EFFECT OF DEBT POLICY AND COMPANY PERFORMANCE WITH LEVERAGE AS MODERATION

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Abstrack

This study aims to determine the role of leverage as a moderating variable in the effect of debt policy on company performance conducted in companies in the consumer goods industry sector listed on the IDX in 2019-2021. In this study, debt policy is measured by Debt Equity Ratio (DER) and leverage is measured by Degree Of Operating Leverage (DOL), and company performance is measured by Return On Equity (ROE). The sampling technique used in this study was purposive sampling method. The analysis method used is multiple regression analysis (MRA) using STATA. The results of this study indicate that: 1) Debt policy has a negative effect on company performance; 2) Leverage weakens the relationship between debt policy and company performance.

Keywords: debt policy, firm performance, leverage

Abstrak

Penelitian ini bertujuan untuk mengetahui peran dari leverage sebagai variabel pemoderasi dalam pengaruh kebijakan hutang terhadap kinerja perusahaan yang dilakukan pada perusahaan Sektor industri barang konsumsi yang terdaftar di BEI pada tahun 2019-2021. Pada penelitian ini kebijakan hutang diukur dengan Debt Equity Ratio (DER) dan leverage diukur dengan Degree Of Operating Leverage (DOL), dan kinerja perusahaan diukur dengan Return On Equity (ROE). Teknik pengambilan sampel yang digunakan dalam penelitian ini adalah metode purposive sampling. Metode analisis yang digunakan adalah analisis regresi berganda (MRA) dengan menggunakan STATA. Hasil penelitian ini menunjukkan bahwa: 1) Kebijakan hutang berpengaruh negatif terhadap kinerja perusahaan; 2) Leverage memperlemah hubungan antara kebijakan hutang terhadap kinerja perusahaan.

Kata kunci: kebijakan hutang, kinerja perusahaan, leverage

Introduction

The development of an increasingly advanced business and economic world has created competition between companies. Conditions like this require companies to manage their various management functions well, especially in the financial sector. The management is responsible for all activities related to corporate finance. Capital structure is the financial part of the company in developing its business (Cahyani and Puspitasari, 2023). In this condition, competition between companies in managing the capital structure is expected to be able to provide prosperity for shareholders and for other parties, so managers need to maintain conditions regarding the company's value of the company's capital structure (Sulistiorini, 2022).

Firm value is the investor's perception of the company's success rate which is often associated with stock prices. firm value is important to attract investors. The greater the funds invested, the greater the value of the company (Purnama, 2020). For investors, firm value is an important concept because firm value is an indicator of how the market values the company as a whole. The higher the company value, the greater the prosperity that will be obtained by the shareholders, the higher the share price, the higher the company value (Sapulette and Senduk, 2022).

Investment activities for investors require a lot of information about the company that will be used as a place to invest, one of which is the development of company value. The higher the company value, the smaller the risk that will be borne by investors. Therefore, investors must be good at choosing companies that will be used as investment places in order to minimize losses (Mudjijah et al., 2019).

Often investors who want to invest assess the company's performance from the level of profitability. Usually investors assess the profit created by the company in the present as an opportunity to increase the profit generated by the company in the future (Lindawati et al., 2021). So every company tries to increase profitability, this is because if there is an increase in profitability, it indicates that the company's performance is in good condition (Tanzil and Arrozi, 2020). Good company performance has a favorable impact on the company's future. So that it provides a level of investor confidence in investing the funds invested and provides an increase in welfare for investors (Kadim and Sunardi, 2018). Debt policy of the company is used to fulfill its operational activities where the company with the loan funds obtained by the company can be able to develop or expand its business activities so as to obtain large profits. (Kurniasih and Hermanto, 2020). However, leverage also has a bad impact on the company, if leverage is not managed properly, it can cause the interest costs borne by the company to increase along with the increase in debt and will have an impact on reducing company performance (Ibhagui and Olokoyo, 2018).

One source of external funding to carry out operational activities is funded by debt. However, the use of debt has an impact that can affect the value of the company (Septariani, 2017). High external funding indicates that there are more financial activities funded by loans, so creditors will affect the company (Yuniati et al., 2016). The results of previous studies show that debt policy has a positive impact on firm value (Febrianti et al., 2020; Septariani, 2017; Yuniati et al., 2016).

Leverage is also one of the factors that affect firm value. Leverage is the use of assets and sources of funds by companies with fixed costs used to increase potential shareholder returns. The leverage ratio is a ratio used to measure the extent to which the company's assets are financed with debt. This means how much debt burden the company bears compared to its assets. Leverage is a ratio that calculates how far funds are provided by creditors, as well as a ratio that compares total debt to the overall assets of a company, so if investors see a company with high assets but high leverage risk, so they will think twice about investing in the company (Saragih and Rusdi, 2022).

