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# INTERNAL FUNDING AND OTHER FACTORS AFFECTING THE DEBT POLICY OF MINING COMPANIES

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***ABSTRACT***

*Mining companies play a pivotal role in Indonesia's economy, given their substantial presence within the stock exchange, comprising approximately 20% of the total listed companies on the Indonesia Stock Exchange. The mining sector's capital-intensive nature presents challenges in deciding financing solutions for its operations. The critical decision regarding debt policies will affect the company's future whether the company is using their internal funding or taking on an external debt. This study consists of five independent variables, namely X1 asset structure (tangibility), X2 liquidity, X3 internal funding, X4 profitability, and X5 company size, with the dependent variable (Y) debt policy. The objective of this research is to determine whether asset structure, liquidity, internal funding, profitability, and company size affect the debt policy of mining companies listed on the Indonesia Stock Exchange in the 2018-2022 period. The result of the research provides insights regarding the types of relationship between these financial factors and debt policy. The sample was selected using a purposive sampling method and with total data passed 160 datas. Data analysis was performed using a processing tool, namely the Statistical Package for Social Sciences (SPSS) version 25, as well as the multiple linear regression, F-test, T-test and adjusted R2 test. The results showed that the asset structure variable and company size variable have a significant positive effect on corporate debt policy variable. Liquidity and internal funding variables have a significant negative effect on debt policy. Surprisingly, the profitability variable has no effect on debt policy. This means that mining companies with more tangible assets and larger sizes are more inclined to use debt as a financing strategy, while those with higher liquidity and internal funding tend to rely less on external debt.*

***Keywords:*** *asset structure, liquidity, internal funding, profitability, company size, debt policy.*

## 1. INTRODUCTION

In general, go-public companies have the objective to increase the company value by maximizing the company profit and ensure the prosperity of the shareholders of the company. Mining companies listed on the Indonesian Stock Exchange operate in the energy sector and the raw material sector with a total of 180 companies. The number of mining companies on the Indonesia Stock Exchange is significant compared to the total number of existing companies. 20 % of the companies out of 876 companies listed are categorized as mining companies.

Growth of mining companies plays a significant role in increasing national economic growth. The large number of mining companies makes competition between mining companies intense to maximize the company value. Mining companies are the type of business that requires large capital to carry out its operational activities. Besides its operational activities, mining companies also need to acquire and explore new mining lands. Mining companies are faced with two options, using companies' internal capital, or seeking external debt as a financing solution. The decision-making strategy related to deciding the company source of capital is called capital structure policy, also known as debt policy.

To maximize the company value, companies need to use the combination of debt and equity that produces the lowest capital that is suitable to companies' needs. By using the most suitable capital structure to the companies' needs, mining companies can increase their productivity and performance. The structure of capital of each company will be different because of the different risks faced by companies in each sector and the conditions of the company itself. Even though companies are in the same industrial sector, the risks that companies faced can also be variative. There are many factors that can influence the establishment of this policy, including assets owned by the company, liquidity, profitability, internal funding, company size and other factors.

Management has an important role in the debt policy because the manager is responsible for finding sources of funds and managing the funds. If sources of funds come from debt, the company will face additional risk, which is the risk of bankruptcy. According to Yeniatie and Nicken [23], companies whose funding activities using debt will have their liquidity threatened due to the company's inability to pay off its debt. Company management prefers to use internal sources of funds, for example retained earnings, because it is considered to have less risk than using the external sources, namely debt.

The positive side of using debt is the interest arising from the debt will become a burden that reduces company taxes. Apart from that, shareholders also believe that with debt, it is easier to control management's actions and decisions because new obligations will arise which are periodic payments on debt and interest on debt. Management control over the company's cashflow can be minimized and cash flow becomes more transparent. For these reasons, shareholders prefer financing with debt.

The difference of opinion between the interests of company management and the company's shareholders regarding financing decisions can give rise to conflicts of interest known as agency theory. As agents of the shareholders in agency theory, management should act and make decisions that benefit the shareholders. However, many management entities tend to prefer using internal funding from retained earnings for expansion and operational needs of the company. This condition is known as agency theory.

Companies that have a high asset structure usually have large debts because the assets they own can be used as collateral or guarantee for the loan they are applying for. On the other hand, companies that have high profitability usually have low debt rates because with the ability to generate large profits, the company can allocate most of its profits as retained earnings which will be used as a source of internal funds. In research, Thu-Trang & Thi Doan [6], states that profitability and asset structure have a significant negative influence on debt policy. On the other research by Sakra [5], it was stated that asset structure had a significant negative influence, but profitability had a significant positive influence towards debt policy. And lastly, based on the research by Fatima, Muhammad Hafiz [11], it was found that there is a positive relationship between profitability and debt policy and there is no influence or any relationship between asset structure and debt policy.

