statistics	
	Tolerance	VIF
(Constant)		
Risiko Bisnis	.354	2.824
Profitabilitas	.335	2.820
Strutur Bisnis	.973	1.028

Based on the table, it can be concluded that the results of the multicollinearity test passed or there was no correlation between variables. With sig. (2-tailed) VIF business risk variable of 2.824 < 10 ; tolerance 0.354 > 0.1. Profitability VIF value of 2.820 < 10 ; tolerance 0.335 > 0.1. Asset Structure VIF value of 1.028 < 10 ; tolerance 0.973 > 0.1.

4.1.4 . Heteroscedasticity Test

Glejser	Model	Sig. (2-tailed)
	Risiko Bisnis	.932
	Profitabilitas	.874
	Struktur Aset	.668

Based on the table, it can be seen that the regression model can be stated that there is no heteroscedasticity because it meets the requirements, namely sig. (2-tailed) > 0.05. The value obtained by the Business Risk variable is 0.932, Profitability is 0.874 and Asset Structure is 0.668.

4.1.5 Autocorrelation Test

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.232[a]	.054	.045	.60475	2.109

The Durbin-Watson value of 2.109 can be seen from table 4.6. This value will be compared with the value of the Durbin-Watson table at a significance of 0.05 with the formula (k';N). Where k is the number of independent variables totaling 3, while N is the number of samples totaling 330. The Durbin-Watson distribution with (k';N) = (3;330) obtains a value of dL=1.80724 and a value of dU=1.83162 .

With the formula dU < DW < (4-dU), the following results are obtained:

= 1.83162 < 2.109 < (4-1.83162)

= 1.83162 < 2.109 < 2.16838

So the results of the autocorrelation test can be concluded that there is no autocorrelation because there is an autocorrelation test that is dU < DW < (4-dU).

4.1.6 Method of Analysis

Model	Unstandardized B	Coefficients Std. Error	Standardized Coefficient Beta	t	Sig.
(Constant)	.576	.079		7.253	.000
Risiko Bisnis	-1.015	.479	-.192	-2.119	.035
Profitabilitas	.815	.579	.127	1.407	.160
Struktur Aset	.546	.157	.190	3.476	.001

			F	Sig.
R	.232[a]	**Regression**	6.199	.000
R Square	.054			
Adj. R Square	.045			
Std. Error of the Estimate	.60475			

a. Multiple Linear Regression Analysis

Multiple linear regression analysis is used to determine the effect of business risk, profitability and asset structure variables on debt policy. Based on table 4.7, the coefficients for the independent variables are obtained, namely Risk = -1.015; P = 0.815; SA = 0.546 and a constant value of 0.576. The regression equation formed is as follows:

KH=0.576 - 1.015 Risk + 0.815P + 0.546 SA

The results of the hypothesis test show that the business risk variable has a negative and significant effect on debt policy, the profitability variable has a positive and insignificant effect on debt policy, while the Asset Structure has a positive and significant effect on Debt Policy. The regression equation in table can be interpreted as follows: A constant of 0.576 means that if there is no business risk, profitability and asset structure then the value of the debt policy is 0.567. The business risk coefficient is -1.015, if every 1 level of business risk variable is added, the value of the debt policy will increase by -1.015. The profitability coefficient is 0.815, if each additional 1 level of the profitability variable then the value of the debt policy will decrease by 0.815. The asset structure coefficient is 0.546, if every 1 level of asset structure variable is added, the value of the debt policy will increase by 0.546.

b. Hypothesis testing

1. Determinant coefficient

The coefficient of determination is used to measure how far the regression model's ability to apply variations in the dependent variable (Y). Based on table 4.7, the value of the determinant coefficient (R2) is 0.045, meaning that 4.5% variation of the business risk, profitability, and asset structure variables can explain the debt policy dependent variable. While the rest is influenced by other independent variables of 95.5%.

2. F test

Testing the F test aims to determine whether there is a simultaneous influence between the independent variables of business risk, profitability and asset structure on debt policy variables. Based on table 4.7, a significant F value of 0.000 <0.05 is obtained. Provisions for decision making on the F test, namely if the significance value of F <0.05, then H0 is rejected and H1 is accepted, so it can be concluded that business risk, profitability and asset structure have a significant effect on debt policy.

3. T test

Testing with the t test is used to determine whether there is a partial effect on the independent variables of business risk, profitability and asset structure on the dependent variable of debt policy. Based on table 4.7, the results of the influence of the independent variables on the dependent variable are as follows:

a) Effect of business risk on debt policy

The significance value of the business risk variable t is 0.035. Terms of decision making if the significance value <0.05 then H0 is rejected and H1 is accepted. The results of the study show a significance value of 0.035 > 0.05, soit can be concluded that business risk affects debt policy.

b) Effect of profitability on debt policy

The significance value of the profitability variable t is 0.160. Terms of decision making if the significance value <0.05 then H0 is rejected and H1 is accepted. The results of the study show a significance value of 0.160 > 0.05, so it can be concluded that profitability has no significant effect on debt policy.

c) Effect of asset structure on debt policy

The significance value of the asset structure variable t is 0.01. Terms of decision making if the significance value <0.05 then H0 is rejected and H1 is accepted. The results of the study show a significance value of 0.01 > 0.05, so it can be concluded that asset structure has a significant effect on debt policy

V. CONCLUSION

Based on the results of the research and discussion in this study, it can be concluded as follows:

1. The business risk variable has a negative and significant effect in partial testing of debt policies for manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period with a significance value of t of 0.035.
2. The profitability variable has a positive and insignificant effect in partial testing of debt policies for manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period with a significance value of t of 0.160.
3. The asset structure variable has a positive and significant effect in partial testing of debt policies for manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period with a significance value of t of 0.001.
4. There is a simultaneous effect of business risk and asset structure on debt policy, while profitability does not have a simultaneous effect on debt policy in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period.

Limitation

Based on the author's experience in this research process, there are limitations that must be considered by future researchers, including:

1. The companies sampled were only manufacturing companies, so the only known research results were from manufacturing companies, even though many companies in other fields were listed on the Indonesia Stock Exchange (IDX), for example, from the financial and non-financial sectors.
2. This study only uses 3 independent variables to test debt policy, even though there are other variables that can be used as test variables for debt policy.

Suggestion

Based on the results of this study there are conclusions and limitations, while suggestions that can be conveyed from the research carried out by the author are:

1. For the Company

Debt policy is very important for the company because with the company's debt policy it can determine the funding that enters the company because each of these funds can affect the company. Therefore, the variables whose results can significantly influence debt policy in this study are profitability and asset structure which can be taken into consideration by companies in the decision-making process regarding debt policy. Thus the company can determine the decisions to be taken, either using internal funds or using external funds.

2. For further researchers

a. Future researchers are advised to research companies in a different field from this study so that the research results are better and can find out results with a broad scope.

b. Future researchers are expected to pay attention to other variables that can influence debt policy so that the data obtained is more accurate.

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