

ISSN: 1411-125X





PUBLIC EXPENDITURE MANAGEMENT IN INDONESIA: Islamic Economic Review on State Budget 2017 Aan Jaelani

ECONOMIC INDEPENDENCE OF PESANTREN: The Study at Pekalongan Region M. Nasrullah, Kuat Ismanto, Nalim

DO GOVERNMENT AND PRIVATE SHARIA COMMERCIAL BANKS PRACTICE SIMILAR FINANCIAL SOCIAL RESPONSIBILITY DISCLOSURE? Nurdin, Mir'atun

State Institute for Islamic Studies (IAIN) Palu Central Subwesi

HUNAFA	Volume	Number	Page	Palu	ISSN
JSI	15	2	189-404	December 2018	1411-125X



Jurnal Studia Islamika



Published by: State Islamic Institute (IAIN) Palu Central Sulawesi



Jurnal Studia Islamika

ISSN: 1411-125X (p); 2355-7710 (e)

Volume 15, Number 2, December 2018

HUNAFA: Jurnal Studia Islamika is an Islamic studies journal dedicated to publishing scholarly articles on all aspects of Islam and the Muslim peoples and religious studies. Available in print and online and published twice a year, the journal aims to become one of the leading platforms in Indonesia for new findings and discussions of all fields of Islamic studies. This journal invites scholars, researchers, and students to contribute the result of their studies and researches in the areas related to Islam and Muslim society which covers textual and fieldwork investigation with various perspectives of law, education, quranic studies, economiy, philosophy, mysticism, theology, sociology, and others.

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Editorial Preface

This issue (Vol. 15 issues 2) of Hunafa: Jurnal Studia Islamika offers eight articles covering topics of Islamic economic. Various issues relating to Islamic economic are presented interestingly to contribute to the body of knowledge and practices. Academia and practitioners in Islamic economic may gain insight from reading these articles.

The first article is titled *Public Expenditure Management In Indonesia: Islamic Economic Review On State Budget 2017* by Aan Jaelani from Fakultas Syariah dan Ekonomi Islam IAIN Syekh Nurjati Cirebon. This paper discusses the management of public expenditures in Indonesia in State Budget 2017 from the theory of public expenditures, and the theory of public goods, then the author compared with the theory of public expenditure in Islamic economics. Public expenditure management in Indonesia has implemented a distribution system that divided public expenditure for central government expenditures, transfers to the regions, and the village fund.

The second article in the issue is titled *IKI SAE MAS as an Integrated Soft Skills Concept from The Qur'an and Sunna Perspective* by Aries Musnandar Universitas Islam Raden Rahmat (UNIRA) Malang. This paper highlights the function of instructional management of soft skills to the success of students' performance. The study employs a qualitative research method with multiple case study design, in which a meaning-making activity is underlined as the first objective of interpretive research in understanding social phenomena of education activities.

The third article is titled *Economic Independence Of Pesantren: The Study at Pekalongan Region* by M. Nasrullah, Kuat Ismanto, and Nalim Nalim from Fakultas Ekonomi dan Bisnis Islam IAIN Pekalongan. The article describes the economic map of Pesantren in Pekalongan region. The study found that almost all Pesantren in Pekalongan region have a business unit. The existing business unit, mostly engaged in trade. The businesses itself is oriented to meet the internal needs of religious school, especially students.

The fourth article is by Mohammad Jeffry Maulidi BPN Praya Lombok Tengah. The article is titled *Halal Tours As The Form Of Islamic Civilization Progress: Special Economic Zone Mandalika Lombok.* The article discusses the implementation of da'wah in Halal tourism in Special Economic Zones (KEK) in Lombok. The application of Islamic cultural values through social construction and approach of education Sunnah can improve progress and contribution to society and quality of facilitation of educational development to increase understanding source of human power.

The fifth article is titled Do Government And Private Sharia Commercial Banks Practice Similar Financial Social Responsibility Disclosure? by Nurdin Nurdin and Mir'atun Mir'atun from Institut Agama Islam Negeri (IAIN) Palu, Sulawesi Tengah. The article discusses the differences between government and private owned sharia banks using six sharia banks samples. The sample was purposively selected from Indonesian Bank website. The data that all three variables: independent analysis shows commissioners, boards of directors, and sharia supervisory boards are significantly impacted the companies' corporate social responsibility practices.

The sixth article is titled *Islamic Economic Model in Reducing Gap of Growth and Unemployment* by Sumar'in Sumar'in and Iwan Kusnadi from Institut Agama Islam Sultan Muhammad Syafiuddin Sambas. The article discusses the effect of economic growth on unemployment. The article concludes that there is a negative influence toward economic growth in the rate of Indonesia and unemployment in 1998-2018. Economic development in Islamic economy perspective focuses on three elements such as forbidden interest (*ribā*) as instrument financial, optimization zakat and characteristics of an element of spiritual, moral, and material.

