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PROFITABILITY IN MODERATING THE EFFECTS OF BUSINESS RISK, COMPANY GROWTH AND COMPANY SIZE ON DEBT POLICY

Anisa Nurfitriana[1], Fachrurrozie[2]

[1,2]Accounting Department, Faculty of Economics, Semarang State University L2 Building, Kampus Sekaran, Gunungjati, Semarang, Central Java 50229, Indonesia.

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Abstract

The purpose of this research is to analyse the influence of business risk, corporate growth, and firm size on debt policy with profitability as moderating in manufacturing subsector industries of consumption goods listed in Indonesia Stock Exchange (IDX) in 2012-2016. The population of the research was manufacturing subsector industries of consumption goods listed in Indonesia Stock Exchange (IDX) in 2012-2016. The sample was 21 manufacturing subsector industries of consumption goods with some characteristics of sample selection using purposive sampling method. Hypothesis analysis method used in this research is a Moderated Regression Analysis (MRA). The result of the study showed that business risk, corporate growth, and firm size did not influence debt policy. Profitability can strengthen business risk to debt policy. Profitability can strengthen corporate growth to debt policy. Profitability fails to moderate firm size to debt policy. The conclusion of the research is two of six hypotheses accepted, and these are Profitability can weaken business risk to debt policy. Profitability can strengthen corporate growth to debt policy.

***Keywords:** Company Size; Debt Policy; Company Growth; Profitability; Business Risk*

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INTRODUCTION

The combination of the use of sources from within the company and outside the company to meet the needs of the company's funds is called the capital structure. The fundamental components in the capital structure are debt and equity. A company must strive to determine the optimal capital structure that causes the maximization of company value (Hossain & Ali, 2012). The policy of using funds from outside the company called debt policy is an essential responsibility of managers (Suryani & Khafid, 2016). Shareholders prefer funding companies that are financed by debt because of the use of debt, and the company will not reduce their rights. Conversely, managers do not like funding with debt because they contain a high risk. One of the dangers that managers will face is the risk of bankruptcy, and if the company goes bankrupt, the manager will lose his job.

Cases of bankruptcy and delisting of several large companies in Indonesia due to difficulties in repaying debts and lack of business continuity include PT Dwi Aneka Jaya Kemasindo Tbk (DAJK). Reporting from detiknews.com (2018) PT Indonesia Stock Exchange (IDX) has ejected the shares of PT Dwi Aneka Jaya Kemasindo Tbk (DAJK) from the stock trading board aka delisting. The reason is that the company has gone bankrupt. The deletion of DAJK shares has also been active since May 18, 2018. Although it has delisted, it still must settle the obligations that must be fulfilled by the company. On November 23, 2017, DAJK was declared bankrupt by the Central

[1]Anisa Nurfitriana
Email: anisanurfitriana3@gmail.com

Jakarta Commercial Court. DAJK is known to have debts against several banks which amounted to Rp870.17 billion. The company's long-term liabilities, such as a bank loan, has reached Rp913.3 billion. The DAJK DER in recent years shows more than two figures, and this has disrupted the growth of the company's performance as well as disrupting the growth of its stock price. Therefore, most investors avoid companies that have DER numbers of more than 2. The DAJK case proves that massive debt will cause financial difficulties and risk of bankruptcy. These can give impact on discipline for managers to optimize the use of existing funds.

Previous research shows the tendency of the influence of business risk variables, company growth and firm size on debt policy is still inconsistent. Business risk variables on debt policy, negative but not significant (Mardiyanti et al., 2014), are not significantly positive (Umi & Susanti, 2014), negative and significant (Murtiningtyas, 2012). The company's growth towards debt policy, negative and significant (Jozwiak et al., 2014), negative is not significant (Umi & Susanti, 2014), positive and significant (Pradana & Kiswanto, 2013). The size of the company against debt policy, positive and significant (Umi & Susanti, 2014), does not affect (Trisnawati, 2016), negative is not significant (Alkhatib, 2012).

The study purpose is to analyze profitability in moderating the influence of business risk, company growth and company size on debt policy. The originality of this research is the presence of moderating variables, namely profitability. Previous researches have not studied on the effect of business risk, company growth and company size on debt policy moderated by profitability yet. Also since previous researches show inconsistent results, this study uses the moderating variable.

