

The Debt Policy was affected by Institutional Ownership, Company Size, and Profitability at The Customer Goods Companies in Indonesia



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ABSTRACT: This study aims to analyze the effect of institutional ownership, firm size and return on assets (ROA) on the policy of debt equity ratio (DER). The research method uses quantitative research methods with panel data to prove the hypothesis. The data is taken from the financial statements of consumer products companies in the 2016-2019 research period. The sample selection used purposive sampling method with certain criteria and obtained 15 companies or 60 observations. Based on data processing that has been done with Eviews ver.9 reveals that the institutional ownership affects significantly on the debt equity ratio policy, while company size and return on assets do not affect the debt equity ratio policy at all. The results of this study indicate how the strategic role of institutional shareholders in influencing the debt policy. The implications of the results of this study on consumer product companies are in selecting and determining competent and responsible institutional ownership in order to produce a DER policy that does not harm the company.

KEYWORDS: Institutional Ownership, Company Size, Return on Assets, Debt Equity Ratio, Customer Goods

INTRODUCTION

Debt policy for companies engaged in any business is very important, especially for consumer products companies whose usage rates are very high. In consumer product companies that have a business character that prioritizes short-term interests rather than long-term, the productivity level of product usability is short. The business characteristics of a consumer product company are very interesting because this business is one of the businesses that is able to survive in any economic conditions (Ang, 1997). The debt itself can come from internal companies such as profit reserves, or debts from external parties such as insurance banks or other creditors. All the company's initial needs, both internal and external, aim to meet the company's operational funding needs. Debt policy as one of the company's funding actions is seen as very strategic for the survival of the company and as it is known that the role of debt. According to Riyanto, 2013 not only has an effect in helping the smooth operation of the company but can also increase the value of the company. Debt policy can also monitor managers' actions, and debt can also increase tax savings for companies. The debt ratio must be monitored so as not to burden the company when paying interest. Referring to the thoughts of Van Horne and Wachowics, 2013 that managers have responsibilities to shareholders and creditors within the agency theory framework (Jensen, M.C and Meckling, 1976). Therefore, manager must also be responsibility to manage the debt policy. A high debt ratio tends to be balanced with a high expected rate of return (Brigham and Houston, 2014). Regarding the order of priority in fulfilling funds, based on the pecking order theory from Brealey, R. A. & Myers, S. C. 1991, when a company is faced with an urgent need for funds, the company prioritizes the fulfillment of funds from the availability of retained earnings sources, then sequentially from sources of debt, equity and share issuance. Based on this order, the fulfillment of funds from debt sources takes precedence over equity sources because the debt policy is more profitable than the issuance of shares. (Kasmir, 2014). The debt policy by charging interest continues to show the advantages and disadvantages of this policy. The advantages of a debt policy with a fixed interest expense can reduce taxable income. This means the interest paid is lower than the fixed interest expense. On the other hand, the weakness occurs in the increase in the amount of debt so that the business risk becomes less conducive which in turn can reduce the value of assets (Titman, et.al.2013). Referring to the debt policy, the explanation cannot be separated from the issue of equity because the comparison of debt with equity shows the solvency condition of the company.

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Meanwhile, the company's share ownership is very influential on the direction of debt policy. the greater the percentage of share ownership, the greater the influence in determining debt policy. Dominant institutional share ownership has a direct effect on debt policy (Kallapur and Trombley, 2001; Scot,W.R, 2015). However, the company's financial performance also affects the debt policy because the better the financial performance, the higher the target of the debt policy. The performance of companies that have succeeded in increasing assets is also seen as an achievement for the company. because the size of the company is measured by the number of assets controlled, and assets can also be used as collateral related to debt policies (Jensen, 1986; Suhendry, et.al, 2021). In addition, the level of efficient use of assets reflects the level of company profitability, which is known as the return on assets. (Thomas, G.N, et.al 2020; Sujana, 2015). The higher the rate of return on assets, the stronger the support for debt policy. According to ICAEW 2019 that company size to be reflected in the amount of assets owed.

