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THE EFFECT OF SHORT-TERM DEBT, LONG-TERM DEBT, TANGIBILITY, SALES GROWTH, FIRM SIZE, AND DEBT TO ASSET RATIO ON THE PERFORMANCE OF MANUFACTURING COMPANIES

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ABSTRACT

This study aims to obtain empirical evidence regarding the effect of short-term debt, long-term debt, tangibility, sales growth, firm size, and debt to asset ratio on the performance of manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The amount of data in this study was 243 samples with purposive sampling method. The test used in this study is the classical assumption test and uses multiple linear regression methods, and data processing using EViews 12 and IBM SPSS 26. The dependent variable in this study is company performance with the proxy Return on Asset (ROA), where the results obtained are sales growth has a positive effect on company performance, firm size and tangibility have a negative effect on company performance, and short-term debt, long-term debt, and debt to asset ratio have no negative effect on company performance.

Keywords: *short-term debt, long-term debt, tangibility, sales growth, firm size, debt to asset ratio, firm performance.*

1. INTRODUCTION

The worldwide COVID-19 pandemic has caused an economic downturn in almost all countries. The virus that started entering Indonesia in March 2020 caused the government to impose large-scale social restrictions. This caused many workers to work from home, thus reducing the company's operational activities, and had an impact on the company's profit decline. This decline in profits has caused some companies to forcibly lay off workers and make workers lose their livelihoods.

Not only the dismissal of workers, but other businesses also became empty of visitors and many businesses had to experience bankruptcy. COVID-19 is not an easy thing to deal with, but life must go on, and those who are affected must continue to struggle to survive. In the end, they try to invest their money in the capital market. The increase in investors in the capital market is evidenced by data presented by the Ministry of Finance which states that the number of investors increased by 53.41% during the pandemic. But unfortunately, some individuals do not understand how to distinguish companies that will provide profits in the future from those that will provide losses in the future. One way to determine the value of a company is by looking at the company's performance.

Investors can assess the company's performance by looking at several aspects of the company's financial statements. Firm performance can be influenced by several factors, such as short-term debt, long-term debt, tangibility, sales growth, firm size, and debt to asset ratio. By looking at the company's performance, investors will know whether the company is worth funding, or there are companies that are more feasible.

This study replicates the research of Nazir et al. [1] which examines the effect of short-term debt, long-term debt, tangibility, sales growth, and firm size on firm performance. However, in this study there are several differences from previous research, including (1) This study uses manufacturing companies listed on the Indonesia Stock Exchange, while research conducted by Nazir et al. [1] used Pakistani companies operating in the automobile, cement and sugar sectors, (2) This study uses the 2019-2021 period while research conducted by Nazir et al. [1] used the period 2013-2017, and (3) there is additional variable, namely debt to asset ratio. Based on the above, it is important to re-analyse the effect of short-term debt, long-term debt, tangibility, sales growth, firm size, and debt to asset ratio on company performance.

The purpose of the study was to obtain empirical evidence regarding (1) the effect of short-term debt on firm performance, (2) the effect of long-term debt on firm performance, (3) the effect of tangibility on firm performance, (4) the effect of sales growth on firm performance, (5) the effect of firm size on firm performance, and (6) the effect of debt to asset ratio on firm performance.

Literature Review

Signaling Theory

According to Brigham and Ehrhardt [2], signaling theory is a theory where the information provider (firm) will provide signals related to the company that are beneficial to the recipient of the information (investor). Signaling theory helps investors to know more about the firm's prospects. The company has more information about the internal information than other parties, so this is crucial because it will affect investors' decisions to conduct funding.

By sharing firm's financial reports with investors, it will help the firm describe the contents within the firm, such as assets and debt. External parties who want to finance the firm will expect the firm to carry out maximum operational activities so that it will improve the firm performance.

Trade-Off Theory

Trade-off theory describes a firm that has a higher level of debt will make the firm have to bear the interest burden and accept the risk of bankruptcy if it cannot pay the debt. Usually, the use of funds from debt is expected by companies to make tax savings. This is because with high debt payments, it will further reduce net profit before tax, and will reduce tax payments.

