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The Effect of Debt Policy on Financial Performance in Automotive Sub-Sector Companies Listed on the Indonesia Stock Exchange

[1]Puput Nabila, [2]Alwi, [3]Herman
[1,2,3] Sekolah Tinggi Ilmu Ekonomi (STIE) BIMA

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Email :
nabilz251202@gmail.com

ABSTRACT

This study uses three indicators, namely the short-term debt ratio and the long-term debt ratio, to see the effect on profitability measured using return on equity. This study uses a sample of this research is the sub-sector of automotive companies listed on the Indonesia Stock Exchange (IDX) in 2013 - 2022. The observable sample was 5 samples that met the criteria for ten years of research. The sampling method used is purposive sampling. The data analysis method used is multiple linear regression analysis. The results of this study show that short-term debt variables have a negative and significant effect on profitability, this can be seen with a level of significance with a value of 0.034 < 0.05. The long-term debt variable has a negative and insignificant effect on profitability, this is also seen with a level of significance with a value of 0.007 < 0.05.

INTRODUCTION

The automotive industry in Indonesia is one of the backbone sectors that continues to be focused on development because it has an important role in the monetary development of the community. In addition, Indonesia is also the country with the largest automotive industry in Southeast Asia. So it is not unusual if Indonesia is still the main destination country for car business interests. However, such a large portion has not been able to fully expand the development of the car and parts industry in Indonesia. Indonesia is still lagging behind Thailand in Southeast Asia despite the ASEAN region experiencing rapid growth in the automotive and components industry. The automotive industry and its components are facing difficulties due to the lack of supporting industries and the weakness of the domestic component industry, so Indonesia continues to rely on imports. According to the Association of Indonesia Automotive Companies (GAIKINDO), 80% of automotive companies in Indonesia actually import vehicle engine parts for the manufacture of automotive companies.

The automotive subsector organization is one assembly organization listed on the IDX that has progressed and progressed in Indonesia. The production of the automotive and component subsectors is growing rapidly. This must be seen from the number of companies in the automotive and spare parts sub-sector in Indonesia, as well as the large market interest in the products they produce. In addition to the development of the automotive subsector and its components, Indonesia has great opportunities in the market engaged in this field. So that the company can generate even greater profits in terms of increasing sales according to (Fitriani, 2019). This makes the automotive and components sub-sector require a lot of external funding. Since Indonesia is expected to have a truly open car business market, this is a tremendous opportunity for industry players to attract many local and foreign investors to put their completed capital into the capital market (Aderibigle, 2018).

The development of the business world and the increasingly rapid development of the economy encourage business competitors to be able to improve their company's performance. Financial performance is an overview of the company's successful achievements, which can be interpreted as the results that have been achieved for various activities that have been carried out (T Kurniawan, 2022). Therefore, financial performance has an important role in the management of the company's financial assets, so that financial performance runs in accordance with its function and is effective in its implementation.

Debt policy is a policy made by the management to obtain a source of financing for the operational activities of companies. Debt policy is a policy used to see the extent to which a company's activities are financed with debt (Kasmir, 2016). The company's debt policy also has a function as a tool in supervising the actions of managers in managing the company. In general, debt is divided into two, namely, short-term debt or called *short tram debt (STD)* and long-term debt *or long term debt (LTD).*

Short-term debt or *short-term debt (STD)* is a debt with a maximum of one year repayment period. In essence, this short-term debt must be paid in full within one year according to (L.M. Samryn 2012:38). In other words, a debt can be classified as a short-term debt if it is expected to be paid within 12 months after the reporting date. Long-term debt *(LTD)* is an obligation that must be paid with a repayment time of one year or more than one year from the beginning of the date in the balance sheet (Munawir 2015:193). Usually, long-term debt is used for the expansion of the company because it can meet the needs of the company in the long term which requires a lot of funds.

In this study, the profitability ratio is the main focus of measuring the company's financial performance where profitability is a benchmark for the company's success in generating profits. Potential investors will carefully analyze the smooth running of a company and its ability to earn profits (profitability), because they expect dividends and market prices from their shares (Fahmi, 2012 in Sufiyanti, 2016). Of the various types of ratios used to assess financial performance, what will be discussed in this study is Return On Equity (ROE).

