Antecedents of Company Leverage in the Indonesian and Thailand Stock Exchange

Liliana Inggrit Wijaya
Department of Management, Faculty of Business and Economics, University of Surabaya

Zunairoh Zunairoh*
Department of Management, Faculty of Business and Economics, University of Surabaya

Marwin Silalahi
Department of Management, Faculty of Business and Economics, University of Surabaya

Felisa Julia Wardojo
Department of Management, Faculty of Business and Economics, University of Surabaya

Bertha Silvia Sutejo
Department of Management, Faculty of Business and Economics, University of Surabaya

Correspondent e-mail/phone: *zunairoh@staff.ubaya.ac.id/0857-3592-5943*

Abstract

This research aims to analyze the effect of profitability, liquidity, tangibility, growth, age, and size on leverage of the company. Debt to asset ratio (DAR) was used as dependent variable in this study. This research uses quantitative approach and multiple panel data regression method. The object used in this research was 771 observation data on Indonesian Stock Exchange and 951 observation data on Stock Exchange of Thailand. This research shows that profitability has significant negative effect on DAR in Indonesia and Thailand. Liquidity has a negative significant effect on DAR in Indonesia and Thailand. Tangibility has a negative insignificant effect on DAR in Indonesia but has a positive significant effect on DAR in Thailand. Growth has a positive significant effect on DAR in Indonesia and Thailand. Age has a negative significant effect on DAR in Indonesia and Thailand. Size has a positive significant effect on DAR in Indonesia and Thailand.
Keywords: *Profitability; Liquidity; Tangibility; Debt to asset ratio.*

INTRODUCTION

The sustainability of the company is very important in these difficult times. Companies must be able to survive by managing the main activities of financial management, namely obtaining funds, using funds, and managing assets (Boulanouar et al., 2021; Malik et al., 2022; Ramzan et al., 2021; Rubio-Misas, 2020). This time, the focus is on funding activities used to invest in various assets, which is also known as the concept of capital structure.

Parsons & Titman (2009) revealed the theory that issuing capital is called the capital structure to finance various projects and refers to the topic of this research. There is a theory that companies tend to choose internal funds over external funds in the decision to fund projects. This theory became known as the pecking order theory which was first expressed by (Myers & Majluf, 1984). But in reality, many companies like to use debt funding for their operational activities. This has led to the emergence of a new theory which says that debt can reduce the tax paid by the company as stated by (Modigliani & Miller, 1963). Debt also plays a role in minimizing agency conflicts (Andreou et al., 2021; Ramzan et al., 2021; Raouf & Ahmed, 2022; Uyar et al., 2022).

This research then focuses on knowing the factors that influence the company's capital structure. Many factors affect a company's debt and this study will take six variables, namely profitability, liquidity, tangibility, sales growth, company age, and company size. Kurniasari et al. (2016) stated that companies with higher profits tend to save these profits for future investment. Internal funding is preferred because it is less risky than external funding.

Thailand has similarities with Indonesia regarding co-integration between stock exchanges in ASEAN. This shows that the performance and characteristics of the stock exchange in Indonesia and the stock exchange in Thailand affect each other. These two countries are included in the emerging market group. In this research, we use debt levels in the Indonesian and Thailand manufacturing company. This is because the level of debt in manufacturing companies in Indonesia and Thailand is higher than in other sectors. The average debt level of manufacturing companies in Indonesia and Thailand are 0,607 and 0,445**.**

LITERATURE REVIEW AND HYPOTHESES

Pecking Order Theory

Myers in (Rao et al., 2019) stated that pecking order theory is based on information asymmetry and adverse selection. It is explained that investors can charge premiums and get high returns as a result of information asymmetry. Therefore, adverse selection becomes an option for investors where it is detrimental to the company because it requires expensive costs. Therefore, this theory explains that companies tend to choose internal and external funding over equity issuance.

Trade-off Theory

According to (Jaisinghani et al., 2018), the trade off theory plays a significant role for companies in determining capital structure factors because it depends on the trade off between the benefits and costs of financing using debt. Companies can achieve an optimal debt ratio if the benefits derived from debt financing are equal to the marginal costs of the debt. The benefit of debt expressed in this theory is tax reduction, because interest payments due to the use of debt serve to reduce taxable income. While the costs arising from debt are expenses such as interest and the possibility of bankruptcy. There is a relationship between funding with debt and profitability. Companies that have higher profits tend to prefer debt financing over equity.

Agency Cost Theory

Shah et al. (2019) stated that agency cost is an agency problem that can be overcome with good corporate governance. There are two parties who have important involvement in all the affairs of the company, namely managers and owners. Managers tend not to think too much about the interests of shareholders when working so that they do not prioritize the benefits that will be obtained by shareholders. However, managers have the advantage of understanding the company's conditions in depth. This then creates a conflict of inequalities known as information asymmetry. This phenomenon can be detrimental to the company which will have an impact on disrupting operational activities. Operational activities become ineffective and inefficient. The impact of the conflict of goals mismatch between managers and owners is the emergence of agency costs. Agency costs arise as costs incurred to supervise managers at work.

