

## The Effect of Institutional Ownership, Free Cash Flow, and Asset Structure on Debt Policy with Profitability as a Moderation Variable (Case Study of Property & Real Estate Sector Companies Listed on the IDX for the 2019-2021 Period)

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### ABSTRACT

This study aims to examine the effect of institutional ownership, free cash flow, and asset structure on the debt policy of property & real estate companies listed on the IDX during the period 2019 to 2021, moderated by profitability. The sampling technique used was purposive sampling and 45 samples were obtained. The analytical method used is a multiple linear regression test with Moderating Regression Analysis (MRA). The results of the analysis show that asset structure has no impact on debt policy, while institutional ownership and free cash flow have a negative effect. The impact of institutional ownership on debt policy can be moderated by profitability. However, profitability cannot moderate the impact of free cash flow and asset structure on debt policy.

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## **INTRODUCTION**

A coronavirus pandemic is an example of the disease's global expansion (also known as Covid-19, or coronavirus disease 2019). This illness is brought on by a new coronavirus known as SARS-CoV-2. On March 11, 2020, upon its discovery in Wuhan City, Hubei, China, the Covid-19 outbreak was declared a pandemic by the World Health Organization (WHO). As a result of the more than 53,281,350 cases that have been recorded in more than 219 countries and locations up through November 14, 2020, more than 1,301,021 individuals have died and more than 34,394,214 people have recovered. The Indonesian economy, educational system, and social life have all been damaged by the COVID-19 epidemic in addition to the public health sector (Sirotun Nabawiyah & Jaeni, 2022). The Covid-19 pandemic has made property and real estate issuers in the country one of the victims. The company's financial performance declined due to decreased revenue, reduced profitability, and limited liquidity, thus requiring funding from external parties to maintain the company's operations. A company in bankruptcy might consider this (Wahyuni et al., 2022).

The Covid-19 pandemic hampered economic growth because business and daily activities were hampered. According to data from the Ministry of Industry of the Republic of Indonesia (2020), the first quarter economic growth rate for construction companies in 2019 experienced a growth of 5.48 percent, while for 2020 the first quarter only reached 2.76 percent. The Covid-19 pandemic has caused, 30,763 construction service companies to be deserted because materials, craftsmen, equipment, transportation, time, and movement were connected to the region or PSBB. This requires company managers to strive to maintain and even improve financial performance in each sector. It is important to make bankruptcy predictions, this is done because it is needed by several parties such as banks, investors, the government, and most importantly the company itself so that business people can find out the company's financial condition. This condition requires management to try and improve its performance to maintain the company's existence. The management function can determine the success or failure of a company.

Investors need precise and accurate information so that the funds invested to get the expected results. External parties take into account the financial performance reported in the financial statements when making investment decisions since it is hoped that the company will be able to earn the highest profits and deliver positive results to attract investors. One of the funding decisions made by outsiders is a debt policy (Romadhina, 2018). Agency conflicts between owners, managers, and creditors make it difficult to create debt rules for businesses (Amilia & Fun, 2019). A company's capacity to meet its obligations can be evaluated using the DER (Debt to Equity Ratio) ratio. A company's DER is usually considered healthy if it is less than 1 or 100%. In general, it differs depending on the industry.

Table 1. Table of Cash Flow Development, QR, DER

Code	Cash flow (IDR)	QR (%)	DER (%)
Summarecon Agung Tbk (SMRA)	1.02T	42.30	250.45
Lippo Karawaci Tbk (LPKR)	(385.48 AD)	85.54	241.38
Agung Podomoro Land Tbk (APLN)	89.05 M	60.31	238.45
Ciputra Development Tbk (CTRA)	1.99T	101.86	140.79
Alam Sutera Realty Tbk (ASRI)	567.32 AD	43.13	136.4
Bumi Serpong Damai Tbk (BSDE)	2.02 T	171.36	78.41
Pakuwon Jati Tbk (PWON)	1.19 T	161.01	72.25
Sentul City Tbk (BKSL)	1.59 T	54.88	71.16
Lippo Cikarang Tbk (LPCK)	(13.72 AD)	52.64	39.57