Usually the larger the company size, the greater the company's asset structure. Larger companies tend to expand and require larger funds than the smaller ones. Meanwhile, companies with high liquidity usually have a lot of current assets such as cash to finance the company's operational activities so that the company does not need to look for external sources of funds. According to Thu-Trang & Thi Doan [6], Maya, Netti & Sulastri [20] in their research found a significant negative influence between liquidity and debt policy. But

this result of research is different from research by Cynthia & Yanti [1] and Suherman, Resy & Umi [16] which stated that liquidity has a significant positive influence on debt policy.

Research by Omar & Sager [8], Thu-Trang & Thi Doan [6], Ahmed & Amina [3], Fatima, Muhammad & Hafiz [11] argue that the larger the company size, the company also tends to get its funding through debt. Meanwhile, according to Hasan, Subowo & Saparuddin [14], Umi & Fachrurrozie [7], Maya, Netti & Sulastri [20] found that company size has a negative effect on company debt policy. And finally, there is also a quite different opinion regarding this, namely research by Nugi, Adam, Bulan & Nugroho [10] which states that the size of a company has no influence on the company's debt policy.

Companies with substantial retained earnings tend to use internal funding. This aligns with the Pecking Order Theory, which predicts that a company's financing tends to follow an order by utilizing internal funding sources first. However, research by Jacek & Mario [12] found the opposite, suggesting that internal funding has a significant negative impact on debt policy.

Inconsistencies in the findings of previous research studies have brought to light a significant gap in the relationship between various financial variables and company's debt policy. Given the diversity of opinions presented earlier, the author is interested in conducting this research to re-examine the influence of asset structure variables, liquidity variables, profitability variables, internal funding variables and company size variables on debt policy variables with the title: "The Influence of Asset Structure, Liquidity, Internal Funding, Profitability and Size Companies regarding the Debt Policy of Mining Companies Listed on the Indonesia Stock Exchange in the 2018 - 2022 period.

**Signaling Theory**

Signaling theory is an action taken by company management that provides instructions to investors about how management views the company’s prospects. Signaling theory explains the reasons why companies have the initiative to always report information voluntarily to investors even though there is no order from the regulatory body with the aim of retaining and attracting investors to the company.

This theory is a guide for companies to always uphold transparency in their financial performance data. As a result, we as investors or the public can find out the company's financial report figures, for example through the company's own website or from the BEI (Indonesian Stock Exchange) website.

**Pecking Theory**

Pecking theory is a funding structure model based on a hierarchical order of funding sources. Funding is sorted from the cheapest source of funds available internally, which is retained earnings, secondly, external debt and finally, the issuance of new shares to fill the company's capital composition.

Pecking Order Theory minimizes the possibility of a company using debt in its capital because this theory guides the sequence of funding decisions by management. This means that the company will only use external funding if internal funds are insufficient. Based on the Pecking Order Theory, we can conclude that using retained earnings is the first step that management will take before taking debt and issuing shares.

**Agency Theory**

Agency theory is a theory that explains the existence of interest conflicts between company managers and shareholders. The cause of this conflict of interest is an imbalance in the information received by both parties. This information imbalance can take the form of non-transparency in the company's management performance. Other forms of information imbalance are when there is not enough information in the company's financial reports to monitor and assess the manager's performance, allegations of earnings management actions and other things.

Shareholders prefer sources of funds that come from debt because the interest on debt is fixed, and interest can be a factor in reducing company tax. Meanwhile, on the other hand, company managers prefer internal funding, namely retained earnings, because if these internal funds are used optimally, they will not pose a risk of bankruptcy for the company. Management can make expansion or large investments for the company's prosperity without having to worry about the risk of failure or bankruptcy. Unethically, managers can also boldly increase consumptive and unproductive expenditure, for example by increasing remuneration, increasing salaries and status.

In which, as agents of shareholder in agency theory, management should make decisions that improve the prosperity of shareholders. However, many managements tend to prefer to use internal funding from retained earnings for company expansion and operational needs.
This conflict of interest causes additional costs or agency costs for the company to monitor and control the decisions and actions taken by management. One way to reduce agency costs is to increase debt funding because it can carry out a monitoring function for shareholders indirectly by having regular payment obligations to creditors. Debt causes managers to be unable to use free cash flow or arbitrary company cash flow.