The seventh article is titled *Creative Economic Management Of Tangkit Lama Village Sungai Gelam Sub-District Muara Jambi District* by

Sumarto Sumarto from STAI Ma'arif Jambi. The article discusses the reality of the village of Tangkit Lama in Muara Jambi Regency in developing creative economic activities.

The last article is titled Debt Policy Analysis as a Mediation of Financial Distress Predictions for Companies Registered at The Jakarta Islamic Index (JII) In 2013-2016 by Witri Aulia Maudy and Hendri Tanjung from Universitas Ibn Khaldun Bogor. The article discusses the effect of Debt Policy (DER) on Financial distress (Altman Z-score Modification) and the influence of Managerial Ownership (MOWN), Dividend Policy (DPR), Profitability (ROA), Liquidity (CR), Company Size (SIZE), to the Debt and Financial distress Policy.

I hope the articles presented in this issue adds further empirical evidence to the growing body of research that examines economic in the Islamic context. The articles could trigger other research related to Islamic economic across economic institutions in Indonesia.

Nurdin Nurdin Editor-in-Chief HUNAFA: Jurnal Studia Islamika XV, II

DEBT POLICY ANALYSIS AS A MEDIATION OF FINANCIAL DISTRESS PREDICTIONS FOR COMPANIES REGISTERED AT THE JAKARTA ISLAMIC INDEX (JII) IN 2013-2016

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Abstract. This study aims to determine the effect of the Debt Policv (DER) on Financial distress (Altman Z-score Modification) and the influence of Managerial Ownership (MOWN), Dividend Policy (DPR), Profitability (ROA), Liquidity (CR), Company Size (SIZE), to the Debt and Financial distress Policy. This paper also looks the indirect effect of Debt to Financial distress Policy. The data is analyzed by using path analysis. Based on the Lisrel output results, the covariance matrix of path model estimation is not statistically different from the sample data covariance matrix. The population in this research is companies, which are registered in JII period 2013-2016. By judgment sampling technique, only 20 companies are obtained. Total data of this research is 80 company data. This study finds that debt policy is negatively significant to Financial distress. Managerial ownership and liquidity do not significantly affect debt policy. Dividend policy, profitability, and company size do not affect debt policy. On the other hand, Managerial Ownership, Dividend Policy, Profitability and Company Size as a whole affects the Financial distress. However, simultaneously Managerial Ownership, Dividend Policy, and Company Size are negatively insignificant, while Profitability and Liquidity have a positive effect although not significant to Financial distress company. From the calculation of direct and indirect influence, it is known that the indirect influence is bigger than direct influence.

Abstrak. Penelitian ini bertujuan untuk mengetahui pengaruh Kebijakan Utang (DER) pada Financial distress (Altman Z-score Modification) dan pengaruh Kepemilikan Manajerial (MOWN), Kebijakan Dividen (DPR), Profitabilitas (ROA), Likuiditas (CR), Perusahaan Ukuran (SIZE), untuk Kebijakan Utang dan Financial distress. Tulisan ini juga melihat efek tidak langsung dari kelima variabel tersebut melalui kebijakan Utang terhadap Kebijakan Financial distress. Data dianalisis dengan menggunakan analisis jalur. Berdasarkan hasil Lisrel, matriks kovariansi

estimasi model jalur tidak berbeda secara statistik dari matriks kovariansi data sampel. Populasi dalam penelitian ini adalah perusahaan yang terdaftar di JII periode 2013-2016. Dengan teknik judgement sampling, hanya 20 perusahaan yang diperoleh. Total data dari penelitian ini adalah 80 data perusahaan. Studi ini menemukan bahwa kebijakan utang secara negatif signifikan terhadap Financial distress. Kepemilikan dan likuiditas manajerial tidak berpengaruh signifikan terhadap kebijakan hutang. Kebijakan deviden, profitabilitas, dan ukuran perusahaan tidak berpengaruh pada kebijakan hutang. Di sisi lain, Kepemilikan Manajerial, Kebijakan Dividen, Profitabilitas dan Ukuran Perusahaan secara keseluruhan mempengaruhi Financial distress. Namun, secara bersamaan Kepemilikan Manajerial, Kebijakan Dividen, dan Ukuran Perusahaan tidak signifikan, sedangkan Profitabilitas dan Likuiditas memiliki efek positif meskipun tidak signifikan terhadap perusahaan financial distress. Dari perhitungan pengaruh langsung dan tidak langsung, diketahui bahwa pengaruh tidak langsung lebih besar daripada pengaruh langsung.

