ANALYSIS OF THE EFFECT OF PROFITABILITY, LIQUIDITY AND COMPANY SIZE ON DEBT POLICY (Empirical Study on Metal and Other Subsector Companies Listed on the Indonesia Stock Exchange for the 2015-2020 Period)

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Abstract. *This study aims to determine the effect and description of Profitability, Liquidity, Company size and Debt Policy for metal and other sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the 2015-2020 period. The method used is to describe the variables studied and determine the effect of profitability, liquidity and company size on debt policy. The data used in this study are the ratios of ROA, CR, Size and DER during the 2015-2020 period. The data processing used is panel data regression analysis. The hypothesis testing used is the regression significance test and the regression coefficient significance test. Based on the results of the regression significance test, it is found that the regression model created can be accepted and continued, while from the results of the regression coefficient significance test, it is found that profitability has no significant effect on debt policy while liquidity and company size have a positive effect on debt policy.*

Keywords: *Profitability, Liquidity, Firm Size, Pecking Order Theory, Trade Off Theory.*

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INTRODUCTION

Firm value can be increased through policy. There are three company policies in finance decided by a manager, namely investment policy, dividend policy and debt policy. One of these policies is to determine how much debt the company will use in assessing the assets used by the ratio between total debt and total assets. In measuring the company's debt policy, one way is the Debt to EquityRatio (DER), this ratio describes the ability of capital to guarantee debt or the company's ability to cover its debts using its own capital. This ratio is used to measure the company's debt policy, because it can assess the company's ability to guarantee its debts against the capital owned by the company. This ratio can illustrate how much debt the company takes, can be seen from the equity owned bythe company. The higher this ratio will indicate that the greater the debt taken in financing the company's operational activities compared to using own capital or equity.

The metal and other subsector is one of the subsectors that has experiencedan increase in the value of debt. The increasing trend of DER in the metal and otherssubsector can have an impact on the decline in company performance due to an increase in company risk, and the greater the possibility of the company experiencing default, so that the company is at risk of bankruptcy and the more uncertain the rate of return for investors.

An increase in DER identifies that the company uses more debt than its owncapital. Debt has the disadvantage that the use of large amounts of debt will increasethe risk of the company which increases the cost of debt and equity. A high DER has a bad impact on the

company's performance because a higher level of debt means that the interest expense will be greater, which means reducing profits. Conversely, if the low DER level shows better performance, because it causes a higher rate of return. So that investors tend to choose stocks with low DER factorsin determining debt policy, both from internal companies and external companies. According to (Riyanto, 2013) factors that can affect debt policy are asset structure,company size, liquidity, profitability, company growth and dividend policy.

Profitability is one of the measurements of a company's performance to earnprofits. According to (Kasmir, 2018) profitability is the company's ability to seek profit in a certain period. Ratios to measure profitability include using the Return on Assets (ROA) ratio, which has a function to determine the company's ability toearn profits from all resources or assets owned including to finance corporate debt.The use of ROA to measure profitability can also include debt that must be paid tocreditors and also capital provided by investors.

The greater the profitability of the company, the use of external funds (debt) will be less than its internal funds. In line with research conducted by (Ahmed Sheikh, Nadeem and Wang, Zongjun, 2011) states that companies prefer to use internal funds when available and choose debt over equity when external financing is needed. And according to (Brealey, Richard A., Sterwart C. Mayers and Franklin Allen, 2017) if companies with low levels of profitability choose to use debt as a source of funding. However, according to tradeoff theory, profitability has a positive relationship with debt policy. Companies will tend to increase debt in the hope that it will increase the company's profits.

Liquidity is a ratio that describes the company's ability to meet short-term debt obligations or those that must be paid immediately. Researchers use Current Ratio (CR) to measure the level of liquidity, because it can determine the company'sability to cover current liabilities. According to (Kasmir, 2018) states that Current Ratio is used to measure the ratio of total current debt compared to current assets. For companies using Current Ratio is one way that can be used to measure the levelof ability of a company to pay off its obligations. If the higher the Current Ratio value, the healthier the company's finances and can attract investors to invest in thecompany.

