



Influence of sales growth, profitability, asset structure, company size, and free cash flow on debt policy

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Article Info	ABSTRACT
<p>Article history:</p> <p>Received Jul 2, 2024 Revised Jul 10, 2024 Accepted Jul 26, 2024</p> <hr/> <p>Keywords:</p> <p>Asset Structure; Company Size; Debt Policy; Free Cash Flow; Profitability; Sales Growth.</p>	<p>Debt policy plays a role in a company as a means of obtaining funds regulated by corporate governance, both internal and external. This research explores how debt policy in non-financial firms listed on the Indonesia Stock Exchange from 2020 to 2022 is influenced by factors such as sales growth, profitability, asset structure, firm size, and free cash flow. Employing purposive sampling, the study identified 648 companies that met the necessary criteria for observation. The analysis was conducted using multiple linear regression. The findings reveal that both profitability and firm size significantly impact debt policy. In contrast, sales growth, asset structure, and free cash flow do not show a significant effect on debt policy.</p> <p style="text-align: right;"><i>This is an open access article under the CC BY-NC license.</i></p> 

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1. INTRODUCTION

The Indonesia Stock Exchange (IDX) as a capital market in Indonesia serves as a meeting medium between investors and industries. Along with economic progress, PT IDX serves as a crucial component of the economic framework, facilitating companies in securing funds from capital owners or investors through its role in financing. Investment decision-making requires complete reports as for the real corporate state.

The primary objective of this study is to evaluate the influence of sales growth, profitability, asset structure, company size, and free cash flow on the debt policy decisions of companies listed on the Indonesia Stock Exchange. This research specifically seeks to provide detailed insights to company managers on how these financial metrics impact their choices in utilizing debt as a financing option. Furthermore, it aims to clarify how different financial characteristics of a company can shape its debt strategy. By exploring the precise relationships between these variables and debt policy, the study intends to offer practical guidance for companies to optimize their financial management practices and support long-term sustainable growth.

Stakeholders use financial statements as a key source of information for making decisions. These statements reflect the financial condition of a company (Jayanti & Khomsiyah, 2022). Those who usually obtain financial information are stakeholders with interests in the company's development. Management uses financial statements to make decisions for the continuity of the company's growth.

In its operations, a company needs financing sources to realize performance improvements. Financing can be obtained from internal or external funds. Companies often use debt policies because they can gain tax savings on corporate profits, hoping to increase earnings. Debt is an obligation or

benefit that occurred in the past and will be a responsibility in the present or future that must be paid (Afiezan et al., 2020).

Debt policy refers to the strategy employed by management to secure financing for the company's operational needs. Implementing a debt policy within a company can make it more daring in expanding its business (Teguh Setiawan Wibowo & Lusi, 2023).

Decisions on debt policy need to consider the risks to the company. The larger the financing taken from debt, the increased load shouldered by the company, which also affects the company's sustainability because if the company cannot manage its finances well, there is a risk of bankruptcy (Dewi, 2020). There must be supervision in debt policy decision-making to ensure effective control in reducing risks.

Debt policy is measured using the debt to equity ratio (DER), which is the comparison between debt and the company's equity. The higher the DER score, the greater the obligations the company must bear, along with the portion of debt usage in asset investment financing. DER suggests a reduced level of debt for the company. This can imply that the company's financial condition might not be favourable (Rezki & Anam, 2020). Therefore, companies must optimize their debt policies by considering several factors influencing debt policy. This study focuses on five factors: sales growth, profitability, asset structure, firm size, and free cash flow.

Sales growth is key in determining debt policy decisions. It reflects the year-to-year rate of change in sales, indicating whether they are increasing or decreasing. Companies with stable sales are safer in obtaining loans compared to those with unstable sales. This is because stable sales can serve as a guarantee that the company can repay its debt. Thus, sales growth can influence debt policy decision-making. Research by Boseke & Evinita, (2022), and Tarigan et al., (2022) provides empirical evidence that sales growth affects debt policy decision-making.

