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Profitability as the Moderator of the Effects of Dividend Policy, Firm Size, And Asset Structure on Debt Policy

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ABSTRACT

The purpose of this study is to examine the profitability in moderating the effect of dividend policy, firm size, and assets structure towards debt policy. The population of this study were manufacturing companies were listed on the Indonesia Stock Exchange (BEI) during 2014-2016. The population of this study were 136 companies and research samples of 37 companies. The sample selection used in this study was a purposive sampling technique obtained by 111 analysis units. Data collection techniques used are documentation techniques by collecting the required data from the financial statements. The analytical technique using moderation regression analysis using the difference absolute value test. Assets structure has a positive effect on debt policy, firm size negatively affect on debt policy and dividend policy does not significantly effect on debt policy. Profitability can be used to moderate the effect of dividend on debt policy. However, profitability can not be used to moderate firm size and assets structure towards debt policy. The conclusion of this research is that debt policy is effect by assets structure and profitability can moderate the effect of dividend policy towards debt policy.

INTRODUCTION

Djabid (2009) stated that corporate goal is to increase company value through increasing the prosperity of the owners or shareholders. Determination of this objective encourages the realization of increased performance in obtaining funds to meet the needs of the company. Funds can be obtained from own capital, namely by issuing shares that investors will buy. Companies can also get sources of funds from creditors in the form of debt. The policy of using funds from outside the company is called debt policy which is the responsibility of the manager.

Company owner prefers the company to create debt at a certain level to increase the value of the company (Nuraina, 2012). The trade-off theory explains that companies use debt in optimal proportions that can balance benefits, tax deductions and bankruptcy costs of companies (Brigham & Houston, 2013). Companies that pay high taxes should use debt more than companies that pay low taxes.

Debt is expected to be able to meet company needs such as operational funding if retained earnings cannot be sufficient. Nuraina (2012) stated that debt policy has the effect of disciplining managerial behaviour. Referring to the trade-off theory, companies choose to carry out debt activities, because by using funds originating from outside the company, the company will get a tax saving benefit on company profits. In addition, debt can also increase the value of the company. The ability of a company to manage debt is attracting investors. The acquisition of positive perceptions from investors can increase stock prices. Greater leverage in the capital structure of a company will cause interest costs to increase so that the profit per share that is the right of shareholders will increase (Jensen & Meckling, 1976).

A gap phenomena that occurs in debt policy where the ideal state expected is the debt policy taken by the company can help meet the needs of the company. In fact, the decision to borrow funds from outside parties causes the company to be in trouble. When a company can pay off its debt, it does not cause problems in the future. The following are data from five manufacturing companies listed on the Indonesia Stock Exchange (IDX) and distribute their dividends in 2014-2016 in a row that has been processed and presented in Table 1.

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Table 1. The Results of Average Trial of Debt to Asset Ratio (DAR) in 5 Manufacturing Companies in 2014-2016

No.	Perusahaan	Debt to Asset Ratio		
		2014	2015	2016
1.	Alumindo Light Metal Industry Tbk	0.80	0.77	0.81
2.	Asahimas Flat Glass Tbk	0.23	0.24	0.21
3.	Champion Pasific Indonesia Tbk	0.25	0.30	0.15
4.	Indofood Sukses Makmur Tbk	0.52	0.53	0.47
5.	Indospring Tbk	0.20	0.25	0.17
	Average	0.40	0.42	0.36
	Changes (%)		4.51	-13.64

Source : Financial Statement 2014, 2015, 2016

Table 1. presents the average debt policy in five manufacturing companies that are proxied by the debt to asset ratio (DAR) indicating a gap phenomenon. Table 1. The DAR average in 2014 shows 0.40 then in 2015 it increased by 0.42. This increase was 4.51% from 2014 towards 2015. This shows that in 2014 towards 2015 manufacturing companies used debt more than using internal funds. However, in 2016 DAR decreased by 0.36 by -13.64%. The phenomenon presented in table 1. shows that in 2014 towards 2016 there are problems with manufacturing companies so that there is an increase in debt from 2014 to 2015 and then the improvements are made, namely a decrease in debt use in 2015 towards 2016 of -13.64 %.