According to Brearly and Myers [3], the implications of trade of theory are: a. Companies with large business risks should use smaller debt, because the higher the debt, the more business risk will increase, b. Companies that are subject to high taxes should use debt because they will get a tax reduction, c. Companies that are profitable will have a higher target debt ratio than unprofitable companies, because unprofitable companies will rely more on equity than debt.

Firm Performance

According to Kasmir [4], firm performance is the result of the firm's management work that has been achieved in completing the firm's tasks and responsibilities within a certain period. Firm performance in this study is proxied by Return on Asset (ROA) which is calculated by comparing net profit after tax divided by total assets. This is related to signaling theory where investors are given information about the firm performance produced by a company.

Short-Term Debt

According to Fahmi [5], short-term debt is a short-term obligation, where the obligation has a period of time that is less than one year, and generally deals with internal and external firm issues. Short-term debt in this study is calculated by comparing short-term debt divided by total assets. Short-term debt is in line with the trade off theory, where companies need debt to finance company funds.

Long-Term Debt

According to Fahmi [5], long-term debt is non-current debt, because the funds used from the debt source are used to finance long-term needs, where the allocation is usually tangible assets and has a high selling value. Long-term debt in this study is calculated by comparing long-term debt divided by total assets. Long-term debt is in line with the trade off theory, where companies need debt to finance company funds.

Tangibility

According to Susanty & Yahya [6], tangibility is a description of the amount of assets that can be pledged by the firm if the firm is in a financial condition that is difficult to pay debts. Tangibility in this study is calculated by comparing net fixed assets divided by total assets. Tangibility is in line with the trade-off theory, where companies need debt to finance company funds.

Sales Growth

According to Kasmir [4], sales growth is a description of the firm's ability to survive among the economy and other business sectors. Sales growth in this study is calculated by comparing the firm's net sales between the current period and the previous period with the firm's net sales in the previous period. Sales growth is in line with signaling theory, where companies provide information about the increasing sales generated by the company to information recipients, one of which is investors.

Firm Size

According to Risma & Regi [7], firm size is a reflection of the total assets owned by the firm. Firm Size in this study is calculated by Ln (total assets).

Debt to Asset Ratio

According to Kasmir [4], the debt to asset ratio is a ratio used to compare total debt with total assets owned by the firm. Debt to asset ratio in this study is calculated by comparing total

debt divided by total assets owned by the firm. Debt to asset ratio is in line with the trade off theory, where companies need debt to finance company funds.

Hypothesis Development

The Effect of Short-Term Debt on Firm Performance

Short-term debt is one of the indicators used by companies to see how much of the company's assets are financed by short-term debt. An increase in short-term debt in a company results in a decrease in profits that will be obtained by the company. This is because the higher the short-term debt, the more it will increase the company's interest expense which will reduce the company's profit, where the decrease in company profits will have an impact on the company's performance.

Research conducted by Jati et al. [8] states that short-term debt has a positive effect on firm performance. Other research comes from Nazir et al [1] which states that short-term debt has a negative effect on firm performance. Then Hayati et al. [9] states that short-term debt has no positive effect on firm performance, supported by Hasan & Ahsan [10], where short-term debt has no negative effect on firm performance. Based on the explanation above, it can be concluded that the first hypothesis for this study is:
H1: Short-term debt has a negative effect on firm performance.

The Effect of Long-Term Debt on Firm Performance

Long-term debt is one of the indicators used by companies to see how much of the company's assets are financed by long-term debt. The more long-term debt increases, the more interest expense will increase which will affect the company's profit.

Research from Nainggolan [11] states that long-term debt has a positive effect on firm performance. Research from Hayati et al. [9] and Nazir et al. [1] state that long-term debt has a negative effect on firm performance. Inconsistent research comes from Bokhari & Khan [12] where long-term debt has no positive effect and based on Tailab's research [13], long-term debt has no negative effect on firm performance. Based on the explanation above, it can be concluded that the second hypothesis for this study is:
H2: Long-term debt has a negative effect on firm performance.

