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Antacid Analysis of Debt Policy in Mining Companies Listed in Indonesia Stock Exchange

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Abstrak

Penelitian ini bertujuan untuk mengidentifikasi anteseden kebijakan hutang pada perusahaan pertambangan di Indonesia. Populasi pada penelitian ini adalah perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia (BEI) tahun 2012-2015 sebanyak 40 perusahaan. Menggunakan purposive sampling, menghasilkan70 data dari 18 perusahaan. Metode analisis penelitian ini menggunakan analisis statistik deskriptif dengan SPSS.21, analisis jalur menggunakan AMOS.22, dan Sobel test untuk analisis pengaruh tidak langsung. Korelasi dan analisis jalur mengidentifikasi empat anteseden DER yaitu kebijakan hutang, profitabilitas, risiko bisnis, dan likuiditas. Hasil penelitian menunjukkan adanya pengaruh langsung dan tidak langsungkepemilikan manajerialterhadap likuiditas dan kebijakan hutang. Kepemilikan manajerial berpengaruh negatif terhadap kebijakan hutang melalui likuiditas. Sementara profitabilitas dan risiko bisnis tidak berpengaruh baik secara langsung maupun tidak langsung terhadap kebijakan hutang. Namun profitabilitas berpengaruh positif terhadap risiko bisnis.Maka dapat ditarik kesimpulan bahwa anteseden kebijakan hutang yaitu kepemilikan manajerial dan likuiditas. Semakin tinggi likuiditas akan menurunkan tingkat hutang, namun likuiditas yang tinggi dapat meningkatkan kepercayaan kepemilikan manajerial untuk meningkatkan hutang. Sementara untuk meningkatkan profitabilitas sebagai tujuan utama perusahaan akan diikuti oleh peningkatan risiko bisnis.

Abstract

This study aims to identify the antecedents of debt policy at mining companies in Indonesia. The population in this study are all mining companies listed in the Indonesia Stock Exchange (IDX) total of 40 companies. Using purposive sampling, this study collected 70 data from 18 companies. Method of analysis of this study uses statistical descriptive analysis by SPSS.21, path analysis by AMOS.22, and Sobel test for indirect effect analysis. Correlation and path analysis identified four antecedents of debt policy i.e. liquidity, Insider Ownership, Business Risk, and Profitability. The results of this study indicate the direct and indirect influence of managerial ownership on liquidity and debt policy. Managerial ownership negatively affects debt policy through liquidity. While profitability and business risk have no effect either directly or indirectly to debt policy. But, profitability has a positive effect on business risk. It can be concluded that antecedents of debt policy are managerial ownership and liquidity. Higher liquidity will reduce debt levels, but high liquidity can increase the confidence of managerial ownership to increase debt. Meanwhile, to increase profitability as the main objective of the company will be followed by increased business risk.

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INTRODUCTION

Having a competitive advantage to compete with other companies and meet consumer demand encourages each company to be more innovative and improve productivity. The increasing needs of the community, especially the primary needs create the prediction of consumption increases in the future. Not only clothing, boards, and food which become the primary needs, electricity and fuel now become a major requirement. This means that the consumption of mining products will also increase with the advancement of the times. Therefore, it is necessary to do exploration to improve the result of production. Mining companies are required to explore to increase productivity in order to meet increased consumption. The exploration problem cannot be separated from the funding decision related to the source of its capital. Initial capital which is very large cannot be met with internal capital, so need additional funds using external capital in the form of debt. Hopefully, when getting more funding so the company can expand the expansion of the project so as to increase its productivity and profitability. However, the fact is that the demand of mining decreases due to exports reduction of some countries and the existence of alternative energy sources such as solar panels which more environmentally friendly, resulting in excess supply in the market. Products that flood the market have an impact on the decline in selling prices. The selling price of the product never goes up decreases profitability and its liquidity level. Eventually the debt will backfire for the company if it is not managed optimally.

