Sustainability Accounting Journal (SAJ)
Volume 1, No 1 October 2024
ISSN : -

THE EFFECT OF COMPANY GROWTH AND FREE CASH FLOW ON DEBT POLICY WITH PROFITABILITY AS A MODERATING VARIABLE

Nisa Oktaviani
Economy and Business Faculty, Universitas Palangka Raya
Yohanes Joni Pambelum
Economy and Business Faculty, Universitas Palangka Raya
Verra Rizki Amelia
Economy and Business Faculty, Universitas Palangka Raya
Sri Lestari Hendrayati
Economy and Business Faculty, Universitas Palangka Raya
Fitria Husnatarina
Economy and Business Faculty, Universitas Palangka Raya
Golda Belladonna Umbing
Economy and Business Faculty, Universitas Palangka Raya

pp : 51 – 67
Sustainability Accounting Journal

Article Info

Keywords:
Company Growth,
Free Cash Flow,
Debt Policy,
Profitability

ABSTRACT

This study aims to examine the influence of company growth and free cash flow on debt policy, with profitability as a moderating variable. The population in this research consists of manufacturing companies in the textile and garment sub-sector listed on the Indonesia Stock Exchange from 2020 to 2023. The sampling technique used is purposive sampling, with the criteria being companies that published consecutive financial reports from 2020 to 2023 Based on these criteria, 18 manufacturing companies in the textile and garment sub-sector were selected, resulting in 72 observations in this study. The analysis technique used is the panel data method, with data processed using E-Views 10 software. The results of the study indicate that company growth does not affect debt policy. Free cash flow does not affect debt policy. Profitability does not have an impact on the relationship between company growth and debt policy. Additionally, profitability does not have an impact on the relationship between free cash flow and debt policy.

Corresponding Author:
Nisa Oktiviani
Universitas Palangka Raya
nisaoktaviani@gmail.com

I. INTRODUCTION

written a International trade plays an important role in the Indonesian economy, especially in the export and import sectors. Exports help increase the country's foreign exchange, while imports meet the needs of goods that are not produced domestically. However, global developments and intense competition have caused various challenges, including pressure on the manufacturing industry that affects various sectors, including textiles and garments.

The textile and garment industry in Indonesia is one of the main sectors in manufacturing and makes a significant contribution to the national economy. This industry provides employment for 1.8 million workers (Landra & Hamami, 2022) and encourages investment. Unfortunately, this industry is experiencing a decline in competitiveness due to the onslaught of imported products, especially from China, which are cheaper. As a result, many local companies have been forced to reduce operations or even close, as experienced by PT Dupantex in Pekalongan in 2024 (BBC News Indonesia, 2024).

The rise in textile imports from China has resulted in the domestic market share being dominated by foreign products. This is exacerbated by government policies that are not strong enough in controlling import standards and specifications. The increase in the volume of textile imports after the issuance of Permendag Number 8 of 2024 reached 194,870 tons in May 2024, compared to 136,360 tons in April 2024 (Kompas, 2024). This condition has a negative impact on the labor sector with thousands of workers being laid off.

Debt policy is an important aspect that textile companies must pay attention to in order to survive. Company managers often use debt as an alternative source of funding. This policy, if not managed properly, can worsen the company's financial condition, especially when profitability declines. Low profitability forces companies to borrow more external funds to cover operating costs (Nurjanah & Purnama, 2020).

Company growth and free cash flow (FCF) also affect debt policy. According to research by Damayanti & Warsitasari (2022), FCF has a positive effect on debt policy, while research by Mariska (2020) shows a negative effect. In addition, research by Fauziah & Rejeki (2022) concluded that company growth does not affect debt policy, while Fadhilah et al. (2021) found a negative effect of growth on the policy.

Profitability is considered to be able to moderate the influence of corporate growth and FCF on debt policy, as found by Nurfitriana & Fachrurrozie (2018) that profitability can moderate the influence of corporate growth. However, the results of research by Angeline & Wijaya (2022) and Fitriyani & Khafid (2019) show otherwise, that profitability cannot moderate this influence.

This study aims to further examine the influence of company growth and FCF on debt policy with profitability as a moderating variable in the textile and garment sub-sector manufacturing sector, considering the lack of similar research in this field.

II. LITERATURE REVIEW (Tahoma, size 11, Left Bold)

Signaling Theory

Signaling Theory, first introduced by Michael Spence (1973), explains that corporate managers often have better information than shareholders and use signals such as financial statements to reduce information asymmetry. Ross (1977) emphasizes the importance of financial signals, such as debt, which managers can use to demonstrate confidence in the company's prospects. Houston et al. (2011) stated that signals in the form of management actions are important for investors in making investment decisions, while Megginson et al. (2010) noted that dividend signals are used by strong companies to signal their strength. Previous research has shown that financial policy signals, including profitability, debt, and free cash flow, can influence market perceptions of a company's prospects (Damayanti & Warsitasari, 2022; Ningsih & Hariyati, 2020). Debt policy as a signal can indicate management's

confidence in the company's long-term prospects, but must be understood carefully because signals can be misleading if they do not match real financial conditions.