The Effect of Tangibility on Firm Performance

Tangibility is a description of how much the company's assets can be pledged if the company's financial condition is experiencing difficulties. With increasing tangibility, it means that the company needs more funding from external parties, which will increase the company's interest expense.
Based on research by Nazir et al. [1], tangibility has a positive influence on firm performance, while according to Nursatyani et al. [14], tangibility has a negative influence on firm performance. Research conducted by Musah & Agyemang [15] found that tangibility has no positive effect on firm performance, and research from Salsabella [16] that tangibility has no negative effect on firm performance. So, based on the explanation above, it can be concluded that the third hypothesis for this study is:
H3: Tangibility has a negative effect on firm performance.

The Effect of Sales Growth on Firm Performance

Sales growth is a description of the comparison between sales made by the company in a certain period compared to the previous period. The increasing sales growth, it means that the increasing effectiveness and productivity of the company in producing output for sales. Increased sales, it will increase the company's profits, and will improve the company's performance.

Research from Nazir et al. [1] states that sales growth has a positive influence on firm performance. Meanwhile, based on Bokhari & Khan's research [12], sales growth has a negative effect on firm performance. Based on research by Nugraha et al. [13] states that sales growth has a positive influence on company performance. So, based on the explanation above, it can be concluded that the fourth hypothesis for this study is:
H4: Sales growth has a positive influence on firm performance.

The Effect of Firm Size on Firm Performance

Firm size describes the total assets owned by the company. the greater the total assets owned by the company, the greater the operational costs that the company must incur in carrying out its production activities. this will reduce company profits due to increased operational costs. so that with decreasing profits, it will reduce company performance.

Firm size based on research by Nazir et al. [1] has a positive influence on firm performance. Based on Bokhari & Khan's research [12], firm size has a negative effect on firm performance. Based on research by Wahyudi et al. [14], firm size has no negative effect on firm performance, and has no positive effect on firm performance based on Pandey et al. [2015]. Based on the explanation above, the fifth hypothesis in this study is:
H5: Firm size has a negative effect on firm performance.

The Effect of Debt to Asset Ratio on Firm Performance

Debt to asset ratio is the ratio between total debt and total assets owned by the company. DAR illustrates how much of the company's assets are financed by debt. With the increase in DAR, it will further reduce the company's profit, because interest expense payments will increase. Based on Jurlinda et al. [16], DAR has a negative influence on firm performance. Based on Roni et al. [16], DAR has no positive effect on firm performance, and according to Tripuspitorini et al. [17], DAR has no negative effect on firm performance. So, based on the explanation above, it can be concluded that the fifth hypothesis for this study is:
H6: Debt to Asset ratio has a negative influence on firm performance.

The model in this study based on the explanation above is:

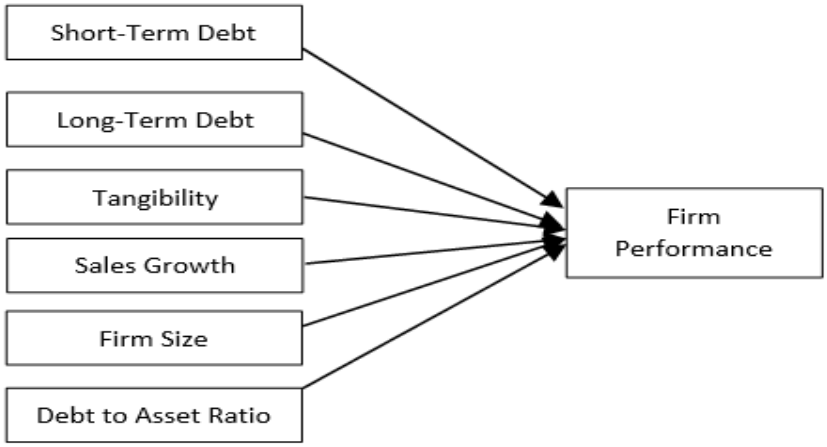

Figure 1. Research Model

2. RESEARCH METHODS

Population and Samples

This study uses a population of all manufacturing companies listed on the Stock Exchange for the 2019-2021 period. In selecting the sample in this study, the method used is purposive sampling. The criteria used are: (1) Companies that present financial statements for 2019-2021, and (2) companies that present financial statements in rupiah currency. Based on the above criteria, 243 data were obtained for this study.

Data Collection Technique

Data obtained from manufacturing companies listed on the Indonesia Stock Exchanger for the 2019-2021 period. The data collected is processed using EViews 12 SV software.