Kurniasari et al. (2016) stated that companies with higher profits tend to save these profits for future investment. Internal funding is preferred because it is less risky than external funding.

H1: Profitability has a negative effect on the debt to asset ratio.

Chaklader & Chawla in (Chakrabarti & Chakrabarti, 2019) in their research found that companies with a high level of liquidity will have a tendency to fund their internal projects with internal funds. Thus, the company's debt will decrease if the company's current assets are higher.

H2: Liquidity has a negative effect on the debt to asset ratio.

Rao et al. (2019) suggests that tangibility has a positive effect on company debt, where high company fixed assets will cause creditors and banks to have a higher sense of trust in the company. This causes companies with high tangible assets to easily get debt financing because these assets can be used as collateral in obtaining debt.

H3: Tangibility has a positive effect on the debt to asset ratio.

The growth of the company further has an important role in its influence on the company's debt. Companies with high sales growth need a lot of funds to invest for the benefit of the future. (Rao et al., 2019) found that corporate debt will increase if the company's growth is also high.

H4: The company's growth has a positive effect on the debt to asset ratio.

Chakrabarti & Chakrabarti (2019) stated that companies with old age and have been operating for a long time have entered the mature stage and do not really need funding from debt. Meanwhile, debt is needed by young companies because they do not have enough internal funds to finance various projects in the future. Thus, the relationship between the age of the company and the company's debt is negative.

H5: Company age has a negative effect on debt to asset ratio

Prananda et al. (2019) stated that companies with large asset sizes have a small chance of going bankrupt. This then has an impact on the company's decision to increase the amount of its debt because it is trusted by banks and creditors.

H6: Firm size has a positive effect on the debt to asset ratio.

RESEARCH METHODOLOGY

This research is a basic type of research and has the aim of developing existing research. This type of research is causal and is used to determine the relationship between the independent variables (profitability, liquidity, tangibility, company growth, company age, and company size) to the dependent variable (debt to asset ratio) in all manufacturing sector companies listed in Indonesia. Indonesia Stock Exchange and Thailand Stock Exchange during the 2017-2021 period. The approach used in this research is quantitative and the overall data is obtained from the company's annual financial statements.

This study uses a population of all manufacturing sector companies listed on the Indonesia Stock Exchange and Thailand Stock Exchange during the 2017-2021 period and have the following characteristics: (1) Listed on the IDX and Thailand Stock Exchange during the 2017-2021 period, (2) Publishing annual reports and has been audited during the 2017-2021 period, and (3) All variable data needed in the study are available in full in the financial statements for the 2017-2021 period.

Data collection in this study was carried out by visiting the IDX's official website (www.idx.co.id), the Thailand Stock Exchange (www.set.or.th), and the company's official website to download the annual financial report. Retrieval of these data for input purposes in Microsoft Excel followed by tabulating the data in the Eviews 10 software.

The data in this study uses multiple panel data regression data processing methods. This method is used to directly test and explain the effect of the independent variable on the dependent variable. The independent variables in this study are profitability, liquidity, tangibility, company growth, company age, and company size. While the dependent variable in this study is the debt to asset ratio (DAR).

$$DAR_{it} = \alpha_i + \beta_1 PROF_{it} + \beta_2 LIQ_{it} + \beta_3 TANG_{it} + \beta_4 GR_{it} + \beta_5 AGE_{it} + \beta_6 SIZE_{it} + \varepsilon_{it}$$

Where:

DAR: debt to asset ratio
PROF: profitability
LIQ: liquidity
TANG: tangibility
GR: company's growth
AGE: company's age
SIZE: company's size
β_1, β_2, β_3 .. : regression coefficient
ε : error

RESULTS AND DISCUSSION

The object in this study uses the manufacturing sector companies listed on the Indonesia Stock Exchange 2017-2021 with a total of 127 companies and the Thailand Stock Exchange with a total of 196 companies.

The DAR variable has a maximum value at the company Panasia Indo Resources Tbk in 2017. The minimum value is at Buana Artha Anugerah Tbk in 2020. The PROF variable has a maximum value at Multi Prima Sejahtera Tbk in 2017, while the minimum value is at Waskita Beton Precast Tbk in 2020. The LIQ variable is occupied by Buana Artha Anugerah Tbk in 2020 for the maximum value, while the minimum value is occupied by Panasia Indo Resources Tbk in 2020. The TANG variable has the maximum value at Panasia Indo Resources Tbk in 2017 and Buana Artha Anugerah Tbk occupies the minimum value for 2020. The GR variable whose maximum value is occupied by Sat Nusapersada Tbk in 2018 and the minimum value is occupied by Panasia Indo Resources in 2019. The maximum value of the AGE variable is occupied by Kimia Farma Tbk in 2020 and the minimum value is occupied by Waskita Beton Precast Tbk in 2016. The SIZE variable has the maximum value. is at Astra International Tbk occupying tah un 2019 and the minimum score is at Ever Shine Tex Tbk 2016.