DER exceeding 100% or higher applies to 5 issuers: SMRA, LPKR, APLN, CTRA, and ASRI. 6 issuers SMRA, LPKR, APLN, ASRI, BKSL, and LPCK have a low quick ratio (QR) or QR below 100%. As has been pointed out, a QR value below 100% or 1 time can indicate that the issuer may be having difficulty repaying short-term loans. Both BSDE and PWON have strong DERs of around 78.41% and 72.25% respectively, in terms of general rules and industry requirements. Issuers' cash flows are usually relatively predictable. However, LPKR and LPCK, two issuers of the Lippo Group, appear to have had negative cash flows as of 30 June 2021, with negative cash flows of IDR 385.48 billion and IDR 13.72 billion, respectively (cnbcindonesia, 2021). Debt policy is influenced by a variety of factors, including institutional ownership, free cash flow, and asset structure. Different interests can cause agency conflicts, which can be reduced through institutional ownership. According to Sari (2020), institutional ownership influences debt policy positively. Contrary to research (Amilia & Fun, 2019), the results show that institutional ownership has a detrimental impact on debt policy. It can be concluded that there are still inconsistencies in institutional ownership of debt policies that need to be re-examined.

Free cash flow is the amount left over after a company's cash flows from operations and capital expenditures to maintain its production capacity (Romadhina, 2018). If a company has a large enough free cash flow, it will appear strong because it means there is money available for dividends, growth, and debt payments. A corporation is said to have a high degree of debt if it produces a lot of free cash flow. The study by Almarjan et al (2020), confirms that cash flow is free generally has a positive impact. On the other hand, Rezki & Anam (2020) In their analysis of food and beverage companies listed on the IDX, discovered that free cash flow had no impact on debt policy. This of course can lead to information gaps that need to be tested again. Asset structure is important for companies since it is connected to external funding sources and can influence debt strategy. A company can borrow more money to finance its fixed assets, the more fixed assets it has. Research by Dewi & Suryani (2020), supports the argument that asset structure has a positive impact on debt policy. According to the study of Utami & Ngumar (2019), what happens in wholesale companies on the IDX, the debt policy is not affected by asset structure. It can be concluded that

there is still an inconsistency in the asset structure concerning debt policy, so it needs to be re-examined.

Profitability is used as a moderating variable to test whether it is strengthening or reducing the impact of asset structure, free cash flow, and institutional ownership on debt policy. The capacity possessed by a company to generate money over some time is known as profitability. The profitability variable is used as a moderating variable because based on Lie Sha's research (2018), states that the impact of profitability on debt policy is negative and significant. Low profitability leads to high use of debt. Given the context above, this research is important to do because the findings are still diverse and there is still a lack of studies related to debt policy. Researchers are interested in examining how debt policy is influenced by free cash flow, institutional ownership, and asset structure with profitability acting as a moderating factor for case studies that occurred in property and real estate companies on the IDX during the 2019–2021 period. This research was developed from the research results of Utami & Ngumar (2019), which discusses the effect of institutional ownership, asset structure, and profitability on debt policy. This study develops a research variable by adding free cash flow as an independent variable and a moderating variable, namely profitability. This research was carried out to examine what factors influence debt policy to companies in the real estate & property sector on the IDX during the period 2019 to 2021. These variables include asset structure, free cash flow, and institutional ownership. Profitability is used as a moderating variable. The findings of this study can be referred to and taken into account when making future decisions on investing activities.

## **THEORETICAL REVIEW**

### *Agency Theory*

Jensen & Meckling (1976), a contract stating that the principal and the agent have an agency relationship. Where the principal is the person who has the authority to give orders and the agent is the party who receives or carries out the order according to the will of the principal. According to Raharjo (2007), To optimize the principal's benefit function and the behavioral restrictions that result from the agent's interests, agency theory is used to determine the best possible set of employment contracts and information systems.