Based on the description above, three determinants are found that affect debt policy. First, parties who have institutional ownership whose role can influence debt policy. The share ownership from banks, insurance or other institutions can monitor management so that it works optimally. Second, debt policy is also influenced by the amount of assets owned. (Yenatie and Destriana, 2010; Hotbertua,et.al, 2021;Chen,et.al,2021). Companies that enter the capital market with large total assets will certainly find it easier to access the debt market than companies with relatively small total assets. Third, debt policy is influenced by profitability and the level of profitability will determine the company's equity. Having a good or bad level of profitability will determine what kind of debt policy will be planned. Based on the description above, the hypotheses that can be raised are:

H1: How does institutional ownership affect debt policy

H2: How does firm size affect debt policy

H3: How does return on assets affect debt policy

RESEARCH METHODS

The research method used the quantitative research method to observe the effect of the independent variable on the dependent variable. The research sample was taken from consumer goods industrial companies on the IDX in the period 20162019.

Table 1: List of Company Samples

No	Name of Company	Code
1	PT Akasha Wira International Tbk.	ADES
2	PT Budi Starch & Sweetener Tbk.	BUDI
3	PT Wilmar Cahaya Indonesia Tbk.	CEKA
4	PT Chitose Internasional Tbk.	CINT
5	PT Darya-Varia Laboratoria Tbk.	DVLA
6	PT Gudang Garam Tbk.	GGRM
7	PT Indofood CBP Sukses Makmur Tbk.	ICBP
8	PT Indofood Sukses Makmur Tbk.	INDF
9	PT Kimia Farma (Persero) Tbk.	KAEF
10	PT Kalbe Farma Tbk.	KLBF
11	PT Pyridam Farma Tbk.	PYFA
12	PT Mandom Indonesia Tbk.	TCID
13	PT Tempo Scan Pacific Tbk.	TSPC
14	PT Ultrajaya Milk Industry & Trading Company Tbk.	ULTJ
15	PT Wismilak Inti Makmur Tbk.	WIIM

Source: Data Processed by Author, 2021

The sample selection was carried out using a proportional sampling technique, from 35 companies out of 50 companies that meet the criteria; *first*, companies did not issue financial statements; *second*, companies were losses, *third*, companies that occurred new listings or delisting from IDX, and *fourth*, companies could not present the required data in full. The result of Eviews version 9 is used to explain the effect of the independent variable on the dependent variable based on the hypothesis proposed by using panel data tabulation. According to Gujarati, 2012 panel data is a combination of time series data and individual cross section data. Data processing produces descriptive statistics, and the Chow test and Hausman test produce the best regression equation

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among Common Effect Model (CEM), FEM (Fixed Effect Model), and Random Effect Model (REM), t test or partial test is carried out to determine the significance of the effect of the independent variable on the dependent variable. The analysis discusses the results of descriptive statistics, t-tests and the best regression equations from the 3 effect models and relates them to other journals or theories that support or do not support. Finally, the analysis also explains the results of the research with the hypothesis that has been used.

RESULTS AND DISCUSSIONS

The average value of Debt Policy (DER) in consumer goods industrial companies is 0.571797, with a standard deviation of 0.419738. The company that has the largest Debt Policy with a value of 1.8186 was PT Kimia Farma, Tbk (Persero) in 2018, while the smallest Debt Policy (DER) of 0.1635 was PT Ultrajaya Milk Industry & Trading Company, Tbk in 2018. Skewnees for DER showed the value 1.453748, meaning that the slope or asymmetry to the normal distribution is 1.453748. Therefore, the normal distribution model in this research data has a positive normal distribution. Meanwhile, the kurtosis on the DER was 4.302838, indicating that the curve is sharper than the normal curve because the kurtosis is > 0.263 .

Table 2: Descriptive Statistic

Date: 07/17/21 Time: 12:25

Sample: 2016 2019

	DER	KI	SIZE	ROA
Mean	0.571797	0.675350	29.04807	0.081222
Median	0.457200	0.746900	28.71940	0.073550
Maximum	1.818600	0.945700	32.20100	0.175100
Minimum	0.163500	0.051000	25.79570	0.000900
Std. Dev.	0.419738	0.232589	1.773412	0.045153
Skewness	1.453748	-0.940960	0.187365	0.260790
Kurtosis	4.302838	3.429698	2.184931	2.055172
Jarque-Bera	25.37729	9.315658	2.011903	2.911864
Probability	0.000003	0.009487	0.365697	0.233183
Sum	34.30780	40.52100	1742.884	4.873300
Sum Sq. Dev.	10.39460	3.191748	185.5544	0.120291
Observations	60	60	60	60