**Debt Policy**

The dependent variable is a variable that can be easily influenced by other variables. The dependent variables used in this research is debt policy. Debt policy is a company policy that regulates the size of a company’s external funding (debt) as a source of operational funding funds. According to Kieso et al (2013) in the book Intermediate Accounting, second edition, debt policy is an obligation that arises at this time due to past events accompanied by transfer of resources from previous transactions.

The debt policy is proxied by debt to asset ratio (DAR) with the formula, company’s total debt divided by the total assets owned by the company. By managing funds wisely, the company can minimize the risk of bankruptcy.

**Tangibility**

Asset structure is the fund allocation for the components of assets owned by the company, both fixed assets and current assets. Asset structure can also be interpreted as the resources that belong to the company in carrying out its business activities. Asset structure or asset structure is also known as tangibility and can be calculated by dividing the company's total current assets by the total assets owned.

Companies that have an asset structure consisting of many non-fixed assets have the higher potential to use alternative external funding. This happens because companies that have assets will tend to use debt because of the ease of providing loans with asset collateral. The hypothesis proposed by the author regarding asset structure and debt policy is:

Ha1: Asset structure has a significant positive effect on debt policy.

**Liquidity**

Liquidity is the company's ability to pay its debts or obligations in the short term. Liquidity can also be interpreted as a company's ability to convert its assets into cash to pay its debts. Companies that have a high level of liquidity tend to have sufficient current assets or cash to pay their debts.

To calculate a company's liquidity, the formula used is current assets divided by the company's short-term liabilities or debt or known as liquidity ratio formula. A higher number of current ratios means that the company has a greater ability to pay its debts without relying on external funding, namely debt. The hypothesis proposed by the author regarding liquidity and debt policy is:
Ha2: Liquidity has a significant positive effect on debt policy.

**Internal Funding**

Internal funding is an alternative fund for company operational activities that originates within the company itself from the net profit set aside after distribution of dividends to shareholders. These undistributed funds can be a way for companies to operate without applying loans or debt. Internal funding can be calculated by dividing retained earnings with the total assets owned by the company.

Companies tend to use very little debt for their working capital needs if the company has high internal funding. Internal funding usually comes from net profits that are retained or not distributed to the company's shareholders. The hypothesis proposed by the author regarding internal funding and debt policy is:
Ha3: Internal funding has a significant positive effect on debt policy.

**Profitability**

Profitability describes a company's ability to gain profits through all activities and resources it has, including sales, cash, capital, and others. Profitability is one of the way to measure a company's performance, whether the company succeeds or fails in achieving consistent profit growth over a certain period. In conclusion, profitability is the ability of a company to make profit during a certain period.

Profitability or a company's ability to make money is measured by profitability ratios. Profitability ratio is often proxied using ROE (Return on Equity), a type of ratio that measures a company's ability to generate profits or benefits for shareholders. Return On Equity describes the company's profit based on a certain amount of share capital. Companies with high profitability tend to score high net profits and the company will use funding with a relatively small proportion of debt. This happens because the company has more money from retained earnings to develop without having to apply for a loan. The hypothesis proposed by the author regarding profitability and debt policy is:
Ha4: Profitability has a significant positive effect on debt policy.

**Company Size**

Company size is the size of the company calculated from the total equity value or total value of assets owned. Company size can generally be assessed based on the company's market capitalization as well as the total and average assets and sales of the company. In this

research, company size is calculated using the logarithm value of total assets or ln (total assets).

The size of the company will have an impact on the decision to use debt or not by a company. The characteristics of a large company are it has a high total asset value, and it is also subject to high taxes. On the other hand, companies with a small size usually have small total assets. The size of the company will logically cause the company to prefer to borrow to meet its funding needs because it can be collateralized by the assets it owns and the use of debt itself will reduce the taxes a company has to pay significantly. The hypothesis proposed by the author regarding company size and debt policy is:
Ha5: Company size has a significant positive effect on debt policy.

The relationship between the independent variables and the dependent variable in this research can be illustrated in the picture below:

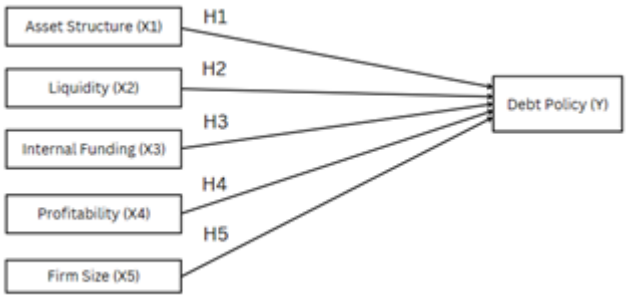


Figure 1. Conceptual Framework

The independent variables (X1 asset structure (tangibility), X2 liquidity, X3 internal funding, X4 profitability and X5 company size) will be tested to see whether they influence the debt policy of mining companies in Indonesia.