The existence of the gap phenomenon raises various business risks that affect the slow transformation of current assets into cash to pay debt. When the level of liquidity is low then investor and debt holder’s trust to invest their capital to the company also decreased. Wherein they assume the company will not be able to pay the debt in accordance with its maturity. If the company's ability to pay debt is lower, it will be threatened at risk of default until bankruptcy. Such as the case of Peabody Energy, the largest private coal company in the world and a global leader in the field of mining cannot pay debt interest worth US $ 71 million and ask for bankruptcy protection. This is because Peabody acquired Macarthur that made it impossible to pay the debt of US $ 6.3 billion. Peabody expects that coal prices are soaring high but in fact the opposite is so that Peabody's earnings are not enough to pay off its debts (www.tambang.co.id). The similar thing happens to domestic companies, quoted from the page of web www.bareksa.com explains that PT Bumi Resources Tbk (BUMI) is a mining company which has the largest debt among the eight members of Bakrie Group and has failed to pay a coupon of USD 37.6 in 2014. Not only that, BUMI also has debt to Credit Suisse of USD 150 should be repaid in November 2013 but refinance is made so the maturity date to November 2014. This resulted in increasing the DER BUMI ratio, which means the health of the company worsened.

The losses and default of Paebody Energy and BUMI are the evidence of failure of financial management in making debt policy decisions. According to (Simanjuntak & Kiswanto, 2015) decision-making relating to the determination of sources of funds should be appropriate, whether using internal funds (retained earnings) or external (debt and equity). Decision-making should take account of the benefits and costs incurred. Management mistake is one of the risks that arise from internal company. It included differences in interests between managers and shareholders that lead to agency conflicts. The existence of this agency conflict worsens the financial performance and objectives of the company. According to (Brigham & Houston, J, 2013), agency conflict arises from managerial ownership not reaching 100%. Therefore, as described by (Jensen, & Meckling, 1976) that to overcome the agency conflict by increasing insider ownership that can align ownership interests with managers.

Putri & Nasir (2008) proves that managerial ownership has an effect on debt policy as a solution to agency conflict. However, (Indahningrum & Handayani, 2009); (Hardiningsih and

Oktaviani, 2012); as well as (Yuniarti, 2013) did not find any effect of managerial ownership on debt policy. (Putri & Nasir, 2008) as well as (Murtiningtyas, 2012) find that business risk and profitability have a negative effect on debt policy, while research of (Paydar & Bardai, 2012) as well as (Nugraheni & Sampurno, 2012) find no significance on the influence of both variables on debt policy. Low adjusted R square as in the study (Steven & Lina, 2011), (Rifai, 2015), and (Pratama, 2016) shows that the low variables affect the debt policy. Therefore, an intervening variable is needed to reinforce the indirect effect. Business risk and liquidity are used as intervening variables according to the existing of gap phenomenon. This is a renewal because there is no research using both variables as intervening of managerial ownership and profitability variables to debt policy.

The purpose of this study is to analyze the antecedents of debt policy, namely the in-depth study between the causal relationship of exogenous and endogenous variables to obtain more accurate result related to factors affecting debt policy in mining companies. Based on capital structure theories are Agency Theory, Pecking Order Theory and Trade off Theory. Jensen & Meckling (1976) develop Agency Theory related to capital structure and agency conflict stating that debt and insider ownership are solutions to reduce agency conflict. In contrast to that theory, Pecking Order Theory emerges as a solution to minimize the funding risk by preferring internal funding, by looking at the level of profitability and liquidity. While Trade Off Theory is the basis of trade off between benefits and tradeoffs related to profitability and risk. Agency theory suggests managerial ownership to be the solution to agency conflict, where managers also act as shareholders so managers will be more cautious in decision making, given the risks that must be accepted. Debt is a risk funding decision. Therefore, managers behave according to pecking order theory to minimize risk by pressing debt. Research of (Natasia & Wahidahwati (2015) as well as Setyawati (2014) shows that managerial ownership has a negative influence on leverage (DER). Managers who participate in managerial ownership have multiple responsibilities and risks as shareholders as well as managers. When a company uses debt followed by a high risk, it will disturb insider ownership. So, this research points to the following hypothesis:

H_1: Managerial ownership has a negative effect on debt policy.