### *Trade of Theory*

According to the trade-off theory, using debt for corporate financing lowers overall average capital costs, but this effect is temporary and disappears once a certain level of debt is reached (Stryckova, 2019). The trade-off theory also explains the variation in debt to equity ratios among industries and maintains that equity financing can result in balance shifts, which are usually seen by stakeholders as unwise financial choices that consistently undermine business goals (Ehikioya, 2018).

### *Debt Policy*

Debt is defined as an unpaid obligation that a company has to third parties, where the money used to pay this debt comes from creditors (TPR, 2020). Large debt burdens undermine the value of a company's stock, but companies with little or no debt are seen as unable to benefit from outside funding that could improve their operations. Debt policy can be used as a benchmark to evaluate a company's ability to run its operations.

### *Institutional Ownership*

Can be defined as a form of the proportion of shares of an organization, especially financial sector organizations such as banking companies, pension funds, and insurance (Ramadhani & Barus, 2018). Institutional ownership provides better oversight and has the power to influence how well management performs. The company has more control as a result of its higher shareholding, which will enable it to overcome agency theory in the organization and better balance its debt policy.

### *Free Cash Flow*

The surplus income that a company generates after paying its creditors and before using it to fund operations or purchase fixed assets is called free cash flow. (Agustin & Ardini, 2019) . If a corporation makes capital investments, free cash flow will show whether it still can make investments in the future (Romadhina, 2018). Companies with significant free cash flow provide insight into the health of a business.

### *Asset Structure*

Asset structure is the ratio of fixed assets to total assets or corporate assets (TPR, 2020). The two basic types of assets are current assets and fixed assets. The use of debt is usually higher in companies with assets suitable for loan guarantees. According to Isnaeni et al. (2020), the amount of debt utilized by a firm may depend on the size of its fixed assets.

### *Profitability*

Profitability is the ability of the company to produce profits while maintaining its current levels of revenue, assets, and share capital (Aryanto et al., 2021). Companies with high profitability prioritize internal funding for investment costs, lower debt levels, and avoidance of potential financial risks such as bankruptcy. A high degree of profitability indicates that the company is working properly.