Keywords: debt equity rasio, financial distress, managerial ownership, profitability, liquidity

DOI: https://doi.org/10.24239/jsi.v15i2.523.367-404

Introduction

Every company must have a strategy in order to maintain its existence. This is due to the fact that between companies there is an increasingly high level of competition. The number of companies in Indonesia according to the Central Statistics Agency has increased by 3.98 million new companies in 2017. In 2016 there were 22.7 million and in 2017 there were 26.7 million companies.

According to Syahrudin,¹ the main problem and often faced by each company is capital or funds to finance its business. The need for this fund is needed both for investment capital and working capital. In this problem, of course, it takes a strategy and decision management of funds that are good when the company experiences capital or fund problems. In funding the company's operational activities, financial managers have an important role

¹ Syahrudin, "Pengaruh Funding Terhadap Kepuasan Nasabah," Al-Infaq Jurnal Ekonomi Islam 6, no. 2 (2015): 263-318.

in funding decision-making. There are two kinds of funding sources, namely debt, and equity.

Lack of capital is the company's reason to owe when the company grows, sometimes the owner of the company is no longer able to finance the company's operations, so the owner decides to take funds from outside parties such as banking or the capital market. Capital markets are places for long-term financial asset transactions. The capital market allows the fulfillment of long-term funding needs for long-term investments in the form of buildings, equipment, and other production facilities.² Therefore, many large companies choose to take funds to meet their operational needs through the capital market. It means the company has decided to go public.

The main purpose of companies that have gone public is to increase the prosperity of the owners or shareholders by increasing the value of the company. According to Indahnigrum and Handayani,³ to increase the value of the company, the owners of capital surrender the management of the company to the manager. However, often the manager of the company or insider has other objectives that conflict with that goal, resulting in a conflict of interest between the manager and shareholders.

According to Mirna and Sari,⁴ in investing, investors will see the possibility of the emergence of risks in the company. One of these risks is a financial risk, which is the risk that arises in the use of debt. To obtain a positive perception from investors who can ultimately increase the company's stock price, management

² A. Sartono, Manajemen Keungan Teori dan Aplikasi, Ed. 4 (Yogyakarta: BPFE, 2015).

³ R. P. Indahningrum and R. Handayani, "Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional, Dividen, Pertumbuhan Perusahaan, Free Cash Flow dan Profitabilitas terhadap Kebijakan Hutang Perusahaan," *Jurnal Bisnis dan Akuntansi* 11, no. 3 (2009): 189-207.

⁴ Mirna Amirya and Sari Atmini, "Faktor-Faktor Yang Mempengaruhi Nilai Perusahaan Yang Dimediasi Oleh Leverage Perusahaan Sebagi Variabel Interveting: Sebuah Presfektif Pecking Order Theory," The 1st Accounting Conference, Depok, November 7-9, 2007.

uses leverage at an optimal level. Jensen and Meckling,⁵ suggest that manager decisions in determining the capital structure are to balance the cost of debt and the cost of own capital and minimize the effect on the value of the company. Sudiyatno⁶ argues, managers are professionals and will be responsible for the decisions that have been made. Manager's decisions related to the capital structure are spending decisions or often referred to as funding decisions. This decision is related to the determination of funding sources, including debt policy.

There have been many previous studies that discussed the factors that can influence debt policy in managing debt. The research generally uses different independent variables and finds different results. Dennys and Deasy⁷ use asset structure, profitability, company size and set of investment opportunities to influence debt policy, while managerial ownership, institutional ownership, dividend policy, company growth, business risk, do not influence debt policy. Andhika Murtiningtyas Ivona,⁸ using managerial ownership, institutional ownership, profitability, and business risk influences debt policy, while dividend policy has no influence. Muslida Ahadiyah⁹ uses profitability to influence debt policy, while managerial ownership, dividends, and asset

⁵ James C. Van Horne and John M. Wachowicz, JR., Fundamentals of Financial Management Prinsip-Prinsip Manajemen Keuangan, Ed. 12 (Jakarta: Salemba Empat, 2007).

⁶ B. Sudiyatno, "Peran Kinerja Perusahaan Dalam Menentukan Pengaruh Faktor Fundamental Makroekonomi Risiko Sistematis, Dan Kebijakan Perusahaan Terhadap Nilai Perusahaan (Studi Empiris Pada Perusahaan Manufaktur Di Bursa Efek Indonesia)" (Universitas Diponegoro Semarang, 2010)

⁷ A. Devi, and I. Firmansyah, "Solution to Overcome the Bankruptcy Potential of Islamic Rural Bank in Indonesia," 3rd International Islamic Monetary Economics and Finance Conference (IIMEFC), Surabaya, 2017.