Table 1. Descriptive Statistics of Indonesia

	MAX	MIN	MEAN	STD	OBSERVATIONS
DAR	0,917341	0,003453	0,466520	0,196156	605
PROF	0,716023	-0,450858	0,041282	0,092829	605
LIQ	303,2819	0,084554	3,419734	15,52092	605
TANG	0,901820	0,000951	0,412729	0,198304	605
GR	1,499141	-4,144790	0,006091	0,316540	605
AGE	5,313206	0,693147	3,696014	0,478327	605
SIZE	33,49453	17,71614	26,92849	3,628468	605

Source: Eviews10

Table 2. Descriptive Statistics of Thailand

	MAX	MIN	MEAN	STD	OBSERVATIONS
DAR	0,961336	0,002963	0,373324	0,205108	945
PROF	0,334872	-0,595460	0,036844	0,079215	945
LIQ	216,0567	0,079001	4,027373	12,71571	945
TANG	0,936940	0,005798	0,384191	0,192057	945
GR	3,468748	-9,422202	-0,016653	0,406911	945
AGE	4,859812	1,098612	3,517415	0,447389	945
SIZE	27,35884	19,36382	21,88973	1,309785	945

Source: Eviews10

The DAR variable has a maximum value in PP Prime Public Company Limited in 2020 and a minimum value at Eternal Energy Public Company Limited in 2016. The maximum value PROF variable is in Pan Asia Footwear Public Company Limited in 2016, while the minimum value is in PP Prime Public Company Limited. in 2019. The LIQ variable has the maximum position occupied by Sawang Export Public Company Limited in 2019 and the minimum position is occupied by Thai Film Industries Public Company Limited in 2019. The tangibility variable has a maximum value at Thai Film Industries Public Company Limited in 2019 and has a minimum value at Ocean Commerce Public Company Limited in 2019. The maximum position variable GR is occupied by Stark Corporation Public Company Limited in 2019 and the minimum position is occupied by Thai Film Industries Public Company Limited in 2020. The AGE variable has a maximum value in Osotspa Public Company Limited in 2020 and has a minimum value d iPCS Machine Group Holding Public Company Limited in 2016. The maximum variable SIZE is occupied by Charoen Pokphand Foods Public Company Limited in 2020, while the minimum position is occupied by Home Pottery Public Company Limited in 2016.

Next is the multicollinearity test which aims to see the correlation or relationship between the independent variables used. This test is also carried out through the Eviews 10 software.

Table 3. Indonesia Multicollinearity Test Result

	DAR	PROF	LIQ	TANG	GR	AGE	SIZE
DAR	1.000000	-0.222992	-0.209317	0.091106	0.039022	0.056671	-0.059673
PROF	-0.222992	1.000000	-0.013682	-0.234370	0.236599	0.135627	0.184258
LIQ	-0.209317	-0.013682	1.000000	-0.142179	-0.361322	-0.099969	-0.004400
TANG	0.091106	-0.234370	-0.142179	1.000000	-0.059512	-0.022935	-0.062841
GR	0.039022	0.236599	-0.361322	-0.059512	1.000000	0.015428	0.027090
AGE	0.056671	0.135627	-0.099969	-0.022935	0.015428	1.000000	0.069186
SIZE	-0.059673	0.184258	-0.004400	-0.062841	0.027090	0.069186	1.000000

Source: Eviews 10

Table 4. Thailand Multicollinearity Test Result

	DAR	PROF	LIQ	TANG	GR	AGE	SIZE
DAR	1.000000	-0.282614	-0.295520	0.299051	0.072737	-0.021940	0.296622
PROF	-0.282614	1.000000	-0.044687	-0.132186	0.131101	-0.025269	0.126201
LIQ	-0.295520	-0.044687	1.000000	-0.160887	-0.122586	0.024405	-0.141938
TANG	0.299051	-0.132186	-0.160887	1.000000	-0.097169	-0.146566	0.217589
GR	0.072737	0.131101	-0.122586	-0.097169	1.000000	-0.009289	0.038053
AGE	-0.021940	-0.025269	-0.024405	-0.146566	-0.009289	1.000000	0.022443
SIZE	0.296622	0.126201	-0.141938	0.217589	0.038053	0.022443	1.000000

Source: Eviews 10

Table 3 and table 4 show that none of the variables in this study have a value less than -0.8 or greater than 0.8. This statement emphasizes that the independent variables in this study are free from multicollinearity.