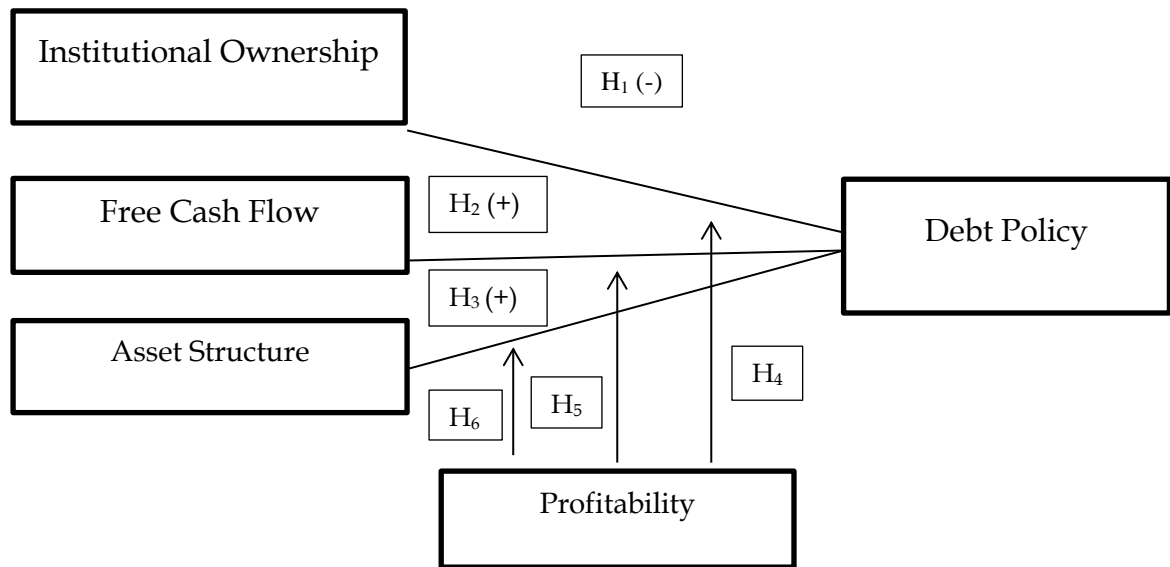


Figure 1. Conceptual Framework

#### *Effect of Institutional Ownership on Debt Policy*

According to agency theory, Institutional ownership will be the driving force behind attaining objectives between investors and internal stakeholders. Because management will be more alert and work for shareholders if the company has more shareholders, management will be more effective (Utami & Ngumar, 2019). As institutional ownership increases, it is expected to reduce agency costs in business by lowering the level of debt policy. Research by Wirastomo & Ali (2021), Ramadhani & Barus (2018), and Utami & Ngumar (2019) confirms that institutional ownership variables have a negative impact on debt policy. According to the previous description, the hypothesis in this study is:  
H<sub>1</sub>: Institutional ownership has a negative effect on debt policy

#### *Effect of Free Cash Flow on Debt Policy*

According to agency theory, companies that have an increase in the amount of free cash flow prefer to take on a lot of debt because it can reduce the possibility of disputes between investors and management. Free cash flow is generally used to finance potential future expansions, reduce debt, buy back shares, and pay dividends (Zurriah & Sembiring, 2018). According to research by Amilia & Fun (2019), Nofiani & Gunawan (2018), and Fadhilah et al. (2021), free cash flow has a positive impact on debt policy. According to the previous description, the hypothesis proposed is:  
H<sub>2</sub>: Free cash flow has a positive effect on debt policy

#### *Effect of Asset Structure on Debt Policy*

The trade-off theory states that a company will hold more assets as collateral for debt financing from outside sources, the more assets it has (Saputri et al., 2020). In acquiring assets to carry out business activities, companies can use a number of strategies, including borrowing money or assets from third parties, which are often known as debt (Umbarwati & Fachrurrozie, 2018). According to

the studies by TPR (2020), Nurjanah & Purnama (2020), and Umbarwati & Fachrurrozie (2018), asset structure has a positive impact on debt policy. According to the previous description, the hypothesis proposed in this study is:  
H<sub>3</sub>: Asset structure has a positive effect on debt policy

*Profitability Moderates the Effect of Institutional Ownership on Debt Policy*

The agency theory-related conflict between institutional ownership and debt policy will be exacerbated by profitability. Conflicts that frequently arise between investors and shareholders will result in agency expenses. The higher the institutional oversight, the fewer debt managers use. This is in line with the research of Arlim Setiawan & Bangun (2021) and Nihayah Fitriyani & Khafid (2019), who found that the effect of institutional ownership on debt policy can be moderated by profitability. The hypothesis proposed in this study is:

H<sub>4</sub>: Profitability moderates the effect of institutional ownership on debt policy

*Profitability Moderates the Effect of Free Cash Flow on Debt Policy*

According to agency theory, firms that have an increased amount of free cash flow are assessed as borrowing more to reduce the possibility of management and investor disputes. Free cash flow and high profitability cause companies to incur a lot of debt because this debt is used to pay agency fees (Nihayah Fitriyani & Khafid, 2019). This is following the research findings of Isnaeni et al. (2020), which indicate that the impact of free cash flow on debt policy can be moderated by profitability. The hypothesis put forward in this study are:

H<sub>5</sub>: Profitability moderates the relationship between free cash flow and debt policy

*Profitability Moderates the Effect of Asset Structure on Debt Policy*

According to the theory trade-off, companies that have significant fixed assets and tax liabilities will also have a high debt ratio (Angeline & Wijaya, 2022). The asset structure of the corporation also exhibits an increase in its debt policy due to the company's increased profitability. This is about the study results of Isnaeni et al. (2020), who showed that profitability can moderate the effects of asset structure on debt policy. According to the previous description, the hypothesis proposed is:

H<sub>6</sub>: Profitability moderates the effect of asset structure on debt policy

## **METHODOLOGY**

*Types of Research and Description of the Research Population (Object)*

This study uses quantitative techniques and causal associative types to test the effect. Research that focuses on measuring variables to test hypotheses as a way of testing theories is known as quantitative research.