⁸ Andhika Ivona Murtiningtyas, "Kebijakan Dividen, Kepemilikan Manajerial, Kepemilikan Institutional, Profitabilitas, Resiko Bisnis terhadap Kebijakan Hutang," *Accounting Analysis Journal* 1, no. 2 (2012): 1-6.

⁹ Ahadiyah Muslida Dewi Yuniarti, "Pengaruh kepemilikan Manajerial, Dividen, Profitabilitas, dan Struktur Aset Terhadap Kebijakan Hutang," *Accounting Analysis Journal* 2, no. 4 (2013): 447-454.

structures do not affect debt policy. Novita stated, using managerial ownership (MOWN), liquidity (CR), sales growth, SIZE, profitability (ROA), and institutional ownership influence on debt policy (DER). Simanjuntak uses company size, profitability, growth opportunities, asset structure, liquidity, and institutional ownership, influencing debt policy.

Based on a review of the results of the above research regarding the factors that influence debt policy, this study aims to determine the effect of the managerial policy, dividend policy, liquidity, profitability, and firm size on debt policy. Based on the description above, management needs to make decisions related to debt policy so that companies can avoid the risk of bankruptcy. Therefore, this study adds one variable, financial distress, which will be analyzed later. How is the influence of debt policy on the financial distress of companies listed on the Jakarta Islamist Index.

Theoretical Framework and Development of Hypotheses

1. Debt Policy

Debt policy includes corporate funding policies originating from external sources. Determination of debt policy is related to the capital structure because debt is one of the compositions in the capital structure. Companies are considered risky if they have a large portion of debt in the capital structure, but on the contrary, if the company uses small or no debt at all, the company is considered unable to utilize additional external capital that can improve the company's operations.¹⁰

If it wants to grow, companies need capital, and capital comes in the form of debt or equity. Debt funding has two disadvantages; (1) the use of large amounts of debt will increase the risk of the company, which increases the cost of debt and equity. (2) If the company experiences bad times and its operating profit is insufficient to cover the interest expense, the

¹⁰ Mamduh, *Manajemen Keuangan Edisi* 1 (Yogyakarta: Bpfe, 2004), 27.

shareholders are forced to cover the shortfall; if it can't, the company will go bankrupt.¹¹

2. Debt Policy Theory

a. Trade off Theory

In reality, there are things that make companies unable to use as much debt as possible. One important thing is that the higher the debt, the more likely the probability of bankruptcy will be.¹²

This theory received criticism from various parties. The most relevant criticism is the cost of financial difficulties (financial distress) due to increasing debt. These criticisms were expressed, among others, by Stiglitz and Rubinstein,¹³ who stated that investors cannot borrow and lend at the same interest rate. If the company will go bankrupt, it will pay higher interest. That is, the increase in debt to reach the optimal capital structure will lead to a trade-off between the tax saving benefits of increasing debt or the cost of bankruptcy that will occur.¹⁴

According to Najmudin, the threat of bankruptcy, should not happen to sharia companies, because sharia prohibits withdrawal of additional expenses as a consequence of financial difficulties, failures, and bankruptcy. In addition, of course, there should not be an asset purchase at an unnatural bargain price when the company is liquidated. However, high potential financial difficulties in a company indeed increase the risk for the

¹¹ Eugene F. Brigham and Joel F. Houston, *Essentialas of Financial Management Dasar-Dasar Manajemen Keuangan, ed.* 11 (Jakarta: Salemba Empat, 2011).

¹² Mamduh, Manajemen Keuangan Edisi 1, 25.

¹³ Stephen A. Ross, Randolph W. Westerfield, and Bradford D. Jordan, Pengantar Keuangan Perusahaan, Corporate Finance Fundamentals Buku 2, ed. 8 (Jakarta: Salemba Empat, 2009).

¹⁴ D. Simanjuntak, "Analisis Faktor-Faktor Yang Mempengaruhi Dept To Equity Ratio Pada Perusahaan Otomotif Yang Terdaftar Di Bursa Efek Indonesia," (Universitas Sumatera Utara, Medan, 2015).

lender and are reflected in the high real capital costs charged in debt capital.

b. Pecking Order Theory

Pecking order theory was put forward by Stewart C. Myers. In this theory, it is stated that financial managers are concerned with the attitude of investors when financial managers issue shares. This is because the announcement of the issuance of shares is believed to reduce stock prices. There is no significant effect on stock prices. Based on the pecking order theory, there are thoughts as follows. First, the company chooses internal funding sources because the funds are obtained without causing negative signals that can reduce stock prices. Second, when a company needs external funding sources, then first is issuing debt, while issuance of equity is done as a last step. This shows that the issuance of debt is less likely to be seen as a bad signal by investors.¹⁵

Pecking order theory can explain why companies that are able to have a high level of profit actually have a smaller debt level. The small debt level is not because the company has a small debt level target, but because they do not need external funds. High-profit rates make their internal funds sufficient to meet investment needs.¹⁶

c. Information Asymmetry Theory and Signaling Theory

Asymmetry theory says that the parties related to the company do not have the same information about the prospects and risks of the company. Certain parties have better information than other parties. Managers usually have good information compared to outside parties such as investors because it can be said that information asymmetry occurs between managers and investors.