Theory Agency states that it is difficult to trust management as an agent to comply with the wishes of the company owner. This conflict results in agency costs, so each party tries to reduce these costs in a certain way (Wiliandri, 2011). Pecking order theory is one of the most significant theories explaining the choice of capital structure (Shambor, 2017). This theory explains why most companies that are profitable borrow in small amounts. These are not because the company has a low target debt ratio, but because it requires little external financing. While less profitable companies tend to have more substantial debt because internal funds are not enough, and debt is a preferred external source (Hidayat, 2013). Signalling theory is a management step that gives investors explicit instructions regarding the company's prospects. If the company is considered profitable, then the company will try to avoid selling shares and choose to get funds in other ways, including the use of debt that exceeds the average capital structure target. Trade-Off Theory explains the idea that how much the company owes and how much equity the company has so that there is a balance between costs and profits. Companies with high debt have a high risk of bankruptcy and will experience financial difficulties if the company cannot obtain enough funds (Wiliandri, 2011).

Business risk is the uncertainty of future revenue projections if the company does not use debt. Companies that have a relatively stable level of sales means that they have a steady cash flow so that business risks are low and therefore companies whose sales are relatively stable can use greater debt (Karina & Khafid, 2015). The lower the business risk of the company, the higher the debt ratio. Companies that have a high business risk will certainly avoid using debt in financing companies because using debt the company's liquidity risk will increase. These are under the pecking order theory which states that companies prefer to use internal funds rather than external funds. Companies that have a high business risk will prefer to use domestic funds because if the company uses debt, the company cannot repay the loan.

Research results from Murtiningtyas,(2012) dan Chadha & Sharma (2015) state that business risk has a negative and significant influence on debt policy. Based on the theory and the results of previous research regarding business risks to debt policy, the hypothesis proposed in this study is:

H1: Business risk has a negative effect on debt policy

The growth of the company is an illustration of how the business development carried out in the current period compared to the previous period. A company that experiences high growth means that the company has succeeded in increasing the value of the company to produce profits or profits. Companies that have high growth indicate that with the resources they possess can produce good growth (Hardiningsih & Oktaviani, 2012). Companies with high growth rates must have enough capital to finance the company. If the company invests more than the amount of retained earnings by the company, then the possibility of loans from creditors in the form of debt will increase (Joni & Lina, 2010). Therefore, companies that overgrow must rely more on external capital (Jozwiak et al., 2015). The trade-off theory states that high-growth companies have more choices to invest than companies with low growth so that the tendency of companies to use debt to finance their operational activities is also higher (Sumani, 2012). High company growth can maximize the resources owned to increase company profits, and then the company will gain the trust of investors and creditors. These are under the signalling theory. The higher the company's growth will give a positive signal to the creditor to provide loans to the company. This company's growth attracts creditors in providing debt to companies with the assumption that companies with high growth have good prospects in the future.

The results of the study were from Alkhatib (2012) which stated that company growth had a positive and significant effect on debt policy. Based on the theory and previous researches, the following hypothesis is:

H2: Company growth has a positive effect on debt policy

The size of the company can be seen from the business field. Company size can be seen from total assets, log size, stock market value and total sales. The larger the size of the company, the higher the funding requirements, one of which comes from external funding, namely debt (Soraya & Permanasari, 2017). In pecking order theory, companies prioritize funding sources from within (retained earnings), but if they are lacking, the company will choose to borrow, with one of them through the capital market. Large companies more easily get access to the capital market. With this ease, the company has the flexibility and ability to get funds. The bigger the company, the more funds used to run the company's operations, one of the sources of the funds is debt (Listiyono et al., 2016).

Large companies tend to be easier to obtain loans from third parties because the ability to access to other parties or the collateral in the form of assets is higher than small companies. The size of the company is very influential on capital structure, primarily related to the ability to obtain loans (Listiyono et al., 2016).