## 2. RESEARCH METHOD

This study uses data of mining companies that are in energy and raw material sectors in Indonesia and have been listed on Indonesia Stock Exchange (IDX) in the 2018 – 2022 period. This research uses secondary data from the mining companies' financial statements published on IDX website period 2018 - 2022. Data collection in this research was carried out using a quantitative approach. The quantitative approach focuses data analysis on data in the form of numbers (quantitative data). This data will be processed further using Microsoft Excel and SPSS.

The population in this research is all companies in the raw materials sector and energy sector listed on the Indonesia Stock Exchange (BEI) for the period 2018 - 2020. A sample is a portion of the total population used by researchers in a study. In determining the sample, appropriate and correct sampling is needed. Sampling technique is a method used to determine the sample for a study. This research took samples using a purposive sampling method. The purposive sampling method is a method of selecting a sample based on certain considerations or criteria to obtain a sample that meets the standard sample according to what the researcher wants.

Where the criteria used in sampling in this research are as follows:

1) Mining companies in the energy sector and raw materials sector listed on the Indonesia Stock Exchange.
2) Companies that did not carry out an IPO (Initial Public Offering) during the research period.
3) Companies that have published complete financial reports from 2018 to 2022.
4) Companies that do not have the potential to be delisted from the Indonesian Stock Exchange (BEI).
5) Companies that have carried out mining activities for 5 consecutive years.

Service companies in the mining sector such as company that transports mining products and company that provides mining service are not included as mining companies in this research because these companies do not have mines to mine, and they do not sell mining products such as coal, gold, oil or others. According to sampling using the purposive sampling method, there were 32 mining companies that met the sample criteria for research. The annual financial reports studied by each company include reports for the last 5 years. Resulting the total data used for the research 160 data.

Table 1. Operational Variables & Formula

| **Variable** | **Formula** | **Scale** |
|---|---|---|
| Debt Policy | Y= $DAR = \frac{Total\ Debt}{Total\ Asset}$ | Ratio |
| Tangibility | X1= Asset Structure = $\frac{Current\ Asset}{Total\ Asset}$ | Ratio |
| Liquidity | X2= Current Ratio = $\frac{Current\ Asset}{Current\ Liability}$ | Ratio |
| Internal Funding | X3= IntFund = $\frac{Retained\ Earnings}{Net\ Total\ Asset}$ | Ratio |
| Profitability | X4=ROE = $\frac{Net\ Income}{Total\ Equity}$ | Ratio |
| Company size | X5= SIZE =Ln (Total Asset) | Ratio |

## 3. RESULTS AND DISCUSSIONS

Table 2. Descriptive Statistic Results

| | ***N*** | ***Min. Value*** | ***Max. Value*** | ***Mean Value*** | ***Std. Deviation*** |
|---|---|---|---|---|---|
| TANG | 160 | 0.06 | 1.00 | 0.3543 | 0.19570 |
| LQD | 160 | 0.06 | 146.13 | 3.54 | 14.39036 |
| INTFD | 160 | -1.81 | 4.56 | 0.1198 | 0.64619 |
| ROE | 160 | -2.90 | 7.56 | 0.1870 | 0.79938 |
| SIZE | 160 | 23.587 | 32.64 | 29.4169 | 3.07586 |
| DAR | | 0.09 | 1.44 | 0.5068 | 0.26578 |

In this research there are 5 independent variables and 1 dependent variable. The dependent variable used is Debt to Asset Ratio (DAR). Based on sample data collected, the highest DAR value is owned by the company PT Wilton Makmur Indonesia Tbk with a DAR value of 1.44 and the smallest DAR value is owned by PT Harum Energy Tbk with the number 0.085. The average DAR value of this study was 0.50. Independent variable 1 used in this research is asset structure with the highest value, stated 1, by PT Akbar Indo Makmur Stimec Tbk and the lowest value, stated 0.060, by PT Bumi Resources Minerals Tbk. The average value of the asset structure (tangibility) in this research is 0.354.
The second independent variable used in this research is liquidity with the highest value, stated 146,130 by PT Perdana Karya Perkasa Tbk and the lowest value, stated 0.0593 by PT

Wilton Makmur Indonesia Tbk. The average value of liquidity in this research is 3. 53894.The third independent variable used in this research is the internal funding variable. The highest value of the internal funding ratio in this research was 4.564 by PT Mitra Investindo Tbk. The lowest value of the internal funding ratio in this research was -1.81 by PT Perdana Karya Perkasa Tbk and the average internal funding ratio in this research was 0.119.