The consumer goods industry sector is a sector that produces basic necessities products that are needed by the community. The impact of high demand from the public has an impact on the ability to generate optimal profits (Agustinus, 2021).

Based on the background of the problems above, the problem formulations in this study are as follows: (1) Does Debt Policy affect Company Performance? (2) Can Leverage moderate the effect of Debt Policy on Company Performance?

Literature Review

Pecking Order Theory

Pecking order theory provides a reference to companies regarding the use of capital resources. The theory that provides recommendations to companies to prioritize capital sources derived from internal equity, one of which is by utilizing retained earnings (Guizani, 2020), the next step is to consider external sources of equity, namely by issuing new shares. (Noor et al., 2015). The implication is on the capital structure decision, where the company prefers internal capital sources (retained earnings). The reason is that this option is relatively more cost efficient and there is no need to publish various information in the prospectus when issuing bonds and new shares (Wiagustini et al., 2017). When the company's internal cash flow is short, the company will first reduce the amount of cash or portfolio of securities (Guizani, 2020).

If the company is in need of external funding, then the funding option is to issue securities that are considered the safest, starting from debt alternatives, then issuing securities. Alternative equity or issuance of new shares is the last choice, because it can be a negative signal that the company's future prospects are not good. The assumption of pecking order theory emphasizes the importance of adequate financial slack in the company, intended to fund profitable projects using internal capital from retained earnings, and depreciation/amortization (Noor et al., 2015). Pecking order theory recommends that a smaller proportion of dividends should be paid, so that more retained earnings can be allocated to the dividend, thereby reducing external capital sources (Wiagustini et al., 2017).

Firm Performance

Company performance is the company's ability to achieve its goals by using resources effectively and efficiently and shows how far the company can get the results compared to previous performance and the performance of other organizations benchmarking, as well as targets and goals that have been set to what extent can be achieved (Amin and Khilmi, 2023).

Company performance describes the ability to manage and allocate resources so that it is something that must be achieved by every business actor. From this it can be concluded that company performance is what the company has achieved in a certain period in relation to predetermined criteria. Company performance must reflect measurable results and take into account the empirical state of the company on various agreed measures. Performance evaluation is carried out to determine the services provided. Performance evaluation is the periodic determination of the operational performance of the organization, parts of the organization, and people against given goals, criteria, and performance (Ningwati et al., 2022).

Debt Policy

Debt policy is a policy by financial managers in order to obtain financing from outside the company and company policy to regulate the extent to which the company utilizes debt funds in its operational activities (Febrianti et al., 2020). Debt policy strategy as an arrangement taken by the company to estimate the amount of the company's capacity to be financed by debt. The debt strategy received by the company is also one of the considerations for stakeholders when determining investment options. One of the proportions used is the Debt to Equity Ratio (DER). Investors assume that the higher the company's debt, the more dangerous or risky the investment will be. Finally, many investors stay away from companies that have high levels of debt. The smaller the DER ratio, the better the company's ability to survive (Hendryani and Amin, 2022).

According to the pecking order theory, the funding structure of a company has a level starting from the lowest source of funds, internal funds to shares as the last source of funds. If the cost of capital is influenced by the company's capital structure, then capital structure management is fundamental in financial management. Pecking order theory explains that the funding structure of a company follows a hierarchy starting from the cheapest source of funds, internal funds to shares as the last source (Herninta and Ginting, 2020). Pecking order theory also explains that profitable companies generally prefer to borrow in small amounts. Meanwhile, companies that are less profitable will tend to have greater debt because their internal funds are insufficient to finance their operational needs. Corporate debt policy is the action of company management that will fund the company's operations using capital derived from debt. Debt policy is a policy implemented by company management to create financial resources for the company to be able to finance its production and business activities (Tarigan et al., 2022).

Leverage

Leverage is the ability of a company to pay off current and long-term debt or the ratio used to assess the extent to which the company is financed using debt (Sariroh, 2021). This leverage ratio uses the use of debt by the company to carry out the company's operational activities. Knowing the size of the influence of debt on the total assets of the company is considered important for investors. Leverage is considered to have an advantage if the company is able to use equity as a source of using funds rather than using debt, so that it affects the value of the company because it will show the small financial risk borne by the company.

Hypothesis Development

Debt Policy and Firm Performance

Debt policy is a policy made by the company to determine the amount of use of debt resources to finance the company's operational activities (Magdalena and Tjahjono, 2022). Debt policy is funding that comes from external companies made to increase company funds to meet operational needs. This debt policy is more widely used by companies than issuing new shares because it is considered safer (Sukmawardini and Ardiansari, 2018).

The existence of debt in the company can increase the stock price, and loan interest payments can save income tax. If the portion of debt is getting bigger in the capital structure, it will be more risky for the company, this makes investors less interested in investing because the returns that will be obtained are uncertain.

