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Profitability Moderates the Effect of Company Growth, Business Risk, Company Size, and Managerial Ownership on Capital Structure

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ABSTRACT

The aims of this research to analyze the effect of company growth, business risk, firm size, and managerial ownership to capital structure with profitability as moderating variable. The population of research are 66 all industrial and chemical companies listed in Indonesia Stock Exchange (BEI) year 2013-2016. Data were selected by purposive sampling method obtained 37 companies with 124 units analyses. Data collection techniques is documentary studies with collecting data that published by others. Moderated regression analysis by difference absolute value test was used to analyse data. Result of this research revealed that firm size and managerial ownership had significant effect on capital structure, while company growth and business risk did not have significant effect on capital structure. Profitability able to moderates significantly the effect of company growth and managerial ownership on capital structure, but unable to moderate the influence of business risk and firm size on capital structure. The research result, it can be concluded that capital structure is influenced by company growth, firm size, managerial ownership and profitability can moderate the effect of company growth and managerial ownership on capital structure.

INTRODUCTION

Funding policies are important for firms. Corporate funding can come from internal or external. Internal funding is funding originating from within the company, in the form of retained earnings. While external funding is funding that comes from outside parties in the form of debt or issuance of shares (Simanjutak & Kiswanto, 2013). Between internal and external funding, companies must be able to determine the ideal composition, namely optimal capital structure. Capital structure is a balance between debt and equity. Thus, the optimal capital structure is a condition where the company can use the ideal combination between debt and equity.

Capital structure is important because good or bad capital structure will directly affect on corporate financial position. The use of a debt ratio that is too large will cause a high debt burden that must be paid by the company so that it will increase corporate financial risk. The higher the financial risk will cause financial difficulties that affect the company's bankruptcy. A case in point is a basic industrial and chemical company that is bankrupt because it cannot pay its debt which occurs at PT Dwi Aneka Jaya Kemasindo Tbk (DAJK) and PT Asia Paper Mills.

DAJK was declared bankrupt on November 22, 2017 after the panel of judges granted a request for cancellation of peace filed by Bank Mandiri. Reporting from detikfinance.com (2017) website, DAJK is known to have debts to several banks which amounted to Rp. 870.17 billion. Banking debt is included in the company's long-term liabilities which reached Rp 913.3 billion. Meanwhile, PT Asia Paper Milss, which is the producer of paper and plastic packaging, was quoted from the website of mbisnis.com, December 28, 2017, declared bankrupt by the Central Jakarta Commercial Court on August 7, 2017 by leaving debts to Bank Mandiri worth Rp370.64 billions.

The phenomenon of companies that have difficulty in paying debt until bankruptcy reflects the importance of policies in managing the company's capital structure. Management of a good capital structure can prevent companies from having difficulty paying instalments of debt and interest, so that the company will not experience bankruptcy (Susanto, 2016). The results of previous research on the influence of company growth, business risk, company size, and managerial ownership

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of capital structure show inconsistent results.

Dewi & Lestari (2014), Ramjee & Gwatidzo (2012) as well as Abdulla (2017) explained that corporate growth has a positive effect on the capital structure. Chadha & Sharma (2015) obtain a significant negative result. While Susanto (2016) shows insignificant results. Business risk variable that is examined by Alipour, Mohammadi, & Derakhshan (2015) shows a significant negative effect on capital structure. Different from Chen, Jiang, & Lin (2014)481 non-financial firms listed on the Chinese stock exchanges in 2011. Design/methodology/approach ? Employing four leverage measures (total leverage and long-term leverage in terms of both book value and market value, respectively as well as Chadha & Sharma (2015) shows significant positive results. While Gomez, Rivas, & Bolanos (2014) obtain insignificant results.