According to (Steven & Lina, 2011) at a high level of profitability, companies will reduce the use of debt. Because the company is assumed to allocate most of the profits on retained earnings so that companies can rely on internal funding sources and use debt at a low level. However, when profitability is low, companies will use high debt as a mechanism for transferring wealth between creditors to shareholders at once to cover the shortage of internal funds for the sake of the corporate operational continuity. In line with Pecking Order Theory, it is better to use retained earning first then use debt and equity. Research conducted by (Liaqat Ali, 2011), (Setyawati, 2014), (Pratama, 2016) as well as (Paydar & Bardai, 2012) find profitability has a negative effect on debt. Therefore, this study designates the following:

H_2 : Profitability has a negative effect on debt policy.

Companies that have high business risk will certainly avoid using debt to fund companies because by using debt risk of corporate liquidity will increase. (Yeniatie & Destriana, 2010). Pecking Order Theory explains that the company should try to use internal funds to finance the operations of the company. When the company lacks internal funding, it can choose to use debt by considering the ability of its principal cost obligations. Research results of (Putri & Nasir, 2008) as well as (Rifai, 2015) show that business risk negatively affects on debt policy. From various rationalities, the previous theoretical review and invention is enough to be the basis for referring hypothesis as follows:

H_3: Business risk has a negative effect on debt policy

Liquidity is an aspect that shows the ability of company to meet the obligations that must be met immediately. A company that has a high level of liquidity, means that the company is able to

immediately return its debts (Narita, 2012). Seen from the side of Pecking Order Theory, the higher the liquidity then the company can reduce the level of debt to minimize the risk and prefer to use internal funds. This is in accordance with the results of the study conducted by (Natasia & Wahidahwati, 2015), (Pratama, 2016), as well as (Narita, 2012) which shows that liquidity has a negative effect on debt policy, the higher the current ratio of a company means that the company has sufficient current assets to return its current debt. Therefore, this study designates the following hypothesis:

H_4: Liquidity has a negative effect on the debt policy.

Perspective of Agency Theory states that it is very difficult to believe that management will always act in line with the interests of shareholders. Agency conflict occurs if the proportion of management ownership of a company's shares is less than 100%. Thus, the higher managerial ownership will lower the business risk associated with earnings management actions done by managers, which will reduce the rate of return on investment. The relationship of the two variables shows the opposite direction, according to the study of (Afendi, 2014) which shows that the management which has stock are more risk averse so reluctant to risk. Then the decision to be taken is to select the low business risk. So the higher the managerial ownership will lower the business risk that will be faced by the company. Therefore, this study designates the following hypothesis.

H_5: Managerial ownership negatively affects business risks

In terms of management, companies that have high liquidity show poor performance. This is due to unused cash balances, relatively excessive inventories, or due to poor corporate credit management resulting in high accounts receivable. This unfavourable performance occurs due to the opportunistic actions done by management over the excess investment in current assets resulting in agency conflict. This happens because the investment policy on external funds obtained is not maximized in accordance with the condition of the company, so the company will tend to pay high debt burden but low feed back or excess investment in current assets, then the level of liquidity will be inefficient. According to Agency Theory, an increase in managerial ownership can be a solution to increase the power of policy-making so that debt investments can be in accordance with the condition of the company and reduce the cost of external financing. Thus, the higher the managerial ownership then the liquidity will be more optimal or tend not too high. Hence, this study designates the following hypothesis:

H_6: Managerial ownership has a negative effect on liquidity

Increased profitability is done by increasing productivity through mining result exploration. Mining sector is an industry with considerable risks associated with the source and its mining area. Uncertain nature conditions, capital for equipment required is very large, and employee welfare insurance is a risk that must be paid by the company in order to realize the desired profitability targets. So to increase profitability will arise a high business risk. The fact is in accordance with the statement of Van Horne & Wachowicz (2005: 313) that profitability moves in a straight line with the risk that there is profit and loss between risk and return. In looking for higher profitability, it should be realized that the risk will be greater. The explanation is in accordance with Trade Off Theory which balances the sacrifices of risks and benefits of profitability. So profitability has a positive effect on business risk. Therefore, this study designates the following hypotheses:

H_7 : Profitability has a positive effect on business risk

According to (Santoso, 2011) companies that use modern cash management techniques will invest a temporary cash surplus on highly liquid assets. Investment in current assets or liquid assets leads to trade-offs for the company, on the one hand too large current assets hence the holding cost to be borne by the company is also large, in addition to the ability of liquid assets in generating profits are low. On the other hand, under conditions where external funding costs are high then large liquid assets actually benefit firms, since firms can use these assets to finance operations and increase

their liquidity. Based on the pecking order theory, the company should increase its profit in order to finance the company's operations with internal funds, but it will have an impact on the decrease of liquidity. This is in accordance with the statement of Van Horne & Wachowicz (2005: 313) mentions that profitability is inversely proportional to liquidity, since an increase in liquidity is usually paid with a decrease in profitability. Therefore, this study designates the following hypothesis:

H_8: Profitability has a negative effect on liquidity

In determining debt policy decisions, managerial ownership will take into account both the business risks of both the company and the business risks of making debt decisions. Viewed from the perspective of Agency Theory, managers do not want funding through debt because they do not want to bear a high risk. Plus if the company is quite risky, then when using the debt would be a risk of bankruptcy. This is supported by research of (Putri & Nasir, 2008) which indicates a significant influence between the risks to managerial ownership. This means that risk is really a consideration for managerial ownership. A high risk for debt use decisions will aggravate the company's finances. So the existence of consideration of high business risk will further lower the level of debt. Hence, this study designates the following hypothesis:

H_9: Managerial ownership has an effect on debt policy through business risk

The direct effect of profitability was negative debt policy. Because the company is perceived to be able to finance operations with its internal fund so as to reduce the debt. Through consideration of business risk inherent in the company will further strengthen the reason for management to act according to Pecking Order Theory using internal funds with retained earnings owned by the company for its operations. When companies that already have high profitability using debt with a high level of risk actually the true debt into additional capital for exploits that are expected to increase profitability, will threaten the survival of the company. Because the high risk signifies that the return on invested capital is getting lower. Hence, the hypothesis can be drawn as follows:

H_{10}: Profitability affects debt policy through business risk

If the company's liquidity is high, it will be avoided from the risk of liquidation and debt will provide more profits so as to increase shareholder wealth, including managerial ownership. This is in accordance with Agency Theory for management to focus on shareholder welfare. High liquidity means the company has been able to generate internal funds well. High debt repayment will avoid bankruptcy risk. Thus, it will reduce the manager's fear on risk of incompetence. Managerial ownership that tends to minimize risk with high liquidity considerations will continue to increase debt. From the description above it can be taken as follows hypothesis:

H_{11}: Managerial ownership positively affects debt policy through liquidity.

High profitability indicates that the company can generate high internal funds as well. In accordance with the perspective of Pecking Order Theory, companies with high profitability should use internal funds in advance to finance the company's operations. So it tends to repress the debt. Increased profitability influenced by high liquidity will also increase the company's reasons to reduce debt. Because liquidity also shows the company's ability to generate internal funds derived from current assets. So, high profitability and high liquidity perceived by the company is able to use its own internal funds and not rely on debt. So it can be drawn hypothesis as follows:

H_{12}: Profitability negatively affects debt policy through liquidity

From the various explanations of the thinking framework then it can be described in the research model as follows:

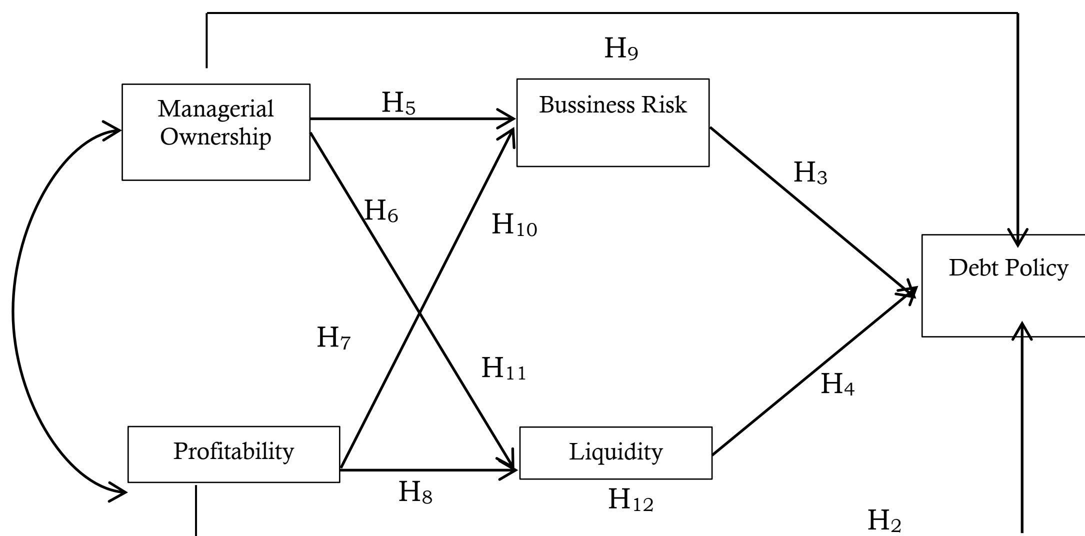

Figure 1. Thinking Framework Model

METHODS

This research was a quantitative research. The data used was secondary data in the form of annual report. The population in this study was mining companies listed in Indonesia Stock Exchange in 2012-2015 as many as 40 companies. Sampling by purposive sampling resulted in a sample of 70 issuers with the following criteria:

Table 1. Sampling Criteria

Criteria	Beyond Criteria	Accumulation
Mining companies which were still listed on IDX until 2015	-	40
Mining companies that published annual reports respectively during 2012-2015	8	32
A full list of shareholders including insider ownership completed with shareholding proportion in annual report period 2012-2015	14	18
COMPANIES SAMPLE		18
4-year research period		72
Data outlier		2
TOTAL SAMPLE		70

Based on the theoretical framework, this research had four antecedent variables: debt policy as endogenous variable, managerial ownership and profitability as exogenous variable and intervening variables include liquidity and business risk. Definitions and indicators of measurement of each variable were explained in the following table:

Table 2. Operational of Variables

Variables	Definition	Measurement/Indicator
Debt policy (Y)	The actions of corporate management that would fund the company's operations by using capital derived from debt (Setyawati, 2014)	Debt to Equity Ratio (DER)= total debt/total equity. (Kasmir, 2014)
Insider Ownership(X_1)	Corporate shareholding by managers who managed the company. (Nugraheni & Sampurno, 2012)	MOWN= total shares of managers/total shares outstanding. (Imanta & Satwiko, 2011)
Profitability (X_2)	The ability of companies to make a profit. (Kasmir, 2014)	Return on Asset (ROA)= net profit/total asset of the company (Chen, Chen, & Chen, 2014)
Bussiness Risk (Y_1)	Uncertainty of the company in carrying out its business activities. (Pratama, 2016)	ROIC= Net Operating Profit After Tax (NOPAT)/ capital. (Brigham & Houston, 2013)
Liquidity (Y_2)	The ability of companies to meet short-term financial obligations (Santoso, 2011)	*Current Ratio* (CR)= current assets / current liabilities. (Terra, 2011).