The fourth independent variable in this research is profitability. The highest value of the profitability ratio in this research was 7.56 by PT Mitra Investindo Tbk and the lowest value of the profitability ratio in this research was -2.89 by PT Perdana Karya Perkasa Tbk. The average profitability value is 0.187. The 5th independent variable in the research is company size. The highest company size value in this study was 32.63588, by PT Adaro Energy Indonesia Tbk. The lowest company size value in this study was 29.41, by PT Akbar Indo Makmur Stimec Tbk. The average company size value is 29.58.

After all the classic assumption test, the author continue to proceed the data to the regression test. Multiple linear regression analysis was used in this research to determine and examine the relationship between the dependent variable and two or more independent variables, namely asset structure, liquidity, internal funding, profitability (ROE) towards company size on mining company debt policy. Multiple linear regression analysis is used to predict changes in variable Y if one of the variables X (X1, X2, X3, X4 or X5) is manipulated. The coefficient of determination is used with the aim of analyzing the percentage (%) influence of the independent or independent variable on the related or dependent variable.

The multiple regression equation in this research is:

$$\boldsymbol{Y = \alpha + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + \beta_5 X5 + \varepsilon}$$

Notes :

| | |
|---|---|
| $\alpha$ | = Intercept Coefficient |
| $\beta_1, \beta_2, \beta_3, \beta_4$ | = Multiple Regression Coefficient |
| Y | = Debt Policy |
| $\varepsilon$ | = *error* |
| X1 | = Tangibility |
| X2 | = Liquidity |
| X3 | = Internal Funding |
| X4 | = Profitability |
| X5 | = Company size |

The analysis results obtained using the multiple linear regression analysis method in this research can be seen in the table below:

Table 3. Multiple Linear Regression Test Results

| | ***B*** | ***Std. Error*** | ***Calculated t-value*** | ***Sig. Value*** |
|---|---|---|---|---|
| (Const) | -8.906 | 1.726 | -5.190 | 0.000 |
| TANG | 0.410 | 0.092 | 4.476 | 0.000 |
| LQD | -0.595 | 0.076 | -7.896 | 0.000 |
| INTFD | -2.82 | 0.052 | -5.478 | 0.000 |
| ROE | -0.036 | 0.027 | -1.342 | 0.183 |
| SIZE | 4.090 | 0.822 | 4.977 | 0.000 |

The Beta value from the analysis can be used as the Beta value of each variable in the previous multiple regression equation. Based on the summary table of the results of the multiple linear regression test, it can be concluded that the research equation model is:

**DP = -8.960 + 0.410 TANG – 0.595 LQD – 0.282 INTFD – 0.036 ROE + 4.090 SIZE + *ERROR***

Notes: DP: *Debt Policy.*

The F test is a statistical test carried out to examine whether the independent variables, namely asset structure, liquidity, internal funding, profitability (ROE) and company size which are part of the research model, have a joint influence on the dependent variable, namely the company's debt policy. The results of the overall significance test or F test can be seen in the table below, namely:

Table 4. F-Test Results

| Model | ***Sum of Squares*** | ***Mean Square*** | ***F value*** | ***Sig. Value*** |
|---|---|---|---|---|
| Regression | 10.686 | 2.137 | 35.356 | 0.000 |
| Residual | 4.594 | 0.060 | | |
| Total | 15.280 | | | |

Based on the table of F-statistical test results, it can be concluded that the independent variables in the research, namely asset structure, liquidity, internal funding, profitability (ROE) and company size simultaneously have a significant influence on the company's debt policy because the research significance value is 0.000, which is smaller rather than 0.05, meets the F value <0.05. It proves that the variables (X) in this research simultaneously or together have a significant effect on the variable (Y) or mining company debt policy (DAR).

The t test is an analytical test carried out to examine how much influence the independent variables partially have on the company's debt policy towards mining companies listed on the IDX. The t-test is also known as the partial significance test.