Return On Equity is the ratio of return on equity, which is a ratio that shows how much equity contributes to creating net profit. According to (Jumigan, 2014) Return on Equity is often used to see the effectiveness of a company's ability to generate net profit through the use of its own capital. Where the higher this ratio, the better it means that the company's position is stronger, while sales growth reflects a manifestation of the success of investments in the past period and can be used as a prediction of future growth.

METHOD

This research is classified as causal research, which is research that identifies cause-and-effect relationships between variables. This will happen if there is a change in one of the independent variables that causes a change in the dependent variable so as to form a model with a quantitative methodology. As stated by (Nikolaus, 2019:3) the quantitative method is the movement of collecting, handling, dissecting, and entering information in an amount or amounts that are carried out entirely with the intention of solving a problem or testing a speculation to cultivate a common standard.

The research instrument used in this study is a list of financial statements of automotive subsector companies from Astra Internasional Tbk, Astra Otoparts Tbk, Gajah Tunggal Tbk, and Selamat Sampoerna Tbk. PT Indomobil Sukses Internasional Tbk (IMAS). In the form of a balance sheet statement consisting of short-term liabilities, long-term liabilities, capital and net profit for the last 10 years from 2013 to 2022.

The object of this study is automotive subsector companies listed on the Indonesia Stock Exchange for the 2013-2022 period. The research population is 13 automotive companies, and the researcher selected as many as 5 automotive companies that meet the criteria to be used as a sample. The sampling technique using purposive sampling with the criteria used is as follows:

1. Automotive subsector companies listed on the Indonesia Stock Exchange for the 2013-2022 period.
2. These companies are still operating until the end of the 2022 period.
3. Those companies have the availability of the data needed in this study.

The data on the list of companies in the automotive sector on the Stock Exchange Indonesia obtained from the www.idx.co.id website as shown in Table 1.

Table 1. Sample data of automotive subsector companies

Company Code	Company Name
ASII	Asia Internasional Tbk
AUTO	Astra Otoparts Tbk
GJTL	Gajah Tunggal Tbk
SMSM	Selamat Sampoerna Tbk
IMAS	Indomobil Sukses Internasional Tbk

This study includes financial statements on the Indonesia Stock Exchange (IDX) website because it has data or an overview of the company's financial statements and is GO International. Data collection techniques are the most important step in research, because the main purpose of research is to obtain data. Secondary sources are sources that do not directly provide data to data collectors, for example through other people or through documents according to (Sugiyono, 2016). The data collection techniques carried out in this study are as follows:

Documentation of financial statements that are input is used to obtain data and information in the form of complete reports, both financial statements and annual reports of a company that can support this research. Documentation in the form of secondary data on the financial statements of the automotive company PT. Astra Internasional Tbk, PT. Astra Otoparts Tbk. PT. Gajah Tunggal Tbk, PT. Selamat Sampoerna Tbk and PT. Indomobil Sukses Internasional Tbk which was obtained from the www.idx.co.id website by downloading. Literature studies include sources of theories that support the indicators of research and obtain data and information in the form of books, in order to obtain various documents to strengthen the data in the research or strengthen the object being studied.

The information testing strategy used in this exploration is quantitative, namely testing by dissecting information and then calculating numbers and achieving the determination of the test. The following statistics apply:

1. Classical Assumption Test
2. Normality test
3. Heteroscedasticity Test
4. Multicollinearity Test
5. Uji Autokorelasi
6. (T-test) Uji T
7. Test F (Test Simultaneously)
8. Correlation Coefficient and Determination (R) Test

RESULTS AND DISCUSSION

Result

Normality Test

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		50
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	8,85807201
MostExtremeDifferences	Absolute	,081
	Positive	,081
	Negative	-,042
TestStatistic		,081
Asymp.Sig.(2-tailed)		,200[c,d]

a. Test distributionis Normal.
b. Calculatedfrom data.

The results of the Kolmogorov Smirjnov normality test in the table give a significant value of 0.200 greater than 0.05. So the results of the Kolmogorov-Smirnov normality test on the research data are normally distributed.