Pecking Order Theory

Pecking Order Theory, first introduced by Donaldson (1961) and named by Myers and Majluf (1984), explains that companies prefer internal funding (retained earnings) before turning to external sources such as debt or stock issuance. This theory assumes that the use of external equity is chosen last because it can give a negative signal to investors about the company's prospects. Companies tend to use internal funding to avoid issuance costs and potential stock dilution (Adedeji, 1998). In company growth, the need for additional funds can be met by utilizing high free cash flow (FCF) to reduce dependence on debt, while less profitable companies often have to use more debt. Profitability plays an important role in moderating this decision, where companies with high profitability tend to rely less on debt (Umbarwati & Fachrurrozie, 2018). Research by Veronisa et al. (2023) shows that internal funding preferences dominate, with companies only turning to external funds if internal funds are insufficient or facing significant investment opportunities.

Debt Policy

According to PSAK 57, liabilities or debts are current obligations arising from past events and resulting in the expenditure of economic resources. Debts are classified as short-term debts, such as trade payables and accrued expenses, and long-term debts, such as bonds (Fauziah & Rejeki, 2022). Debt policy is important in corporate management because it affects capital structure and financing decisions. This policy serves as a managerial control mechanism to ensure the efficient use of company funds, given the risks that arise if debt is not managed properly (Mardiyati et al., 2018; Trisnawati et al., 2018). The ratios used to measure debt policy include Debt to Asset Ratio (DAR), Debt to Equity Ratio (DER), and Time Interest Earned Ratio, where DER is often chosen to describe the proportion of debt to the company's equity. A higher DER ratio indicates a company's greater dependence on debt in its funding (Suryani et al., 2020).

Company Growth

Company growth describes the rate of change in assets from one year to the next, reflecting success in increasing company value and achieving profits (Fauziah & Rejeki, 2022; Rezki & Anam, 2020). Companies with high growth tend to maximize the use of resources and have the potential to generate large cash flows in the future (Fadhilah et al., 2021). This growth often requires additional funding, increasing dependence on external debt to meet operational and expansion needs (Amalia, 2020). This confirms the close relationship between company growth and debt policy, where the use of debt helps reduce the potential for agency conflicts through strict creditor supervision of management.

Free Cash Flow

Free cash flow (FCF) reflects the amount of cash available to investors after the company meets the needs of fixed asset investment, working capital, and product development, which are essential for the continuity of operations (Sartono, 2017). A positive FCF value indicates the company's ability to support growth, pay debts, and provide benefits to shareholders through dividends or capital gains, while a negative value indicates the need for additional capital sources to fund growth and debt payments (Mariska, 2020). FCF also serves as a key indicator to measure the company's ability to reduce debt, increase dividends, or buy back shares which can ultimately increase the company's value (Veronisa et al., 2023).

Profitability

Profitability measures a company's ability to generate net income during its operations, reflecting how efficiently the capital invested in the company's assets is used to generate profits for investors (Fitriyani & Khafid, 2019). According to Nurfitriana & Fachrurrozie (2018), profitability refers to the relationship between revenue and costs from the use of the company's total assets, while Angeline & Wijaya (2022) emphasize that a company's profit depends on the efficiency and effectiveness of operations and the resources utilized. Profitability ratios, such as Return on Assets (ROA), are used to evaluate a company's financial performance from year to year and can influence strategic decisions of stakeholders (Isnaeni et al., 2023). Profitability, or the efficiency of profit to capital, is also an important focus, because large profits do not always reflect efficient operations (Fitriyani & Khafid, 2019).

The Influence of Corporate Growth on Debt Policy

Company growth requires additional sources of funds to finance investment and expansion, and financing decisions can signal the market about the company's prospects. The use of debt as a source of external funds is often considered a positive signal that management believes in the company's ability to generate sufficient cash flow to pay off debt, although excessive use of debt can increase financial risk (Fauziah & Rejeki, 2022). High-growth companies tend to seek external debt when internal sources are insufficient to fund expansion projects. However, this decision must consider the risks associated with debt payments and interest expenses. Several studies, such as those conducted by Fauziah & Rejeki (2022), Syachdilla (2022), and Rezki & Anam (2020), show that company growth has no significant effect on debt policy. Conversely, Fadhilah et al. (2021) found that company growth has a negative effect on debt policy. Therefore, the hypothesis proposed is:

H1: Company growth has a negative and significant effect on debt policy.

The Influence of Free Cash Flow on Debt Policy

Free cash flow (FCF) reflects a company's financial health because it shows the amount of cash remaining after all operating and investment costs have been paid, and is an important signal to the market about the company's prospects. High FCF can be seen as a positive sign that the company is able to fund expansion without external sources, while how management uses it, such as for dividends or share buybacks, also affects market perception (Damayanti & Warsitasari, 2022). The use of FCF for unwise projects can send a negative signal about managerial discipline. Therefore, strict supervision and good governance are important so that FCF is used efficiently and in line with the company's long-term goals. Previous studies have shown mixed results: Damayanti & Warsitasari (2022), Nofiani & Gunawan (2018), and Veronisa et al. (2023) found that FCF has a positive effect on debt policy, while Mariska (2020) showed a negative effect. Therefore, the proposed hypothesis is:

H2: Free Cash Flow has a positive and significant effect on Debt Policy

Profitability in Moderating Corporate Growth to Debt Policy

Firm profitability plays a role in moderating the relationship between firm growth and debt policy by providing a positive signal to the market regarding the firm's financial stability. According to signaling theory, highly profitable firms tend to rely more on internal funding sources, such as free cash flow, and may require less debt. However, when a profitable firm chooses to use debt to fund its growth,

this may signal management's confidence in its ability to repay the debt and the firm's prospects. Conversely, if a profitable firm does not use debt, the market may see it as an indication of uncertainty about future prospects. Research by Nurfitriana & Fachrurrozie (2018) shows that profitability is able to moderate the relationship between firm growth and debt policy, while Angeline & Wijaya (2022) found the opposite. Thus, the proposed hypothesis is:

H3: Profitability is able to positively moderate the relationship between Company Growth and Debt Policy.

Profitability in Moderating Free Cash Flow to Debt Policy

Profitability can moderate the relationship between free cash flow (FCF) and debt policy, because more profitable companies tend to have larger FCF, which can be used to send positive signals to the market. According to signaling theory, the use of FCF to pay off debt indicates a strong financial position and commitment to reducing financial risk, while investment in profitable projects indicates confidence in future growth. High profitability strengthens the relationship between FCF and debt policy, because profitable companies are more likely to use FCF strategically, both to pay off debt and to invest. Isnaeni et al.'s (2023) research shows that profitability moderates the relationship between FCF and debt policy, while Fitriyani & Khafid (2019) find that profitability does not moderate the relationship. Thus, the proposed hypothesis is:

H4: Profitability is able to positively moderate the relationship between Free Cash Flow and Debt Policy.

III. METHODS

This study uses quantitative methods. The data used in this study are secondary data. The data sources used come from the financial reports of sample companies listed on the Indonesia Stock Exchange or on the company's website. The population in this study is textile and garment sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period totaling 22 companies. The sampling technique used purposive sampling. Based on these criteria, 18 companies were obtained, resulting in 72 observations in this study.

Operational Definition of Variables

Table 1 Operationalization and Measurement of Variables

No	Variables	Definition	Indicator/Measure	Scale
1.	Company Growth (X1)	Company growth or firm growth is the rate of change in total assets from year to year. The difference in total assets of the company in the current period with the previous period is the definition of company growth.	$Pertumbuhan\ Perusahaan = \frac{Total\ Aset\ tahun\ t - Total\ Aset\ tahun\ t\text{-}1}{Total\ Aset\ tahun\ t\text{-}1}$ (Amalia, 2020)	Ratio

No	Variables	Definition	Indicator/Measure	Scale
2.	*Free Cash Flow*(X2)	Free cash flow is an indicator to measure the company's ability to return profits to shareholders through debt reduction, increasing dividends or buying back shares and with this the company's value will also increase.	$FCF = \frac{CFO - CFI}{Total\ Aset}$ FCF = Free Cash Flow CFO=Cash Flow Operations CFI=Cash Flow Investment (Isnaeni et al., 2023)	Ratio
3.	Debt Policy (Y)	The company's debt policy is a decision taken by management to determine the amount of debt in its funding sources that are useful for financing the company's operational activities. Financing operational activities with debt makes the company have an obligation to return the loan, pay interest periodically, thus forcing managers to optimize the use of existing funds.	$DER = \frac{Total\ Utang}{Total\ Modal} x100\%$ (Fauziah & Rejeki, 2022)	Ratio
4.	Profitability (M)	Profitability is the company's ability to make a profit. Profitability is measured using the return on assets ratio. Return on assets (ROA) is the ratio of profit (loss) before tax to total equity. The measurement scale is a ratio scale and is expressed in percentages.	$ROA = \frac{Laba\ Bersih}{Total\ Asset} x100\%$ (Fitriyani & Khafid, 2019)	Ratio

This study examines the impact of two independent variables and one moderating variable, namely company growth, free cash flow on debt policy and profitability as a moderating variable. The research model used in this study is as follows:

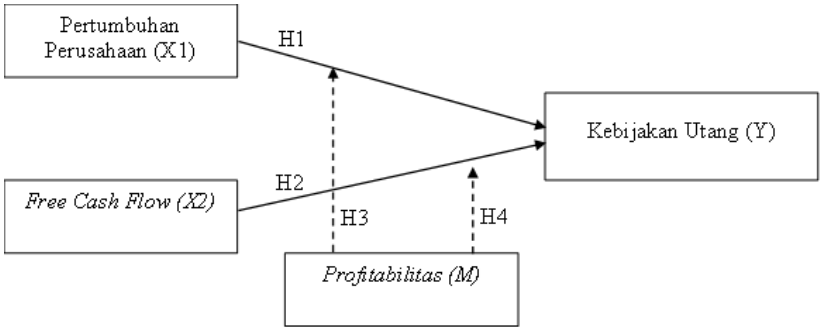

Figure 1 Research Model

The following is the regression model equation that will be investigated:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Information:

Y	= Debt Policy
α	= Constant
$\beta_1\beta_2$	= Coefficient of each independent variable
X1, X2	= Company Growth,*Free Cash Flow*
ε	= Standard Error

The following is the Moderated Regression Analysis (MRA) regression equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 M + \beta_4 (X_1 * M) + \beta_5 (X_2 * M) + \varepsilon$$

Information:

Y	= Debt Policy
α	= Constant
$\beta_1\beta_2\beta_3\beta_4\beta_5$	= Coefficient of each independent variable
X1, X2,	= Company Growth,*Free Cash Flow*
M	= Profitability
ε	= Standard Error

IV. RESULTS AND DISCUSSION

In Table 2 above, it can be concluded that the Debt Policy Variable (Y), as measured by the Debt To Equity Ratio (DER), has an average of 1.422902, indicating that the company has 1.4 times more debt than its capital. The maximum DER value reached 114.2896, indicating a very large debt in the MYTX issuer in 2020, while the minimum value was -30.15344 in 2021, reflecting a smaller debt than capital. The DER standard deviation of 14.86545 indicates high variation. The Company Growth Variable (X1) has an average of -0.030062, with a maximum value of 0.187742 in 2020 and a minimum value of -0.380337 in 2022, indicating large fluctuations in the company's total assets. The standard deviation of 0.101579 also reflects high variation. Free Cash Flow (X2) has an average of 0.054269, with a maximum value of 0.492515 in 2022 and a minimum value of -0.365195 in 2021, indicating highly variable cash flow. The standard deviation value of FCF is 0.124019, also indicating high variation. For Profitability (M), measured by ROA, the average is -0.091807, with a maximum value of

0.123095 in 2021 and a minimum of -4.167738 in 2020, reflecting highly variable earnings performance, with a standard deviation of 0.505593.

Table 2 Descriptive Statistics

	Y	X1	X2	M
Mean	1.422902	-0.030062	0.054269	-0.091807
Maximum	114.2896	0.187742	0.492515	0.123095
Minimum	-30.15344	-0.380337	-0.365195	-4.167738
Std. Dev.	14.86545	0.101579	0.124019	0.505593

Source: Eviews 10 Output Results

Based on table 3 above, it is known that the cross-section probability value F is 1.0000 and the cross-section chi-square is also 1.0000. The cross-section chi-square value is greater than the significance value $\alpha = 0.05$. Therefore, based on the provisions of the Chow test, it can be concluded that the selected estimation model is the Common Effect Model (CEM).

Table 3 Chow Test Estimates

Effects Test	Statistics	df	Prob.
Cross-section F	0.113330	(17.51)	1.0000
Cross-section Chi-square	2.669802	17	1.0000

Source: Eviews 10 Output Results

Based on table 4 above, it can be seen that the random cross-section probability value is 0.9858. This value is greater than the value of $\alpha = 0.05$. Thus, based on the provisions of the Hausman test, the selected model estimate is the Random Effect Model (REM).

Table 4 Hausman Test Estimates

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross section	0.146249	3	0.9858

Source: Eviews 10 Output Results

Based on table 5 above, the Breusch-Pagan Cross-section value is 0.0030. This value is smaller than the value of $\alpha = 0.05$, so, according to the provisions of the Lagrange Multiplier Test, the better estimation model in this study is the Random Effect Model (REM).

Table 5 Lagrange Multiplier Test Estimates

Null (no rand. effect)	Cross section	Period	Both
Alternative	One sided	One sided	

Breusch Pagan	8.803976	0.415547	9.219523
	(0.0030)	(0.5192)	(0.0024)
Honda	-2.967149	0.644630	-1.642269
	(0.9985)	(0.2596)	(0.9497)
King Wu	-2.967149	0.644630	-0.554853
	(0.9985)	(0.2596)	(0.7105)
GHM	--	--	0.415547
	--	--	(0.4627)

Source: Eviews 10 Output Results

Classical Assumption Test Results

According to Gujarati and Porter (2009), equations that meet classical assumptions can only be achieved through the Generalized Least Squares (GLS) method. In Eviews, the estimation model that uses the GLS method is the Random Effect Model. On the other hand, the Common Effect and Fixed Effect Models use Ordinary Least Squares (OLS). Therefore, the need to conduct classical assumption testing in this study depends on the estimation method chosen. If the appropriate estimation method for the regression equation is the Random Effect Model, then classical assumption testing is not necessary. However, if the more appropriate estimation method is Common Effect or Fixed Effect (OLS), then classical assumption testing needs to be done.

In this study, the regression equation model chosen is the Random Effect Model (REM) so that classical assumption testing is not required. This is in accordance with the central limit theorem (Dielman, 1961 in Gustiana & Zupiryadi, 2022) which states that for large samples, especially those numbering more than 30 ($n \geq 30$), the sample distribution can be considered normal. Because this study uses more than 18 samples, namely 72 samples, the normality test in long-term estimation is considered to meet the normal distribution.