Until now, there are still frequent cases of companies experiencing financial difficulties due to the high use of debt which has caused bankruptcy for the company. Quoted from www.merdeka.com (2017), PT Nyonya Meneer sued for bankruptcy because of having a debt to 35 creditors amounted to Rp 89 billion. PT Nyonya Meneer was sued for bankruptcy because it could not fulfil the agreement to repay its debt and interest within 60 days. In 2015, PT Nyonya Meneer have had a debt to its creditors which reached Rp. 267 billion. However, PT Nyonya Meneer stated that was still producing as usual despite being in debt.

Bathala *et al.,* (1994) stated that in order to reduce agency costs, first, by increasing managerial ownership, second by monitoring mechanisms within the company, third by increasing dividend payout ratio, and fourth, by increasing funding with debt. Candra & Fachrurrozie (2016) the purpose of investors investing their money into the company is to get a return in the form of dividends or capital gains. Dividend payments will reduce internal funds and if the dividend payment gets bigger, the company in financing the investment will need additional funds, namely debt.

The second factor that influences debt policy is the size of the company. The size of a large company reflects that the need for funds is also large, so to meet these funding needs, the company will use debt (Suryani & Khafid, 2016). According to Fery and Jones (1979), company size describes the size of a company as indicated by total assets, total sales, average total sales, and average total assets. Large companies are reflected in their high total assets, which are subject to high taxes. Thus, the size of the company will affect the use of debt in the company.

Another factor that affects debt policy is asset structure. Companies that have high assets will be utilized as much as possible to get the benefits. In accordance with the company's goal of maximizing the welfare of capital owners is through increasing the value of the company (Djabid, 2009). Companies that have suitable assets to be used as collateral for loans will use debt more because investors will provide loans if they have collateral.

The results of previous studies indicate inconsistencies in debt policy. The research gap on the dividend policy variable was found in the research of Suryani & Khafid (2016) which obtained result that dividend policy has a positive influence on debt policy. However, research conducted by Djabid (2009) and Murtiningtyas (2012) show the results that dividend policy does not have a significant effect. Firm size variable related to its influence on debt policy in the research of Sudiyatno & Sari (2013) and Akoto & Vitor (2014) show significant effect, while Nuraina (2012) shows that firm size does not have a significant influence on debt policy. Hardiningsih & Oktaviani (2012) as well as Surya & Rahayuningsih (2012) show the results that asset structure has a significant influence on debt policy, while Yuniarti (2013) shows that the asset structure has no influence on debt policy.

The purpose of this study is based on the explanation of gap phenomena, research gaps, and theoretical support stated above to analyze the influence of dividend policy, company size, and asset structure on debt policy which is moderated by profitability. The results of previous studies that are inconsistent show that there are influences of other variables that can influence the relationship of independent to dependents variables. Originality in this study is profitability as a moderating variable. Previous research shows that profitability consistently affects debt policy. The trade-off theory states that companies with profitable prospect will avoid selling shares and instead use debt to raise the capital needed because the company will guarantee the company's ability to pay off its debts in the future.

This research is based on agency theory and trade-off theory. Jensen & Meckling (1976) described agency theory as a difference in interests between managers and shareholders that creates a conflict of interest. This conflict of interest can lead to agency costs because it uses a monitoring mechanism to align the interests of the parties concerned. Bathala *et al.,* (1994) said that one of the ways to reduce agency costs is to increase funding with debt. The trade-off theory explains that companies use debt in optimal proportions by maximizing the benefits obtained from debt in the form of reducing tax payments and minimizing bankruptcy costs arising from debt (Brigham & Houston, 2013).

