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EFFECT OF DEBT RATIO, LONG-TERM DEBT TO EQUITY, AND FIRM SIZE ON PROFITABILITY

(Study On Restaurant and Tourism Hotel Sub-Sector Companies Listed in IDX 2015 – 2020)

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Abstract
This study aims to determine and analyze the effect of the debt ratio, long-term debt to equity, and firm size on profitability measured by Return on Equity (ROE). The object of this research is the Hotel and Tourism Sub-Sector Companies listed in IDX in 2015-2020. The financial ratios used in this study as independent variables are debt ratio, long-term debt to equity, and firm size. The data used is annual data, based on annual financial reports, starting from 2015 to 2020. The data used in this study is the panel data method with the help of Eviews 9 software. The result of this research is that long-term debt has a positive effect on profitability. Meanwhile, debt ratio and firm size hurt ROE and simultaneously have a significant effect on ROE. However, only long-term debt and debt ratio partially have a significant effect on ROE, while firm size does not significantly affect the ROE.
Keywords: Debt Ratio, Long erm Debt to Equity, Firm Size, ROE.

I. Introduction

Any company runs a business with the goal that it wants to achieve, the majority of a company was built to achieve profit, so the main goal was to see the company increase profits or the stability of the profit. Profitability is the ability of the company's business to make a profit or profit. Management's capacity to effectively employ a company's assets to create sales and manage operations is measured by profitability. Because they focus on the company's earnings, these metrics appeal to shareholders, creditors, and management. In general, the higher the profitability ratio, the better the performance of the company (Parrino et al., 2012). Some factor that can affect profitability in a company of them is the financial ratio. ROE tells us how many shareholders earn income from the funds they provide to the company. When ROE is high, stock prices also tend to be high, so actions that increase ROE generally increase the stock price. The most important accounting ratio, or bottom line, is the return on a common basis of ROE equity, found to be as follows: Using more debt lowers profits and thus ROE.

Due to the intense rivalry, the company must continue to improve its performance and reinvent its products in order to get public recognition. More funds are required by businesses to boost product performance and innovation. It can gather the fund by creating debt. Debt funds are used to increase returns or profits in a business or investment. The debt ratio is centered on all cash flows both incoming and also mandatory exit (which will be paid to all debt holders) in the short and long term (Adair, 2006). Malinić et al (2013) The debt ratio is the result of an increase in the short-term financial debt ratio, which also explains statistically the relevant negative correlation between financial debt ratios.

In the current economic period, many entrepreneurs, both large and small businesses, use outside sources of funds such as credit or debit. Debt is the obligation to hand over money, goods, or services to other parties in the future as a result of transactions that have occurred in the past or before. Judging from the repayment period or debt repayment tool can be divided into two groups, namely short-term debt (current debt) and long-term debt. According to Grosssman & Livingstone (2009), long-term debt is a debt that is often secured by a lien on the property and has priority on the payment of periodic interest and repayment of principal. Long-term debt can be bonds that are sold publicly in financial markets or placed privately with large financial institutions. Publicly issued debt and equity securities require higher transaction fees. Therefore, most loans are made privately with the bank and the company's insurance. The long-term debt to equity ratio is one of the factors that can determine profitability. Studies conducted by Ahmad & Agustin (2015) show that the long-term debt to equity ratio has a significant effect on profitability as measured by ROE.

The tight competition that arises requires the company to further improve performance and innovate with its products to be better known by the public. To improve product performance and innovation, companies need more funds. The success of the company to achieve its goals can be seen in its growth and performance of the company. According to Strecker (Strecker, 2009) Size is the main characteristic of a company, reflected in human and financial resources. Large companies have a smaller competing advantage because they have more resources to realize economies of scale and scope. The size of the company moderates the relationship between internationalization and corporate performance so that the relationship between internationalization and performance is stronger for large companies (Krist, 2009). Studies that state that the size of the company does not play a role in determining the amount of ROE have been studied. Studies conducted by Handayani & Widyawati (2020) show that the size of the company has no significant effect on profitability proxy with ROE. The purpose of this research is to find out the effect of the debt ratio, long-term debt to equity ratio and firm size on ROE in hotel, restaurant, and tourism sub-sector companies on the Indonesia Stock Exchange (IDX).