Research results from (Nemati & Muhammad, 2012) dan (Shambor, 2017) which states that firm size has a positive and significant effect on debt policy. Based on the theory and the results of previous studies regarding the size of the company on debt policy, the hypothesis proposed in this study is:

H3: Firm size has a positive effect on debt policy

Profitability contributes to the influence of business risk on debt policy. Profitability explains the company's risk in the future related to the company's ability to provide internal funds for the company. Companies that are profitable use massive debts because they assume debt must be used to continue to capture growth opportunities. While companies that are less profitable use smaller debt because the company has a high business risk, so it tends to avoid debt because it will increase the risk of the company's business due to not being able to pay off the debt and interest (Endah & Wahyudin, 2017). Based on agency theory, companies that have high profitability utilize debt to reduce the misuse of funds by managers who do not pay attention to the interests of shareholders. Based on the theory and the results of previous studies regarding the size of the company on debt policy, the hypothesis proposed in this study is:

H4: Profitability moderates significantly the effect of business risk on debt policy

According to the theory agency, a company with a high growth rate coupled with high profitability will tend to require large funds so it requires a monitoring mechanism to minimize agency costs that will arise. The faster growth rates identify that the company is expanding so that the company needs large funds. One way with debt policy. Because companies with high growth mean that the company requires large funds so that it will increase the company's debt policy to expand and cover agency costs (Soraya & Permanasari, 2017). So, the profitability variable can be used to moderate the influence of corporate growth on debt policy. Based on the theory and results of previous research regarding the company's growth on debt policy, the hypothesis proposed in this study is:

H5: Profitability moderates significantly the influence of the company's growth on debt policy.

In pecking order theory, companies prioritize funding sources from within (retained earnings), but if they are lacking, the company will choose to borrow, with one of them through the capital market. Large companies more easily get access to the capital market. With this ease, the company has the flexibility and ability to obtain funds (Listiyono et al., 2016). Large companies usually have good prospects. The size of the company reflects the size of a company as seen from the high and low activity of the company and assets owned by the company. Companies that have substantial assets can use large amounts of debt. These are because large companies will find it easier to get loans from creditors than small companies. Then, assets owned used as collateral. With the high profitability of large companies that used assets as collateral, the company uses debt for the company's operational activities. So that the existence of profitability owned by the company will strengthen the relationship between the size of the company and the company's debt policy (Karina & Khafid, 2015). Based on the theory and the results of previous studies regarding the size of the company on debt policy, the hypothesis proposed in this study is:

H6: Profitability moderates significantly the effect of firm size on debt policy

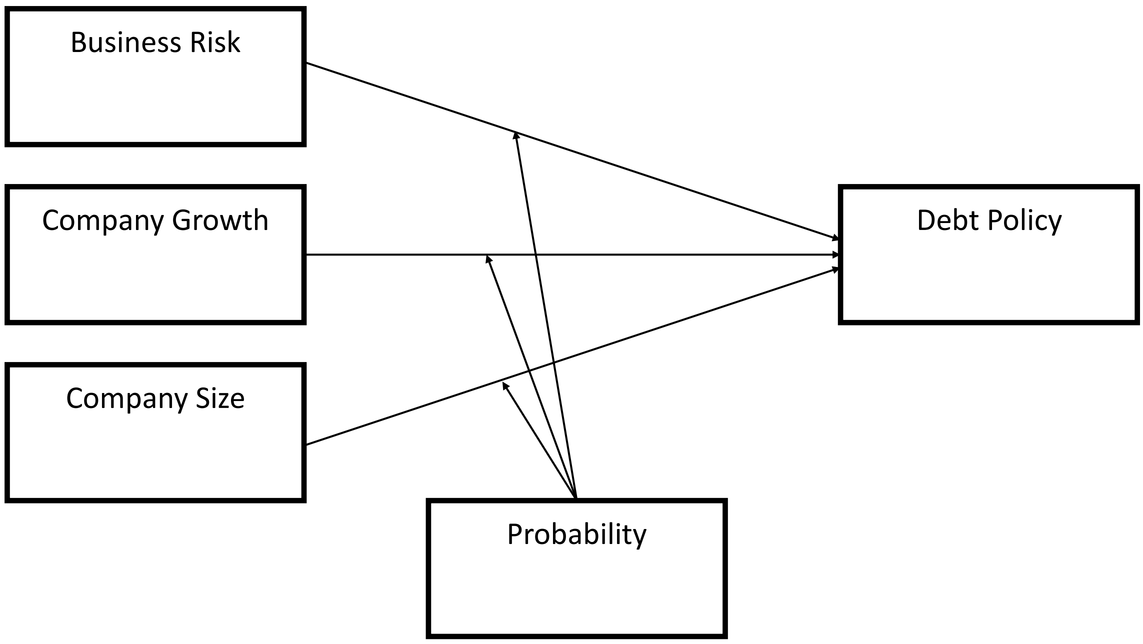

Figure 1. Research model

RESEARCH METHODS

This research is quantitative research to examine factors that can influence debt policy. The data used in this study are secondary data in the form of financial statements of manufacturing companies in the consumer goods industry sub-sector. The study population was a consumer goods industry sub-sector manufacturing company listed on the Indonesia Stock Exchange (IDX) during the period 2012-2016. The sample consisted of 21 manufacturing companies in the consumer goods industry sub-sector with sample selection characteristics using a purposive sampling method with predetermined criteria.