¹⁵ Ibid.

¹⁶ Mamduh, Manajemen Keuangan Edisi 1, 25.

According to Myers and Majluf,¹⁷ there is information asymmetry between managers and outsiders: managers have more complete information about the condition of the company than outsiders. Larasati¹⁸ suggest that there is information asymmetry between shareholders and the board of directors (including company manager) regarding the state of the company, that is when the board of directors conducts corporate action to outside parties or investors which is a certain signal with different responses, for example, in the announcement of stock offerings it is considered as a signal about the company's poor prospects.

Brigham and Houston¹⁹ state that signals are actions taken by company management that provide guidance for investors about how management views the company's prospects. Companies with profitable prospects will try to avoid the sale of shares and seek new capital in other ways such as using debt.

3. Financial distress

Basically, financial distress is difficult to define precisely. This is because there are various incidents of corporate bankruptcy when financial distress. Financial distress occurs before bankruptcy. There is no fixed term regarding financial distress in previous studies. Each study takes each of its definitions individually.

Homaifar G and $Zietz^{20}$ define financial distress as a condition where the company's finances are in an unhealthy or crisis situation. In other words, financial distress is a condition

¹⁷ R. N. Mersi, "Analisis Kebijakan Hutang," *Accounting Analysis Journal* 1, no. 2 (2012): 1-6.

¹⁸ E. Larasati, "Pengaruh Kepemilikan Manjerial, Kepemilikan Institusional dan Kebijakan Dividen terhadap Kebijakan Hutang Perusahaan," *Jurnal Ekonomi Bisnis* 16, no. 2 (2011): 103 -107.

¹⁹ Eugene F. Brigham and Joel F. Houston, *Essentialas of Financial Management*, 16.

²⁰ Ghassem Homaifar, Joachim Zietz, and Omar M. Benkato, "An Empirical Model of Capital Structure: Some New Evidence," *Journal of Business Finance & Accounting* 21, no. 1 (1994): 1-14.

where the company experiences financial difficulties to fulfill its obligations. According to Ross, Westerfield & Jordan, One consequence of using debt is the possibility of financial difficulties, which can be defined in several ways:

- 1. Business failure: This term is usually used to refer to situations where a business has stopped with a loss to its creditors; but even a company based entirely on equity can fail.
- 2. Legal bankruptcy: Companies or creditors propose a petition to federal courts to declare bankruptcy. Bankruptcy is a legal procedure for the liquidation or reorganization of a business.
- 3. Technical insolvency: Technical insolvency occurs when a company is unable to fulfill its financial obligations.
- 4. Accounting insolvency: Companies that have negative values are called insolvency in their books. This occurs when the total liability of a book exceeds the book value of total assets.

Based on the description above, the alternative hypotheses to be tested are as follows:

H1 Debt policy influences the company's financial distress

a. Managerial Ownership

Managerial parties are those who actively play a role in making decisions to run the company. Managerial ownership means ownership of shares by managers. With this managerial ownership, the manager will feel firsthand the consequences of the decisions he makes. Managers cannot act rashly in decisionmaking. High managerial ownership will make management more careful in managing the company's debt policy. The personal wealth of managers is indirectly related to the wealth of the company. So, in making funding decisions, managers will minimize the use of debt to fund companies.²¹ Based on the description above, the alternative hypotheses to be tested are as follows:

H2 Managerial ownership influences debt plicy

²¹ A. Devi and I. Firmansyah, "Solution to Overcome the Bankruptcy Potential of Islamic Rural Bank in Indonesia."