Conversely, if the portion of debt is smaller, it will cause the company to not be able to grow quickly due to limited funds managed by management so that it becomes less effective and efficient (Mentari and Farida, 2021).

Debt policy is an important part that must be considered, because debt policy can be an assessment of company management. Good management is not only able to improve performance in the financial sector but also seen from the ability to manage short and long term liabilities. Some research results prove that debt policy has a positive impact on firm value (Febrianti et al., 2020; Septariani, 2017; Yuniati et al., 2016). Thus the hypothesis proposed is as follows:

H_1: Debt Policy Positive Effect on Firm Performance

Debt Policy and Firm Performance Moderated of Leverage

Leverage merupakan berbagai rasio finansial yang dipergunakan untuk mengukur risiko serta seberapa besar kemampuan perusahaan dalam membayar hutang baik dalam jangka panjang maupun jangka pendek. Perusahaan dengan tingkat leverage yang tinggi kemungkinan akan mengalami resiko rugi yang besar karena total hutang yang dimiliki perusahaan besar, tetapi tetap memiliki kesempatan untuk memperoleh laba yang tinggi, sebaliknya apabila suatu perusahaan dengan tingkat leverage yang rendah, maka tingkat resiko rugi yang ditanggung perusahaan lebih kecil saat kondisi ekonomi sedang menurun, namun bisa saja mendapatkan laba yang rendah jika situasi ekonomi dapat kembali dalam keadaan optimal (Erawati and Wahyuni, 2019).

H2: Debt Policy Positive Effect on Firm Performance Moderated of Leverage

METHOD

Data analysis

This research uses quantitative methods with secondary data obtained from the Indonesia Stock Exchange website and the company's official website. The population in this study are food and beverage companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2019-2021. The sampling technique used in this study was purposive sampling so that 30 samples were obtained with a three-year research period. The analysis methods used in this study are descriptive statistical analysis, classical assumption test, panel data regression analysis, and hypothesis testing. Panel data regression analysis testing using STATA 17 Version software which can be formulated as follows:

$$\mathbf{Y = \alpha + \beta_1 DER + e \text{ ....}(1)}$$

Furthermore, we use the following model to examine the moderation impact of Leverage under respective analyses.

$$\mathbf{Y = \alpha + \beta_1 DER + \beta_2 LEV + \beta_3 DER*LEV + e \ldots\ldots\ldots(2)}$$

α is the constant, β reports respective coefficients and ε is the error term in all models.

Kinerja Perusahaan (ROE)

Company performance is an indicator of the company's positive development over a certain period of time. The purpose of measuring performance is to obtain information about the efficiency in the use of capital which can be used as a management tool to make the best decisions for the company (Almajali et al., 2012). From this it can be concluded that company performance is what the company has achieved in a certain period of time in relation to various criteria that have been previously compiled. In this study, financial performance is seen with Return on Equity (ROE). Return on Equity (ROE) is measured by comparing income with capital. Return on Equity (ROE) in this study is formulated as follows (Brigham, 2020):

$$\text{Return on Equity} = \frac{Earning\ After\ Tax}{Total\ Equity}\ x\ 100\%$$

Debt Policy

Debt policy is a company funding policy to measure the extent to which the company's activities are financed by debt (Kasmir, 2018:113). Investor akan menilai perusahaan beresiko apabila memiliki porsi hutang yang besar karena perusahaan dinilaisulit untuk memenuhi beban hutang tersebut. Pada penelitian ini, indikator yang digunakan untuk mengukur kebijakan hutang adalah Debt to Equity Ratio (DER), yaitu rasio yang digunakan untuk mengukur besar proporsi hutang terhadap modal (Hery, 2016:168). A high level of DER indicates that the profit earned by the company in the future will be absorbed to pay off the debt (Putri et al., 2018).

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Liabilities}{Total\ Equity}$$

Leverage

Operating leverage occurs when the company uses its assets which will result in fixed costs or expenses operating leverage is the use of assets using fixed expenses in the hope that the revenue generated by the use of these assets will be sufficient to cover fixed or variable expenses. Degree Of Operating Leverage (DOL), measures changes in operating profit with changes in sales. DOL can be formulated as follows (Setiawan et al., 2019):

$$\text{Degree Of Operating Leverage} = \frac{\%\ Perubahan\ EBIT}{\%\ Perubahan\ Penjualan}$$

RESULT

Descriptive Statistics

Descriptive statistical analysis is used to provide an overview of research data seen from the average (mean), standard deviation, minimum and maximum. The descriptive statistical analysis studied consists of the independent variable, namely debt policy and the dependent variable is company performance and leverage as a moderating variable with data processing using STATA Version 17. The descriptive statistical table can be presented as follows:

Table 1. Descriptive Statistics

Variable	Min	Max	Mean	Std dev.
ROE	-0,40	1,10	0,1189	0,162

DER	0,15	3,82	0,8013	0,621
DOL	-15	60,79	4,58	11,115

Source: Research Data, 2024

Based on the descriptive statistical test results in table 1, it shows that the debt policy variable measured by (DER) has a minimum value of 0.15 and a maximum of 3.82 with an average value of 0.8013 and a standard deviation of 0.621. The leverage variable proxied by (DOL) has a minimum value of -15 and a maximum value of 60.79 with an average value of 4.58 and a standard deviation of 11.115. The company performance variable proxied by (ROE) has a minimum value of -0.40 and a maximum value of 1.10 with an average value of 0.1189 and a standard deviation of 0.162.