The results obtained from this research can be seen in the following t-test result table:

Table 5. T-Test Results

| | ***Unstandardized Coefficient*** | | ***Standardized Coefficient*** | ***t-value*** | ***Sig. Value*** |
|---|---|---|---|---|---|
| Model | *B* | ***Std. Error*** | ***Beta*** | | |
| (Constant) | -8.906 | 1.726 | | -5.190 | 0.000 |
| TANG | 0.410 | 0.092 | 0.373 | 4.476 | 0.000 |
| LQD | -0.595 | 0.076 | -0.680 | -7.869 | 0.000 |
| INTFD | -0.282 | 0.052 | -0.429 | -5.478 | 0.000 |
| ROE | -0.036 | 0.027 | -0.088 | -1.342 | 0.183 |
| SIZE | 4.090 | 0.822 | 0.320 | 4.977 | 0.000 |

The research model has a total data of 160 datas (N), significance level of 0.05 and a total of 5 independent variables (K). The t value obtained from t table with coordinate (significance level/2; N-K-1) is 1.572. The t table value was obtained with table coordinates (0.025; 154), namely +1.572. The area of influence of the independent variable is divided into 3 large parts, namely:

1) If the calculated t-test value is smaller than the calculated t-value which is negative (-), it means that the area is negative influence.
2) The area has no effect if the calculated t-test value is between the positive (+) calculated t-test value and the negative (+) calculated t-test value.
3) If the calculated t test value is greater than the t table value, which is positive (+), it means that the area is positive influence.

Based on the research, the asset structure variable (X1) influences the company's debt policy positively because the calculated t value > t table value, in which 4.476 > 1.572. The regression coefficient for the asset structure variable is 0.410, meaning that if the asset structure variable increases by 1%, the company's debt policy will increase by 0.410. Besides that, the significance of the asset structure variable is 0.000 which is smaller than 0.05. Hypothesis one in this research is that asset structure has a significant positive effect on debt policy. With the results of the research conducted, it can be stated that asset structure has a significant positive effect on debt policy.

Liquidity variable (X2) influences the company's debt policy negatively because the calculated t value < t table value, in which -7.869 > 1.572. The regression coefficient for the liquidity variable is -0.595, meaning that if the liquidity variable increases by 1%, the company's debt policy will increase by -0.595. The significance value of the liquidity variable is 0.000 which is smaller than 0.05. It can be concluded that hypothesis two cannot be accepted.

The calculated t value of internal funding variable (X3) is smaller than the t table value, 5.478 < -1.572 so it can be interpreted that the influence of internal funding variable on debt policy is negative. The regression coefficient for the internal funding variable is -0.282, meaning that if the liquidity variable increases by 1%, the company's debt policy will increase by -0.282. The significance value of the internal funding variable is 0.000, where the significance value is smaller than 0.05, indicating that hypothesis three cannot be accepted.

The calculated t value of profitability variable proxied by return on equity (X4) is -1.342. The calculated t value is between the positive and negative of t table value, in which -1.572 > -1.342 >1.572. From the result, we can conclude that profitability does not affect debt policy. The significance value for the profitability variable is 0.183. The significance value from the results of the t test that has been carried out is proven to have a value greater than 0.05 so it can be concluded that profitability does not have a significant influence on the dependent variable (debt policy). Therefore, the hypothesis four cannot be accepted.

The calculated t value of X5, company size variable is 4.977. The calculated t value is larger than the t table value, 4.977 > 1.572. It can be interpreted that influence of company size on debt policy is positive. The regression coefficient for the company size is 4.090, meaning that if the company size variable increase by 1%, the company's debt policy will increase by 4.090. Based on the results of the t-test, the significance value of the company size variable is 0.000. The significance value of 0.000 is proven to be smaller than 0.05 so it can be concluded that hypothesis five is accepted.

The results of regression on hypotheseses of the research is provided on the table below:

Table 6. Hypothesis Test Results

| Hypothesis | Prob. | Conclusion |
|---|---|---|
| Asset structure has a significant positive effect on debt policy. | 0.000 | The hypothesis is accepted. |
| Liquidity has a significant positive effect on debt policy. | 0.000 | The hypothesis is rejected. |
| Internal funding has a significant positive effect on debt policy. | 0.000 | The hypothesis is rejected. |
| Profitability has a significant positive effect on debt policy. | 0.183 | The hypothesis is rejected. |
| Company size has a significant positive effect on debt policy. | 0.000 | The hypothesis is accepted. |

Coefficient determination is a test carried out with the aim of assessing how much variation in the independent variable can explain the dependent variable in the research model. The results of the coefficient of determination test table can be seen in the table below:

Table 7. Adjusted R2 Table

| Model Summary | ***R*** | ***R Square*** | ***Adjusted R Square*** | ***Std. Error of the Estimate*** |
|---|---|---|---|---|
| 1 | 0.836 | 0.699 | 0.680 | 0.24586 |

Based on the table, it is known that the adjusted R square value of the model is 0.680 (68%). This indicates that variations in the debt policy variable in this research can be explained 68% by the independent variables X1 asset structure (tangibility), X2 liquidity, X3 internal funding, X4 profitability. Meanwhile the left 32% is influenced by other variables outside of the research.