The variable of company size is examined by Dewi & Lestari (2014) as well as Chen, Jiang, & Lin (2014)481 non-financial firms listed on the Chinese stock exchanges in 2011. Design/methodology/approach ? Employing four leverage measures (total leverage and long-term leverage in terms of both book value and market value, respectively shows a significant positive effect on capital structure. While Pradana *et al.,* (2013) as well as Wellalage & Locke (2015) obtain a significant negative result. Different from Agustini & Budiyanto (2015) showing insignificant results. Managerial ownership variable related to the effect on capital structure carried out by Rahadian & Hadiprajitno (2014) as well as Alipour, Mohammadi, & Derakhshan (2015) who mention significant positive results. Different from Wimelda & Marlinah (2013) as well as Chadha & Sharma (2015) who show a significant negative effect. While Susanto (2016) show result does not affect on the capital structure.

Previous research results that are inconsistent show there are other variables that affect the relationship of company growth, business risk, company size, and managerial ownership on the capital structure, namely profitability. The purpose of this study is to examine whether company growth, business risk, company size, and managerial ownership influence capital structure by moderating profitability. Originality in this study is by adding profitability as a moderating variable. This is because based on the previous research, profitability shows consistent result to the capital structure. This research is based on the trade-off theory, signalling theory, and agency theory.

Trade-off theory explains that optimal capital structure is that which balances the benefits and sacrifices of the debt used. Companies use debt to benefit from tax deductions. Signalling theory is related to management's actions in giving instructions to creditors how management views the company's prospects. Companies that have good future prospects, then creditors will have more trust in providing loans. While agency theory explains that to reduce agency costs can be done by increasing managerial ownership, increasing dividend payout ratio and increasing debt usage (Nuswandari, 2013).

Company's growth is an increase that occurs in the company. Companies with high growth need large funds to finance company expansion. The need for these funds can be met with debt (Dewi & Lestari, 2014). This is in accordance with the trade-off theory which explains that companies use debt to take advantage of tax deductions on debt interest costs. Companies with high growth will tend to increase their capital structure. This is also in line with the signalling theory which explains that companies with high growth indicate good prospects in the future so that it is easy to get loans from creditors. This is in line with Ramjee & Gwatidzo (2012), Dewi & Lestari (2014), as well as Abdulla (2017) which shows that the higher the company's growth will increase the company's capital structure.

H_1: Company growth has a positive effect on the capital structure.

Business risk is uncertainty that occurs in the company in carrying out its business. Management will re-consider if the business risk to be borne by the company increases, the company management will strive to reduce debt. Companies that have a large business risk will use low debt. This is supported by trade-off theory which explains that companies with high business risks must use smaller debt than companies that have low business risk. This is due to the greater the business risk and the greater use of debt will increase the interest expense, which will further complicate the company's finances.. This is supported by Iqbal, Ahsan, & Zhang (2016), Nuswandari (2013), as well as Alipour, Mohammadi, & Derakhshan (2015) which stated that the greater the business risk, the lower the capital structure.

H_2: Business risk has a negative effect on the capital structure.

Company size is a description of the size of the company. Large sized company indicates that its operations are also large so it needs a large amount of funds. One of the alternatives to fulfil these funds is using debt. This is also supported by trade-off theory which explains that large companies use more debt to reduce corporate tax burden. Signalling theory also supports the statement that the company size will give a positive signal to the creditor. Creditors will have more trust in lending because creditors assume that large-sized companies are able to manage their debt well so that the credit returns are high. This is supported by Sheikh & Wang (2012), Dewi & Lestari (2014) as well as Chen, Jiang, & Lin (2014) which explains that the larger the size of the company, the capital structure will also increase.

H_3: Company size has a positive effect on the capital structure.

Managerial ownership is the amount of share ownership by management and company directors. Agency theory explains that managerial ownership is used to reduce agency costs (Nuswandari, 2013). If the management owns shares in the company, the management acts as the company manager and shareholders. Managers in their decision-making will also be oriented towards the interests of shareholders, namely wanting the company to get the highest profits so that the value of the company reflected in the stock price can increase. Companies need large capital to generate high profits, thus requiring external funds. In accordance with the trade-off theory, the company will use debt. Debt is used in addition to fulfilling the needs of funds also to get benefits for tax deductions. This is supported by Rahadian & Hadiprajitno (2014), Liang, Li, & Song (2014), Alipour, Mohammadi, & Derakhshan (2015) as well as Tarus & Ayabei (2016) which explain that high managerial ownership will increase the use of debt so that the capital structure will increase.