The ability of a company to produce profits is known as profitability, according to pecking order theory, which prioritizes internal funding. Companies with high profitability levels have lower debt levels because they have sufficient retained earnings for operational financing. Return on Assets (ROA) serves as a measure of how well a company generates profits from its resources, such as capital, assets, or sales, over a specific period. This measurement reflects the company's success in leveraging its resources to achieve profitability. Research by Nugraha, (2020), Nurdani & Rahmawati, (2020), and Feryanshah & Sunarto, (2022) provides concrete evidence that profitability influences debt policy.

Asset structure refers to the company's assets, which are anticipated to yield future benefits, compared in the form of the fixed assets to total assets ratio. Asset structure can also determine funding, indicating the allocation for each asset component, both fixed and current assets. Research by Jombrik, (2020), Nainggolan et al., (2021), and Alysa et al., (2023) evidence that asset structure affects debt policy.

Firm size is the scale of a company, classified in various ways, including as large, medium, and small enterprises (Astuti & Nurlaelasari, 2013). Firm size can be assessed by examining the assets utilized in its operations. The larger the firm, the larger the need for external financing, the greater the proportion of debt, due to the substantial funds required. Firm size is a factor that needs attention in determining the company's debt level, as larger companies tend to secure loans more easily from third parties (Nafisah et al., 2023). Research by Nita Ayu Lestari, (2020), Kusumawati & Rosady, (2018), and Yana & Hisan, (2023) evidence that firm size affects debt policy.

Free cash flow illustrates the cash accrued by a company, as indicated in its financial statements. Healthy companies have cash available for use in their debt policies, indicated by the amount of free cash flow used. The use of cash in free cash flow can be distributed for business line development or operational activities. Free cash flow functions to pay the company's debt and determine if the company has enough funds to pay its dividends. Research by Nanda et al., (2021), Ardianto et al., (2022), and Setiawan, (2023) provides empirical evidence that free cash flow affects debt policy.

This research is an extension of the study by Devi and Khomsiyah (2022). The initial innovation in this study involves incorporating two new independent variables: sales growth and asset structure.

Sales growth is included as it reflects a company's capacity to sustain its economic standing within its industry and the broader economy. The asset structure variable is added because assets play a crucial role in any company, affecting production activities and the company's operations. Thus, these two variables become factors influencing debt policy. The second novelty is expanding the scope of observation to non-financial companies list on IDX from 2020 to 2022.

Pecking Order Theory discusses how companies choose funding sources based on profitability levels and asymmetric information between managers and shareholders. Companies with higher profitability generally prefer to utilise internal funds before resorting to debt, whereas those with lower profitability are more inclined to incur debt to address operational requirements. This is because there is greater external confidence in companies that can manage their information well, influencing decisions to take on external funding. This theory emphasizes that managers play a key role in determining funding choices, influenced by asymmetric information and the company's strategy to maintain financial and operational stability.

Agency Theory illustrates the dynamics of the correlation between shareholders, who delegate decisions to the company's management. In this context, agency problems occur because of divergent interests between management, acting as agents, and shareholders, acting as principals. This theory emphasises that incorporating debt into the capital structure can lower agency costs by incentivising management to prioritise the interests of shareholders. However, the use of debt must be carefully regulated to avoid potential financial crises. Therefore, decisions regarding debt policy need to consider the dynamics of conflicts of interest between management and shareholders and take into account their impact on the company's financial health.

Debt, or liabilities, are commitments for the company arising from external funding sources such as bank loans, bond issuances, and other similar avenues (Fahmi, 2014). Debt policy refers to a company's strategy for securing additional funds from external sources, such as lenders or third parties, rather than from shareholders. It is shaped by management's decisions to acquire these external funds to support operational activities. The increased debt level of a company, the greater the risk it faces, especially if it struggles to fulfil its debt repayment commitments (Zutter & Smart, 2020).

Companies with high sales growth rates will receive positive responses from shareholders. This is because companies with high sales growth rates will provide future benefits. The greater the prospect for the company to increase its sales growth, the more funding is needed for its operational activities. The need for various elements such as assets, both fixed assets and current assets, requires considering a stable funding source for asset purchases. Therefore, managers need to consider debt policy to obtain external funds.