Table 1. Criteria for sample selection

No	Criteria	Do not fit	Quantity
1	Manufacturing companies in the consumer goods industry sub-		27
2	Companies that issue complete and consistent annual reports and	(3)	24
3	Companies that always make a profit or no loss during the obser-	(3)	21
	Quantity	(6)	21
	Analysis unit for five years		105

The operational definition of variables in this study can be seen in table 2 as follows:

Table 2. Definition of Operational Variable Research

No	Variable	Definition	Measurement	Scale
1	Debt Policy	policy are taken by management to obtain financing for the company	DER = Total Liability / Total Equity (Sukirni, 2012)	Ratio
2	Business Risk	company uncertainty in carrying out its business activities faced by the company when not using debt	RISK= STD (Operating Income/Total Assets) (Nuswandari, 2013)	Ratio
3	Probability	a tool to measure the ability and success of a company in generating profits obtained through sales and investments during a specified period	ROE= Net Profit/Total Equity (Simanjuntak & Kiswanto, 2015)	Ratio
4	Company Growth	a description of how business development is carried out now compared to the previous period	% Total Assets = (Total assets of the current year- Total assets of last year / Total Assets of last year) X 100% (Suryani & Khafid, 2016)	Ratio
5	Company Size	the size of the company is seen from the value of equity, the value of the company, or the results of the total value of assets of a com-	SIZE = Ln Total Assets (Lumapow, 2018)	Ratio

Source: Various previous studies, 2018

Data collection method used is documentation that uses secondary data. Hypothesis analysis method used in this research is the Moderated Regression Analysis (MRA).

RESULTS AND DISCUSSION

Descriptive statistical analysis was conducted to determine the description of each research variable. The analysis used in this study includes minimum, maximum, mean and standard deviation values. Descriptive statistical test results can be seen in Table 3 below:

Table 3. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
Y	105	.114	3.029	.80193	.634005
X1	105	.216	.259	.24035	.015697
Z	105	.028	1.435	.30469	.331615
X2	105	.009	.722	.16038	.130464
X3	105	11.819	18.335	1.49246E1	1.642678
Valid N (list wise)	105				

Source: Output SPSS 16, 2018

This study analyses the relationship between profitability as a moderating variable, namely profitability with the independent variables of business risk, company growth and firm size and analyses the relationship of independent variables, namely business risk, company growth and firm size to the dependent variable, namely debt policy. Table 4 Presents a summary of the results of this study.

Table 4. Research Results

Hypothesis	Statement	Coefficient Regression	t_{count}	Sig	Result
H_1	Business risk has a negative effect on debt policy	-0.015	-0,339	0,735	Rejected
H_2	Company growth has a positive effect on debt policy	0,012	0,255	0,799	Rejected
H_3	Firm size has a positive effect on debt policy	0,038	0,818	0,416	Rejected
H_4	Profitability moderates significantly the effect of business risk on debt policy	0,166	2,466	0,015	Accepted
H_5	Profitability moderates significantly the influence of the company's growth on debt policy	0,337	6,422	0,000	Accepted
H_6	Profitability moderates significantly the effect of firm size on debt policy	0,102	1,709	0,091	Rejected

Source: SPSS data processed, 2018

The effect of Business Risk on Debt Policy

The results of the study show that business risk does not affect debt policy. The results of this study are following the pecking order theory which states that companies must use internal funds first to choose the safest risk. The more debt, the higher the cost of bankruptcy or risk is borne by the company which will make it difficult for the company to return its debt. Also, companies that have high business risk will reduce the interest of creditors to provide loans.

In this study, companies that have high risk still choose to use debt because the company still has high profitability to pay off the debt in the future. The results of this study are in line with the research of Mardiyati & Susi Susanti (2014) and Hastalona (2013) which states that business risk has an adverse but not significant effect on debt policy.