H_4: Managerial ownership has a positive effect on the capital structure.

High corporate growth illustrates the need for large funds in order to finance company's expansion. Based on the previous research shows that the relationship of company growth to capital structure gets inconsistent results so that it is suspected that there are other variables that also influence the relationship of the company's growth to the capital structure. The variable is profitability.

Profitability is the company's ability to earn profits (Natalia, 2015). Companies with greater profits reflect that the company has a considerable opportunity to develop its business further. Referring to the trade-off theory explains that profitable companies will use more debt. Companies with good financial conditions will easily get loans. Signalling theory explains that a company giving clue to creditors about future prospects. In accordance with the concept of signalling theory, profitability will be a signal from management that describes the company's prospects based on the level of profitability formed, and will directly affect the value of the company (Agustini & Budiyanto, 2015). Thus, profitability can be used to moderate the influence of company growth on the capital structure.

H_5: Profitability moderates the influence of company growth on the capital structure.

Business risk is the uncertainty experienced by the company in running its business. Related to the influence of business risk on the capital structure, there are other variables that also influence namely profitability. High profit allows the company to be more optimal in paying off its long-term debt so that it will reduce business risk. In line with the trade-off theory, companies with low risk and profitable use more debt.

Signalling theory explains that a signal is a management action of a company that provides guidance for investors about how management views the company's prospects. One of the future prospects can be seen from the company's ability in generating profits. If the level of profitability is high, it is assumed that the company has good future prospects so that it is expected to reduce the company's business risk. If business risk is lower, the company will be more courageous in fulfilling its funding with long-term debt. Thus, profitability can be used to moderate the effect of business risk on the capital structure

H_6: Profitability moderates the effect of business risk on the capital structure.

Company size is a description of the size of the company. Related to the influence of company size on the capital structure, there is another variable that also influence namely profitability. The escalation of profitability will have a positive influence on company size where the size of the company will increase along with the increase in profitability. If company size is getting bigger, the company will need large funds. This causes the company to use debt. This is in accordance with the trade-off theory which explains that companies that have large size and profit use higher debt ratios. Stable profitability reflects the availability of cash in the future which is one of its uses to pay off debt, so companies are more willing to use debt. This gives the meaning that profitability can be used to moderate the relationship between firm size and capital structure.

H_7: Profitability moderates the effect of firm size on the capital structure.

Managerial ownership is the amount of share ownership by management. Based on the result of previous research, it shows that the effect of managerial ownership on the capital structure is inconsistent so it is assumed that there are other variables that also influence the relationship of managerial ownership on the capital structure. The variable is profitability. Profitability plays a role in the influence of managerial ownership on the capital structure in line with the trade-off theory.

The trade-off theory explains that profitable companies use more debt than unprofitable companies do. Managers work effectively and efficiently to reduce capital costs and minimize risk, which in turn can lead to higher profitability (Wahyudin & Solikhah, 2017). If the company uses debt when profitability is low, the higher the possibility of financial difficulties in paying off its debts. This reflects the role of profitability that can moderate the influence of managerial ownership on the company's capital structure.

H_8: Profitability moderates the effect of managerial ownership on the capital structure.

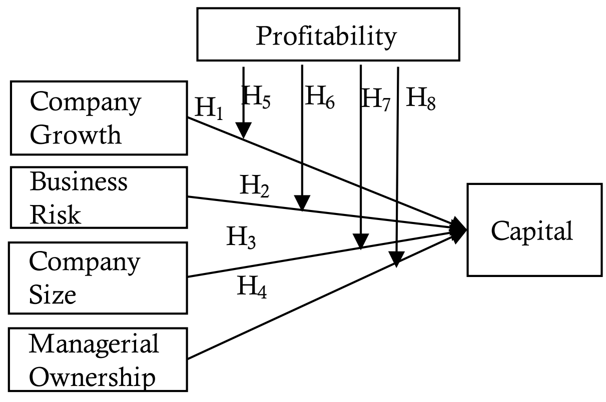

Figure 1. Research Model

RESEARCH METHODS

Type of this research was quantitative research using secondary data. The population was the basic and chemical industry companies listed on the Indonesia Stock Exchange in 2013-2016 which amounted to 66 companies. The sampling technique used purposive sampling and produces a unit of analysis of 124. Determination of the sample is based on the following criteria.Table 2 presents the variables, understanding, measurement, and scale used based on the previous research that was used as references.