Dividend payments will reduce internal funds owned by the company. If the company pays dividends to shareholders in large numbers, the company's internal funds will be smaller. Bathala *et al.,* (1994) stated that one of the ways to reduce agency costs is to increase dividend payout ratio. Suryani & Khafid (2016) suggested that high dividend policy has an impact on increasing corporate debt.

Referring to the trade-off theory states that debt is chosen as fulfillment of funding needs because the company obtains tax savings on the interest expense paid, and the use of debt must be determined at the optimum level to reduce the risk of bankruptcy due to possible financial difficulties. So that the low internal funds of the company due to large amounts of dividend payments will encourage management to use debt. The positive influence between dividend policy and debt policy is supported by Cooper & Lambertides (2017), Syriac & Khafid (2016) and Frank & Goyal (2009). The study states that dividend policy affects on debt policy. So the greater the dividends paid, the greater the use of debt in the company

H_1: Dividend policy has a positive effect on the debt policy

Large companies have high costs to meet their funding needs, so additional funds can be obtained from debt. The size of a large company with a high amount of assets will certainly have a high tax rate, referring to the trade-off theory that companies that pay high taxes should use more debt than companies that pay low taxes (Brigham & Houston, 2013). Margaretha (2014) stated that large companies reflect the high information asymmetry between internal and external parties. Referring to the agency theory, which is one of the ways to reduce agency costs is debt (Bathala *et al.,* 1994).

Surya & Rahayuningsih (2012) stated that diversified companies are easier to enter the capital market and receive higher credit ratings from commercial banks for debt issued and pay lower interest rates. The size of the company has a positive significant effect on debt policy supported by research by Lourenco & Oliveira (2017). The result conducted by Sudiyatno & Sari and Akoto & Vitor (2014) also obtained result that the size of the company has a significant effect on debt policy.

H_1: Company size has a positive effect on debt policy

The acquisition of assets in order to conduct business activities, a company can take several ways, among others, with loan assets from other parties or commonly referred to as debt. Wahyudin & Khafid (2013) defines assets, namely assets owned, controlled, and used by companies in order to achieve company goals (gain profit). Companies that have the right amount of assets and in high amounts, the level of corporate debt will be high (Yuniarti, 2013).

Referring to the trade-off theory, that is a safe company or has a low business risk, has fixed assets and is subject to high taxes will use a higher debt ratio. So that companies that have a high amount of assets and are suitable for collateral will have the opportunity to use debt because they can reduce tax rates with interest on debt. Yeniati & Destriana (2010) in their research obtained the result that the asset structure has a positive effect on debt policy. Then, Yeniati & Destriana (2010), Hardiningsih & Oktaviani (2012) and Surya & Rahayuningsih (2012) obtain the same result that the asset structure has a significant positive effect on debt policy

H_3: Asset structure has a positive effect on debt policy

A high dividend payout ratio reflects excessive use of internal funds so companies need to meet their funding needs with debt due to reduced internal funds. Dividend policy is related to agency theory which states that managers will pay high dividends to reduce agency costs (Bathala *et al.*, 1994).

Companies with high earnings obtained reflect a low risk in the future. Referring to the trade-off theory states that companies with small risks and stable profitability will use optimum debt because they have the ability to pay off their debts in the future Brigham & Houston, 2013). High dividend payments reflect higher use of internal funds, so that to finance operational activities and investments requires additional funding. The company will increase the use of debt because it has the availability of cash to pay off its debt.

Cooper & Lambertides (2017), Suryani & Khafid (2016) as well as Frank & Goyal (2009) stated that dividend policy affects on debt policy. While Yuniarti (2013) obtained the result, that dividend policy does not affect on debt policy. This shows inconsistencies, so it can be concluded that there are indications of the influence of other variables that can moderate the influence of dividend policy on debt policy, namely profitability

H_4: Profitability significantly moderates the effect of dividend policy on debt policy

Large companies also have more assets to be used as collateral in debt collection. Large companies have the convenience of accessing the capital market compared to smaller companies (Fery & Jones, 1979). This allows larger sized companies to have higher debt than companies with smaller companies.

