

The Effect of Company Size on Debt Policy Through Asset Structure in Insurance Companies Listed on the Indonesian Stock Exchange



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ABSTRACT: This study aims to examine the effect of company size on debt policy through the asset structure of insurance companies listed on the Indonesia Stock Exchange for the period 2016 to 2021. The population in this study is 17 companies listed on the Indonesia Stock Exchange. Data obtained from the financial reports for 2016 to 2021 which have been published. Obtained a total sample of 14 companies. The analysis technique used is path analysis and hypothesis testing with a constant of 5%. In this study the data were normally distributed, the data did not occur multicollinearity and there were no symptoms of heteroscedasticity. Of the 84 existing research samples, as many as 8 company data samples had to be omitted (outlier data). This is intended to remove extreme data that can cause the data distribution to become normal, so that the remaining 76 samples of data are used. The results of the study show that firm size influences debt policy through asset structure.

KEYWORDS: Debt Policy, Company Size, Asset Structure

I. INTRODUCTION

The current Covid-19 pandemic has had an impact on many aspects, including social and economic aspects. The impact on the economy can be seen in Asia, especially in Indonesia, both on a macro and micro scale. The International Association of Insurance Supervisors reported that almost all insurance business lines, both general and life in Asia, experienced a decline in premium receipts. The ones that experienced a decrease in premiums were life insurance, business interruption insurance, event cancellation insurance, aviation insurance, and marine hull insurance. Then for credit insurance and mortgage insurance (mortgage) did not experience a significant movement in premiums. Furthermore, only health insurance has recorded an increase in premiums, along with an increase in claims (Laucereno, 2021).

Companies affected by Covid-19 are insurance companies. According to data from the General Insurance Association (AAUI), the performance of the general insurance industry has decreased over the past year due to the Covid-19 pandemic. In the fourth quarter of 2020 general insurance premium income amounted to IDR 76.9 trillion. This number decreased by 3.6 percent compared to the period in 2019. OJK data also records that life insurance premiums in December 2019 amounted to more than IDR 179 trillion, while until September 2020 the figure was still IDR 115 trillion. Meanwhile, general insurance premiums in December 2019 were recorded at IDR 80 trillion, but until September 2020 it was only around IDR. 47 trillion (Antony, 2021).

Pecking order theory explains why companies have an order of preference in selecting funding sources. The pecking order theory also explains that companies tend to prefer internal funding because internal funding can reduce flotation costs. However, if companies are required to use external funds, debt will be their top choice because the costs of issuing bonds are relatively lower than the costs of issuing new shares (Brigham and Houston, 2015). Profitable companies generally borrow small amounts. This is because they require little external financing. Companies that are less profitable tend to have larger debt because internal funds are insufficient to meet their needs and because debt is a favored external source (Abubakar et al., 2020).

The debt policy will affect the business environment affected by the covid -19 pandemic. Debt policy is a managerial policy carried out by management to obtain external funding (third parties) which is intended to be used for operational financing for the company. This policy is a balance of external capital or debt with own capital (Nurmawadhakha & Retnani, 2018). Debt policy is a policy related to how much a company uses funding sources in the form of debt rather than using its own capital or other funding sources (VN Sari & Kurnia, 2020).

Company size describes the size of a company which can be expressed in total assets. The greater the total assets, the greater the size of a company. The greater the assets, the greater the invested capital, while the more sales, the more money turnover in the company. Thus, company size is the size or amount of assets owned by the company (Anam et al.,

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2015). Company size directly reflects the high and low operating activities of a company. In general, the larger the company, the greater the activity, so the size of the company can be related to the size of the assets owned by the company.

Asset structure is the basis for determining the amount of fund allocation for each asset component (Prabowo et al., 2019). Companies that have large fixed assets have the opportunity to use them as collateral so they tend to choose to use larger debt. Measurement of asset structure uses more fixed assets. Because fixed assets can be regarded as one of the elements that are important and needed by the company in producing products.

Large companies usually have large assets or fixed assets, large fixed assets are expected to generate income generated is also greater (Nurmawadhakha & Retnani, 2018). With an increase in company assets followed by an increase in results, it will increase the trust of outsiders in the company. Assets displayed on the company's financial statements will convince creditors, so that it will make it easier for creditors to assess the company's performance and the company is likely to easily get a loan. The amount of fixed assets it is expected to be able to give a signal to creditors that it is appropriate to use credit as collateral, they will use more debt because investors will always provide loans if they have collateral (Nurjanah & Purnama, 2020). Does the influence of company size affect debt policy directly or does company size influence debt policy through its large asset structure.