H3 Managerial ownership indirectly through debt policy influences financial distress

Managerial ownership will be a benchmark for decisionmaking between the two interests of management and shareholders. The existence of share ownership by the management raises the supervision of what is set by the company's management. Managers will be careful when making decisions regarding the management of the company. One of the causes of financial distress is the ugliness in the management of the company (mismanagement). If management is poor, the company's performance is bad, and the possibility of bankruptcy will be even greater. Based on the description above, the alternative hypotheses to be tested are as follows:

H4 Managerial ownership directly influences financial distress

a. Dividend Policy

Dividend policy is an integral part of the company's funding decisions. The dividend-payout ratio determines the amount of profit that can be retained in the company as a source of funding. However, holding back current profits in larger amounts in the company also means less money will be available for current dividend payments. So, the main aspect of the company's dividend policy is determining the right profit allocation between dividend payments and the addition of company retained earnings.²²

According to Brigham and Gapenski,²³ each change in the dividend payment policy will have two opposite effects, namely: if all dividends are paid, then the reserve decision is neglected and vice versa if the profit is held, all interests of the shareholders will be ignored. To safeguard these two interests, managers will be more careful in taking policies and efficient use of debt. Based on

 $^{^{\}rm 22}$ James C. Van Horne and John M. Wachowicz, JR., Fundamentals of Financial Management, 25.

 $^{^{\}rm 23}$ Eugene F. Brigham and Joel F. Houston, Essentialas of Financial Management, 16.

the description above, the alternative hypotheses to be tested are as follows:

H5 Dividend policy affects the debt policy

H6 Dividend policy indirectly through debt policy influences financial distresss

Based on the description of the dividend policy on the debt policy above, dividend policy is important for two reasons: first, dividend payments will affect stock prices, thus also affecting stock trading. Second, the income that is retained (retained earnings) is usually the largest and most important source of equity (growth capital) for the growth of the company. In previous studies, financial distress can be interpreted as a company that has several years of net income (net operating income negative) and for more than one year did not pay dividends. This definition is used by Almilia and Kristijadi.²⁴ Therefore, if the dividend policy chooses to save retained earnings for the benefit of the company and excludes dividend payments, then the two interests of the dividend policy will contradict and influence the growth of the company. Based on the description above, the alternative hypotheses to be tested are as follows:

H7 Dividend policy directly affects Financial distress

a. Profitability

Profitability is the level of net profit that the company can achieve when carrying out its operations. If the company's profits are high, then internal funding will be sufficient to finance the company's needs. If the company's funding needs are not sufficient, the company can use debt as alternative external funding. The company's growth is increasing, indicating that the funds needed to finance the company's operations and productions are also increasing. This encourages companies to

²⁴ Almilia and Kristijadi, "Analisis Rasio Keuangan untuk Memprediksi Kondisi Financial distress Perusahaan Manufaktur yang Terdaftar di Bursa Efek Jakarta," *Jurnal Akuntansi & Auditing Indonesia* 7, no. 2 (2003): 1-27.

procure external funding sources by using debt to meet the funding needs. 25

According to the pecking order model, there is a negative relationship between profitability and debt. Another alternative explanation is that creditors tend to lend to companies with high profit/cash flow. Profitability is measured by Return On Asset.²⁶ Companies with high returns on investment use relatively small debt because of the high rate of return that allows the company to finance most of its internal funding. With large retained earnings, the company will use retained earnings before deciding to use debt. This is in line with the opinion of Myers in Indahningrum and Handayani²⁷ who suggested managers use pecking order theory for funding decisions. Pecking-order is the order in which funds are used for investment, namely retained earnings as the first choice, then subsequently by debt and equity. The implication is that there is a negative relationship between company profitability and the debt ratio. Based on the description above, the alternative hypotheses to be tested are as follows:

H8 Profitability affects debt policy

H9 Profitability indirectly through debt policy influences financial distress

Company profitability is a driving factor in monitoring aspects of liquidity. In the long run, companies must be able to generate sufficient profits from their business so they are able to pay obligations. Companies that have high profitability mean that they have large profits, the possibility of experiencing financial distress is smaller. Indri²⁸ found that Profitability had a negative and significant effect on the company's financial distress. Based

²⁵ Edi Riadi, *Aplikasi Lisrel untuk Penelitian Analisis Jalur* (Yogyakarta: Andi Affset, 2013).

²⁶ Mamduh, Manajemen Keuangan Edisi 1, 25.

 $^{^{\}rm 27}$ R. P. Indahningrum and R. Handayani, "Pengaruh Kepemilikan Manajerial," 189.

²⁸ E. H. Indri, "Kekuatan Rasio Keuangan Dalam Memprediksi Kondisi Financial Distress Perusahaan Manufaktur Di BEI," *Jurnal Dinamika Manajemen* 3, no. 2 (2012): 101-109.

on the description above, the alternative hypotheses to be tested are as follows:

H10 Profitability has a direct effect on financial distress

a. Liquidity

Liquidity is the ability to fulfill all obligations that must be repaid immediately in a short time; a company is said to be liquid if it has a means of payment in the form of current assets greater than all its obligations.²⁹ Companies that have the ability to pay the short-term debt are called liquid companies. The company's liquidity size that is often used is the current ratio, which is a comparison between current assets with current debt (current liabilities). Current assets are generally in the form of cash, securities, trade receivables, and inventories while current debt is generally in the form of trade payables, deferred taxes, and deferred costs.