2. Literature Review

Debt Ratio and ROE

The debt ratio is one of the main drivers of return on assets (return on assets) he defined it as total debt divided by assets (Dermine & Bissada, 2011). Component percentage and coverage ratio are two forms of financial debt ratios. The debt-to-capital ratio compares a company's debt to its total capital (debt plus equity) or equity capital. The coverage ratio measures a company's capacity to meet fixed financing obligations including interest, principle, and rental payments (Fabozzi & Drake, 2009). The debt ratio useful during the present the value of the tax protector is more than the expected bankruptcy costs (Vishwanath, 2007). The debt ratio measures the extent to which a company utilizes debt rather than equity and demonstrates the company's ability to meet its long-term obligations, such as interest payments including debt payments, and also the cost of a company's lease.

Tennent (2008) asserts that at a low debt ratio, the ROE falls because the profit of using low-level debt is reduced. The optimal debt ratio is about 50% of the total funds. There are scenarios where higher debt ratio rates can be tolerated without an interest rate hike. Companies might use external funding activities to determine the proper debt-equity mix to get closer to their target debt ratio. When corporations have a cash flow surplus, on the other hand, they are under less pressure to correct the imbalance, meaning that they have less incentive to undertake debt ratio modifications. Companies with high leverage can benefit when business risk, especially companies with low equity values, increases. if the project fails, the shareholders will not be worse off. But if the project is successful, there will be more than enough income to pay off the debt (Miglo, 2016). Previous research conducted (Arif et al., 2015; Enggarwati & Yahya, 2016; Herdiani et al., 2013; Jannati et al., 2014; Omar et al., 2016; Priyanto & Darmawan, 2017) shows that the debt ratio projected with total debt ratio has a significant effect on ROE. So from the description above, we can conclude the first hypothesis:

H_1: Debt Ratio significant effect on ROE.

Long Term Debt To Equity Ratio and ROE

The long-term debt ratio will reflect the company's financing deficit; In market timing, the debt ratio is inversely proportional to the historical average market-to-book ratio (Ghosh et al, 2006). The long-term debt ratio is calculated by long-term debt divided by total assets. Long term debt is one of the debt products whose payment or repayment is given a fairly long deadline (Broyles, 2003) asserts long term debt is in the form of bonds sold publicly in financial markets or placed privately with large financial institutions, the securities of debt and publicly issued equity require higher transaction costs. Long-term debt is the main source of financing no matter the level of systematic risk, the positive relationship makes sense because the high level of systematic risk makes the company uncomfortable to increase equity financing (Bas et al., 2009). Shareholders do not like to invest in short-term projects because they are less profitable. Long-term projects that incurred long-term debt are more beneficial to creditors (Miglo, 2016).

Previous research conducted (Jannati et al., 2014; Priyanto & Darmawan, 2017) indicates that long-term debt to equity projected with a total equity ratio is significant to the ROE. from the description above we can conclude the second hypothesis:

H_2: Long-Term Debt to Equity significant affects on ROE.

Firm Size and ROE

The size of the company is an important factor in a company that is considered by investors will invest in the company or not (Gorton et al., 2009). The size of the company can be the best proxy for profitability. Larger companies tend to be more diversified and fail less often. They can lower costs at the time of bankruptcy (Bas et al., 2009). Firm size is a grouping that exists in the company from a small company to a large power. Companies with medium debt, both short-term debt and long-term debt help adjust the company's performance measures to target levels. In companies with low debt, long-term debt in particular has a negative impact on operating/sales income (Miglo, 2016).

Previous research conducted (Fuadati & Rokhmi, 2020; Ginting & Nasution, 2020; Handayani & Widyawati, 2020; Zuchrinata & Yunita, 2019) indicates that the size of the

company projected with total sales has a significant effect on the ROE. The hypothesis proposed in this study is:
H_3: Firm size has a significant effect on ROE.