Ha1: Asset structure has a significant positive effect on debt policy.

As a result, hypothesis Ha1 was accepted according to the results of the research conducted. The results of research on hypothesis one support agency theory, where in agency theory there is a conflict relationship due to differences in interests between shareholders and company managers. Agency theory supports the use of debt or debt policy as a source of capital funds for companies. Apart from increasing the transparency of company management performance in the eyes of shareholders, the use of debt also acts as a control tool to limit the management authority and minimizes agency costs for companies to monitor and supervise management.

The findings of this study are consistent with studies by Surherman, Resy & Umi [16], Nugi, Adam, Bulan & Nugroho [10], and Umi & Fachrurrozie [7]. All studies above have discovered that structure asset has a significant positive influence on debt policy. Meanwhile, there are study that conflicts which are research by Omar &Sager [8], Thu-Trang & Thi Doan [6], Ahmed & Amina [3], Jacek & Mario [12], Sakra [5], Giovanni & Henryanto [2], and Maya, Netti & Sulastri [20] showing that the asset structure has a significant negative impact on debt policy. And other research that shows inconsistency which is by Fatima, Muhammad & Hafiz [11] that discovered that asset structure does not have significant influence on debt policy.

Ha2: Liquidity has a significant positive effect on debt policy.

Hypothesis two in this research is that liquidity has a significant positive effect on debt policy. With the results of the research conducted, it can be stated that liquidity has a significant negative effect on debt policy. As a result, the Ha2 hypothesis is rejected. The results of hypothesis Ha2 supports the pecking theory where in the pecking theory, the company's main source of capital comes from the company's own retained earnings. Retained earnings are the cheapest source of funds for the capital structure. By using retained earnings can reduce the risk of company bankruptcy.

The research by author is in line with research did by Sakra [5], Cynthia & Yanti [1], Surherman, Resy & Umi [16], who agreed and discovered that the liquidity significantly influences a company’s debt policy positively. However, this research is contradict with research conducted by Thu-Trang & Thi Doan [6], Hasan, Subowo & Saparuddin [14], Ahmed & Amina [3], and Maya, Netti & Sulastri [20] that have found that liquidity has a negative impact on a company’s debt policy.

Ha3: Internal funding has a significant positive effect on debt policy.

Hypothesis three in this research is that internal funding variable has a significant positive effect on debt policy. As a result, the third hypothesis or Ha3 was rejected. The results of hypothesis Ha3 supports the pecking theory that does not support the use of external source of funds namely debt as the company's operational and expansion funds.

The findings of this study are consistent with studies by Jacek & Mario [12], that stated internal funding has a significant negative influence on a company's debt policy. In this study, the company's debt policy is proxied as the ratio of total debt to total company assets. Shareholders tend to favor companies with minimal debt burdens whenever possible. With internally available funds, the use of debt policy should not be the primary source of funding.
Ha4: Profitability has a significant positive effect on debt policy.

Hypothesis four in this research is that profitability has a significant positive effect on debt policy. Based on the results of the research conducted, hypothesis Ha4 is rejected or not accepted.

The research by author is in line with research did by Giovanni & Henryanto [2], Omar & Sager [8], Maya, Netti & Sulastri [20] , Thu-Trang & Thi Doan [6], Teguh & Lusy [21] who agreed and discovered that the profitability significantly influences a company's debt policy negatively. However, this research is contradicts with research conducted by Sakra [5], Hasan, Subowo & Saparuddin [14], Denis & Saparuddin [14], Cynthia & Yanti [1], Ahmed & Amina [3] that believes that the profitability significantly influences a company's debt policy positively.
Ha5: Company size has a significant positive effect on debt policy.

Hypothesis Ha5 in this research is that company size has a significant positive effect on debt policy. With the results of the research conducted, it can be stated that company size has a significant positive effect on debt policy. The results of this research support agencies theory that support the use of debt or debt policies. The use of debt is considered to function as a control function over company management performance.

The research by author is supported by the research did by Fatima, Muhammad Hafiz [11], and Thu-Trang & Thi Doan [6]. These researchs indicated that there is significant positive relationship between company size and company's debt policy. However, this research is contradicted with research conducted by Hasan, Subowo & Saparuddin [14], Sakra [5], Giovanni & Henryanto [2], and Umi & Fachrurrozie [7]. Contradicted research found that company's size has a significant negative relationship with the debt policy.