Liquidity is an aspect that shows the company's ability to fulfill obligations that must be fulfilled immediately. Thus, a company that has a high level of liquidity, means that the company is able to immediately repay its debts. This gives creditor confidence to repay the loan. The higher the liquidity, the higher the debt policy used by the company.³⁰ Based on the description above, the alternative hypotheses to be tested are as follows:

H11 Liquidity affects the debt policy

H12 Indirect liquidity through debt policy influences financial distress

Liquidity is the company's ability to finance its operations and pay short-term liabilities with current assets, especially cash.

²⁹ M. Sholahuddin, *Kamus Istilah Ekonomi Keuangan & Bisnis Syariah A-Z* (Jakarta: PT Gramedia Pustaka Utama, 2011).

³⁰ R. N. Mersi, "Analisis Kebijakan Hutang," 6.

Andre³¹ states that the liquidity ratio is an indicator of the company's ability to pay all short-term financial obligations at maturity with available current assets. If the company is able to fund and pay off its short-term obligations well then the potential of the company to experience financial distress will be smaller. Based on the description above, the alternative hypotheses to be tested are as follows:

H13 Liquidity has a direct effect on financial distress

a. Company Size

According to Devi & Firmansyah,³² the size of a company is a measurement of their wealth represented by total assets. Companies with large total assets will have strong financial positions and vice versa. The large amount of total assets of the company is expected to have the ability to pay their debts in the future, so the company can avoid financial problems, especially bankruptcy.

In addition, the bigger the size of the company, the more transparent the company in expressing the company's performance to outsiders. Thus, companies are getting easier to get loans because creditors increasingly trust them. Therefore, the larger the size of the company, the assets funded with debt will be even greater in Fitri Mega Multani.³³ Based on the description above, the alternative hypotheses to be tested are as follows:

H14 Company size influences debt policy

³¹ O. Andre, "Pengaruh Profitabilitas, Likuiditas dan Leverage dalam Memprediksi Financial Distress (Studi Empiris pada Perusahaan Aneka Industri yang Terdaftar di BEI)," (Universitas Negeri Padang, 2013).

³² Christine Dwi Karya Susilawati, Lidya Agustina, and Se Tin, "Faktor-Faktor yang Mempengaruhi Kebijakan Hutang (Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia)," *Jurnal Keuangan dan Perbankan* 16, no. 2 (2012): 1-20.

³³ F. M. Mega, "Analisis Faktor-Faktor yang Mempengaruhi Kebijakan Hutang dan Pengaruhnya terhadap Nilai Perusahaan (Studi Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia (BEI) Periode Tahun 2004 – 2007)," (Universitas Diponegoro Semarang, 2010).

H15 Company size indirectly through debt policy has an effect on financial distress

Large companies tend to do more business diversification than small companies. Therefore, the possibility of failure in running a business or bankruptcy will be smaller. The size of the company is often used as an indicator for companies. Where larger companies are seen as more capable of facing a crisis in running their business.³⁴ Based on the description above, the alternative hypotheses to be tested are as follows:

H16 Company size has a direct effect on financial distress

Research Methods

The approach in this study uses a quantitative research approach, with secondary data in the form of financial statements as well as the Indonesia Capital Market Directory (ICMD) of companies listed in the Jakarta Islamic Index (JII) 2013-2016 on the official website of the research object. By using Path Analysis as an analysis tool with Microsoft Excel 2010 and LISREL Student Edition Version 9.30 tools. The path analysis model in this study is as follows:



Figure 1. Path Analysis Model with LISREL Notation Writing

³⁴ F. MB Zuhro and Suwitho, "Pengaruh Ukuran Perusahaan, Pertumbuhan Aset, dan Profitabilitas terhadap Struktur Modal," *Jurnal Ilmu dan Riset Manajemen* 5, no. 5 (2016): 1-16.