Return On Equity

Return On Equity It is an important ratio or returns on equity, that tells us how many shareholders earn from the funds they provide to the company. When the ROE is high, stock prices also tend to be high; So actions that increase the ROE generally increase the stock price. The single best accounting metric of success is ROE, which reflects the effects of all other ratios. High returns on equity are attractive to investors, and high returns on equity are associated with high stock values (Brigham & Houston, 2019). According to Parrino et al (Parrino et al., 2012) ROE measures net income as a percentage of shareholder investment in the company. Previous research conducted (Pangestu, 2019; Zuchrinata & Yunita, 2019) states the existence of significant influence simultaneously or together from debt ratio, long-term debt to equity, and the size of the company to ROE.

Based on the above hypothesis, the framework of this study is as follows:

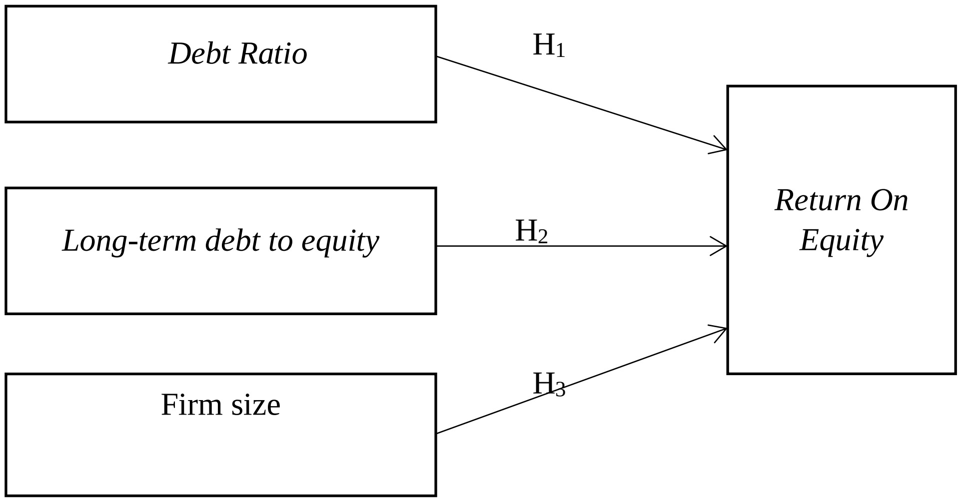

Figure 1. Conceptual Framework

3. Methodology

The research was conducted on hotel, restaurant, and tourism sub-sector companies listed on the Indonesia Stock Exchange from 2015 to 2020 by visiting the Indonesia Stock Exchange's official website at www.IDX.co.id. Financial statement data and annual reports on hotel, restaurant, and tourism sub-sector companies listed on the Indonesia Stock Exchange for the period 2015 to 2020 were used as the research object in this study. ROE ratio of net income to ordinary equity; measure the return on common stockholder investment. The ROE formula according to Brigham & Houston (2019) is as follows:

$$\text{ROE} : \frac{\text{Net Income}}{\text{Total Equity}} \quad (1)$$

Total Debt to Total Asset (DR) The ratio of total debt to total assets). Total debt includes all current liabilities and long-term debt. The formula according to Brigham & Houston (2019) is as follows:

$$\text{Debt Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}} \quad (2)$$

Long Term Debt to Equity Ratio (LTDE) The ratio of long-term debt to equity is a ratio used to measure the large proportion of long-term debt to the company's equity. This ratio is calculated as the quotient between total long-term debt and total equity (Zeitun & Tian, 2007) :

$$\text{LTDE} : \frac{\text{Long Term Debt}}{\text{Equity}} \quad (3)$$

The size of the Company is calculated by the natural logarithm of total sales, as for the formula for calculating the size of the company according to Ramli et al., (2019) as follows:

Firm size = LN Total Sales (4)

The population in this study is a sub-sector company of hotels, restaurants, and tourism listed on the Indonesia Stock Exchange for the period 2015 - 2020. The sample determination method used in this study is to use the purposive sampling method. Purposive Sampling is a method of sampling based on certain criteria. Because there are criteria that must be met for sampling, it cannot use the random sampling method. From the criteria that have been established, it can be determined the sample used in this study is as many as 15 companies and the number of 6 years is 90.

The data collection method in this study uses literature studies. The study of decisions is a technique in data collection where the author tries to find and collect theories related to the problem to be researched through means such as reading books (literature, magazines, and other sources) that have to do with the material being studied. The data taken is intended to get an overview and theoretical foundation in formulating problems and analyzing data or research information in describing or explaining the problems studied. Data were obtained from the Indonesia Stock Exchange website, named http://www.idx.co.id.