Table 1. Selection of Research Samples

Explanation	Beyond Criteria	Number
Basic and chemical industry companies registered on the Indonesia Stock Exchange during 2013-2016		59
Basic and chemical industry companies that consistently publish financial reports during 2013-2016	(6)	53
Basic and chemical industry companies that publish financial statements in rupiah	(12)	41
Book value of positive equity during the period 2013-2016	(4)	37
Basic and chemical industry companies have complete data during 2013-2016 for research variables	(0)	37
Companies sampled	37	
Total research data for 2013-2016	148	
Outlier data during the study year	(24)	
Total of analysis units	124	

Source: Secondary data processed, 2018

Table 2. Operational Definition of Variables

Name of Variables	Definition	Measurement	Scale
Capital Structure (LTDER)	Comparison of long-term debt with own capital (Dewi & Lestari, 2014)	Long-term debt: total equity (Murhadi, 2013)	Ratio
Company Growth (GROWTH)	An increase that occurs in companies in the form of increasing company assets (Dewi & Lestari, 2014)	(Maryanti, 2016)	Ratio
Business Risk (BRISK)	Uncertainty faced by the company in carrying out its business activities (Wimelda & Marlinah, 2013)	BRISK = σ ROA (Dewi & Lestari, 2014)	Ratio
Firm Size (SIZE)	An overview of the size of the company (Pradana *et al.,* 2013)	SIZE = Log of Total Assets (Hartoyo, Khafid, & Agustina, 2014)	Ratio
Managerial Ownership (MO)	Total share ownership by management and company directors (Khafid, 2012)	(Khafid, 2012)	Ratio
Profitability (ROA)	The company's ability to generate profits in the business it does (Natalia, 2015)	After-tax net income: Total Assets (Natalia, 2015)	Ratio

Source: Author's summary, 2018.

Data collection technique is carried out by documenting data related to the research variables. The research data was in the form of audited financial statements of the sample companies from 2013-2016. Hypothesis testing used moderation regression analysis with an absolute difference test. This study used a model with the following formula:

$$Y_{LTDER} = \alpha + \beta_1 GROWTH + \beta_2 BRISK + \beta_3 SIZE + \beta_4 MO + \beta_5 |GROWTH\text{-}ROA| + \beta_6 |BRISK\text{-}ROA| + \beta_7 |SIZE\text{-}ROA| + \beta_8 |MO\text{-}ROA| + e \quad ..(1)$$

RESULTS AND DISCUSSIONS

Descriptive statistics is used to provide descriptions or descriptions of research variables which include maximum values, minimum values, mean, and standard deviation.

Tabel 3. Hasil Analisis Statistik Deskriptif

	N	Minimum	Maximum	Mean	Std. Deviation
LTDER	124	0.0090	1.1262	0.2662	0.2802
GROWTH	124	-0.4094	0.4903	0.0978	0.1461
BRISK	124	0.0012	0.1145	0.0273	0.0260
SIZE	124	11.1264	13.6457	12.1675	0.6841
MO	124	0.0000	0.3732	0.0515	0.0840
ROA	124	-0.1358	0.2078	0.0499	0.0631
Valid N *(listwise)*	124				

Source: Output SPSS 21, 2018

Table 3 shows that the mean value of the capital structure is 0.2662 which indicates that the basic and chemical industrial companies have a low capital structure generally. The company's growth as indicated by GROWTH has a mean value of 0.0978 which shows that the growth of the basic and chemical industrial companies is good. Business risk has a mean value of 0.0273 which indicates that basic and chemical industrial business risks are classified as low. Company size has a mean of 12.1675 which indicates that basic and chemical industrial companies are classified as large. Managerial ownership has an average of 0.0516. This value shows that basic and chemical industry companies have high managerial ownership. While profitability has a mean value of 0.0499 which indicates that the ability of basic and chemical industrial companies to produce profits is high.