*Population, Sample, and Sampling Technique*

The 79 real estate and property companies that are listed on the IDX make up the population. Purposive sampling is a method that was used to choose the

study sample depending on the criteria that needed to be met. These are some examples of criteria:

1. Real estate and property sector companies registered on the IDX during the period 2019 to 2021.
2. Real estate and property companies publish annual reports and financial reports and will be traded on the IDX from 2019 to 2021.
3. Companies that generate profits annually during the study period.

*Types, Data Sources, and Data Collection Techniques*

Financial reports from property & real estate sector companies listed on the IDX for 2019 to 2021 are one of the secondary data sources that are taken into account. Data sources were obtained from the official IDX website. (Data is collected employing documentation through the results of financial reports issued by the company.

*Data Analysis Technique*

Uji normalitas, uji heteroskedastisitas, uji multikolinearitas, and uji autokorelasi are a few examples of classic uji assumptions that were used in this study. Selain itu, digunakan regresi linear berganda dengan analisis regresi moderating (MRA), Uji koefisien determinate, dan Uji T. According to Ghozali (2018), the MRA test aims to control the influence of the moderating variable through an analytical approach that maintains the integrity of the research sample. In this study, MRA was used to test the moderating variable of our profitability. MRA is executed by switching two or more of the independent variables:

**RESULTS**

*Descriptive Statistical Analysis*

Table 2. Results of Descriptive Statistical Analysis

	<b>N</b>	<b>Min</b>	<b>Max</b>	<b>Means</b>	<b>std. Deviation</b>
Institutional Ownership	45	0.12	1.00	0.7022	0.23710
Free Cash Flow	45	-0.06	0.75	0.1118	0.13710
Asset Structure	45	0.00	0.65	0.0985	0.15726
Profitability	45	0.00	0.22	0.0466	0.04612
Debt policy	45	0.01	1.04	0.4883	0.29229
Valid N (listwise)	45				

The descriptive statistical analysis of institutional ownership data yielded a mean (mean) of 0.7022, a standard deviation of 0.23710, a minimum value of 0.12, a maximum value of 1, a mean (mean) of 1, and a mean (mean) of 0.7022. According to the free cash flow variable's analysis, the data have a minimum value range of -0.06, a maximum value range of 0.75, a standard deviation of 0.13710, and an average (mean) value range of 0.1118. The asset structure has a

minimum value of 0.00 and a maximum value of 0.65, with a mean (mean) of 0.0985 and a standard deviation (SD) value of 0.15726. The profitability indicator ranges from 0.00 to 0.22, with a standard deviation of 0.04612 and an average value of 0.0466. The debt policy variable has a mean (average) value of 0.4883 and a standard deviation of 0.29229. The values range from 0.01 to 1.04, with 1.04 being the highest.

*Classic Assumption Test*

Table 3. Normality Test Results

<b>Variable</b>	<b>Sig</b>	<b>Conclusion</b>
<b>Unstandardized Residuals</b>	<b>0.200c<sup>d</sup></b>	<b>Normal</b>

After performing the conventional assumption test, the hypothesis test is conducted. This test includes autocorrelation, heteroscedasticity, multicollinearity, and normality tests. The study's normalcy was evaluated using the Kolmogorov-Smirnov test on one sample. Because the Asymp (2 - tailed ) significance level achieved was 0.200 and the value was > 0.05, the regression model used was considered to be following the normality test requirements.