The data analysis method in this study was made using a multiple regression model which in the test used the Eviews program version 9.0. The formulation of Multiple regression analysis is:

$$Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \quad (5)$$

Information:

Y_t = Dependent variables (ROE)
α = Coefficient value
β_1 = Regression coefficient for varibel Debt Ratio
β_2 = Regression coefficient for varibel Long Term Debt To Equity
β_4 = Regression coefficient for Firm size varibel
X_1 = Debt Ratio
X_2 = Long Term Debt To Equity
X_3 = Firm size

4. Result

Descriptive Statistics

Table 1. Descriptive Statistical Test Results

Variabel	N	Maximum	Minimum	Mean	Std. Deviation
ROE	90	0.38945	-0.9201	0.04100	0.14003
DR	90	0.76331	0.12109	0.41032	0.16556
LTDE	90	2.13946	0.0256	0.47559	0.47761
Firm size	90	13.46876	9.24204	11.49342	1.17213

Based on the results of descriptive statistical tests in table 1, it can be understood that the value of the company projected with the highest ROE value of 0.38945 is PT. Island Concept Indonesian Tbk in 2015, and the lowest ROE of -0.9201 was PT Hotel Sahid Jaya International Tbk in 2020. This result shows that PT Island Concept Indonesian Tbk, from an ROE aspect, is one of the companies that provide the most rate of return from the amount of equity deposited. The high ROE will increase shareholders' interest in investing. Otherwise, investing money in a company with a negative ROE value is riskier. The average value for 2015 to 2020 is 0.04100 with a standard deviation value of 0.140003. In other words, a mean value smaller than the standard deviation value indicates that the results are not good in the ROE variable in 2015 - 2020.

The debt ratio variable projected with the highest total debt ratio of 0.76331 is PT Panorama Sentrawisata Tbk in 2015, and the lowest debt ratio of 0.12109 is PT Pembangunan Graha Lestari Indah Tbk in 2015. The high value of debt ratio in PT Panorama Sentrawisata Tbk may be too high for this industry, the risk is quite high, and the company finds it expensive to borrow, and could find itself in a crunch if circumstances change - like this pandemic situation. The average value for 2015 to 2020 is 0.41032 with a standard deviation value of 0.16556. In other words, a mean value greater than the standard deviation value indicates that the results are quite good in the variable debt ratio in 2015 - 2020.

Variable Long Term Debt to Equity Ratio which is projected with the highest total equity long term debt value of 2.13946 is PT Saraswati Griya Lestari Tbk in 2019, and the lowest long term debt of 0.02560 is PT Arthavest Tbk in 2018. A higher long-term debt ratio requires the company to have positive and steady revenue to prevent raising alarm regarding solvency. In this Tourism sub-sector, the high value of the long-term debt ratio is risky, because of the pandemic situation since early 2020. The average value for 2015 to 2020 was 0.47559 with a standard deviation value of 0.47761. In other words, a mean value smaller than the standard deviation value indicates that the yield is less good in the long-term debt to equity variable in 2015 - 2020.

The Firm size Variable projected with the highest total sales firm size value of 13.46876 is PT MNC Land Tbk, and the lowest length firm size of 9.24723 is PT Panorama Sentrawisata Tbk. The average value from 2015 to 2020 is 11.49342 with a standard deviation value of 1.17213. In other words, a mean value greater than the standard deviation value indicates that the results are quite good on the size variable.

Classic Assumption Test

Based on the results of the Normality Test of the residual model, it was found that the residual p-value value was 0.5517 > α = 5%. Thus it can be concluded that the data is distributed normally. Based on the results of the Autocorrelation Test using the Breusch-Godfrey Serial Correlation LM Test, the Prob value. Chi-Square (Obs*R-squared) of 0.562 > 0.05 then it can be concluded to receive H_0 which means there is no autocorrelation problem. Based on the results of the Moltikolinearity Test obtained the coefficient value of all variables < 0.8 which means that there is no problem of multicollinearity between independent variables or free variables in the study. Based on the results of the Heteroskedasticity Test using the White Heteroscedasticity Test obtained a probability value (p-value) > α = 5% which is 0.3420, this proves that there is no problem with heteroskedasticity.