Source: Data Processed by Author, 2021

The average value of Institutional Ownership (KI) is 0.675350, with a standard deviation of 0.232589. The company with the largest Institutional Ownership of 0.9457 was PT Kimia Farma, Tbk (Persero) in 2019, while the smallest Institutional Ownership of 0.051 was PT Wismilak Inti Makmur, Tbk in 2019. Skewnees for KI showed a value of -0.94096, meaning the slope or asymmetry to the normal distribution of -0.94096. Therefore, the normal distribution model in this research data has a negative normal distribution. Meanwhile, the kurtosis in KI was 3.429698, indicating that the curve is sharper than the normal curve because the kurtosis is > 0.263 . The average value of company size (SIZE) was 29,04807, with a standard deviation of 1.773412. The company that has the largest Company Size worth 32,201 was PT Indofood Sukses Makmur, Tbk in 2018, while the smallest Company Size (SIZE) of 25,7957 was PT Pyridam Farma, Tbk in 2017. Skewnees for SIZE showed a value of 0.187365, meaning the slope or asymmetry to the normal distribution of 0.187365. Therefore, the normal distribution model in this research data has a positive normal distribution. Meanwhile, kurtosis at SIZE of 2.184931 showed that the curve is sharper than the normal curve because the kurtosis is > 0.263 . The average value of Profitability (ROA) was 0.081222, with a standard deviation of 0.045153. The company that has the largest Profitability with a value of 0.1751 is PT Wilmar Cahaya Indonesia Tbk in the 2016 period, while the smallest Profitability of 0.0009 was PT Kimia Farma Tbk in 2019. Skewnees for Profitability showed a value of 0.26079, meaning that the slope or asymmetry of the normal distribution is 0.26079. Therefore, the normal distribution model in this research data has a

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positive normal distribution. Meanwhile, the kurtosis in profitability of 2.055172 shows that the curve is sharper than the normal curve because the kurtosis is > 0.263, and this curve is called a leptokurtic.

Table 3: Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
	18.901572		0.0000
Cross-section F		(14,42)	
Cross-section Chi-square	119.276767	14	0.0000

Source: Data Processed by Author, 2021

Table 2 shows the results of the Chow test (Common Effect Model vs. Fixed Effect Model) that H_0 was rejected because the results of Prob Cross-Section $F < \alpha$ ($0.000 < 0.05$), so the chosen model in this study was the Fixed Effect Model (FEM). Meanwhile, table 3 shows the results of the Hausman test (Random Effect Model vs. Fixed Effect Model) that H_0 is rejected and H_a is accepted because the Cross-Section Random value is $0.0197 < 0.005$ so that the Fixed Effect Model (FEM) was selected. Based on the results of the two tests above, the chosen regression model was the Fixed Effect Model (FEM).

Table 4: Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-S q. Statistic	Chi -Sq. d.f.	Prob.
	9.871905		
Cross-section random		3	0.0197

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var (Diff.)	Prob.
KI	0.774064	0.600175	0.312553	0.7558
SIZE	0.230793	0.070738	0.012529	0.1527
ROA	-0.781882	-2.357426	0.292966	0.0036

Source: Data Processed by Author, 2021

Based on the selection of the regression model from the fixed effect model, the multiple linear regression equation is **DER = -0.464962 + 0.728193 KI + 0.020282 SIZE – 0.544772 ROA.**

The results of the partial regression test that the regression coefficient value of Institutional Ownership is positive at 0.728193, the t-count value is 5.290208 with a probability of $0.00000 < 0.005$, then the effect of Institutional Ownership on Debt Policy is significant and positive. Meanwhile, from the results of other partial tests that the positive company size regression coefficient is 0.020282, the t-count value is 0.302650 with a probability of $0.7637 > 0.05$, then the effect of company size is not significant on

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debt policy. Then, on the results of the last partial test that the negative profitability regression coefficient is -0.544772, the t value is -1.409714 with a probability of 0.1660 > 0.05, then the effect of profitability is not significant on debt policy.

Table 5: The Regression of Fixed Effect Model (FEM)

Dependent Variable: DER				
Method: Panel EGLS (Cross-section weights)				
Date: 07/17/21 Time: 12:27				
Sample: 2016 2019				
Periods included: 4				
Cross-sections included: 15				
Total panel (balanced) observations: 60				
Linear estimation after one-step weighting matrix				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.464962	1.923147	-0.241772	0.8101
KI	0.728193	0.137649	5.290208	0.0000
SIZE	0.020284	0.067023	0.302650	0.7637
ROA	-0.544772	0.386441	-1.409714	0.1660
Effects Specific ation				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.958031	Mean dependent var		1.024222
Adjusted R-squared	0.941044	S.D. dependent var		0.530416
S.E. of regression	0.118200	Sum squared residual		0.586794
F-statistic	56.39696	Durbin-Watson stat		2.569791
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.918647	Mean dependent var		0.571797
Sum squared residual	0.845627	Durbin-Watson stat		1.903294
Source: Data Processed by Author, 2021				