The trade-off theory explains that companies are profitable, if everything is the same, facing a greater cost of bankruptcy will increase the use of debt. Increasing the size of the company followed by good earnings will encourage higher debt usage. Stable profitability reflects the availability of cash in the future that can be used to pay off debt. This is because creditors are more interested in investing their funds in companies with more profitable prospects.

Akoto & Vitor (2014) stated that the size of the company has a significant positive influence on debt policy. While Margaretha (2014) and Acaravci (2015) stated that, the size of the company has no influence on debt policy. This shows inconsistent results that indicate the existence of other variables that moderate the influence of company size on debt policy.

H_5: Profitability significantly moderates the influence of company size on debt policy

Managers have obligations in the management and procurement of assets. The high assets owned by the company can be used for debt collection because suitable assets and in large quantities can be used as collateral to use debt. Managers will provide alternatives with as little sacrifice as possible, so that the benefits received are maximized (Yeniati & Destriana, 2010). Thus, the assets owned by the company can be used for debt collection because the interest costs of debt can reduce the payment of corporate taxes.

The trade-off theory explains that companies that are not profitable will use funding from equity, while for companies with stable profits will use debt as a source of funding. Increasing company profits followed by increasing the amount of corporate wealth reflected in the number of corporate assets will increase the use of debt. This is due to it has a guarantee of the availability of cash in the future as well as assets that are owned can be used as collateral for creditors.

Hardiningsih & Oktaviani (2012) stated that asset structure has a positive effect on debt policy. While Yuniarti (2013) and Akoto & Vitor (2014) stated that asset structure does not affect on debt policy. This indicates the existence of other variables that can moderate the effect of asset structure on debt policy because of inconsistencies in the previous studies.

H_6: Profitability significantly moderates the effect of asset structure on debt policy

Based on the theoretical framework above, the research model can be seen in Figure 1.

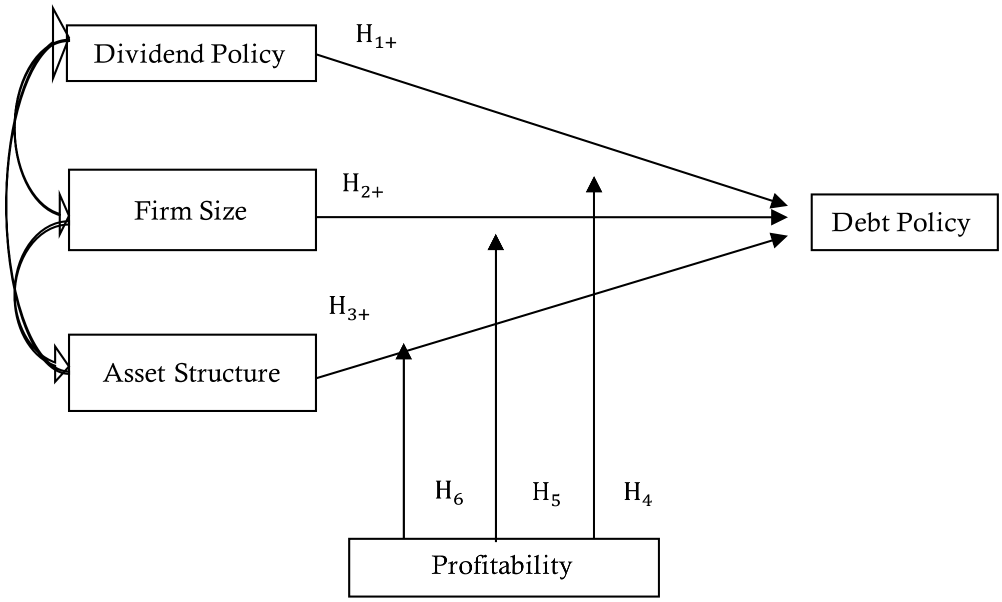

Figure 1. Research Model

RESEARCH METHOD

This research was a type of quantitative research using secondary data. Research data was in the form of financial statements of manufacturing companies obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The population used was the manufacturing companies listed on the Indonesian Stock Exchange during 2014-2016 totalling 136 companies. The sample selection used a purposive sampling method. Determination of the sample based on the criteria obtained presented in Table 2.