Table 4. Multicollinearity Test Results

<b>Variable</b>	<b>tolerance</b>	<b>VIF</b>	<b>Conclusion</b>
INST	0.904	1.106	No Multicollinearity
FCF	0.956	1.046	No Multicollinearity
FAR	0.958	1.044	No Multicollinearity
ROA	0.895	1.117	No Multicollinearity

The results of the multicollinearity test in the regression model show that there are no independent variables that display multicollinearity when the variance inflation factor (VIF) value is acquired with a value of 10 or higher and a tolerance value larger than 0.1.

Table 5. Heteroscedasticity Test Results

<b>Variable</b>	<b>tcount</b>	<b>Sig.</b>	<b>Information</b>
INST	0.837	0.408	There is no Heteroscedasticity
FCF	0.155	0.877	There is no Heteroscedasticity
FAR	-1.944	0.059	There is no Heteroscedasticity
ROA	-1.397	0.170	There is no Heteroscedasticity

The Glejser test was used to analyze the heteroscedasticity test results. About the variables free cash flow, institutional ownership, asset structure, and

profitability, the Glejser test yields a significance value of  $> 0.05$  or  $0.408 > 0.05$  or  $0.877 > 0.05$  or  $0.059 > 0.05$  or  $0.170 > 0,05$ . It is clear from the data that none of the research variables indicate heteroscedasticity.

Table 6. Autocorrelation Test Results

DU	4-DU	DW	Decision
1.7233	2.2767	2.061	No Autocorrelation Occurs

The Durbin-Watson test was used to examine the autocorrelation test findings, revealing that the acquisition value was  $du < DW < 4-du$  or  $1.7233 < 2.061 < 2.2767$ , indicating that the regression model has no confounding variables or autocorrelation problems.

*F Test (Simultaneous Test)*

Table 7. F test (ANOVA)

Prob (F-Statistic)	0.000
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The MRA regression model is worth examining because  $H_0$  is rejected by the probability (F-statistic), which has a value of less than 0.05. As a result, debt policy is influenced by institutional ownership, free cash flow, asset structure, moderation 1, moderation 2, and moderation 3 individually or together.

*Determination Coefficient Test*

Table 8. Determination Coefficient Test

Model	R	Adjusted R Square	std. The error in the Estimate
1	0.798a -	0.580	0.18934

According to an adjusted R Square value of 0.580, institutional ownership, free cash flow, asset structure, moderation 1, moderation 2, and moderation 3 all impact about 58% of debt policy, with other factors impacting the remaining 42%.

*T Test (Partial)*

Table 9. Hypothesis Test Results

Model	Unstandardized		standardized	Q	Sig
	Coefficients	std. Error			
	B		Betas		
(Constant)	1,099	0.095		11,542	0.000
Institutional Ownership	-0.738	0.126	-0.599	-5,835	0.000
Free Cash Flow	-0.874	0.222	-0.410	-3,945	0.000
Asset Structure	0.052	0.192	0.028	0.271	0.788
Moderation 1	-2,821	1.216	-0.367	-2,320	0.026
Moderation 2	3,303	4,521	0.114	0.730	0.470
Moderation 3	3,537	7,135	0.107	0.496	0.623

*Hypothesis Testing Results*

1. First Hypothesis

The significance level of the institutional ownership variable (X1) is 0.000 < 0.05 or -5.835 (t count) < 2.01954 (t table) with a value for the regression coefficient of -0.738. It can be concluded that the formulation of the first hypothesis institutional ownership has a negative impact on accepted debt policies.

2. Second Hypothesis

free cash flow variable (X2) has a significance value of 0.000 < 0.05 or -3.945 (t count) < 2.01954 (t table) with a regression coefficient of -0.874. The second hypothesis is rejected since it is clear that free cash flow has a negative impact on debt policy.

3. Third Hypothesis

The Asset Structure variable (X1) has a significance value of 0.788 > 0.05 or 0.271 (t count) < 2.01954 (t table) with a regression coefficient of 0.052. The third hypothesis is rejected because asset structure does not affect debt policy.