The effect of Company Growth on Debt Policy

The company's growth variable proved not to affect the debt policy, meaning that the company's debt policy did not follow every increase in the company's growth. Based on the Pecking Order Theory, the company will use the option of external funds/debt to meet the needs of the company's capital structure is the internal funds of the company and the issuance of new shares are still unable to meet the funding needs in the company's operational activities. These are because the growing company will use more funding sources from its capital or equity than debt. These are because if the growth of the company is financed by debt, the manager will not make an optimal investment (underinvestment) because the creditors will get the first claim against cash flow from the investment project (Suryani & Khafid, 2016).

The results of this study are in line with the results of research by Ariyanto & Wahyudin (2016); Suryani & Khafid (2016) which states that the growth of the company does not affect debt management. This research is not in line with the results of Yeniatie & Destriana (2010) research which states that there is a positive and significant influence between the company's growth on debt policy.

The effect of Company Size on Debt Policy

The third hypothesis is that firm size has a positive effect on debt policy, is rejected. The size of the company in this study is proxied to use the company's total assets so that companies with substantial assets can use their assets as collateral to obtain more debt. Large companies also have names on the broader community and the market and company information is more accessible to obtain so this can provide a positive signal for creditors to provide loans to the company. These are in line with signaling theory. This research is also following research conducted by (Suryani & Khafid, 2016); (Trisnawati, 2016) which states that the size of the company has no significant positive effect on debt policy. However, this is not following the research (Surya & Rahayuningsih, 2012); (Zhang, 2010) which states that firm size has a positive and significant influence on debt policy.

Firm size is not the only determinant of debt policy. The company chooses which funding is suitable for the needs and which has the lowest cost. Every company both large and small companies must have debt, and the size of the company does not always influence the amount of debt.

Profitability will Significantly Moderate The effect of Business Risk on Debt Policies

Profitability contributes to the influence of business risk on debt policy. Profitability explains the company's risk in the future related to the company's ability to provide internal funds for the company. Companies that are profitable use massive debts because they assume debt must be used to continue to capture growth opportunities. While companies that are less profitable use smaller debt because the company has a high business risk, so it tends to avoid debt because it will increase the risk of the company's business due to not being able to pay off the debt and interest (Endah & Wahyudin, 2017). A high level of profit signifies the company's growth in the future (Baroroh, 2013). These prove that profitability moderates significantly the effect of business risk on debt policy.

Profitability Significantly Moderate The effect of Corporate Growth on Debt Policy

The fifth hypothesis is that profitability moderates significantly the influence of the company's growth on debt policy, accepted. According to agency theory, a company with a high growth rate coupled with high profitability will tend to require large funds so it requires a monitoring mechanism to minimize agency costs that will arise. The faster growth rates identify that the company is expanding so that the company needs large funds. One way with debt policy. Because companies with high growth mean that the company requires large funds so that it will increase the company's debt policy to expand and cover agency costs (Suryani & Khafid, 2016). So, the profitability variable can moderate the influence of corporate growth on debt policy.

Profitability Significantly Moderate The effect of Company Size on Debt Policy

The sixth hypothesis that profitability moderates significantly the effect of firm size on debt policy, is rejected. Large companies and small companies that have high profitability will make corporate debt policy also high. The greater the company's assets indicate that the size of the company is also getting bigger. Large companies are easier to get loans because companies with substantial assets use their assets as collateral for their debts. In this study the above theories are rejected, this means that profitability is not able to moderate the influence of firm size on debt policy. Trade-off theory explains that high profitability and supported by a large company size makes the company's debt also more significant so that the debt and equity ratio will be higher. The results of this study prove that profitability is not able to moderate the influence of firm size on debt policy. These are because profitability is not the only factor that can be used to assess company risk.

CONCLUSION

Based on the results of the analysis and testing of the influence of business risk, company growth, and company size on debt policy moderated by profitability, the conclusion is that business risk, company growth, and company size do not affect debt policy. Profitability can strengthen the influence of business risk on policy debt. Profitability can strengthen the influence of the company's growth on debt policy. Profitability does not moderate the influence of firm size on debt policy.

Suggestions for researchers can further research in other sub-sectors such as the chemical industry and can also examine other types of companies, such as service companies, the second, further research is expected to find other variables that can moderate the relationship of independent variables to debt policy variables. Also, the last is the next researcher is expected to be able to add other variables outside of this research model that influence debt policy.

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