Regression results – basic model

Table 2. Regression Results Basic Model

Model	**Unstandardized Coefficients B**	**t**	**Sig**
(Constant)	0,179	6,64	0,000
DER	-0,075	-2,82	0,006
Adjusted R Square	0,0726		
Sig. F	0,0059		

Source: Research Data, 2024

Y = 0,179 – 0,075DER + e ....(1)

Based on table 2 coefficient above, it is known that the regression equation obtained states that every increase (decrease) X_1 by 1 unit will cause a decrease (increase) Y by 0.075. The first stage of hypothesis testing is carried out to test the direct effect, since the test uses company performance, then statistically, if tcount < table or significance < 0.05, the hypothesis is proven to be rejected. Based on Table 2, it can be concluded that the regression coefficient for the debt policy variable is negative -0.075, this indicates that there is an unidirectional relationship between debt policy and company performance. The result of its significance value of 0.006 is smaller than 0.05, so it can be said that the debt policy variable has a negative and significant effect on company performance.

Regression results – moderation effects

Table 3. Regression Results Moderation Effects

Model	*Unstandardized Coefficients B*	t	Sig
(Constant)	0,179	6,60	0,000
DER	-0,056	-2,13	0,036
DOL	0,004	1,59	0,116
DER*DOL	-0,010	-2,90	0,005
Adjusted R Square	0,1475		
Sig. F	0,0008		

Source: Research Data, 2024

$$Y = 0{,}179 - 0{,}056DER + 0{,}004LEV - 0{,}010DER*LEV + e \ldots\ldots\ldots(2)$$

Table 3 is the next stage of testing the indirect effect with the MRA test, carried out if the significance of the interaction variable is smaller than alpha (0.05) then the hypothesis is accepted, thus leverage is a moderating variable. It appears that the leverage variable weakens the influence between debt policy on firm performance.

Discusssion

Debt Policy is negative and significant to Firm Performance

The results of hypothesis testing obtained a t value of -2.82 with a significance level of 0.006 <0.05, proving that debt policy has a negative effect on company performance in other words (H1) is rejected, which means that the greater the debt policy ratio (debt to equity ratio), the company's performance (return on equity) will decrease.

Based on the test results, hypothesis 1 is rejected because it shows that debt policy has a significant negative effect on company performance. This shows that a larger debt policy also tends to have a higher company risk and results in a small net profit earned by the company because it is used to pay debts, thereby reducing company performance.

Excessive use of debt is the cause of the company's increased risk in generating profits and will cause shareholders to doubt the company's ability to pay the debt that has been given. This shows that the higher the debt owned by a company with a large debt, the higher the company's risk will also be and this will result in decreased financial performance, because higher debt will cause financial distress. The large amount of corporate debt is a bad signal for investors because it risks causing bankruptcy (Febriani., 2020).

Debt Policy and Company Performance Moderated of Leverage

The results of hypothesis testing obtained a t value of -2.90 with a significance level of 0.005 <0.05, proving that leverage moderates the relationship between debt policy and company performance in other words (H_1 accepted). This shows that leverage weakens the relationship between debt policy and company performance.

Leverage weakens the effect of the negative relationship, which indicates that the DOL functions well in mitigating the negative impact of debt policy on company performance so that the negative effect of debt policy on company performance can be reduced or weakened (Anshori et al., 2023).

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CONCLUSION

The test results that are in line with the pecking order theory hypothesis are only company size. Evidently, debt policy has a negative and significant impact on company performance. Moderation test shows that leverage moderates the effect of debt policy on firm performance.

Implications

These findings provide benefits for academics, that pecking order theory does not always make companies in low debt conditions, depending on the independent variables that can influence. Practical implications, especially for management, when the scale of the company is large, and supported by high profitability, it is better in its capital structure policy to avoid too high debt. For prospective investors, it is better to study more with a certain number of periods regarding the balance between the amount of debt and the profit obtained.

Research Limitations

The limitations of this research include the ability of model I to explain the capital structure of only 7.26% and model II of 14.75%, meaning that it is still relatively low, thus the model built is less strong. The hypothesis built only refers to the pecking order theory, so that the theoretical study is less able to show the debate from various aspects.

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