Companies with high sales and profit levels tend to use debt as their operational funds (Jombrik, 2020). If sales increase annually, financing from debt with certain burdens will increase shareholders' income. As a result, firms with high sales growth rates generally leverage more debt compared to those with lower sales growth rates. Funding obtained from debt policy is used as the primary source for operational activities with the aim of expecting rapid growth.

Sales growth rate can be measured by the revenue generated from sales. It represents the change observed in the annual financial reports (Kasmir, 2016). Sales growth is used to measure how well a company increases its sales compared to total sales overall. Companies with high sales growth rates can meet their obligations if the company marks its assets with debt. Because of this, companies with high sales growth tend to find it easier to get loans because they have future guarantees.

Research by Priska and Lenny (2022) and Mardiyati (2018) provides empirical evidence of a significant positive influence of sales growth on debt policy. Based on the above explanation, the higher the sales rate of a company, the greater the opportunity for the company to implement debt policy. H₁: Sales growth positively affects debt policy.

Firms with high levels of profitability typically utilise less debt and achieve high investment returns because they are able to fund their needs with retained earnings (Afiezan et al., 2020). Companies that can fulfil their financial commitments through the use of external capital need to have consistent profitability. This is used to bear the risk when the company is in poor condition and cannot

pay its debts. Profitability, which has a substantial impact on debt policy, is a key factor both for management when devising debt strategies and for creditors when deciding whether to grant loans to the company (Jayanti, 2022).

Companies with low debt levels have high profitability levels (Mulyawan, 2015: 247). Profitability is extensively used by different stakeholders, including company management and creditors, due to its significance in the market (Zutter & Smart, 2020). If the company needs operational or investment funds, the funding source will be retained earnings, so the debt level is relatively low; the company may not even use debt at all. Therefore, the level of profitability determines the debt policy that management will take.

According to Pecking Order Theory, the higher the profit level, the more abundant the funds the company will receive. High-profit companies can meet their debt obligations effectively, increasing the utilization of debt. Therefore, the trust given by the company to creditors or loans provided is due to the company's high profitability, which reflects its ability to generate profits. The company can repay the debt it incurs, establishing trust for creditors in providing loans (Twi Jayanti, 2022).

Research by Anggista and Ani (2020), and Ardhianto and Sunarto (2022) provides empirical evidence that profitability negatively affects debt policy, meaning that the funding obtained by the company is already fulfilled from internal sources, namely retained earnings. Therefore, profitability is a key factor that affects the company's debt policy. Based on the above explanation, companies with high profitability tend to have relatively low debt levels: H2: Profitability negatively affects debt policy.

Asset structure pertains to a company's assets; firms with adaptable asset structures are likely to incur more debt compared to those with rigid asset structures. Typically, wealth is used as collateral by the company, where creditors consider the asset structure in their lending decisions (Nurdani & Rahmawati, 2020). Because of this, the asset structure of a company will influence the debt policy undertaken by the company.

Companies with large amounts of assets usually have more debt (Brigham & Houston, 2014). This is because the asset structure becomes a proportion of the company's wealth components in the form of current and non-current assets. Should the company's fixed assets be greater than its current assets, the company will tend to use long-term debt (Anggista et al., 2020). This is because long-term assets can be utilised as security to secure funding through debt policy.

The asset structure is a consideration for companies when seeking debt. Companies with the majority of their assets in the form of current assets will rely more on short-term debt. According to Pecking Order Theory, the benefits of assets in a company are used as determinants of funding, and if the asset structure is sufficient, the company will tend to use more debt. Since companies with substantial assets can more easily secure loan funds from external sources, this influences the debt policy adopted by the company.

Research by Anggista and Ani (2020) and Jombrik (2020) provides empirical evidence that asset structure positively affects debt policy, meaning that an increase in asset structure encourages debt policy. Based on the above explanation, an increase in the company's assets will drive up debt, especially if the assets are obtained through debt: H3: Asset structure positively affects debt policy.