Variable Operations

The dependent variabel in this study is firm performance dan the independent variables is short term debt, long term debt, tangibility, sales growth, firm size, debt to asset ratio. According to Nazir et al. [1] research, firm performance proxied by return on asset (ROA) is measured using the formula:

$$ROA = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

According to Nazir et al. [1] research, short term debt symbolized by STD is measured using the formula:

$$STD = \frac{Total\ Short\ Term\ Debt}{Total\ Asset}$$

According to Nazir et al. [1] research, long term debt symbolized by LTD is measured using the formula:

$$\text{LTD} = \frac{Total\ Long\ Term\ Debt}{Total\ Asset}$$

According to Nazir et al. [1] research, tangibility symbolized by TG is measured using the formula:

$$\text{TG} = \frac{Net\ Fixed\ Asset}{Total\ Asset}$$

According to Nazir et al. [1] research, sales growth symbolized by SG is measured using the formula:

$$\text{SG} = \frac{Net\ Sales\ t - (Net\ Sales\ t-1)}{Net\ Sales\ t-1}$$

According to Nazir et al. [1] research, firm size symbolized by FS is measured using the formula:

$$\text{FS} = Ln\ (Total\ Asset)$$

According to Kasmir [4] research, debt to asset ratio symbolized by DAR is measured using the formula:

$$\text{DAR} = \frac{Total\ Debt}{Total\ Asset}$$

3. RESULTS AND DISCUSSION

Descriptive Statistics

Based on the criteria, a sample of 369 data was obtained with 124 outliers with a research period from 2019-2021. The result of the descriptive statistics test for each variable ar shown in the following table (Tabel 1):

Table 1. Descriptive Statistics

	Mean	Minimum	Maximum	Std. Dev.
ROA	0.051064	-0.095649	0.205600	0.057181
STD	0.246949	0.000100	0.600653	0.135407
LTD	0.146353	0,000300	0.466743	0.118755
TG	0.401237	0.000700	0.940684	0.200975
SG	0.039811	-0.562530	0.508600	0.205069
FS	12.83221	10.67088	15.08434	0.864898
DAR	0.383611	0.002400	0.508600	0.17794

Firm Performance (ROA) has a mean value 0.051064, a minimum value -0.095649, a maximum value 0.205600 with a standard deviation of 0.057181. Short term debt (STD) has

a mean value 0.256949, a minimum value 0.000100, a maximum value 0.600654 with a standard deviation of 0.135407. Long term debt has a mean value 0.146353, a minimum value -0.000300, a maximum value 0.466743 with a standard deviation of 0.118755. Tangibility (TG) has a mean value 0.401237, a minimum value 0.000700, a maximum value 0.940684 with a standard deviation of 0.200975. Sales growth (SG) has a mean value 0.039811, a minimum value -0.562530, a maximum value 0.508600 with a standard deviation of 0.205069. Firm size (FS) has a mean value 12.83221, a minimum value 10.67077, a maximum value 15.08434 with a standard deviation of 0.864989. Debt to Asset Ratio (DAR) has a mean value 0.383611, a minimum value 0.002400, a maximum value 0.508600 with a standard deviation of 0.17794.

Chow Test

The results of the Chow test are shown in the following table:

Table 2. The Result of Chow Test

Effect Test	Prob.
Cross-Section F	0.0000

The probability of Cross-section F from the Chow Test is 0.0000 (less than 0.05), which means that the model chosen is fixed effect model.

Hausman Test

The Result of the Hausman test is shown in the following table:

Table 3. The Result of Chow Test

Test Summary	Prob.
Cross-Section Random	0.1823

The probability of cross-section random from the Hausman Test is 0,1823 smaller than 0,05, means that the model chosen is random effect model.

Lagrange Multiplier Test

The results of the Langrange Multiplier test are shown in the following table:

Table 4. The Result of Lagrange Multiplier Test

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	76.5564	0.47006	77.02568
	(0.0000)	(0.4930)	(0.0000)

The probability value (Prob.) of Breusch-Pagan from the results of the Lagrange Multiplier test is 0.0000 (greater than 0.05), which means that the model chosen is random effect model.