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Table 6: Partial test or t-test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.464962	1.923147	-0.241772	0.8101
KI	0.728193	0.137649	5.290208	0.0000
SIZE	0.020284	0.067023	0.302650	0.7637
ROA	-0.544772	0.386441	-1.409714	0.1660

Source: Data Processed by Author, 2021

Based on the above findings, institutional ownership affects debt policy positively and significantly in consumer goods industrial companies. This at least shows that the involvement of parties who have institutional ownership in the company is real and cannot be hidden. Institutional ownership can be in the form of ownership of company shares owned by institutions such as the government, banks, insurance, pension funds, cooperatives and other institutions. Institutional share ownership as happened in PT Kimia Farma (Persero), Tbk which is now 90% of its shares have been controlled by PT Bio Farma (Persero) so that in this case PT Kimia Farma (Persero) becomes a subsidiary of PT Bio Farma (Persero). The Debt Policy of PT Kimia Farma (Persero), which has become part of the pharmaceutical BUMN holding, is of course very much determined by institutional share ownership. PT Bio Farma (Persero) as the institution that holds the majority share and also as the controlling shareholder of PT Kimia Farma (Persero) may make debt policies that benefit shareholders.

The size of the company does not have a significant effect on the company's debt policy. The size of the company is reflected in the total assets owned, the greater the number of assets, the greater the size of the company. As it is known that the characteristics of consumer goods companies produce typical products that are not durable and quickly run out when consumed. In principle, the debt policy is guided by the availability of long-term fixed assets owned by the company as support for the debt policy. Basically, consumer goods companies have problems with the unavailability of long-term fixed assets to support debt policies, even if they are not relevant enough as a condition to support debt policies. (Titman, S.et.al, 2013). Moreover, consumer goods companies do not require long-term debt, and the type of debt policy that is indispensable is short-term debt that supports the company's operational activities. This research proves empirically that the size of the company has no effect on debt policy. These results are in line with research from Silitonga, A.H, 2014 which reveals that company size has no effect on debt policy. On the contrary, from the results of other studies, namely from Sari, D.P, 2017 stated that company size affects debt policy. PT Indofood Sukses Makmur Tbk which has a company size of 32.2010 has never used its assets as collateral in its debt policy, especially since this company is a member of a group company.

Another result of this study, empirically profitability does not affect the debt policy of consumer goods companies. These results confirm that the company's fixed assets do not intersect with debt policy both from the aspect of asset size and from the results of the use of assets. Referring to the performance of the use of assets, namely return on assets which is used as a proxy for profitability in this study, empirically, ROA does not have a significant effect on debt policy. The same result was expressed by Sari, D.P, 2017; that even though they come from different corporate sectors and years, it turns out that ROA has no effect on debt policy. However, in the study of Silitonga, AH, 2014 that ROA has a negative influence on debt policy. PT Wilmar Cahaya Indonesia Tbk as a company with the largest ROA, namely: 0.1751 or 17.51%, it is proven that empirically it has no effect on debt policy because the business character of consumer goods companies tends to have a relatively low level of profitability so that it is not sufficient as a condition to support debt policies that are being implemented company.

CONCLUSION

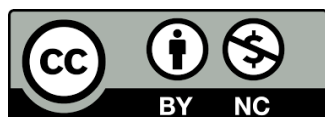
Based on the results of the study, the R-squared value of 0.958031 from the output of the fixed effect model indicates that institutional ownership, firm size and profitability together affect debt policy. This result explains that institutional ownership has a massive and significant influence on debt policy because company size and profitability do not affect the debt policy. Consumer goods industry companies should already understand that institutional shareholders can influence the company's debt policy, and companies must develop strategies to maximize the interests of management related to debt policies. As a limitation of the study, this study does not include the influence of other variables such as company growth. The company's growth shows the need for funds for the company's business development and based on the pecking order theory that the fulfilment of funding needs is

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ordered according to a priority scale, starting from the delivery of funds from retained earnings, debt and finally the issuance of new shares. For further research, it is possible to include the company's growth variable as one of the additions to deepen further research based on the intended novelty.

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