Heteroscedasticity Test

A heteroscedasticity scatterplot is a graphical representation of the relationship between independent and residual variables (the difference between observed and predicted values) in a regression model.

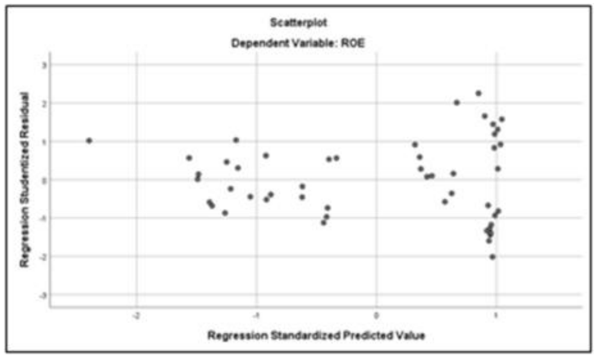

Figure 1. Heteroscedasticity Test Results

Based on figure 1, it can be seen that the scatterplot is irregularly scattered and spreads up and down or does not gather at one point, so this image shows that there is no heterocedasticity.

Multicollinearity test

Table 3. Multicorrelation Test Results

Coefficients[a]

Model		Collinearity Statistics Tolerance	VIF
1	(Constant)		
	STDtER	,643	1,556
	LTDtER	,643	1,556

a.DependentVariable:ROE

The Short-term debt to Equity Ratio variable has a tolerance score of 0.643 > 0.1 and a VIF score of 1.556 < 10. The Long term debt to Equity Ratio variable has a tolerance score of 0.643 > 0.1 and a score of 1.556 VIF< 10. It can be concluded that there are no independent variables with a < of 0.1 and no VIF score > 10. So it can be concluded if no multicollinearity problem between independent variables is found.

Autocorrelation Test

Table 4. Autocorrelation Test Results

Model Summary[b]

Model	Durbin-Watson
1	2,191

a.Predictors:(Constant),LTDtER,STDtER
b. Dependent Variable: ROE

Based on the table, it is known that the results of the autocorrelation test prove the research variable with a Durbin-Watson (dw) score of 2,191 while Durbin's Lower (DL) is worth 1,462 and Durbin's Upper (DU) is worth 1,628. This can be concluded with the formula du<dw<4-du (1,462<2,191<2,372), so there are no negative or positive autocorrelation symptoms.

Multiple Linear Regression Analysis

Table 5. Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Std.Error	Standardized Coefficients Beta
1	(Constant)	19,872	2,116	
	STDtER	-,056	,026	-,308
	LTDtER	-,094	,033	-,399

a.Dependent Variable:ROE

Based on the table, it can be known that the multiple linear regression equations in this study are: Y=19.872-0.056x1-0.094x2+e

a. The constant (α) shows a number worth 19.872, meaning that if the variables *Short term debt to Equity Ratio* and *Long term debt to Equity Ratio* are considered constant, then *the Return On Equity* in automotive sub-sector companies is worth 19.872 percent.
b. The Coefficient *of Short term debt to Equity Ratio* (X1) is equal to - 0.056. This means that every time there is a change *in the short-term debt to equity* of one unit, the *Return On Equity* will also decrease by 0.056 percent.
c. The coefficient *of Long term debt to Equity* Ratio (X2) is equal to - 0.094 This means that every time there is a change in Long term debt to Equity once, the *Return On Equity* will also decrease by 0.094 percent.

T Test (Partial)

It is known that the t-table value for probability of 0.05 at free degrees (df) = 47 is 2.01174.

Table 6. Partial hypothesis test (T)

Coefficients[a]

Model		Unstandardized Coefficients B	Std.Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	19,872	2,116		9,391	,000
	STDtER	-,056	,026	-,308	-2,190	,034
	LTDtER	-,094	,033	-,399	-2,835	,007

a.Dependent Variable:ROE

The variable Short term debt to Equity Ratio has a calculated value< ttable or -2.190 < 2.011 and a significant 0.034 < 0.05, then H1 is accepted meaning that it is partially T, Short term debt to Equity Ratio has a negative and significant effect on Return On Equity in automotive sub-sector companies listed on the Indonesia Stock Exchange. The Long term debt to Equity Ratio variable has a tcal<ttable value or -2.835 < 2.011 and a significant 0.007 < 0.05, then H2 is accepted meaning that partially T, Long term debt to Equity Ratio has a negative and significant effect on Return On Equity in automotive sub-sector companies listed on the Indonesia Stock Exchange.