Table 6 Results of Random Effect Model Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.056450	2.388007	0.861157	0.3921
X1	17.69601	21.17653	0.835643	0.4062
X2	-1.871654	17.34480	-0.107909	0.9144

Source: Eviews 10 Output Results

From table 6 above, the results of panel data regression analysis using the Random Effect Model approach are shown. Based on the table, the regression equation can be seen as follows:

$$Y = 2.056450 + 17.69601X1 - 1.871654X2$$

Interpretation of the regression equation shows that the constant value of 2.056450 illustrates that without Corporate Growth (X1) and Free Cash Flow (X2), Debt Policy (Y) will be at the base level of 2.056450. The Corporate Growth coefficient of 17.69601 indicates a positive relationship between Corporate Growth and Debt Policy, where every 1 unit increase in Corporate Growth will increase Debt Policy by 17.69601 or 1769.601%. Conversely, the Free Cash Flow coefficient of -1.871654 indicates a negative relationship, meaning that every 1 unit increase in Free Cash Flow will reduce Debt Policy by 1.871654 or 187.1654%.

Table 7 T-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.056450	2.388007	0.861157	0.3921
X1	17.69601	21.17653	0.835643	0.4062
X2	-1.871654	17.34480	-0.107909	0.9144

Source: Eviews 10 Output Results

Based on table 7 above, it can be interpreted as follows:

a. The first hypothesis in this study states that Company Growth (X1) has a negative effect on Debt Policy (Y). The regression coefficient for Company Growth is 17.69601 with a significance value of 0.4062. At a 5% error rate, this regression coefficient is not significant because the significance value of 0.4062> 0.05. Therefore, it can be concluded that Company Growth has no effect on Debt Policy, so the H1 hypothesis is rejected.
b. The second hypothesis of this study states that Free Cash Flow (X2) has a positive effect on Debt Policy (Y). The regression coefficient for Free Cash Flow is -1.871654 with a significance value of 0.9144. At a 5% error rate, this regression coefficient is also not significant because the significance value of 0.9144> 0.05. Therefore, it can be concluded that Free Cash Flow has no effect on Debt Policy, so the H2 hypothesis is also rejected.

Table 8 Results of Determination Coefficient Test

R-squared	0.013521	Mean dependent variable	1.422902
Adjusted R-squared	-0.015072	SD dependent var	14.86545
SE of regression	14.97706	Sum squared residual	15477.56
F-statistic	0.472879	Durbin-Watson stat	1.916659

Prob(F-statistic)	0.625210

Source: Eviews 10 Output Results

The results of the determination coefficient test show how effective the independent variables are in explaining the dependent variable. This test is expressed by the R2 value. Based on Table 8, the R2 value obtained is 0.013521, which means that 1.35% of the variation in Debt Policy can be explained by the variables of Company Growth and Free Cash Flow. The contribution of these variables in influencing Debt Policy is very low. This value indicates that, although these independent variables have an influence, their influence is relatively small compared to other factors not included in the model.

Table 9 Results of Moderated Regression Analysis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.117681	2.537992	0.834393	0.4071
X1	14.09201	25.54973	0.551552	0.5831
X2	-1.348103	19.17140	-0.070318	0.9442
M	-4.043826	13.02491	-0.310469	0.7572
X1M	-43.36955	122.3678	-0.354420	0.7242
X2M	25.79213	90.40484	0.285296	0.7763

Source: Eviews 10 Output Results

Based on table 9 above, several things can be concluded as follows:

a. In the interaction between Profitability and Company Growth (X1M) has a probability value of 0.7242. The value is > 0.05, then Ho is not rejected, which means that Profitability is not able to moderate the influence of Company Growth on Debt Policy.
b. In the interaction between Profitability and Free Cash Flow (X2M) has a probability value of 0.7763. The value is > 0.05, then Ho is not rejected, which means that Profitability is not able to moderate the effect of Free Cash Flow on Debt Policy.

The model produced in this study forms a panel data regression equation as follows:

$$Y = 2.117681 + 14.09201X_1 - 1.348103X_2 - 4.043826M - 43.36955X_1M + 25.79213X_2M$$

Information:

Y	= Debt Policy
α	= Constant
$\beta_1\beta_2\beta_3\beta_4\beta_5$	= Coefficient of each independent variable
X1, X2,	= Company Growth, Free Cash Flow
M	= Profitability

Based on tables 7 & 9 above, it can be interpreted as follows:

1. Based on the results of the panel data regression analysis test, it is concluded that company growth has no effect on debt policy. Thus, H1 which states that Company Growth has a negative and significant effect on debt policy is rejected. The results of the analysis show that company growth has no significant effect on debt policy. With a negative average company growth (-0.030062), it indicates a decrease in company assets, which reflects poor financial performance and instability in growth, so that companies tend to avoid additional risks by not increasing debt policy. This study is in line with the research of Saputra et al. (2023), which states that the company's growth rate does not affect debt policy, because companies prefer to use internal funds rather than debt to finance their growth. In addition, research by Fauziah & Rejeki (2022) also found that growing companies prefer equity funding to debt to avoid financial risk. This finding confirms that other factors such as market risk and managerial preferences influence debt policy more than just company growth.
2. Based on the results of the panel data regression analysis test, it is concluded that free cash flow has no effect on debt policy. Thus, H2 which states that free cash flow has a positive and significant effect on debt policy is rejected. The results of the analysis show that Free Cash Flow (FCF) has no significant effect on debt policy. The low average FCF (0.054269) and large fluctuations between the maximum and minimum values indicate instability in the company's cash flow, so that companies tend to avoid increasing debt due to uncertainty in cash flow. This finding is in line with research by Zahroh et al. (2023) which shows that the availability of FCF does not always affect debt decisions, and Fadhilah et al. (2021) who found that FCF is not correlated with debt policy. This is supported by research by Nurkholik & Khasanah (2022) and Fauzi et al. (2022), which states that companies with high FCF are more likely to use internal funds to fund operations and expansion, reducing dependence on debt. The implication of this finding is that financial managers must consider factors other than FCF, such as capital structure and the company's strategic objectives, in determining debt policy.
3. Based on the results of the Moderated Regression Analysis (MRA) analysis test, Profitability is unable to moderate the effect of Company Growth on Debt Policy. This is indicated by the probability value of the interaction between Profitability and Company Growth (X1M) of 0.7242, which is greater than 0.05, so that the H3 hypothesis which states that Profitability is able to positively moderate the relationship between Company Growth and Debt Policy is rejected. The results of the analysis show that profitability does not have a significant effect as a moderating variable in the relationship between company growth and debt policy. The low average profitability (-0.091807) and high fluctuation (standard deviation 0.505593) indicate instability in profitability between companies, which reduces its effectiveness in moderating debt policy decisions. This is in line with the findings of Togatorop & Susan (2022) and Sari (2020), which state that companies often consider other factors such as market conditions and external capital costs rather than relying solely on profitability in making debt decisions. This result also contradicts the signaling theory and trade-off theory which assume that high profitability should encourage the use of debt to show market confidence, as well as gain tax benefits from interest expenses (tax shield). This finding is closer to the research results of Angeline &

Wijaya (2022), which found that profitability does not moderate the relationship between corporate growth and debt policy, but differs from the research of Nurfitriana & Fachrurrozie (2018), which shows the opposite. This discrepancy could be caused by differences in samples, industrial sectors, or corporate policies in the use of debt, as well as macroeconomic factors that influence corporate funding preferences.

4. Based on the results of the Moderated Regression Analysis (MRA) test, Profitability is unable to moderate the effect of Free Cash Flow on Debt Policy. This can be seen from the probability value of the interaction between Profitability and Company Growth (X1M) of 0.7242, which is greater than 0.05, so the hypothesis stating that Profitability is able to positively moderate the relationship between Free Cash Flow and Debt Policy is rejected. The absence of a role for profitability as a moderator in the relationship between Free Cash Flow (FCF) and debt policy is due to low profitability (-0.091807) and high fluctuations (standard deviation 0.505593), which indicates instability between companies in the sample. Although high FCF should reduce the need for debt, limited profitability is not enough to strengthen this relationship, because companies tend to choose to use internal funds rather than external debt (Rezki & Anam, 2020). These results also show that despite high profitability, companies do not always avoid debt, because they may choose to utilize leverage to increase company value or achieve an optimal capital structure (Deviyanti & Riyanto, 2022). In addition, these results contradict the signaling theory and trade-off theory, which state that high profitability should encourage debt use. This finding is in line with the research of Fitriyani & Khafid (2019), which also shows that profitability does not moderate the relationship between FCF and debt policy, but contradicts the research of Isnaeni et al. (2023), which states the opposite. This difference may be due to sample factors, market conditions, or different financial strategies between companies.

V. CONCLUSION

This study aims to explore the impact of Company Growth and Free Cash Flow on Debt Policy, with Profitability as a moderating variable, using multiple linear regression models and Moderated Regression Analysis (MRA). The results of the study provide the following conclusions:

1. Company growth (X1) has no effect on debt policy. This study found that growing companies tend to have greater access to internal funding sources, such as retained earnings, thereby reducing dependence on external debt. In addition, companies with good growth prospects are often more attractive to equity investors, allowing them to raise funds without having to increase their debt burden. Other factors that may influence are management preferences to avoid excessive financial risk during growth periods, or industry characteristics that allow easier access to non-debt capital. Thus, even though company growth increases, debt policy decisions may be more influenced by managerial preferences.
2. *Free Cash Flow*(X2) has no effect on debt policy. This study found that companies with high FCF usually have greater financial flexibility and can finance their operations and investments without having to rely on debt. Companies with sufficient FCF often choose to use internal funds for expansion or dividend payments rather than taking debt, which reduces the need to borrow. In addition, if management has a desire to avoid financial risk or maintain a safer capital structure, they will prefer not to add debt even though they have high FCF.
3. Profitability is unable to moderate the relationship between firm growth and debt policy. The results of the analysis show that even though the firm has high profitability, this does not have a significant effect on the debt decisions taken. Firms are more likely to use internal funding sources, such as retained earnings, rather than relying on debt. This decision may be influenced by managerial preferences to maintain long-term financial stability, so that even though there is growth, debt policy does not increase along with profitability.
4. Profitability is unable to moderate the relationship between free cash flow and debt policy. This shows that companies with high or low profitability do not affect the company's decision to choose to use free cash flow to fund growth, rather than relying on debt funding. Although signaling and trade-off theory assumes that profitability should increase companies to rely on external funding

sources such as debt, the reality shows that companies actually avoid financial risk by utilizing internal funds. This is in line with the results of previous studies which also found that profitability does not have a significant moderating effect in this case.