Companies with high liquidity ratios tend to reduce or even not use debt at all because they have a large amount of internal funds, so they prefer to maximize the use of internal funds (Hanafi, Mamduh M and Abdul Halim, 2016). In agreement with the previous theory (Brigham, Eugene F. and Houston, Joel F., 2011) suggests that companies with high liquidity, the company relies more on internal funds first for investment financing so that if it is deficient, it will only seek external funding.

Company size is a scale in which it can be clarified as the size of the companyin various ways, including total company assets, log size, stock market value and others. Company size is an increase from the fact that large companies will have alarger market capitalization, greater book value and higher profits. The level of investor confidence can also be measured through company size. The bigger the company, the more recognized by the public, meaning that it is easier to get information that will increase the value of the company.

Marshella, (2014) suggests that the larger the size of the company, the greater the assets funded by debt will be. Agreeing with the previous theory Sartono, Financial Management Theory and Application (2015) reveals that large companies have a large production capacity that has a high economic influence so that it becomes a factor that the larger the company, the greater the opportunity to utilize debt for management and funding for its high production capacity.

Generally, the theories related to capital structure are tradeoff theory and pecking order theory (Baker, H. Kent and Nofsinger, John R, 2011). However, according to (Sudana,

2011), the theories related to debt policy are tradeoff theory, pecking order theory and signaling theory. Trade off theory explains that the higher the company finances with debt, the greater their risk of experiencing financial difficulties due to paying too much fixed interest for debtholders each year with uncertain net income conditions (bankruptcy cost of debt). Meanwhile, according to the pecking order theory, there is a corporate funding decision, where the company will try to fund its investment based on the order of the lowest risk, while the highest risk is retained earnings, debt and equity. This theory emphasizes the use of internal funds to carry out operational activities. So that in this study want to prove the direction of the capital structure policy of the factors that allegedly affect the decision in the capital structure whether trade off theory or pecking order theory.

METHOD

Research design is all the processes required in planning and conducting research (Nazir M., 2013). This research design is causality because it proves the cause-and-effect relationship between one variable and another. This research design aims to determine the effect of profitability, liquidity and company size on debt policy in metal and other subsector companies listed on the Indonesia Stock Exchange for the 2016-2020 period. With descriptive and verification methods. Then the data collection method used in this study is the documentation method. In this study, the population used is metal and other sub-sector companieslisted on the Indonesia Stock Exchange in the 2016-2020 period totaling 17 companies. The sampling technique used is saturated sample.

RESULTS AND DISCUSSION

Regression Significance Test (F Test)

R-squared	0.612390	Mean dependent var	2.901747
Adjusted R-squared	0.522578	S.D. dependent var	3.895897
S.E. of regression	2.691899	Akaike info criterion	4.992274
Sum squared resid	594.1981	Schwarz criterion	5.506974
Log likelihood	-234.6060	Hannan-Quinn criter.	5.200694
F-statistic	6.818572	Durbin-Watson stat	2.150562
Prob(F-statistic)	0.000000		

Figure 1 Regression Significance Test (F Test)
Source: Eviews 12 output

In the figure above the prob value (F-statistic) is 0.000000 <0.05, then the variables of Profitability, Liquidity and Company Size mean and have F_{hitung} of 6.818572 with an error rate (α) = 5% and dk numerator (k) = 4 and dk denominator(n-k-1) = 102 - 4 - 1 = 97, then it is obtained F_{tabel} of 2.471. With these results means $F_{hitung} \geq F_{tabel}$ ($6.818572 \geq 2.471$), it can be concluded that H_0 rejected and H_α accepted. This shows that regression means, namely profitability, liquidity and company size have a level of significance to Debt Policy. So profitability, liquidityand company size have an effect on Debt Policy.

Based on the calculation of the results of the Statistical F Test which showsthat the variables of profitability, liquidity and company size can be used as factorsthat influence Debt Policy, this research is continued with the Regression Coefficient Significance Test (T Test).