Table 3 presents the variables, understanding, measurement, and scale that are used based on the previous research as a reference.

The technique of data collection is done by the method of documentation on the company's audited financial statements. Testing the research hypothesis with moderating regression analysis used absolute number difference. The classical assumption testing is done be-

Table 2. Sample Determination

No.	Criteria	Violation	Accumulation
1	Manufacturing companies that are consistently listed on the Indonesia Stock Exchange in 2014-2016 which are accessible (not under construction) when data collection is done.	-	136
2	Manufacturing companies listed on the Indonesia Stock Exchange and do not distribute dividends for three consecutive years in 2014-2016	96	40
3	Companies that do not have complete financial data related to the variables used in the study	3	37
4	Observation Period (2014-2016)		3
	Number of Samples (3x37)		111

Source: Secondary data processed, 2018

Table 3. Operational of Research Variables

No	Research Variable	Operational Definition	Indicators	Measurement
1	Debt Policy	Operational actions of company management that will fund the company's operations by using capital derived from debt (Margaretha, 2014)	Debt to Asset Ratio (DAR)	$DAR = \frac{\text{Total debt}}{\text{Total asset}}$ (Margaretha, 2014)
2	Dividend Policy	The company's decision to determine how much part of the revenue is shared with shareholders or hold it back into reinvestment in the company (Larasati, 2011)	Dividend Payout Ratio (DPR)	$DPR = \frac{\text{Dividends per share}}{\text{Profit per share}}$ (Suryani & Khafid, 2016)
3	Firm Size	The amount of assets owned by the company (Fery & Jones, 1979)	Total Company Assets	$SIZE = \text{Natural log of total assets}$ (Abor, 2007)
4	Asset Structure	Wealth that is owned, controlled, and used by the company in order to achieve company goals (gain profits)) (Wahyudin & Khafid, 2013)	Asset Structure	$AST = \frac{\text{Current Assets}}{\text{Total Assets}}$ (Yuniarti, 2013)
5	Profitability	Benefits of financial investment activities carried out by the company (Rafique, 2011)	Return On Equity	$ROE = \frac{\text{net profit after tax}}{\text{Total equity}}$ (Stefan, 2015)

Source: Writer's summary, 2018

fore testing the research hypothesis so that the test results meet the BLUE (Best Linear Unbiased Estimated) criteria. The model used in this study can be formulated as follows:

$$Y\_DAR = \alpha + \beta\_1\ DPR + \beta\_2\ SIZE + \beta\_3\ AST + \beta\_4 \left| DPR\text{-}ROE \right| + \beta\_5 \left| SIZE\text{-}ROE \right| + \beta\_6 \left| AST\text{-}ROE \right| + e \quad (1)$$

RESULTS AND DISCUSSIONS

The classical assumption tests carried out include the normality test, multicollinearity, autocorrelation, and heteroscedasticity and declared free of problems so that further testing can be carried out, namely testing the research hypothesis.