Data collection technique used was documentation method of corporate annual report listed in Indonesia Stock Exchange year 2012-2015. The analysis technique used in this research consisted of descriptive statistical analysis using SPSS.21 software and path analysis using AMOS software.22. Before conducting the path analysis test of this research, it was conducted the classical assumption test and goodness of fit model. The classical assumption test and the goodness of fit model were performed to determine whether the model was feasible to be processed or not. The classical assumption test used included normality test, multicollinearity test, and heteroscedasticity test.

RESULTS AND DISCUSSIONS

Hypothesis test could be done after passing from prerequisite test of classical assumption test and goodness of fit. The result of classical assumption test showed that the path analysis model of this research passed from the classical assumption test, meaning that this model was feasible to be processed or analyzed. Goodness of fit model was done to know the suitability of model based on existing theory. The criteria and results of the goodness of fit model were described in the table3:

Table 3. Result of Goodness of Fit Model Test

Goodness of Fit Index	Cut of Value	Research Model	Model Evaluation
X^2-Chi Square	Small	1.689	Fit
Significance Probability	≥0.05	0.194	Fit
RMSEA	≤0.08	0.000	Fit
GFI	≥0.90	0.990	Fit
AGFI	≥0.90	0.856	Fit
CMIN/DF	≤2.00	1.689	Fit
TLI	≥0.90	0.938	Fit
CFI	≥0.90	0.994	Fit

Source: Secondary data has been processed, 2017. AMOS

After the classical assumption test and the suitability of the model done, it did not show any autocorrelation, heteroscedasticity, multicollinearity, data abnormality. Research data was also stated fit according to the criteria so as to met the requirement for conducting hypothesis testing with the following results:

Table 4. Result of Hypothesis Testing

Hypothesis	Statement	Estimate	Probability	α	Result
H_1	Managerial ownership had a negative effect on debt policy	0.235	0.024	0.05	H_1 Rejected
H_2	Profitability had a negative effect on debt policy	-0.106	0.447	0.05	H_2 Rejected
H_3	Business risk had a negative effect on debt policy	-0.164	0.256	0.05	H_3 Rejected
H_4	Liquidity had a negative effect on debt policy	-0.375	0.000	0.05	H_4 Accepted
H_5	Managerial ownership had a negative effect on business risk	-0.139	0.079	0.05	H_5 Rejected
H_6	Managerial ownership had a negative effect on liquidity	-0.428	0.000	0.05	H_6 Accepted
H_7	Profitability had a negative effect on business risk	0.742	0.000	0.05	H_7 Accepted
H_8	Profitability had a negative effect on liquidity	0.137	0.205	0.05	H_8 Rejected
H_9	Managerial ownership had a negative effect on debt policy through bussiness risk	-0.091	0.341	0.05	H_9 Rejected
H_{10}	Profitability had a negative effect on debt policy through business risk	-.0172	0.259	0.05	H_{10} Rejected
H_{11}	Managerial ownership positively affected on debt policy through liquidity	0.183	0.008	0.05	H_{11} Accepted
H_{12}	Profitability negatively affects on debt policy through liquidity	-0.170	0.117	0.05	H_{12} Rejected

Source: Secondary data has been processed, 2017. AMOS

Table 4 showed that managerial ownership had a significant positive effect on debt policy. This study was inconsistent with the Agency Theory and Pecking Order Theory which stated that managerial ownership would minimizes risk by reducing debt and using internal funds. The results also contradicted the research conducted by (Indahningrum & Handayani, 2009) as well as (Shyu, 2013) which found managerial ownership negatively affected on debt policy. This was because managers who owned shares in a mining company were risk takers. It was proven by increasing corporate debt, but the percentage of managerial ownership tended to be stable annually. Thus, managers were considered risk takers for increased debt accompanied by an increased risk but did not reduce the percentage of ownership. Therefore, managerial ownership had a positive effect on debt policy. The higher the managerial ownership would increase the debt. This study was consistent with the theories put forward by Friend and Hasbrouck (1988) in (Santoso, 2011) which stated that insider of companies had a greater interest in ensuring the viability of the company

because the risk of non-diversifiable debt management was greater than public investors. Where, a mining company was a company that relied on debt for capital so that management was unlikely to lower the level of debt to zero. It was due to the existence of corporate governance mechanisms to regulate and control their behavior. The result of the study was more in accordance with Trade off Theory, by using high debt would increase the returns that increased the welfare of shareholders including managers who owned shares.