Large companies have rapid and high growth rates, making them more ready to issue new shares and increase loans, while small companies can influence capital structure (Afiezan et al., 2020). The size of a company serves as an indicator of the asymmetric information that exists between the company and the market. (Sugiarto, 2009: 121). Large companies certainly need more funds compared to small companies. Because of this, debt policy is applied by large companies to increase their assets.

The larger the debt, the greater the company size. Companies with large sizes tend to apply more debt policies as a source of operational funds. The size of a company can influence its funding sources through its debt policy, with larger companies typically finding it easier to secure loans. According to Pecking Order Theory, if retained earnings cannot suffice, debt becomes the next decision (Nurdani & Rahmawati, 2020). The company's debt policy is influenced by its size (large or small), leading to a tendency to use more debt.

Research by Vitryani and Djuli (2022), and Devi and Khomsiyah (2022) company size positively affects debt policy, this shows that the company's size can be a benchmark for formulating debt policy to increase financial resources. Based on the above explanation, the size of the company can be used as a benchmark for investors in investing: H4: Company size positively affects debt policy.

Free cash flow represents the surplus cash available to investors and creditors once the company has fulfilled its operational requirements and investment expenditures (Zutter & Smart, 2020). Free cash flow indicates the company's capacity to make additional investments, pay off debts, and either buy back treasury shares or increase liquidity. It can also serve as a sign that the company is capable of meeting its debt obligations effectively (Jayanti, 2022).

A healthy company is marked by having cash available for use in its debt policy. Companies will increase their debt and issue securities if their cash decreases. Companies that cannot survive with a high increase in their free cash flow indicate passive utilization of free cash flow and less active in seeking profitable projects. For increased funding, there is an opportunity for management in deciding debt policy.

(Brigham & Houston, 2006: 65) argue one could argue that free cash flow represents the portion of available cash flow distributed to investors after all necessary investments for maintaining operations have been made. Debt policy helps manage the conflicting interests between shareholders and company management by ensuring that available cash is allocated to repaying maturing debts. When a company distributes a larger portion of free cash flow to shareholders, it increases the likelihood of adopting a more aggressive debt policy.

Research by Teguh and Lusy (2021), Puti and Ety (2024) provides empirical evidence that free cash flow positively affects debt policy, the statement suggests that a higher free cash flow can potentially support a higher debt policy for a company. Based on the explanation provided, an increase in free cash flow will likely lead to a more aggressive company policy: H5: Free cash flow positively affects debt policy.

2. RESEARCH METHOD

The type of research conducted is quantitative research with a statistical approach. The research utilises financial report data sourced from www.idx.co.id. The study focuses on all companies listed on IDX and their financial reports. Statistical methods are employed, including multiple linear regression analysis, using the SPSS software. The sampling approach is purposive sampling, targeting non-financial firms listed on the IDX over a three-year period, from 2020 to 2022. The analysis includes descriptive statistics, classical assumption tests, hypothesis testing, and R² test.

Operational definition of variables and their measurement

The measurement of each variable in the research can be seen in the table below, as follows

Table 1. Variable Measurement

Variable	Indicator	Reference
Dependent Variable		
Debt Policy	$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$	(Fahmi, 2014: 178)
Variable		
Sales Growth	$PP = \frac{\text{Sales } t - \text{Sales } t-1}{\text{Sales } t-1}$	(Priska & Lenny, 2023)
Profitability	$ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$	(Kasmir, 2016)
Asset Structure	$SA = \frac{\text{Fixed Assets}}{\text{Total Assets}}$	(Nita Ayu, 2020)
Company Size	$UP = \ln(\text{Total Assets})$	(Kasmir, 2016)
Free Cash Flow	$AKB = AKO - AKI$	(Rezki dkk, 2020)

3. RESULTS AND DISCUSSIONS

The outcomes of sample selection according to the established criteria are detailed in the table 2 below:

Table 2. Sampling Process

Description	Amount
Non-financial companies listed on the IDX in 2020-2022	608
The company did not present financial reports in the 2020-2022 observation period	(66)
Non-financial companies using foreign currency	(84)
Non-financial companies that experienced losses in the 2020-2022 observation period	(238)
Companies that do not provide data information for analysis of each variable for the research period	(3)
Total sample for one year	216
Total sample for three years	648
Outliers	(38)

According to the sampling criteria set for this research, a sample of 216 companies was selected for each year, resulting in a total of 648 observations. Outliers were identified by examining residual scores, filtering unstandardized results from smallest to largest, and excluding extreme data. After removing 38 outliers, the final sample that met the criteria consisted of 610 companies.

Descriptive Statistical Test

Table 3. Results of Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Dev
Debt Policy	610	0,000	3,413	0,801	0,657
Sales Growth	610	-0,993	7,230	0,141	0,476
Profitability	610	0,000	0,364	0,069	0,061
Asset Structure	610	0,000	0,946	0,323	0,234
Company Size	610	25,139	33,537	28,803	1,668
Free Cash Flow	610	-28,949	32,355	21,039	16,535

According to Table 3, the descriptive statistical test results indicate that the data analysed for the period from 2020 to 2022 comprised 610 units of analysis. The debt policy proxied by DER has an average score of 0.801, indicating that the average debt policy is 80.1%. This can be interpreted as 0.801 rupiah of total debt being secured by one rupiah of equity. Sales growth, proxied by relative sales growth, shows an average sales growth score of 0.141, indicating that the average sales growth of non-financial companies listed on the IDX during the period 2020-2022 was 14.1%. The positive score of sales growth indicates a positive growth of 14.1% from the previous year. Profitability proxied by ROA shows an average profitability score of 0.069, indicating that the company is able to generate a net profit of 69% from total assets. For every rupiah of total assets, the entity can generate a profit after tax of Rp 0.069. A higher ROA ratio indicates the entity's greater ability to produce profit. The asset structure, calculated by comparing fixed assets with total assets, has an average score of 0.323, indicating that the average asset structure during the period 2020-2022 was 32.3% of total assets. The average asset structure is dominated by current assets at 67.7%, while the composition of fixed assets is 32.3%. The company size, represented by the natural logarithm of total assets, averages 28.803, which suggests that the typical company size, when measured by total assets, is 28.803 trillion rupiah. Free cash flow, determined by subtracting investment cash flow from operating cash flow, averages 21.039 trillion rupiah. Companies with high free cash flow are better at managing operational funding, leading to excess cash available for investment purposes.

Results of Classical Assumption Test

This study uses data totaling 560, and with this amount, it can be said that if the number of data exceeds 30, the data can be considered normal. Since all variables have tolerance scores exceeding 0.10 and VIF scores below 10, there is no indication of multicollinearity among the independent variables. Additionally, the heteroscedasticity test results show significance score above 0.05 (or 5%), suggesting that the regression model is free from heteroscedasticity. The DW score obtained is 1.883.

A DW score below 2 indicates positive autocorrelation, while a score above 2 suggests negative autocorrelation. V score between -2 and 2 imply no autocorrelation. Given that the DW score is 1.883, it can be concluded that there is no autocorrelation present.

Hypothesis test

Multiple Regression Analysis

Tabel 4. Multiple Regression Analysis Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(Constant)	-1,157	0,449		-4,321	0,000
Sales Growth	0,036	0,054	0,026	0,663	0,508
Profitability	-2,368	0,419	-0,220	-5,655	0,000
Asset Structure	0,160	0,109	0,057	1,465	0,143
Company Size	0,099	0,016	0,252	6,285	0,000
Free Cash Flow	0,000	0,002	-0,137	-0,217	0,828