4 The coefficient of determination seen in the R Square column in the research model obtains a result of 0.248. This shows that the research model used is able to explain 24.8% of the variation in the company's debt policy. Testing the hypothesis based on the model used in this study can be formulated and the results summarized can be seen in Table 4.

$$DAR = 0.316 - 0.046\ DPR - 0.176\ SIZE + 0.234\ AST + 0.265 \left| DPR\text{-}ROE \right| + 0.126 \left| SIZE\text{-}ROE \right| + 0.051 \left| AST\text{-}ROE \right| \quad (2)$$

Table 4. Hypothesis Test

	Hypothesis	B	Sig	α	Results
H_1	Dividend policy has a positive effect on debt policy	-0.046	0.670	0.05	Rejected
H_2	Company size has a positive effect on debt policy	-0.176	0.045	0.05	Rejected
H_3	Asset Structure has a positive effect on debt policy	0.234	0.014	0.05	Accepted
H_4	Profitability significantly moderates the effect of dividend policy on debt policy	0.265	0.023	0.05	Accepted
H_5	Profitability significantly moderates the influence of company size on debt policy	0.015	0.210	0.05	Rejected
H_6	Profitability significantly moderates the effect of asset structure on debt policy	0.051	0.618	0.05	Rejected

Source : Secondary data processed, 2018

The Effect of Dividend Policy on Debt Policy

The result of the study based on Table 4. indicates that H_1 is rejected. This finding empirically shows that the higher the company's dividend policy, the smaller the use of debt. Agency theory which states that to reduce agency costs, one of which is to increase dividend payments and the trade-off theory states that corporate debt utilization will benefit from a reduction in taxes from interest payments is not proven.

The company will choose the use of internal funding sources to be distributed as dividends that have lower risk so as to reduce the use of debt. The variable behaviour of dividend policy is possible when using pecking order theory perspective that explains the behaviour of companies prefer internal funding compared to external funding because following a hierarchy starts from the cheapest source of funds in the form of internal funds until the issuance of shares as the last source (Indahningrum & Handayani, 2009). Larasati (2011) explained that dividend payments appear as a substitute for debt that can reduce conflicts of interest between managers and shareholders. This study does not support research conducted by Cooper & Lambertides (2017), Suryani & Khafid (2016) and Frank & Goyal (2009) which state that dividend policy influences debt policy.

The Effect of Company Size on Debt Policy

The test results obtained based on table 4. indicates that H_2 is rejected. The behaviour of company size towards debt policy is not in line with the views of agency theory and trade-off theory. Agency theory states that large companies and have entered the capital market have more investors than the size of small companies. While the trade-off theory states that companies use more debt in order to reduce tax payments. However, the result of the study obtained that the size of the company negatively affected debt policy.

Large and small-sized companies if the profits obtained are stable will increase the availability in the future, so that the company has sufficient internal funds for the company's operational needs. The result of this study make it possible if the funding source uses a pecking order theory perspective which explains the behaviour of companies that prefer internal funds rather than externally. This theory explains that the larger the size of the company does not indicate the use of high debt because large-sized companies will be followed by high profit so that they have large internal funds to meet their funding needs.

In addition, agency costs have been able to reduce information asymmetry between managers and shareholders so that they do not need a high proportion of debt (Miguel et al., 2005). The result of this study does not support the research of Lourenco & Oliveira (2017) and Surya & Rahayuningsih (2012) who obtained results that firm size has a positive effect on debt policy. The test result also does not support the research of Sudiyatno & Sari (2013) and Akoto & Vitor (2014).

The Effect of Asset Structure on Debt Policy

Table 4. shows that H_3 is accepted. The effect of the asset structure on debt policy is in line with the trade-off theory which states that companies that are safe or have low business risk, have fixed assets and are subject to high taxes will use a higher debt ratio. Companies that have high assets will certainly be followed by a high tax rate so that the company will increase its debt because of getting tax savings due to reduced debt costs.

Empirically, the result of the study support that the company's asset structure has a positive effect on debt policy. The higher the asset structure in a company will encourage the use of corporate debt which is proxied by the debt to assets to ratio (DAR) as described in the trade-off theory. This result supports the research of Yeniati & Destriana (2010), Hardiningsih & Oktaviani (2012), and Surya & Rahayuningsih (2012) which state that asset structures have a positive effect on debt policy.