Significance Test of Regression Coefficient (T Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.96057	4.810375	-2.694295	0.0086
ROA	-2.962269	5.571146	-0.531716	0.5964
CR	1.259657	0.167795	7.507102	0.0000
FIRM_SIZE	1.025391	0.359038	2.855939	0.0054

Figure 2 Significance Test of Regression Coefficient (T Test)
Source: Eviews 12 output

So based on the figure above there are T_{hitung} Profitability (x_1) of -0.531716with an error rate or (α) = 5% and a significance of 0.5964 (0.5964 ≥ 0.05). Two party test and degree of freedom (dk) n-2 (102-2 = 100) then obtained $T_{hitung} \leq T_{tabel}$ (-0.531716 ≤ -1.660234) then thus H_0 accepted and H_α rejected, then profitability (x_1) has no effect on debt policy.

Furthermore, it is known T_{hitung} Liquidity (x_2) equal to 7.507102 with anerror rate or (α) = 5% and a significance of (0.0000 ≤ 0.05) two-party test anddegrees of freedom (dk) n-2 (102-2 = 100) then obtained T_{tabel} equal to 1.660234.With these results then $T_{hitung} \geq T_{tabel}$ (7.507102 ≥ 1.660234), thus H_0 rejectedand H_α accepted which means Liquidity (x_2) has a positive effect on Debt Policy.

Then it is known T_{hitung} Company Size (x_3) amounting to 2.855939 with an error rate or (α) = 5% and a significance of 0.0054 (0.0054 ≤ 0.05). Two-party test and degree of freedom (dk) n-2 (102-2 = 100) then obtained $T_{hitung} \geq T_{tabel}$ (2.855939 ≥ 1660234), so therefore H_0 rejected and H_α accepted which means Company Size (x_3) has a positive effect on Debt Policy.

DISCUSSION

The profitability of metal and other sub-sector companies for the 2015-2020 period shows insignificant negative profitability results on debt policy. The findings in this study indicate that the company experienced a very sharp decline in profitability while debt increased. This is due to declining operational activities and the company's efficiency in managing assets to create profits that are not maximized. With the company's performance decreasing, the company is believed to utilize additional debt again as an effort to improve and improve company performance. This research is in line with what was done (Rambe, 2013), (Afi Pradhana, Taufeni Taufik and Lila Anggaini, 2014) and (I Kd Adi Wijaya, Putu Kepramareni and Ni Luh Gde Novitasari, 2019) that profitability has a negative and insignificant effect or has no effect on debt policy.

This study shows that the high liquidity ratio will increase the company's debt policy. This ratio makes a measure for creditors to assess the feasibility of prospective debtors, because creditors do not want to bear losses for default. The higher the liquidity ratio of a company, the easier it is for the company to get debt. (Brigham & Houston, 1999) state that companies with high liquidity ratios will tend to have opportunities in obtaining debt. So when a company has high liquidity, the company will have the opportunity to use a high amount of debt, because the company will be able to pay its obligations. The results of this study are in line with research conducted (Tifani, 2019) which shows that liquidity has a positive and significant effect on debt policy.

Size or company size which is measured using the natural logarithm of total assets proxy, in this study has a significant positive effect on debt policy. According to (Susanto, 2011) large companies tend to find it easier to obtain loans from third parties, because they have the ability to access other parties or collateral owned in the form of large-value assets compared to small companies. The larger the size of the company, the greater the use of debt. This is in line with research (Purwasih Dewi, et al, 2014), (Susanti, 2014) and (Siti Fatimatul Zuhria and Ikhsan Budi Riharjo, 2016) which state that company size has a positive effect on debt policy.

CONCLUSION

Based on the results of research, data analysis and discussion that has been carried out regarding the effect of profitability, liquidity and company size on debtpolicy in Metal and Other Subsector Companies listed on the Indonesia Stock Exchange for the 2015-2020 period, it is concluded that the effect of profitability as measured by Return on Asset (ROA) in this study shows the results have no effect on debt policy. So that it has not been used as a basis for consideration of thecompany's debt policy in this study. The effect of liquidity as measured by CurrentRatio (CR) in this study shows the results of a positive effect on debt policy, indicating that high liquidity can increase the company's debt policy. The effect of company size as measured by Firm Size in this study shows a positive effect on debt policy, indicating that the size of the company can affect the value of the company's debt policy. This is because large companies require large funds to support their operations.

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