Source: 2024 Data Analysis Results

Based on the regression results presented in the table above, the multiple linear regression equation can be expressed as follows:

$$KA = -1,157 + 0,036PP - 2,368ROA + 0,160SA + 0,009UP + 0,000AKB + e$$

The regression coefficient for sales growth is 0.036 with a positive direction. Its means that the higher the company's sales growth, the more relaxed the debt policy, leading to an increase in the DER ratio. Conversely, the lower the sales growth, the tighter the debt policy, and the DER ratio decreases. The profitability regression coefficient is -2.368 with a negative direction, indicating that the higher the company's profitability ratio proxied by ROA, the tighter the debt policy, leading to a decrease in the DER ratio. In contrast, a lower profitability ratio results in a more lenient debt policy, leading to an increase in the DER. The regression coefficient for asset structure is 0.160 and is positive. This implies that as the asset structure increases, meaning a higher proportion of fixed assets relative to total assets, the debt policy becomes more relaxed, causing the DER to rise. Conversely, a decrease in asset structure results in a stricter debt policy and a lower DER.

The regression coefficient for company size is 0.009 with a positive direction, indicating that the larger the company, the more relaxed the debt policy, and the DER ratio increases. On the other hand, smaller companies tend to have stricter debt policies, resulting in a decrease in the DER. The free cash flow regression coefficient is 0.000 with a positive direction. This shows that the larger the company's free cash flow, the more relaxed the debt policy, and the DER ratio increases. Conversely, the smaller the free cash flow, the tighter the debt policy, and the DER ratio decreases. The F test yielded a significance score of 0.000, cannot exceed 0.05, indicating that the regression model is suitable and fits the data well. The adjusted R square score is 0.107, or 10.7%, meaning that the independent variables account for 10.7% of the variation in the dependent variable, debt policy. The remaining 89.3% is attributed to other factors not included in this study.

Discussion

Sales Growth Does Not Affect Debt Policy

Sales growth does not affect debt policy; the level of sales growth does not influence the company in making debt policies. Companies experiencing sales growth do not necessarily need additional fixed assets to expand operations, as existing fixed assets can still be used. Additionally, if the company uses debt, it will increase the interest expenses borne by the company. This finding contrasts with the pecking order theory, which posits that companies generally prefer lower-risk financing options. According to the theory, when retained earnings fall short of covering operational expenses, companies are more likely to opt for debt financing, as it is considered less risky compared to issuing new shares.

Sales growth can reflect the success of past investments and can be used to predict future growth. Companies that want to minimize default risk or failure to pay debt will refrain from using debt financing. Companies experiencing high sales growth do not opt for debt funding. Instead, companies with high sales growth prefer to use internal funds rather than debt, as annual sales fluctuations can make company income unstable, leading to difficulties in covering fixed debt costs. This study provides empirical evidence that sales growth does not affect debt policy. These results are consistent with studies by Nurdani et al. (2020) and Nainggolan et al. (2021), which provide empirical evidence that sales growth has no impact on debt policy.

Profitability Affects Debt Policy

This study provides empirical evidence that profitability affects debt policy. The regression coefficient for the profitability variable shows a negative direction, meaning that if profitability increases, the debt policy becomes tighter, causing the amount of debt to decrease. This proves that the profitability ratio influences debt policy. This result aligns with the pecking order theory, which explains the negative relationship with debt policy, indicating that the higher the company's profitability ratio, the lower the debt.

Companies with high profitability can generate significant profits, leading to less reliance on debt. This is because using more debt than equity can reduce profitability due to increased interest expenses payable to creditors. If the company decides to increase its debt, it will negatively impact the company, leading to financial difficulties or decreased profits, possibly resulting in bankruptcy. Therefore, the company will allocate profits to retained earnings and use retained earnings as a source of operational funding rather than taking on debt, which poses risks. This contrasts with companies using long-term debt financing to enhance profitability and income, which in the long term is beneficial by using more internal sources for financing.

This shows that long-term debt financing contributes to increased profits, requiring companies to have an optimal combination of debt and equity in the capital structure to maximize returns. This study provides empirical evidence that profitability affects debt policy. These results are consistent with studies by Vitryani et al. (2022) and Anggista et al. (2020), which provide empirical evidence that profitability affects debt policy

Asset Structure Does Not Affect Debt Policy

The study results show that asset structure does not affect debt policy. Non-financial companies listed on the IDX during 2020-2022 do not heavily consider asset structure in making debt policy decisions. This indicates that fixed assets are not a benchmark for companies in determining the level of debt considered.