Based on the data processing, it was known that profitability had insignificant negative effect on debt policy. The result of the research was not in line with the research of Liaqat Ali (2011) who found a significant negative relationship between profitability to debt policy. This study did not prove the Pecking Order Theory which stated that companies must use internal funds first. This was due to the profits of mining companies were mostly in a loss condition with an average ability to earn profit only 3%, so it was not possible to use internal funds as a whole and pressing debt. Decision-making considerations were based on capital requirements and repayment capabilities. The result of this study was in line with (Nugraheni & Sampurno, 2012) which showed ROA had no effect on debt policy.

Table 4 showed business risks had an insignificant negative effect to debt policy. The result of this study did not prove the perspective of Pecking Order Theory to minimize risk by pressing debt. It was also contrary to research conducted by (Putri & Nasir, 2008) as well as (Rifai, 2015) which proved the theory. Because mining companies relied on additional external funds for the initial capital of corporate operations, managers tended to risk taker or ignore certain levels of risk in order to get additional funds to meet operational costs. The business risk that was the uncertainty of corporate operations made the business risk was not an accurate assessment as it related to what would happen in the future. Consequently, the company ignored the uncertainty of risks for consideration of debt decisions. Sacrificing business risk to get higher returns according to Trade off Theory. This study was consistent with the study of (Paydar & Bardai, 2012) which conducted research on the capital structure of non-financial corporations in Malaysia as well (Yeniatie & Destriana, 2010) which showed that business risk was negatively insignificant to the debt policy.

Based on the data processing, it was known liquidity had a significant negative effect on debt policy. This research was supported by the results of the research conducted by (Nugraheni & Sampurno, 2012) as well as (Riasita, 2014). Pecking Order Theory supported this research where companies tended to prefer internal funding by using their current assets to meet funding needs, due to the low risk was borne by companies if using internal funding. So when the level of the company's ability to meet its debt obligations increased, companies should reduce the risk by reducing the corporate debt. Supported by research data, it showed mining companies had high liquidity so they could use internal funds to finance the company's operations and reduce debt.

Based on the data processing and path analysis conducted, it could be known that insider ownership had a negative insignificant effect on the debt policy. It was contrary to the results of the study conducted by (Putri & Nasir, 2008) which found the significance of the effect of managerial ownership on debt policy. The result of this study was not in accordance with the perspective of Agency Theory, in which managerial ownership would minimize risk. This was due to the average percentage of managerial ownership was too low at 10% of the outstanding shares. Thus, most of the power still belonged to external shareholders, who did not make decisions by minimizing risks but the most important was the increase of shareholder welfare. Hence, low managerial ownership did not have enough power to make decisions that minimize risk.

The result of the research showed that managerial ownership had a significant negative effect on the liquidity. Agency conflicts that occurred related to liquidity that was about the threat of opportunistic action of excess investment allocation in the current assets of the company. As liquidity increased, investment in current assets was greater, and showed poor financial

performance. There should be a balance between fixed assets and current assets to achieve liquidity efficiency. Managerial ownership in line with The Agency Theory was a mechanism of agency conflict solutions to reduce opportunistic action on current assets. So that the insider ownership decreased, the liquidity increased due to the lack of control. Increased managerial ownership was a mechanism deliberately created by the company to increase the power of managers to make optimal decisions, related to investments including current assets.

Based on the data processing done, it could be known that profitability had a significant positive effect on business risk. This study was in accordance with which was hypothesized based on Trade Off Theory which stated that profitability was in line with business risks. This meant to get a high profitability would usually be followed by an increased risk. Especially for the mining industry sector which was in the process of achieving profit was accompanied by various risks, both internal and external risks. This research was in line with the research (Chen et al., 2014) Who found that to get a high profitability would arise a high business risk as well.