Table 5. Regression Test Result

Variabel	DAR (Indonesia)	DAR (Thailand)
C	-1,00912903	-3,1029846
PROF	-0,000247***	-0,000733***
LIQ	-0,000412***	-0,007391***
TANG	-0,130031242	0,052436*
GR	0,029467**	0,055373*
AGE	-0,027705**	-0,065319*
SIZE	0,069226*	0,000732***

*=Sig. 10%
**=Sig. 5%
***Sig. 1%
Source: Eviews 10

In the table above, it can be seen that the profitability (PROF) variable has a significant and negative effect on the DAR variable in Indonesia and Thailand. (Pramukti, 2019) stated that the higher the company's profit, the less debt the company owes. Companies with a high level of profitability have a tendency to use their internal funds in the form of retained earnings to carry out their operational activities and invest in the future. This is because internal funding is less risky than external funding such as debt and the issuance of new shares. Thus, there is a negative relationship between profitability and company debt. These results are also in line with research by (Firnanti, 2011), (Hermuningsih, 2013).

The liquidity variable (LIQ) together has a negative and significant effect on the DAR of Indonesian and Thai companies. (Dewiningrat & Mustanda, 2018) found the same results and stated that companies that have high current assets compared to current liabilities have a lot of internal funding so that they can be used to finance investment activities compared to external funding (Andreou et al., 2021; Ramzan et al., 2021; Raouf & Ahmed, 2022; Uyar et al., 2022). Thus, the use of debt by the company will be reduced because the risk of external funding is also higher, and a negative relationship is created. This research is also in line with what has been done by (Hossain & Ali, 2012), (Andarsari et al., 2016).

The tangibility variable (TANG) has no significant effect on the DAR of companies in Indonesia. This is in line with the research of (Chakrabarti & Chakrabarti, 2019) and (Dewi & Sudiartha, 2017) which stated that companies store a lot of fixed assets in the form of special machines so that the bank does not want to take the risk of using these assets as collateral for debt. This causes no influence between tangibility and company debt. Meanwhile, the tangibility variable (TANG) has a positive and significant effect on the DAR of companies in Thailand. (Dewi & Dana, 2017) found the same result by saying that the high fixed assets that the company owns can be used as collateral when owed to creditors and banks. These parties also trust companies with many assets guarantees so that it is easier to lend capital in the form of debt and there is a positive relationship between the two variables.

The company growth variable (GR) together has a positive and significant effect on the DAR of companies in Indonesia and Thailand. (Elim) found the same results and revealed that companies with stable growth and even tend to be positive will be trusted by the bank in obtaining debt financing needs. Companies with high growth on the other hand also need a lot of additional capital to develop and invest in the future so that positive relationships arise. The results of this study are also in line with research by (DEWANI, 2010).

The variable age of the company (AGE) has a negative and significant effect on the DAR of companies in Indonesia and Thailand. (Ha & Tu, 2021) found similar results and stated that companies that are young or short in age require a lot of funds to develop and invest. So, they need a lot of funding from debt. Older companies, on the other hand, have entered the mature stage, so they rarely reinvest for business development. Thus, companies with old age will use debt less in funding and there is a negative relationship between the two variables. The results of this study are also in line with those of (Jõeveer, 2013).

The variable size of the company (SIZE) together has a positive and significant effect on the DAR of companies in Indonesia and Thailand. (SEFTIANNE & HANDAYANI, 2011) stated the same results and that large-scale companies tend to have stable cash flows and can be trusted by creditors and banks to lend debt funding. This makes it easier for companies to obtain debt and increase the amount of company debt, causing a positive relationship between the two variables. The same research was also found by (Salehi & Manesh, 2012).

CONCLUSION

Profitability, liquidity, and company age together have a negative and significant effect on company debt which is described in the form of debt to asset ratio (DAR) for all manufacturing sector companies listed on the Indonesia Stock Exchange and the Thailand Exchange for the 2017-2021 period. The variable company growth and company size together have a positive and significant effect on the debt to asset ratio (DAR) for all manufacturing sector companies listed on the Indonesia Stock Exchange and the Thailand Stock Exchange for the 2017-2021 period. While the tangibility variable has no significant effect on the debt to asset ratio (DAR) for all manufacturing sector companies listed on the Indonesia Stock Exchange but has a positive and significant effect on the debt to asset ratio (DAR) for all manufacturing sector companies listed on the Stock Exchange. Thailand.

This research is expected to be able to assist company management in making decisions on the funding of a company. For investors, it is hoped that this research can be considered in terms of investing in a company. Investors should adjust their risk profile taking into account the amount of debt the company has.

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