II. THEORETICAL BASIS

2.1. Pecking Order Theory

Pecking order theory is a funding structure theory that prioritizes internal funding first before using external funding in the form of debt as the final source is stocks (Yıldırım & Çelik, 2021). So the Pecking Order Theory is a funding structure model that follows a hierarchy starting from the cheapest sources, internal funds to stocks as the last source in terms of obtaining funds. Pecking order theory explains that the company will determine the most preferred hierarchy of funding sources, as a basis for information indicating that management has more information (about the prospects, risks, and value of the company) than the shareholders. The use of internal funds is a top priority because it is a manifestation of the manager's efforts to minimize problems and costs arising from the use of debt. Companies prefer funding using internal funds.

2.2. Debt Policy

Debt policy is an alternative external funding that needs to be done by the company to fund the company's operations (Asiyah & Khuzaini, 2019). Companies need to carry out financial planning and funding functions which will be one of the roles in the company's operations. Measurement of the debt ratio can show the company's ability to meet long-term obligations. Management will use information from the balance sheet. The debt ratio that will be used is the Debt to Equity Ratio (DER) where this ratio is the ratio of the total debt owned by the company to its own capital or company equity. This ratio can measure how much the company is funding through debt, where the debt to equity ratio will give an illustration that if this ratio shows a high value it will show an unfavorable indication of the company, and if this ratio shows a low value then the company is in a bad condition. Good (Sari & Kurnia, 2020).

2.3. Company Size

Company size provides an overview of the size of the company through the number of assets owned by the company. The position of the company big or small allows for the company's flexibility in obtaining funding. Large companies tend to find it easier to get funding from third parties because they have greater collateral compared to smaller companies. Large companies will find it easier to get loans from outside parties in the form of debt or share capital on the grounds that large companies have a good reputation in the eyes of the public. (Marlynda, 2017). Large companies will take advantage of the ease of obtaining funds from external parties, so they will not depend on funds from internal companies. The size of a large company will have a low level of business risk compared to a small company, so that large companies will easily gain the trust of creditors (Andrianti et al., 2021).

2.4. Asset Structure

Asset structure is the determination of how much funding is allocated for each component of assets, both in fixed assets and current assets (Akbar and Ruzikna, 2017). The asset structure relates to the company's wealth to generate profits or income for a company. So the bigger the company will have large assets to generate profit or income for a company. Asset structure is the relative composition of fixed assets owned by a company to total assets. When a company has large assets, it is expected that the resulting operational results will also be greater. With an increase in company assets followed by an increase in yields, it will increase outsiders' trust in the company (Srimindodarti and Hardiningsih, 2017). One of the requirements regarding loans is to

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have tangible fixed assets that can be used as collateral for debts or loans so that the value of tangible fixed assets tends to the amount of the loan value that will be lent by third parties to the company. (RI Sari et al., 2021).

2.5. Hypothesis

Effect of Company Size on Debt Policy

Firm size is an indicator that shows the company's financial condition. A company can be said to be a large company, if the wealth it has is large, and vice versa. Usually, people judge the size of a company by looking at the physicality of the company (companies from the outside look grand and big are interpreted as big companies). (Zuhria & Riharjo, 2016). However, this does not necessarily indicate that the company has great wealth. Companies that have large total assets indicate that the company has reached the maturity stage, where at this stage the company's cash flow has increased, is considered to have good prospects in a relatively long period of time, and is relatively more stable and more able to generate profits than companies with relatively large assets. small. The larger the company, the greater the funds needed to finance the company's operations. Companies that have large total assets (large companies) will get more attention from investors, creditors and other users of financial information compared to small companies. (Santoso, 2019). If the company has large total assets, management will be more flexible in determining its debt policy because it is more trusted than small companies. According to Sari et al. (2021) states that company size has an effect on debt policy, cause Company size describes the size of the company which can be seen through the number of assets owned by the company. Companies with a large size are seen as having high credibility in the eyes of creditors and have a tendency to make optimal use of debt is an indicator that shows the financial strength of the company.

Effect of Company Size on Asset Structure

The larger the company will have large fixed assets to generate profit or income compared to the fixed assets owned by small companies. The development of assets will accelerate the company's growth, the greater the company's need to finance the development of company assets. The more funds needed in the future, the greater the profit that must be retained and paid. So the bigger the company, the bigger the asset structure is needed which is ultimately used for internal financing and increasing capital. If profits are paid to them as dividends and are subject to high corporate tax rates, then only part of it can be reinvested.