The classical assumption test as a prerequisite before hypothesis testing has been carried out, but still shows the problem of data normality. The corrective action taken is by detecting outlier data. The normality test gets a result of 0.057 which is greater than the 0.05 requirement. The autocorrelation test has asymp. Sig of 0.279 which is greater than 0.05. The heteroscedasticity test obtained a result of 15.87 which is smaller than 124.334. Meanwhile, the multicollinearity test has a tolerance value greater than 0.1. Tests for normality, autocorrelation, heteroscedasticity, and multicolonity are declared free of problems, so that the research hypothesis can be examined. Testing the hypothesis based on the model used in this study using an alpha level of 0.05 can be formulated as follows.

$$\text{LTDER} = 0.410 + 0.087\ \text{GROWTH} + 0.108\ \text{BRISK} + 0.5511\ \text{SIZE} + 0.239\ \text{MO} + 0.164\,|\text{GROWTH-ROA}| - 0.205\,|\text{BRISK-ROA}| + 0.051\,|\text{SIZE-ROA}| - 0.457\,|\text{MO-ROA}| \quad (2)$$

Table 4. Hypothesis Testing

No	Hypothesis	B	Sig	Results
1.	$H_{1:}$ Company growth has a positive effect on the capital structure	1.116	0.267	H_1 Rejected
2.	$H_{2:}$ Business risk has a negative effect on the capital structure.	1.183	0.239	H_2 Rejected
3.	$H_{3:}$ Company size has a positive effect on the capital structure.	5.705	0.000	H_3 Accepted
4.	$H_{4:}$ Managerial ownership has a positive effect on the capital structure.	2.246	0.027	H_4 Accepted
5.	$H_{5:}$ Profitability moderates the influence of company growth on the capital structure.	2.053	0.042	H_5 Accepted
6.	$H_{6:}$ Profitability moderates the effect of business risk on the capital structure.	-1.874	0.063	H_6 Rejected
7.	$H_{7:}$ Profitability moderates the effect of firm size on the capital structure.	0.661	0.510	H_7 Rejected
8.	$H_{8:}$ Profitability significantly moderates the effect of managerial ownership on the capital structure.	-4.729	0.000	H_8 Accepted

Source: Secondary data processed, 2018.

The Effect of Company Growth on the Capital Structure

The result of hypothesis test indicates the first hypothesis is rejected. This means that the company's growth cannot influence managers in determining the company's capital structure. The higher growth of the company is not able to improve the capital structure of basic and chemical industrial companies. This is presumably because the growth rate of the basic and chemical industry companies listed on the Stock Exchange in 2013-2016 experienced instability from year to year and not all the companies experienced growth. Some companies actually experienced a decline in assets in the year of observation, making it difficult to know the effect of company growth on the capital structure.

The influence of company growth on the capital structure above is not in line with the trade-off theory that is used as references in this study. This theory explains that the high growth of companies uses debt to benefit from tax reduction. This is because the basic and chemical industrial companies do not like using long-term debt to meet their funding needs but instead use internal funds they have. The influence of company growth on the capital structure is also not in accordance with signalling theory. This is because high growth rate does not directly guarantee the survival and smooth operation of the company so it does not guarantee the interest of creditors in providing loans. The results of the study are in line with Liang, Li, & Song (2014), Gomez, Rivas, & Bolanos (2014), as well as Susanto (2016) which states that the company's growth does not affect the capital structure.