Multiple Linear Regression Analysis

Table 2. Multiple Linear Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.186481	0.065125	2.863425	0.0053
DR	-0.258034	0.085868	-3.005002	0.0036
LTDE	0.136724	0.019307	7.081559	0.0000
Firm Size	-0.009515	0.005056	-1.881931	0.0632

From the constant value and regression coefficient can be made the equation of multiple linear regression models as follows:

ROE= 0.186 – 0.258 DR + 0.136 LTDE Debt – 0.009 Firm Size

The Regression Equation above has the following meaning: Coefficient (C) of 0.186 gives the understanding that if the variable Debt Ratio, Long Term Debt to Equity, and firm size together with 0 (zero) then the amount of ROE value is 0.186. The Coefficient value of the Debt Ratio of -0.258 means that it has a negative influence on the value of ROE which means that if the Debt Ratio variable rises by one (1) unit, then the value of ROE will decrease by -0.258 units assuming other variables are fixed or constant. The Coefficient Value of Long Term Debt to Equity of 0.136 means that it has a positive influence on the value of ROE which means that if the Long Term Debt to Equity variable increases by one (1) unit, then the value of ROE will also increase by 0.136 units assuming other variables are fixed or constant. Coefficient Value of Firm size of -0.009. it means that it has a negative influence on test

F test

Table 3. F- test result

R-squared	0.489499	Mean dependent var	0.083830
Adjusted R-squared	0.471691	S.D. dependent var	0.175912
S.E. of regression	0.123859	Sum squared resid	1.319330
F-statistic	27.48736	Durbin-Watson stat	1.459584
Prob(F-statistic)	0.000000		

The F Test results the significant value of p-value is 0.0000000 < 0.05, then it can be concluded that H_4 is accepted and reject H0 means that simultaneously the variable Debt Ratio, Long Term Debt to Equity and Firm size affects ROE. This research is supported by

(Pangestu, 2019; Zuchrinata & Yunita, 2019) who state that debt ratio, long-term debt to equity, and firm size have a simultaneous effect on ROE.

Hypothesis Testing

1. The Effect of Debt Ratio on ROE

Based on the results of the study, it can be known that the significant value of the p-value variable Debt Ratio which is projected with the Total Debt Ratio is 0.0036 < 0.05 which means the Debt Ratio variable affects the ROE. The results of this study are supported by previous research (Z. Ahmad et al., 2015; Arif et al., 2015; Enggarwati & Yahya, 2016; Herdiani et al., 2013; Jannati et al., 2014; Priyanto & Darmawan, 2017) who concludes that debt ratio has a significant effect on ROE.

A debt ratio is a ratio that describes the relationship between a company's debt The Debt Ratio ratio is centered on all cash flows both incoming and also those that must be out (will be paid to all debt holders) in the short and long term.to capital, this ratio can see how far the company is financed by debt or outsiders with the capabilities of the company described by capital. The Debt Ratio is the amount of debt used as capital to buy the company's assets. Companies that have debt greater than equity can be said to be companies with a high debt ratio. Component percentage and coverage ratio are two forms of financial debt ratios. The debt-to-capital ratio compares a company's debt to its total capital (debt plus equity) or equity capital. The coverage ratio measures a company's capacity to satisfy fixed finance commitments including interest, principle, and rental payments.(Fabozzi & Drake, 2009). The Debt Ratio ratio is centered on all cash flows both incoming and also those that must be out (will be paid to all debt holders) in the short and long term (Adair, 2006).

2. **The Effect of Long Term Debt to Equity on ROE**

Based on the results of the study, it can be known that the significant value of the long-term debt to equity variable is projected with a Total Equity Ratio of 0,000 < 0.05 which means that the Variable Long Term Debt to Equity affects the ROE. The results of this study are supported by previous research (Ahmad & Agustin, 2015; Jannati et al., 2014; Priyanto & Darmawan, 2017) which concluded that Long Term Debt to Equity has a significant effect on ROE.