The result of hypothesis test showed that profitability had a negative insignificant effect to liquidity. The result of this research did not support research from Eljelly (2014) which showed that profitability had a significant negative effect to liquidity. The efficiency of liquidity management involved planning and controlling of current assets and current liabilities to avoid the occurrence of inability to pay. In the process would reduce profitability because of its fixed assets was reduced. This study was not in accordance with Pecking Order Theory which suggested that the company should increase the profit to finance operations but tended to reduce the liquidity. The result of this study was not significant because the profitability of mining companies that were mostly in a loss position so that profitability was not possible to improve its liquidity. In consequence, profitability had no significant effect on liquidity.

The results of the research showed that managerial ownership had an insignificant negative effect on debt policy. This finding was not in line with (Indahningrum & Handayani, 2009) as well as perspective of Agency Theory stated that the existence of managerial ownership would minimize business risk by pressing debt. This was for there were still many mining companies that did not have managerial ownership. Meanwhile, the average manager who had managerial ownership was only 10% of total ownership. Hence, the power possessed by managerial ownership was insufficient to influence debt policy decisions even with the consideration of minimizing risks. The amount was not proportional to the percentage of shareholders from external companies that put more emphasis on shareholders' welfare than lower-risk decisions.

The results of data analysis showed that profitability did not affect the debt policy through business risk. This study did not prove the Pecking Order Theory, in which high profitability indicated the company was able to generate high internal funds, thus able to fund the company's operations with internal funds and reduce the debt to minimize risks. This was due to profitability owned was very low but could not be reinforced by business risk considerations. Considering the results of research indicated that mining companies ignored the business risk of debt ownership. Consequently, business risk could not be an intervening variable. Supported by the research data, mining companies tended to increase debt even though profitability and return on investment was very low with an average of 3%.

The result of data analysis showed that managerial ownership positively influenced to debt policy through liquidity. The result of this study was in accordance with Agency Theory which explained that managers should prioritize shareholder welfare. Managerial ownership which tended to avoid risk by pressing debt could also increase debt when liquidity level was high, thus avoiding the risk of liquidity due to default. So with the addition of capital would improve the welfare of shareholders as well. In the end, it would realize Agency Theory which showed that the fulfilment of the main purpose of financial management was to maximize shareholder wealth. If the corporate

liquidity was high, it would avoid from liquidation and the debt would give more profit to increase shareholder wealth, including managerial ownership.

The result of hypothesis test showed that profitability had no effect on debt policy through liquidity. This research was not in accordance with Pecking Order Theory. The effect of profitability mediated by liquidity would increasingly indicate that the company was able to generate internal funds. The higher profitability influenced by liquidity increasingly pressed the use of debt that was quite risky. But, it did not show the direction of significant influence. Due to the imbalance of investment in current assets and fixed assets, the profitability was very low and liquidity was high. Although profitability was mediated by liquidity but low profitability remained unable to provide internal funds for the operations of the company. Because of profitability and liquidity had different roles, liquidity as a source of debt repayment while profitability for return on investment and retained earnings. Supported by the research data, it showed that the company had a high debt, high liquidity but low profitability.

CONCLUSIONS

After the research, the antecedent variables of debt policy are liquidity and managerial ownership. Because business risk and profitability have an insignificant effect on debt policy, in which the mining companies tend to ignore certain levels of risk while still using the debt for the continuity of the company's operations. Liquidity is only affected by managerial ownership and is able to mediate the effect of managerial ownership on debt policy. Meanwhile, business risk is influenced by profitability and cannot mediate indirect influence because there is no direct effect on debt policy. Then it can be concluded that the higher the liquidity, the lower the rate of debt. While the debt policy of mining companies will increase if high managerial ownership is influenced by high liquidity as well. The purpose of increasing profitability will be followed by increased business risk Suggestions for further research can add research variables such as free cash flow and company size which is the factor of debt policy. Subsequent research can also replace mediation variable of business risk because it does not affect on the debt policy.

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