4. Fourth Hypothesis

The interaction variable between institutional ownership and profitability has a significance value of 0.026 < 0.05 or -2.320 (t count) < 2.02439 (t table) with a regression coefficient of -2.821, it is therefore conclusion that profitability can moderate the association between institutional ownership and debt policy, or that the fourth hypothesis is accepted.

5. Fifth Hypothesis

The interaction variable between free cash flow and profitability has a significance value of  $0.623 > 0.05$  or  $0.730$  (t count)  $< 2.02439$  (t table) with a regression coefficient value of 3.303. Therefore, the fifth hypothesis is rejected since profitability cannot moderate the relationship between free cash flow and policy debt.

6. Sixth Hypothesis

The interaction variable between asset structure and profitability has a significance value of  $0.470 > 0.05$  or  $0.496$  (t count)  $< 2.02439$  (t table) with a regression coefficient value of 3.537. Therefore, the sixth hypothesis is rejected or profitability cannot moderate the relationship between asset structure and debt policy.

## DISCUSSIONS

### *Effect of Institutional Ownership on Debt Policy*

According to the findings of the hypothesis test, H1 is accepted. These findings suggest that a rise in institutional ownership affects a company's decision to lower its debt level. According to agency theory which states that institutional parties are more concerned with income stability to reduce agency conflicts within organizations. This research is in line with this assumption. Institutional monitoring can reduce agency conflict by allowing managers to make decisions under their supervision. This indicates that the Covid-19 epidemic has had a negative impact on property and real estate companies' debt practices regarding meeting their present obligations. The findings of this study are corroborated by findings from Wirastomo & Ali (2021), Utami & Ngumar (2019), and Ramadhani & Barus (2018), which reveal that institutional ownership variables have a negative influence on debt policy. Corporate debt levels will decrease through significant institutional ownership.

### *Effect of Free Cash Flow on Debt Policy*

According to the findings of the hypothesis test, H2 was rejected. The analysis findings indicate that the regression coefficient is negative, indicating that as free cash flow grows, debt policy will also decline. This shows that the Covid-19 epidemic has not positively affected the debt strategies of property and real estate corporations in terms of meeting their existing liabilities. According to agency theory, it is also exacerbated by the presence of excess cash flow. Free cash flow is the surplus of cash above what is required to finance all projects with positive net present values after dividends.

A business with a strong free cash flow will probably have enough cash to fund its activities. Before turning to debt and stock issues as a last resort, managers will prioritize retained earnings. If the company has sufficient internal resources, there is no need to borrow money from outside sources to support daily operations. To reduce the usage of debt, the corporation will make every effort to finance its activities with internal resources. The findings of this study

support the findings of previous research by Fransiska (2019), and Almarjan et al. (2020)

#### *Effect of Asset Structure on Debt Policy*

The test findings show a coefficient value of 0.052 and a significance value of 0.788 for the asset structure variable. The asset structure has no real impact on debt policy if the probability sign value of the asset structure variable is larger than the value of 0.05 or if it is not significant. As a result, the proposed hypothesis (H3) is rejected. This indicates that the corporation itself is negatively impacted by the existence of Covid 19. The results of this research contradict the trade-off notion put forth in the previous hypothesis. Because some companies have debt but do not use their fixed assets as collateral for these obligations. Consequently, the size of the asset structure does not affect the company's debt policy. The findings of this analysis are in line with the research by Saputri et al. (2020), Angeline & Wijaya (2022), and Utami & Ngumar (2019) who found no relationship between asset structure and debt policy.

#### *Profitability Moderates the Effect of Institutional Ownership on Debt Policy*

The findings reveal a negative regression coefficient between profitability and institutional ownership, indicating that profitability weakens institutional ownership to influence debt policy. A company's profitability is a factor in determining its debt strategy because strong profitability indicates that a company can generate significant revenue, enabling it to pay off loans and reduce its overall debt. Related to agency theory, profitability will strengthen the conflict between institutional ownership and debt policy. Conflicts between shareholders and investors will cost money for the agency. The more institutional control there is, the less frequently managers use corporate debt.