## 4. CONCLUSIONS AND SUGGESTIONS

This research examines mining company debt policies. Testing is carried out by formulating a hypothesis and proving the hypothesis that has been formulated based on the results of research data. Research data was obtained from mining companies listed on the Indonesian capital market with sample selection using a purposive sampling method with a total number of observation data of 160.

In summary, debt policy greatly influences the future growth of mining companies. This study investigates the relationship between debt policy and financial variables in mining companies on the Indonesian stock exchange in the 2018-2022. The following conclusions can be concluded:

1) Company debt policy has a big influence on the future growth of mining companies as a potential source of external funding because of its nature business model that requires high funding for the operation and expansion.
2) Asset structure or tangibility has a significant positive effect on the debt policy of mining companies listed on the Indonesia Stock Exchange (BEI) in 2018-2022. The higher the asset structure ratio owned by a mining company, the greater likelihood or potential to utilize debt as a source of company capital.
3) Liquidity, measured by current ratio has a significant negative impact on the debt policy of mining companies listed on the Indonesia Stock Exchange (BEI) in 2018-2022. The higher the liquidity ratio (current ratio) owned by a mining company; it indicates a reduce likelihood of mining companies resorting to debt for operational funding. This means that the higher the current ratio, the less likely the company is to use debt as a source of funds in its operational activities.
4) Internal funding displayed a significant negative relationship on the debt policy of mining companies listed on the Indonesia Stock Exchange (BEI) in 2018-2022. The higher the internal funding ratio owned by a mining company, the lower likelihood for the company to rely on external debt. It means the less likely the company is to use debt as a source of funds in its operational activities.
5) Interestingly, profitability, proxied by the return on equity, did not exhibit a significant impact on debt policy. This means that an increase or decrease in company profits does not affect the mining company's policy of using debt as a source of capital for mining companies.
6) Meanwhile, company size variable had a positive impact on debt policy, indicating that larger mining companies prefer to rely on external loans to meet their financial needs. The larger the company's size, the higher potential that the mining company will apply for external loans for its funding needs.
7) Debt policy is influenced by the asset structure (X1), liquidity (X2), internal funding (X3) and the size of the mining company itself (X5). However, profitability (X4) does not have a significant influence on mining companies' policies regarding the use of debt.

The limitations of this journal are as follows: Firstly, the coefficient of determination for the independent variables in this study is 0.680, as calculated using the adjusted R-squared test model. This indicates that the research can only explain 68% of factors that are affecting debt policy, with the remaining 32% of the influence potentially being attributed to variables outside the research model carried by the researcher. This value indicates a substantial level of explanatory power and underscores that this research can account for only 68% of the factors influencing debt policy among the selected mining companies.

Secondly, this study is limited to its scope that only encompasses mining companies listed on the Indonesia Stock Exchange (IDX) whose financial reports are publicly available or has been published on the company's website or IDX website. However, there are still many mining companies in Indonesia that have not made public offerings on the stock exchange, so this research is still not perfect and is limited to certain observations.

The next limitation is that the scope of the research was only carried out in the last 5 years, 2018, 2019, 2020, 2021, and 2022, based on the financial reports' figures published by the mining companies. This timeframe of research enables a contemporary analysis of mining companies' debt policy trends but may not fully capture the long-term dynamics and fluctuations within the mining industry. By expanding the temporal scope of the research, it

could provide valuable insights into the evolution of debt policy for mining sector over a more extended period because of the nature of mining companies itself.

Suggestions that can be given by the author based on the results of the research that has been carried out are:

1) Through this research, the researchers suggest that future researchers should include new variables to improve the research results, for example: by adding free cash flow, non-debt tax shields, debt tax shields, company risk, company age, company growth, and other variables that might affecting mining companies' debt policy.
2) Through this research, the researcher also provides suggestions that this research topic should be deeply analyzed so it can become a reference for similar research topics and become a useful reference for related parties.
3) Based on this research, it is proven that mining companies with large asset structures and company sizes will increasingly have the potential to apply for loans for their operations and require large nominal amounts of funding that cannot be met by their internal funding sources.
4) Researchers advise borrowers or debtors of mining companies on a new perspective before providing debt funding sources to mining companies.
5) On the other hand, researchers also advise investors or potential investors to pay attention to the various variable ratios in this research before making financial decisions related to investment actions in mining companies listed on the Indonesia Stock Exchange based on the results of the research conducted. Investors must pay attention to the growth potential of mining companies with wise debt policies and supported by adequate company size and asset structure.
6) The next researcher is suggested to do research with a wider timeframe for the improvement of the knowledge in this topic.

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