Test F (Simultaneously)

In this study, it is known that the number of samples (n) is 50 and the total variable (k) is 3. Therefore, df1 = k-1 (3-1=2) or df2 = (n-k) (50-3=37). Thus, the value of the ftable is 2.80.

Table 7. Results of Simultaneous Hypothesis Test (F)

ANOVA[a]

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2577,206	2	1288,603	15,752	,000[b]
	Residual	3844,807	47	81,804		
	Total	6422,013	49			

a.DependentVariable:ROE
b.Predictors:(Constant),LTDtER,STDtER

Based on the table, it can be seen that the significant score for the effect of *the Short-term debt to Equity Ratio* and *the Long-term debt to Equity Ratio* together on *the Return On Equity* is 0.000 < 0.05 or the Fcal score of 15.752 > 2.80, then it can be concluded that the *Short-term debt to Equity Ratio* and *the Long-term debt to Equity Ratio* simultaneously have a positive and significant effect on *Return On Equity.*

Correlation and Determination Coefficient Test

Table 8. Results of the Correlation Coefficient and Determination Coefficient Test

Model Summary[b]				
Model	**R**	**RSquare**	**Adjusted RSquare**	**Std.Error of the Estimate**
1	,633a	,401	,376	9,04458

a.Predictors:(Constant),LTDtER,STDtER
b.DependentVariable:ROE

The results of the correlation coefficient test obtained an R value of 0.633 so this correlation value is between 0.60 – 0.799, that the relationship between Short term debt to Equity Ratio and Long term debt to Equity Ratio with Return On Equity has a strong relationship. The results of the determination coefficient test obtained an R Square value of 0.401 indicate that the variants of Short term debt to Equity Ratio and Long term debt to Equity Ratio explain a large Return On Equity of 40.1% while the remaining 59.9% is affected by other variables that are not studied such as asset structure, sales, cash turnover.

Discussion

Effect of Short-Term Debt Ratio on *Return On Equity*

From the data processing, the short-term debt ratio has a negative and significant effect on Return On Equity. The results of the study are in line with Rahma and Erwansyah who stated that the Short-term debt to Equity Ratio has a negative and significant influence on Return On Equity (Rahma, 2021) and (Erwansyah, 2021). The results of this study support Hartati's research which states that Short-term debt to Equity Ratio has a positive and significant influence on Return On Equity (Hartati, 2021). The higher the Short Term Debt to Equity Ratio, the greater the financial risk for the company. This can reduce profitability and hinder the company's ability to provide optimal returns to shareholders due to increasing short-term debt repayment pressure.

Effect of Long-Term Debt Ratio on *Return On Equity*

From the data processing carried out, the long-term debt ratio has a negative and significant effect on Return On Equity. This research is in line with Erwansyah and Stevenson stating that the debt-to-equity ratio has a negative and significant influence on Return On Equity (Erwansyah, 2021) and (Stevenson, 2022). The results of this study are supported by Rahma's research which states that the Long term debtto Equity Ratio has a positive and significant influence on Return On Equity (Rahma, 2021). A high Long Term Debt to Equity Ratio reflects a large leverage for the company. While it can increase the potential return for leveraged shareholders, financial risk also increases especially when interest rates rise or in conditions of financial distress.

CONCLUSION

The ratio of long-term debt to *return on equity* has no positive effect and is not partially relevant to the effect *of return on equity* in automotive sub-sector companies listed on the IDX for the 2013-2022 period. The short-term debt ratio has a negative and significant effect on *the return on equity* in automotive sub-sector companies listed on the IDX 2013-2022. The ratio of long-term debt to *return on equity* and the ratio of long-term debt to equity have a simultaneous effect on the effect *of return on equity* in automotive sub-sector companies listed on the Indonesia Stock Exchange for the period 2013-2022.

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