Profitability Moderates the Effects of Dividend Policy on Debt Policy

Table 4. shows that H_4 in this study is accepted. Partial testing of dividend policy on debt policy result that dividend policy does not affect on debt policy. The presence of profitability as the moderating variable is able to contribute to the influence of dividend policy on debt policy. Thus, profitability is able to moderate the influence of dividend policy on debt policy.

This research is in line with agency theory and trade-off theory. Agency theory which states that managers tend to pay high dividends to reduce agency costs due to conflicts of interest between shareholders and managers. Then, the trade-off theory states that companies with a small risk will use a larger debt, one of which is a profitable company. Companies with good and stable profitability will use debt to finance their operations and investments. This will occur if there is certainty that the company can pay off its obligations related to the use of the debt in the future.

Good potential profitability guarantees the company has sufficient cash to pay off its debt and interest charged in the future. The inconsistency of results in Cooper & Lambertides (2017) and Suryani & Khafid (2016) studies with Yuniarti (2013) shows the influence of moderating variables that are able to strengthen the influence of dividend policy on debt policy in accordance with the test results obtained in this study.

Profitability Moderates the Effect of Company Size on Debt Policy

The test result presented in table 4. shows that H_5 in this study is rejected. The presence of profitability variable as moderating variable can strengthen the influence of company size on debt policy with an increase in the regression coefficient value. Significant value is greater than alpha is. This result empirically proves that profitability is not able to moderate the influence of firm size on debt policy.

The trade-off theory view is not proven in the testing of this study. This is allegedly because profitability is not the only factor that can be used to assess the risk of corporate bankruptcy, namely internal and external factors. Internal factors, namely in the form of management inefficiencies in managing the company especially with a large size, then the amount of tax rates received by the company is large enough to increase the use of debt while the optimal level of debt usage can reduce the value of the company.

External factors are the entry of new competitors in the company's industry. Hanafi & Halim (2012) explain that there are several indicators to predict bankruptcy such as competition faced by companies, corporate strategy, management quality, and management's ability to control costs. The difference in results by Akoto & Vitor (2014) with Margaretha (2014) and Acaravci (2015) based on the test result shows that the profitability presented is not able to moderate the influence of firm size on debt policy.

Profitability Moderates the Effect of Asset Structure on Debt Policy

The test results obtained result that H_6 in this study is rejected. The findings in the testing above explain that the asset structure moderated by profitability is not able to predict the behaviour of the debt policy variable. Companies with stable profitability reflect the acquisition of large funds for the company's operational activities. This reflects that the company has a large internal funding source so that management prefers lower risk internal funds. Pecking order theory explains that companies prioritize internal funding compared to external funding (Myers, 1984). This means that the use of debt is not needed to manage the company's operations.

The result of this testing does not prove the trade-off theory assumption that companies are profitable to use high debt because the risk of corporate bankruptcy is smaller in the influence of the asset structure on debt policy. The increase in corporate debt does not depend on the amount of corporate wealth reflected in the structure of the company's assets that can be used as collateral for debt and does not depend on changes in profits obtained by the company. The inconsistency of the results of research conducted by Hardiningsih & Oktaviani (2012) with Yuniarti (2013) and Akoto & Vitor (2014) based on the test results indicate that profitability is not able to moderate the effect of asset structure on debt policy.

CONCLUSIONS AND SUGGESTIONS

The conclusions of this research are that the asset structure has a positive effect on debt policy, whereas the size of the company has a negative effect on debt policy. Meanwhile, dividend policy does not affect on debt policy. Profitability is able to moderate the influence of dividend policy on debt policy, but profitability is not able to moderate the size of the company and asset structure. The limitation in this study is the low coefficient of determination, so that further research can use business risk variable as the moderating of company size and asset structure because it refers to the trade-off theory which states that companies with low business risk, have fixed assets, and are subject to a high tax rate will increase debt. Using other samples such as companies in the real estate and mining sector because the previous research has not been used by the company sector.

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