Random Effect Model

The results of the random effect model test are shown in the following table:

Table 5. Random Effect Model

Variable	Adjusted R-squared
DER	0.0192660

Adjusted R squared

The results of the Adjusted R-squared test are shown in the following table (Table 6):

Table 6. The Result of Adjusted R-squared

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.242177	0.068652	3.527580	0.0005
STD	-0.043215	0.051445	-0.840023	0.4017
LTD	-0.085139	0.043323	-1.965217	0.0507
TG	-0.066727	0.019775	-3.374379	0.0009
SG	0.054223	0.010957	4.948622	0,0000
FS	-0.010890	0.005463	-1.993623	0.0473
DAR	-0.010858	0.042766	0.253900	0.7998

The value from the results of the Adjusted R-squared test is 0192660, it means that short term debt, long term debt, tangibility, sales growth, firm size, and debt to asset ratio are only able to explain the variation of firm performance of 19,2660% and the remaining 80,734% is influenced by other variable not included in this research.

Hypothesis Test Result

The results of hypothesis testing are shown in the following table (Table 7):

Table 7. The Result of Hypothesis Test

		Coefficient	Prob.	Description
STD	➔ROA	-0.043215	0.4017	H1 not accepted
LTD	➔ROA	-0.085139	0.0507	H2 not accepted
TG	➔ROA	-0.066727	0.0090	H3 is accepted
SG	➔ROA	0.054223	0.0000	H4 is accepted
FS	➔ROA	-0.01089	0.0473	H5 is accepted
DAR	➔ROA	-0.010858	0.7993	H6 not accepted

The regression coefficient of short-term debt (STD) on firm performance (ROA) is negative 0.043215. The probability of p-value is 0.4017 greater than 0.05. This result shows that short-term debt has no negative effect on firm performance, means H1 is not accepted.

The regression coefficient of long-term debt (STD) on firm performance (ROA) is negative 0.085139. The probability of p-value is 0.0507 greater than 0.05. This result shows that long-term debt has no negative effect on firm performance, means H2 is not accepted.

The regression coefficient of tangibility (TG) on firm performance (ROA) is negative 0.0667272. The probability of p-value is 0.0009 lower than 0.05. This result shows that tangibility has negative effect on firm performance, means H3 is accepted.

The regression coefficient of sales growth (SG) on firm performance (ROA) is positive 0.054223. The probability of p-value is 0.0000 lower than 0.05. This result shows that sales growth has positive effect on firm performance, means H4 is accepted.

The regression coefficient firm size (FS) on firm performance (ROA) is negative 0.010858. The probability of p-value is 0.0473 (less than 0.05). This result shows that firm size has negative effect on firm performance, means H5 is accepted.

The regression coefficient debt to asset ratio (DAR) on firm performance (ROA) is negative 0.010858. The probability of p-value is 0.7993, which is less than 0.05. This result shows that debt to asset ratio has no negative effect on firm performance, means H5 is not accepted.

Discussion

The Effect of Short-Term Debt on Firm Performance

Short term debt has no negative effect on firm performance. This is in line with research conducted by Hasan & Ahsan [10] which states that short term debt has no negative effect on firm performance. Meanwhile, based on research conducted by Jati et al. [8], short term debt has a positive influence on firm performance. This research is not in line with research conducted by Nazir et al. [1] where short term debt has a negative effect on firm performance.

Increasing short term debt does not affect firm performance. With an average short-term debt of 24%, this indicates that 76% of other funding is provided by other factors such as retained earnings or funding from other external parties. So, it can be said that short term debt does not have a material value. So, it can be concluded that short term debt has no influence on firm performance because there is other funding besides short-term debt.

The Effect of Long-Term Debt on Firm Performance

Long term debt has no negative effect on firm performance. This is in line with research conducted by Tailab [3] which states that long term debt has no negative effect on firm performance. Other research from Nazir [1] states that long term debt has a negative effect on firm performance. Meanwhile, research conducted by Bokhari & Khan [12] states that long term debt has no positive effect on firm performance.

Long-term debt describes how much of the company's assets are financed by long-term debt. This study has the result that long-term debt has no negative effect on firm performance. This means that the higher the long-term debt in a company will not affect firm performance. The reason long-term debt does not affect firm performance is because there are other factors that finance assets, such as funds from investors or retained earnings. So, with other assets

purchased from other funding, it will not increase the company's interest expense. In conclusion, long-term debt does not have a negative influence on firm performance.