After finding the results and concluding the results of the research that has been carried out, the following suggestions are provided:

1. For companies, it is better to pay more attention to managing internal funding sources. They need to develop strategies that focus on utilizing retained earnings and free cash flow to fund expansion, rather than relying on debt. In addition, management must remain focused on financial stability to reduce the risks that will arise.
2. For Management, it is necessary to evaluate their preferences for debt and other funding sources. Management should prioritize the management of internal funds to support the company's growth. The company can focus on strategies that optimally utilize retained earnings and free cash flow. This approach not only helps maintain financial stability, but can also help the company reduce the risks that will arise from dependence on debt. By optimizing internal resources, the company can achieve more sustainable and independent growth in the long term.
3. Investors are advised to look at factors such as profitability and use of free cash flow when assessing a company's debt policy. They should be aware that companies with good growth do not always take on debt, so a more holistic investment approach is needed.
4. For further researchers, it is recommended to develop research by adding other independent variables because this study has limitations where the R Square value is 0.013521 or 1.35% so that the contribution of the company growth variable, free cash flow, profitability in influencing debt policy is classified as very low, which is only 1.35% and the rest is explained by other variables outside the study.

REFERENCE

Abdurrahman, AZ, NR, E., & Taqwa, S. (2019). The Effect of Institutional Ownership, Liquidity, and Company Growth on Debt Policy. JOURNAL OF ACCOUNTING EXPLORATION, 1(2). https://doi.org/10.24036/jea.v1i2.97

Amalia, N. (2020). The Effect of Profitability, Company Growth, Company Size, and Institutional Ownership on Debt Policy in Manufacturing Companies. Journal.

Angeline, G., & Wijaya, H. (2022). Factors Affecting Debt Policy With Profitability as a Moderator. Multiparadigma Accounting Journal, 4(1), 229–232.

Ass, SB (2020). Analysis of Profitability and Solvency Ratios at PT. Mayora Indah Tbk. BRAND Journal, 2, 195–209. https://ejournals.umma.ac.id/index.php/brand

BBCNewsIndonesia. (2024). Chinese products flood Indonesia, dozens of textile factories close and a storm of layoffs - "The condition of the textile industry is already an emergency." BBCNewsIndonesia.Com. https://www.bbc.com/indonesia/articles/cmj2n2kxkgdo

Chariri, A., & Ghozali, I. (2007). Accounting Theory. Diponegoro University Publishing Agency.

CNBC Indonesia. (2024). Sri Mulyani: Indonesian Textile Industry Collapses Due to Loss of Competitiveness. Cnbcindonesia.Com. https://www.cnbcindonesia.com/news/20240813132431-4-562666/sri-mulyani-industri-tekstil-ri-ambruk-akibat-kalah-saing

Damayanti, FA, & Warsitasari, WD (2022). Determination of Managerial Ownership, Dividends, Profitability and Free Cash Flow on Debt Policy in Manufacturing Companies in the Consumer Goods Industry Sector. Journal of Economics, Management, Business and Accounting, 1(5).

Deviyanti, DR, & Riyanto, MD (2022). The effect of free cash flow, collateralizable assets, and debt policy on dividend policy. JOURNAL OF MANAGEMENT, 13(4). https://doi.org/10.30872/jmmn.v13i4.10773

Fadhilah, F., Setiadi, I., & Mulyati, H. (2021). The Effect of Company Growth, Asset Structure, Business Risk and Free Cash Flow on Debt Policy (Study on State-Owned Public Companies Listed on the IDX). Compartment: Scientific Journal of Accounting, 19(1), 41–50.

Fauziah, NL, & Rejeki, D. (2022). The Effect of Free Cash Flow, Institutional Ownership, Managerial Ownership, and Company Growth on Debt Policy (Empirical Study of Property, Real Estate and Building Construction Sector Companies Listed on the Indonesia Stock Exchange). Krisnadwipayana Journal of Accounting and Business, 9(2).

Fitriyani, UN, & Khafid, M. (2019). Profitability Moderates the Effects of Institutional Ownership, Dividend Policy and Free Cash Flow on Debt Policy. Accounting Analysis Journal, 8(1), 45–51. https://doi.org/https://doi.org/10.15294/aaj.v8i1.25575

Gumanti, TA, Bhayangkara, U., & Raya, J. (2018). Signal Theory in Financial Management. November.

Herdinata. (2020). Research-Based Management Studies and Solutions. Deepublish.

Isnaeni, NMS, Rokhayati, H., & Farida, YN (2023). Factors Affecting Debt Policy With Profitability as a Moderating Variable. Students Conference On Accounting & Business.