This lack of effect arises because the extent to which fixed assets are used in the company's operations, or the amount of fixed assets available as collateral, does not influence the company's decisions regarding its debt policy. Companies will not always use fixed assets as collateral for obtaining external funding.

Companies can also choose to use current assets as collateral for obtaining debt, such as inventory or receivables. Therefore, it can be concluded that asset structure does not always influence managers in deciding the type of funding source for the company. This study provides empirical evidence that asset structure does not affect debt policy. These results are consistent with studies by Ardianto et al. (2022) and Nita Ayu (2020), which provide empirical evidence that asset structure does not influence debt policy.

Company Size Affects Debt Policy

The study results prove that company size affects debt policy. The larger the company, the more funding is needed to run the business. Business size, measured by sales or market capitalization, reflects the company's performance, indicating that larger companies have easier access to funding sources for additional capital through debt policy.

Company size becomes a consideration in determining debt policy because the larger the company's debt, the greater the supporting resources needed. Consequently, large companies tend to find it easier to obtain loans from others due to having significant assets as collateral. The larger the company, the more it uses debt, resulting in a broad stock market, and internal funding is insufficient for operational activities.

Large companies easily enter the capital market, meaning they have flexibility and capability to obtain funding. If internal funds are insufficient for the company's needs, the company can meet them with debt. This study provides empirical evidence that company size affects debt policy. These results are consistent with studies by Twi Jayanti (2022) and Vitryani Tarigan et al. (2022), which provide empirical evidence that company size affects debt policy.

Free Cash Flow Does Not Affect Debt Policy

Free cash flow does not affect debt policy; the amount of free cash flow does not influence the debt policy's flexibility. Companies with large free cash flow will prioritize using it for investment and operational activities rather than increasing debt.

Companies with sufficient internal funds will not use external funds for operational needs, making it better for companies to have available cash to distribute to shareholders rather than using it as working capital. This study provides empirical evidence that free cash flow does not affect debt policy. These results are consistent with studies by Twi Jayanti (2022) and Afiezan et al. (2020), which provide empirical evidence that free cash flow does not affect debt policy.

4. CONCLUSION

This study contributes to the field of corporate finance by providing empirical evidence on how various factors influence debt policy in non-financial companies listed on the Indonesia Stock Exchange from 2020 to 2022. The findings indicate that sales growth does not significantly impact debt policy, suggesting that fluctuations in sales growth are not a determining factor in debt-related decisions. Conversely, profitability plays a crucial role; companies with higher profitability ratios tend to adopt stricter debt policies, resulting in a lower Debt-to-Equity Ratio (DER), while those with lower profitability are more lenient with higher DERs. The asset structure, representing the proportion of assets, is not found to influence debt policy, highlighting that the composition of assets does not significantly guide debt decisions. However, company size does have a noticeable effect; larger companies are inclined towards more relaxed debt policies, leading to higher DERs, whereas smaller companies tend to enforce stricter debt policies with lower DERs. Additionally, free cash flow is not a significant determinant of debt policy, as variations in free cash flow do not seem to affect the company's approach to debt. These insights provide valuable guidance for financial managers and policymakers in understanding the complex dynamics of debt policy decisions within the context of Indonesian non-financial firms. This study acknowledges several limitations: it focuses exclusively on non-financial companies listed on the IDX, and the data is limited to the period from 2020 to 2022. The adjusted R-squared score reveals that the independent variables account for 10.7% of the variation in the dependent variable, debt policy, with the remaining 89.3% attributed to other factors not examined in this study. Based on the conclusions and limitations of this research, future studies could expand the research scope to include all companies listed on the IDX or use other classifications. Additionally, extending the research period to five to seven years could provide a more accurate depiction of long-term conditions. Future research should also consider other variables influencing debt policy, such as business risk, audit committees, financial distress, and liquidity.

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