Long Term Debt is a bond that is sold publicly in financial markets or placed privately with a large financial institution, the securities of debt and publicly issued equity require higher transaction costs (Broyles, 2003). Long-term debt is debt that is often secured by liens on the property and has priority on periodic interest payments and principal repayments (Grosssman & Livingstone, 2009). The source of capital in the form of debt both Long term debt and short is needed in financing/funding all the needs of a very complex company. The debt can be used for production, distribution, marketing, employee wages, research, and development, to operational activities such as tool financing and tool maintenance. Long-term debt is used by companies to advance the company over a long period. Purchase of basic and secondary necessities, immediately or not will still be needed as much as possible.

3. The Influence of Firm size on ROE

Based on the results of the study, it can be known that the signification value of the Firm size variable p-value projected with total sales is 0.0632 >0.05 which means that the Firm size variable does not affect significant on ROE. The results of this study are supported by previous research (Fuadati & Rokhmi, 2020; Ginting & Nasution, 2020;

Handayani & Widyawati, 2020; Zuchrinata & Yunita, 2019) who concluded that firm size doesn't affect the ROE

The size of the business determines the size of the small business. The higher the total assets, which represent the assets owned by the company, the more likely the company is part of a larger corporation. The lower the total asset, on the other hand, indicates that the company is a small one. The larger the total assets, the more assets the company owns, indicating that investors will be more comfortable investing in the company. According to Strecker (2009), size is the main characteristic of a company, reflected in human and financial resources. Large companies have a smaller competing advantage because they have more resources to realize economies of scale and scope. the size of the company moderates the relationship between internationalization and the performance of the company, thus the relationship between internationalization and stronger performance for the best companies (Krist, 2009).

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5. Conclusion

Based on the results of the research and discussion that has been outlined earlier, the conclusions that can be drawn from this study are as a next: the first, There is a variable effect of Debt Ratio on ROE in the hotel, restaurant, and tourism sub-sectors in 2015 - 2020. The variable relationship of debt ratio is very weak, with the ability of the Debt Ratio variable to explain the diversity of the ROE value of 1.30%. Second, there is a variable influence of Long-Term Debt to Equity on ROE in the hotel, restaurant, and tourism sub-sectors in 2015 - 2020. Long-Term Debt variable relationships are weak, with the ability of the Long-Term Debt variable to explain the diversity of the ROE value of 5.02%. There is a variable influence of Long-Term Debt to Equity on ROE in the hotel, restaurant, and tourism sub-sectors in 2015 - 2020. Long-Term Debt variable relationships are weak, with the ability of the Long-Term Debt variable to explain the diversity of the ROE value of 5.02%. There is a variable influence of Long-Term Debt to Equity on ROE in the hotel, restaurant, and tourism sub-sectors in 2015 - 2020. Long-Term Debt variable relationships are weak, with the ability of the Long-Term Debt variable to explain the diversity of the ROE value of 5.02%. Third, there is no variable influence of Firm size on ROE in the hotel, restaurant, and tourism sub-sectors in 2015 – 2020. The variable relationship of firm size is very weak, with the ability of the Firm size variable of 0.00% explaining the diversity of the ROE value of 0.00%. There is a variable influence of Long-Term Debt to Equity, Debt Ratio, and Firm size together or simultaneously on ROE in the hotel, restaurant, and tourism sub-sectors in 2015 - 2020. The variable relationship of Long-Term Debt to Equity, Debt Ratio, and Firm size together or simultaneously with the Weak ROE category, with the ability, simultaneously is 23.91%, while the remaining 76.09% is influenced by other variables that were not included in the study.

Recommendation

Long-term debt and debt ratio are two factors that have a significant impact on a company's ROE. The proportion of debt used in the company must be considered by the company's management because using debt will result in a fixed interest burden, which, if not managed properly, will reduce the company's ROE and increase the risk of bankruptcy. Second, For the company, to pay more attention, utilize and process all assets and all resources owned and that have been entrusted to him to increase the company's profit, to allow It can attract investors to invest in the company. Third, For further researchers, it is recommended to conduct research beyond the independent variables used in this study or combine one of the variables in this study with other variables outside the variables in this study, considering that there is still an influence of 76.09% of other variables outside the study, namely long-term debt, debt ratio, and firm size. Fourth, For further researchers should use other sectors of companies on the IDX that have more populations to be able to determine more samples.

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