The Effects of Business Risk on the Capital Structure

The second hypothesis which states that business risk has a negative effect on the capital structure is rejected. This condition indicates that business risk does not affect managers' decisions in determining the company's capital structure. The behaviour of business risk variable above is not in line with the trade-off theory which explains that companies with high business risks must use smaller debt than companies that have low business risk. Business risk cannot influence the capital structure. This is assumed because the business risk variable has a minimum value of 0.0012 and a maximum value of 0.1145 while the mean value is 0.0273. This condition shows that in general, the basic and chemical industry companies that become samples have a relatively low business risk so that they are still in a safe condition from financial difficulties. Low business risk causes companies tend not to consider business risks when making decisions regarding the fulfilment of corporate capital.

Business risk does not affect on the capital structure, it is also suspected because business risk has a standard deviation value of 0.0260 which is greater than the mean, which means the data tends to be heterogeneous. Heterogeneous research data tends to cause business risk variable difficult to explain the variable of capital structure owned by the company. This finding is also in line with Pradana *et al.* (2013), Dewi & Lestari (2014), as well as Gomez, Rivas, & Bolanos (2014) which shows that business risk does not affect on the capital structure.

The Effect of Company Size on the Capital Structure

Hypothesis testing that has been done obtained result that the third hypothesis is accepted which means that company size has a positive effect on the company's capital structure. This condition means that the larger the size of the company will increase the company's capital structure. The positive influence of the company size variable on the capital structure is in line with the trade-off theory which states that companies use a lot of debt with the aim of reducing tax payments. Large companies tend to use high debt because funds obtained from debt can be used to capture opportunities and make profitable investments for the company.

Signalling theory also supports this result. The larger the size of the company will signal to creditors that management is able to manage the company well so that it will be easier to get a loan from a creditor so that the level of debt used by the company is high. The result of this research is in line with Sheikh & Wang (2012), Dewi & Lestari (2014) as well as Chen, Jiang, & Lin (2014)481 non-financial firms listed on the Chinese stock exchanges in 2011. Design/methodology/approach ? Employing four leverage measures (total leverage and long-term leverage in terms of both book value and market value, respectively481 non-financial firms listed on the Chinese stock exchanges in 2011. Design/methodology/approach ? Employing four leverage measures (total leverage and long-term leverage in terms of both book value and market value, respectively which proves the existence of a significant positive influence between company size on capital structure.

The Effect of Managerial Ownership on the Capital Structure

Hypothesis testing obtains the result of the fourth hypothesis which shows managerial ownership has a significant positive effect on the capital structure is accepted. This condition means that greater managerial ownership will increase the company's capital structure. The effect of managerial ownership on the capital structure is aligned with the agency theory. Agency theory explains the problem of differences in interests between agents (management) and principals (shareholders). Because of this conflict of interest, a supervisory mechanism is needed to harmonize interests between shareholders and management. Such supervision raises agency costs. One of the ways to reduce agency costs is by increasing managerial ownership (Nuswandari, 2013). If the management owns shares in the company, management has a dual role, namely as the company manager and shareholders.

Managers as managers of companies as well as shareholders are also oriented to the interests of shareholders, namely wanting the company to obtain high profits so that the dividend distribution received is also high. The companies need large capital to generate high profits. In accordance with the trade-off theory, companies use debt to obtain tax reduction benefits. If the tax is reduced, it will increase profits per share which will be received by the shareholders. The manager as the shareholder will get a share of the profit per share. The testing results above are relevant to Rahadian & Hadiprajitno (2014), Liang, Li, & Song (2014), Alipour, Mohammadi, & Derakhshan (2015), as well as Tarus & Ayabei (2016) which stated that managerial ownership has a positive effect on the capital structure.

Profitability Moderates the Effect of Company Growth on the Capital Structure

The results of this study indicate that the testing of the fifth hypothesis which states profitability moderates the effect of corporate growth on the capital structure is accepted. This proves empirically that profitability is able to moderate the influence of company growth on the capital structure. This finding is interesting because the presence of profitability is able to influence the company's growth on the capital structure. Previously, the partial test gives result that the company's growth does not affect on the capital structure. The presence of profitability is able to contribute in determining the influence of managerial ownership on the capital structure.