Effect of Asset Structure on Debt Policy

Asset Structure Asset structure includes matters relevant to debt policy. Asset structure is the determination of the amount allocated to each asset element, both current assets and fixed assets. The amount of the company's fixed assets as a determinant of the amount of use of debt. Companies that have a large number of fixed assets can use these assets as collateral to increase debt (Sari et al., 2021). According to Andrianti et al. (2021) concluded that asset structure influences debt policy, because the size of a company's fixed assets can determine the amount of debt used. Companies that have large amounts of fixed assets can use large amounts of debt because these assets can be used as loan collateral.

Effect of Company Size on Debt Policy through Asset Structure

Large companies can be seen through the number of assets owned by the company. Companies with a large size are seen as having high credibility in the eyes of creditors so that they can easily determine their debt policies. In addition, companies are categorized as large or small depending on how much assets the company has. Does company size affect debt policy directly or does company size influence debt policy through asset structure.

III. RESEARCH METHODS

Data Collection Method This research is a quantitative study, using secondary data, namely the annual reports of insurance companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2021. The sample selection technique used was a purposive sampling technique to produce 76 research samples, after deducting 8 data outliers. The purposive sampling technique used in this study were:

1. Insurance companies listed on the IDX for the period 2016 to 2021 are 17 companies.
2. There are 3 insurance companies that do not fully publish annual financial reports for the period 2016 to 2021.
3. There are 14 companies that report complete financial data and include information as needed for measurement in the period from 2016 to 2021.

Variable Operationalization

To further improve understanding, measurement and collection of data sources need to be operationally defined for the variables used in this study.

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1. Asset Structure

Asset structure is the composition of the total fixed assets owned by the company. Fixed assets are assets used as collateral in obtaining debt. The measurement scale used is the ratio and can be formulated as follows:

$$\text{Asset} = \frac{\text{Total aktiva tetap}}{\text{Total aktiva}}$$

Source : Taufik, 2017

2. Company Size

Company size (firm size) is the size of the company which can be seen from the company's total assets and is calculated using the formula:

$$\text{Size} = \text{Ln}(\text{total aset})$$

Source: Fahmie, 2022

3. Debt policy

The dependent variable in this study is *Debt to Asset Ratio* which is calculated by dividing total debt by total assets. This ratio is used to measure how much the company's assets are financed by debt, or how much the company's debt affects asset financing. Data for this variable was obtained from the IDX in the company report. This ratio is used to describe the company's debt policy. Mathematically *Debt to Asset Ratio* formulated as follows:

$$\text{DAR} = \frac{\text{Total Utang}}{\text{Total Aset}}$$

Source: Rudyart, 2020

IV. RESEARCH RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis is an analysis to provide an overview or description of the variables studied by looking at the minimum value, maximum value, average or mean value, and standard deviation. The following table is the result of a descriptive statistical test:

Table 1. Descriptive Statistical Test Results

	N	Minimum	Maximum	Means	std. Deviation
Company Size	76	13.42	21.19	17.8226	1.74694
Asset Structure	76	-.82	2.84	1.0304	.95851
Debt policy	76	2.43	4.36	3.8665	.46212
Valid N (listwise)	76				

Source: SPSS 24 statistical processing results.

Classic Assumption Test

Classical assumption testing is done before testing the hypothesis. The test aims to determine whether the regression model in the study is a good model or not. In the regression equation there are several assumptions that must be met so that the resulting regression equation will be valid if used to predict a problem. There are three classical assumption tests, namely the Normality Test, Multicollinearity Test, and Heteroscedasticity Test. From the results of the classical test, the data used in this study were normally distributed data, the data did not occur multicollinearity and there were no signs of heteroscedasticity.

Path Analysis

The data analysis used in this study is path analysis using the SPSS version 24 computer program. Path analysis was chosen because it analyzes the pattern of relationships between variables.

The First Line Model Effects of Company Size on Asset Structure

The regression model used in this study is the first path model to analyze the partial and simultaneous significant influence of (exogenous) variables from Firm Size (X1) on Asset Structure (Y1). The analysis of this research through the first path model is described as follows:

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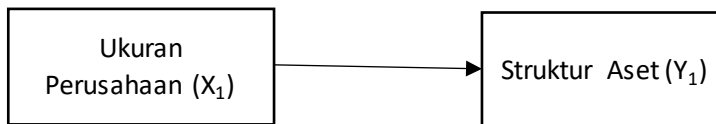


Figure 1. First Path Analysis Regression Equation

The results of the first path regression analysis are

Table 2. The results of the first path regression analysis

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	4.108	1,084		3,789	,000
	Company Size	-,173	,061	-,315	-2,852	,006

a. Dependent Variable: Asset Structure

The first path equation is $Y_1 = -0.315X_1 + e$

Company Size has a negative effect on the asset structure, so that the stronger the company size, the lower the asset structure. Company size has a negative and significant effect on asset structure indicated by a p value of 0.006 which meets the requirements, namely <0.05 . Thus the hypothesis that there is an effect of company size on debt policy in this study is proven.