The Effect of Tangibility on Firm Performance

Tangibility has a negative influence on firm performance. This research is in line with research conducted by Nursatyani et al. [14] where tangibility has a negative influence on firm performance. The results of this study are not in line with research conducted by Musah et al. [15] where tangibility does not have a positive influence on company performance.

Tangibility is an asset structure calculated by comparing net fixed assets with total assets owned by the company. The higher the tangibility means the higher the assets that can be collateralized if the company has difficulty paying debts. With increasing tangibility, it will further reduce firm performance. This is because the company requires more funds from external parties, which will affect the interest expense that the company will pay. With increasing tangibility, the interest expense will increase, and will reduce the company's profit. That way, the company's performance will decrease. So, it can be concluded that increasing tangibility will reduce firm performance.

The Effect of Sales Growth on Firm Performance

Sales growth has a positive influence on firm performance. This research is in line with research conducted by Nugraha [13] where sales growth has no positive influence on firm performance. Other research conducted by Bokhari & Khan [12] has results where sales growth has a negative effect on firm performance.

Sales growth describes sales growth in a period compared to the previous period. With increasing sales growth, it will improve firm performance. This is because, the higher the sales, the more profit the company will get. So that the return distributed to shareholders will also increase, which will lead to an increase in firm performance. This can conclude that sales growth has a positive effect on firm performance.

The Effect of Firm Size on Firm Performance

Firm size has a negative influence on firm performance. This is in line with research conducted by Bokhari & Khan [12] where this study has the result that firm size has a negative effect on firm performance. Research conducted by Nazir et al. [1] states that firm size has a positive influence on firm performance.

Company size describes how much total assets are owned by the company. With the increase in company size, it will further improve firm performance. This is because, the increasing size of the company, means more company assets. With the increase in company assets, it will further increase the company's operating costs, and will result in a decrease in company profits which have an impact on reducing company performance. Thus, it can be concluded that the increasing size of the company will further reduce the company's performance.

The Effect of Debt to Asset Ratio on Firm Performance

Debt to asset ratio does not have a negative influence on company performance. This research is in line with research conducted by Tripuspitorini et al. [17] where the debt to asset

ratio has no negative effect on company performance. In addition, there are research results presented by Jurlinda et al. [16] where the debt to asset ratio has a negative effect on company performance.

Debt to asset ratio describes the ratio between total debt and total assets owned by the company. With an increase in the debt to asset ratio, it indicates that the increasing assets of the company are financed from debt. The DAR value in manufacturing companies is 38.22%, which means that on average manufacturing companies have 38.22% of assets financed by debt. This means that the proportion of assets financed based on other funding such as investor funds or retained earnings is greater than assets financed by debt. Thus, the interest costs that must be paid will not affect the company's profits. So, it can be concluded that the debt to asset ratio does not have a negative influence on company performance.

4. CONCLUSIONS AND RECOMMENDATIONS

Conclusion

This study produces evidence that short-term debt, long-term debt, and debt to asset ratio have no negative influence on firm performance. Company size and tangibility have a negative influence on firm performance. Sales growth has a positive influence on firm performance. Future research is expected to be able to use other variables in explaining firm performance, and also and can add years of research so that it better describes the conditions that actually occur.

Limitation

The limitation in this study is that it only uses six variables in explaining firm performance and only uses three periods, namely 2019-2021 for its research. For the future, it is better to add other independent variables such as firm age and extend the research period.

Implication

This research is expected to help potential investors in choosing the right company to conduct funding and can help companies to find out what factors need to be improved and reduced to produce financial reports that will be of interest to potential investors.

Investors or manufacturing companies can try to improve factors that will affect firm performance, one of which is sales growth. Based on this research, firm size and tangibility can have a negative effect on firm performance, so companies are expected to be able to reduce these two factors so as not to reduce firm performance.

As a potential investor, you must also pay attention to firm performance and tangibility, because this has a negative impact on firm performance. Meanwhile, short-term debt, long-term debt, and debt-to-asset ratio do not affect the firm performance.

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