Kompas. (2023). Beware of the Symptoms of Textile and Footwear Deindustrialization. Kompas.Com. https://www.kompas.id/baca/riset/2023/05/17/waspadai-gejala-deindustrialisasi-tekstil-dan-alas-kaki

Kompas. (2024). Hearing the Condition of Indonesian Textiles "Battered" by Import Attacks, Deputy Chairman of Commission VII of the DPR: I'm Also Stressed. Kompas.Com. https://money.kompas.com/read/2024/07/09/230000426/dengar-syarat-tekstil-ri-babak-belur-kena-serangan-impor-wakil-ketua-komisi

Landra, N., & Hamami, DMN (2022). The Impact of the Covid-19 Pandemic on the Garment Industry at CV. Ganesha Suwathama, Badung Regency. Proceedings of the National Community Service Seminar, 1(2).

Mardiyati, U., Qothrunnada, Q., & Kurnianti, D. (2018). The Influence of Managerial Ownership, Asset Structure, Company Size, Sales Growth and Profitability on Debt Policy in Companies in the Various Industrial Sectors Listed on the Indonesia Stock Exchange (IDX) for the Period 2012 – 2016. JRMSI - Indonesian Journal of Management Science Research, 9(1), 105–124.

Mariska, M. (2020). The Effect of Free Cash Flow and Share Ownership Structure on Debt Policy in Companies Listed on the Indonesia Stock Exchange in 2013-2017. Economic Dynamics Journal of Economics and Business, 13(1).

Munawir. (2017). Financial Report Analysis. Book.

Myers, S., & Majluf. (1984). Corporate Financing and Investment Decisions When Firms Have Information Investors Do Not Have. Journal of Financial Economics.

Ningsih, K., & Hariyati. (2020). The Effect of Financial Performance on Company Value with Intellectual Capital as an Intervening Variable. Akunesa Accounting Journal, 8(2).

Nofiani, R., & Gunawan, B. (2018). The Effect of Institutional Ownership, Free Cash Flow (FCF), and Investment Opportunity Set (IOS) on Debt Policy (Empirical Study on Manufacturing Companies Listed on the IDX in 2014-2016). Indonesian Accounting and Business Review, 2(2), 144–152.

Nurfitriana, A., & Fachrurrozie, F. (2018). Profitability in Moderating The Effects of Business Risk, Company Growth and Company Size On Debt Policy. Journal Of Accounting and Strategic Finance, 1(2), 111–120.

Nurjanah, I., & Purnama, D. (2020). The Effect of Profitability, Asset Structure and Company Size on Debt Policy. Journal of Management Science and Research, 1(2), 260–269.

Rezki, Y., & Anam, H. (2020). The Effect of Managerial Ownership, Company Growth and Free Cash Flow on Debt Policy. Journal of Accounting and Business, 6(1), 77–85. https://doi.org/10.31289/jab.v6i1.3010

Sari, IR (2020). Analysis of the Influence of Institutional Ownership, Managerial Ownership, Company Growth, and Company Size on Debt Policy. Madani Journal: Science, Technology, and Humanities, 3(2). https://doi.org/10.33753/madani.v3i2.117

Sartono, A. (2017). Financial Management Theory and Application (4th Edition). BPFE.

Spence, M. (1973). Job Market Signaling. The Quarterly Journal of Economics, 87(3), 355–374.

Sugiyono. (2019). Quantitative, Qualitative, and R&D Research Methods. Alphabet.

Supriadi, I. (2020). Accounting Research Methods. Deepublish.

Suryani, Y., Siregar, M., & Ika, D. (2020). Guide to Compiling Financial Reports for MSMEs. Kita Menulis Foundation.

Syachdilla, RM (2022). The Effect of Institutional Ownership, Dividend Policy, Company Growth, Company Size, and Sales Growth on Debt Policy with Profitability as a Moderating Variable in Mining Sector Companies Listed on the IDX in 2018-2020. Widya Dharma University, Klaten.

Togatorop, WRVB, & Susan, M. (2022). Investment decisions, debt policy, and dividend policy on firm value. Maranatha Journal of Management, 22(1). https://doi.org/10.28932/jmm.v22i1.5341

Trisnawati, NW, Rate, P. Van, & Untu, VN (2018). Analysis of the Impact of Managerial Ownership and Institutional Ownership on Debt Policy in Real Estate Companies Listed on the IDX for the Period 2013-2015. EMBA Journal: Journal of Economics, Management, Business and Accounting Research, 5(3), 4575–4583.

Umbarwati, UU, & Fachrurrozie, F. (2018). Profitability as the Moderator of the Effects of Dividend Policy, Firm Size and Asset Structure on Debt Policy. Accounting Analysis Journal, 3.

Veronisa, FI, Budiantoro, H., Santosa, PW, & Lapae, K. (2023). The Effect of Asset Structure, Free Cash Flow and Company Growth on Debt Policy with Profitability as an Intervening Variable. Journal of Business and Economics Research (JBE), 4(2), 174–185. https://doi.org/https://doi.org/10.47065/jbe.v4i2.3636

Zahroh, AF, Hadi Pramono, Suryo Budi Santoso, & Hardiyanto Wibowo. (2023). Determinants of Debt Policy (Case Study of State-Owned Enterprises (BUMN) in Indonesia for the 2019-2021 Period). JEMSI (Journal of Economics, Management, and Accounting), 9(3). https://doi.org/10.35870/jemsi.v9i3.1105