Second Path Model Effect of Firm Size on Debt Policy Through Asset Structure

The regression model used in this study is the second path model to analyze the partial and simultaneous significant influence of (exogenous) variables from Firm Size (X_1) on Debt Policy (Y_2) through Asset Structure (Y_1). The analysis achieved in this study through the second path model is described in the second path analysis as follows:

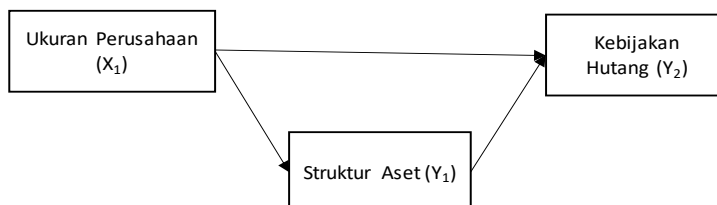


Figure 2. Effect of Company Size on Debt Policy through Asset Structure

The results of the second path regression analysis are

Table 3. The results of the second path regression analysis

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	4.609	.484		9.513	.000
	Company Size	-.056	.026	-.210	-2.131	.036
	Asset Structure	.241	.048	.500	5.073	.000

a. Dependent Variable: Debt Policy

The equation of the second path directly is $Y_2 = -0.21X_1 + 0.5Y_1 + e$

The second path equation indirectly is $Y_2 = -0.1575X_1 + 0.5Y_1 + e$

Company Size has a negative effect on debt policy, so that the larger the company size, the lower the debt policy. Company size has a negative and significant effect on Debt Policy indicated by a p value of 0.036 which meets the requirements, namely <0.05 . Thus the hypothesis that firm size has a negative effect on debt policy in this study is proven.

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Asset Structure has a positive effect on Debt Policy, so that the greater the Asset Structure, the higher the Debt Policy will be. Asset Structure has a positive and significant effect on Debt Policy indicated by a p value of 0.000 which meets the requirements, namely <0.05 . Thus the hypothesis of Asset Structure has a positive effect on Debt Policy in this study is proven.

Company Size has an indirect effect on Debt Policy through Asset Structure. The indirect effect of Company Size on Debt Policy through Asset Structure is 0.105 (0.21×0.5). The direct effect of Company Size on Debt Policy is 0.368. The total effect is 0.473 ($0.105 + 0.368$). The results prove that the direct effect $<$ total effect ($0.368 < 0.473$), so that company size influences debt policy through asset structure. Thus the hypothesis that firm size has an indirect effect on debt policy through asset structure is proven in this study.

DISCUSSION

The effect of company size on asset structure where the bigger the company the smaller the asset structure. The insurance industry is a service industry, in which the service industry uses relatively less fixed assets than manufacturing companies so that the larger the company, the smaller the fixed asset structure.

The effect of company size on debt policy is that the larger the company size, the smaller the company's debt policy. This research is in accordance with Steven and Lina's research (Viriany, 2022) company growth has a negative effect on debt policy. Large companies can obtain internal funds from high profits and assets. Due to the availability of internal funds, the company will reduce its dependence on external debt. This is consistent with the pecking order theory which states that companies prefer internal funding sources.

The influence of asset structure on debt policy where the greater the fixed assets in the company, the greater the debt policy. This research is supported by the research of Prabowo et al. (2019) which states that companies that have large amounts of fixed assets can use large amounts of debt because these assets can be used as collateral for loans and vice versa.

The influence of company size affects debt policy through asset structure, which means that company size does not directly affect debt policy, but through new asset structure it influences debt policy. The bigger the company, the smaller the asset structure (in this study in the insurance industry where the insurance company is a service company), as collateral for assets that will be guaranteed to third parties. If the assets are small, the additional debt will be small according to the guarantee provided by the company.

V. CONCLUSION

Large companies (companies in the insurance industry have a composition ratio of fixed assets to total assets that is smaller than in other industries such as the manufacturing industry) have a small asset structure, with a small number of fixed assets, the additional debt will be smaller in proportion to the amount of collateral (fixed assets) that will be used as collateral to third parties.

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