The value of institutional ownership owned by the company is Rp. 4.9 billion at the end of 2020, according to financial records released by PT. Natura City Developments Tbk (CITY), an increase of 1.73 percent from 2019 which was reported at Rp. 2.8 billion. The company's net profit was recorded at IDR 65.6 billion, up 2.07 percent from 2019's net profit of IDR 31.7 billion. According to the Debt to Equity Ratio (DER), the company's debt level decreased from 0.1390 in 2019 to 0.0923 in 2019. This demonstrates that the utilization of loans will decline as institutional ownership and firm profitability rise. Profitability may reduce institutional ownership's impact on debt policy. The analyses' findings are consistent with those of Arlim Setiawan & Bangun (2021), which found that profitability can moderate the relationship between institutional ownership and debt policy.

#### *Profitability Moderates the Effect of Free Cash Flow on Debt Policy*

Profitability has minimal impact on how free cash flow and debt policy interact. Companies with high free cash flow can use it to pay investors dividends, while those with low free cash flow choose to pay shareholders dividends with debt, according to agency theory.. Companies, however, have additional factors to consider. Every company occasionally faces low free cash flow but does not instantly turn to debt to finance ongoing expenses, such as

dividend payments to shareholders. The company has other factors to take into account and will use profits for its operations rather than borrowing money from other sources. When a company has excessive debt, investors are less likely to invest because of the risks involved. Low free cash flow companies will boost their profitability and use the extra cash to pay dividends rather than relying mostly on debt to fund their operations.

According to the study's findings, there were considerable disparities in property and real estate enterprises' financial performance before and after the Covid-19 pandemic. As a result, property and real estate firms have been better able to satisfy their short- and long-term financial obligations funded by their total assets as a result of the Covid-19 epidemic. This is consistent with previous findings that profitability cannot moderate the impact of free cash flow on debt policy ( Nihayah Fitriyani & Khafid, 2019).

#### *Profitability Moderates the Effect of Asset Structure on Debt Policy*

According to the findings of the hypothesis test, H<sub>6</sub> was rejected. The findings in the test above explain that the asset structure that is moderated by profitability is unable to predict the behavior of debt policy variables. Consistently profitable companies prefer to invest large sums of money in their day-to-day operations. The fact that the company has quite large internal funding sources indicates that management chooses internal funds with a lower risk. Based on the financial statements of Bumi Citra Permai Tbk (BCIP), in 2019 it had an asset structure of 0.0432, up from 2019 of 0.0404. The company's profit in 2018 was IDR 12.9 billion, down from IDR 23.2 billion in 2019. The corporate debt-to-equity ratio (DER) increased from 1,000 in 2019 to 1.0360 in 2020. Based on statistics, it can be seen that companies will continue to use a lot of debt while their asset structure increases but their profitability decreases. In contrast to Pakuwon Jati Tbk. (POWN), which experienced profit growth from IDR 1.1 trillion in 2019 to IDR 1.5 trillion in 2021 simultaneously with an increase in the asset structure from 2019 to 2020 of 0.0795 to 0.0890, the amount of debt owned by the company also increased, increased from 0.5035 in 2020 to 0.5051 in 2021. According to statistics from the two companies, the level of profitability cannot offset the impact of asset structure on debt policy. This is consistent with previous findings that profitability cannot moderate the impact of asset structure on debt policy (Umbarwati & Fachrurrozie, 2018) and Angeline & Wijaya (2022).

## **CONCLUSIONS AND RECOMMENDATIONS**

According to the study's findings, institutional ownership and free cash flow have a negative impact on debt policy, whereas asset structure has little to no influence. The impact of institutional ownership on debt policy can be moderated by profitability, but free cash flow and asset structure cannot be controlled by profitability.

## **FURTHER STUDY**

This study has limitations, including only utilizing three independent variables and one moderating variable. In addition, the study sample consists of just 45 samples. Only companies in the property and real estate sectors were

included in the three-year survey. Suggestions for further research are to increase the number of research samples by increasing the study period and population coverage and adding other variables that influence debt policy.

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