Profitability explains the level of profit the company gets from using its assets (Natalia, 2015). If profitability increases, it will give a positive influence on the growth of the company. Companies with greater profits reflect that the company has a considerable opportunity to develop its business further. Therefore, in line with the trade-off theory, companies with high and profitable growth will use larger debt that is used to reduce the tax burden.

Profitability Moderates the Effects of Business Risk on Capital Structure

The result of this study shows the testing of the sixth hypothesis which states that profitability moderates the effect of business risk on the capital structure is rejected. This proves empirically that profitability is not able to strengthen or weaken the influence of business risk on the capital structure in basic and chemical industry companies listed on the Indonesia Stock Exchange in 2013-2016. The result of this study is not in line with the trade-off theory which explains that companies with low risk and profitable use more debt. This is also not in line with the signalling theory that explains when the level of profitability is higher, it will give a positive signal to creditors so that creditors have more trust in giving loans.

The reason for profitability is not able to moderate the influence of business risk on the capital structure is due to the company's internal funds can be used to meet the company's operational needs. This is in accordance with the pecking order theory which explains that the companies will use internal funds. The level of profitability reflects the company's ability to generate profits. This profit will be partially allocated to profit not shared. Profit which is not divided becomes internal funding sources that can be used to support the company's operational activities. This allows large risk companies with high profitability not to use debt to fund the company's operations.

Profitability Moderates the Effect of Company Size on the Capital Structure

The result of the study shows the testing of the seventh hypothesis which states that profitability moderates the effect of firm size on the capital structure is rejected. This proves that empirically profitability is not able to strengthen or weaken the influence of company size on capital structure in the basic and chemical industry companies listed on the Indonesia Stock Exchange in 2013-2016. Profitability cannot weaken or strengthen the influence of firm size on the capital structure, it is presumed because partially the size of the company has had a significant influence with a large regression coefficient so that profitability does not determine the influence of firm size on the capital structure.

Profitability is not the only factor that can be used to assess the size of a company. In addition to profitability, related to debt contracts in lending, companies aside from paying attention to profitability also pay attention to the level of corporate liquidity. Liquidity is the ability of a company to fulfil obligations that must be paid immediately with its current assets. Liquidity assessment is important for companies, considering that the profits obtained by the company are not only used to pay off corporate debt, but also used by companies to finance operational and investment needs. Therefore, by looking at the level of corporate liquidity, the company can ascertain how much the company's ability to pay off its due date debt.

Profitability Moderates the Effect of Managerial Ownership on the Capital Structure

The hypothesis test result shows that profitability moderates significantly the effect of managerial ownership on the capital structure. The direction of the relationship between managerial ownership and capital structure moderated by profitability is negative. This means that with the profitability that moderates the relationship of managerial ownership, it will reduce the company's capital structure. This finding is interesting because the presence of profitability variable can weaken the influence of managerial ownership on the capital structure. Low profitability, the level of conflict between managers and shareholders related to misuse of funds by managers is also low. This will reduce managerial ownership that is used as aligning the conflict. If managerial ownership decreases, managers tend to reduce debt.

The results of the study are in accordance with the trade-offs which explains that low use of debt in high managerial ownership is possible when corporate profits are in a bad condition. The potency for unstable profitability in a company has an impact on the decrease of debt used by management. As opinion Agustini & Budiyanto (2015) stated that companies with unstable profits tend to limit the use of debt. This is because it can increase the risk of corporate bankruptcy so that the company will make every effort to reduce the use of debt so that the risk of bankruptcy does not increase.

CONCLUSIONS AND SUGGESTIONS

The conclusions of the study are that from the eight hypotheses examined there are four accepted hypotheses, namely company size, managerial ownership, profitability that moderates the growth of the company, and profitability that moderates managerial ownership. Based on the results of research which states that profitability is able to moderate the influence of company growth and managerial ownership, companies that have high growth and high managerial ownership must pay attention to the level of profitability in determining their capital structure. In addition, for further research it can use the control variable in the form of firm size to increase the coefficient of determination because the size of the company has significant results with a large regression coefficient.

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