Source: Processed

Information:

X1 = Managerial Ownership (MOWN)

X2 = Dividend Policy (DPR)

X3 = Profitability (ROA)

X4 = Liquidity (CR)

X5 = Company Size (SIZE)

Y1 = Debt Policy (DER)

Y2 = Financial distress (Altman Z-score)

γ = GAMMA

 $\beta = BETA$

 ζ = ZETA (variable error)

Thus the notation for structural equations according to LISREL in this study is:

$$y_1 = \gamma_{11}X_{1+} \gamma_{12}X_{2+} \gamma_{13}X_{3+} \gamma_{14}X_{4+} \gamma_{15}X_{5+}\zeta_1$$

$$y_2 = \gamma_{21}X_{1+} \gamma_{22}X_{2+} \gamma_{23}X_{3+} \gamma_{24}X_{4+} \gamma_{25}X_{5+}\zeta_2$$

 $y_{3} = \gamma_{21}x_{1} + \gamma_{22}x_{2} + \gamma_{23}x_{3} + \gamma_{24}x_{4} + \gamma_{25}x_{5} + \beta_{21}y_{1} + \zeta_{2}$

1. Population and Sample

The sampling technique in this study uses judgment sampling technique, which is one form of purposive sampling by taking a predetermined sample. The population that will be observed in this study is the group of companies registered in the Jakarta Islamic Index in 2013-2016.

Table 1: Sample Distribution

Criteria	Total
Companies listed on the Jakarta Islamic Index (JII)	11
observation period 2013-2016	41

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Companies that were not listed in the Jakarta Islamic Index (JII) in a row during the 2013-2016 observation period	(21)
Companies that do not issue financial statements for the period ended 31 December 2013 until 31 December 2016	0
The company did not generate net income during the period 2013-2016 because basically the dividends came from the company's net income.	0
Total Sample	20

Source: Processed Data

Based on the criteria set out in this study. There are 20 samples from 41 population companies listed in the Jakarta Islamic Index for the period 2013-2016. The number of samples is 20 companies and observed for 4 years so that there are 80 company data in this study. The 20 samples of companies listed are as follows:

Table 2. Research Samples

No	Code	Company name
1	AALI	Agro Astra Lestari Tbk.
2	ADRO	Adaro Energi Tbk.
3	AKRA	AKR Corporindo Tbk.
4	ASII	Astra international Tbk.
5	BSDE	Bumi Serpong Damai Tbk.
6	ICBP	Indofood CBP Sukses Makmur Tbk.
7	INCO	Vale Indonesia Tbk.
8	INDF	Indofood Sukses Makmur Tbk.
9	KLBF	Kalbe Farma Tbk.
10	LPKR	Lippo Karawaci Tbk.
11	LSIP	PP London Sumatra Indonesia Tbk.
12	PGAS	Perusahaan Gas Negara Tbk.
13	SMGR	Semen Indonesia (Persero) Tbk.

14	TLKM	Telekomunikasi Indonesia Tbk.
15	UNTR	United Tractors Tbk.
16	UNVR	Unilever Indonesia Tbk
17	WIKA	Wijaya Karya Tbk.
18	ASRI	Alam Sutera Realty Tbk.
19	INTP	Indocement Tunggak Prakarsa Tbk.
20	JSMR	Jasa Marga (Persero) Tbk.

Source: Processed Data

2. Measurement of Variables

Debt Policy (Y1). The debt policy variable is symbolized by the debt to equity ratio (DER), which is how much capital the company can finance the company's debt.³⁵ Which can be formulated as follows:

DER $\frac{\text{Total of debt}}{\text{Total capital}}$

Financial distress (Y2). Financial distress variables have various definitions as explained previously. Prediction models that have been develop, one of which is the Altman Z-score model. The Altman Z-Score model is a method for predicting the financial health of companies that are likely to experience bankruptcy. The Altman Z-Score prediction model used in this study is Alman Z-Score Modification, which is formulated as follows:

Z- Score = 6,56 X1 + 3,26 X2 + 6,72 X3 + 1,05 X4

Information: X1 = Working Capital/Total Asset X2 = Retained Earnings/Total Asset X3 = Earning before interest and taxes/Total Asset X4 = book value of equity/book value of debt

³⁵ R. P. Indahningrum and R. Handayani, "Pengaruh Kepemilikan Manajerial," 188.

A healthy and bankrupt company classification is based on the Altman Modification Z-Score value, namely:

- a) If the value of Z "<1,1, this includes a bankrupt company
- b) If the value of 1.1 <Z"<2.6 this is included in the *grey area* (it cannot be determined whether the company is healthy or has a bankruptcy)
- c) If Z"> 2.6 then it includes companies that are not bankrupt.

Managerial Ownership (X1). This variable is given the symbol MOWN as measured by the proportion of managerial ownership.³⁶Which can be formulated as follows:

MOWNTotal managerial share ownership
Number of shares outstandingx 100%

Dividend Policy (X2) this variable relates to dividend payments by the company, in the form of determining the amount of dividends distributed and the amount of retained earnings balance for the company. The calculation can be formulated as follows:

DPR = $\frac{\text{Dividends per share}}{\text{Earnings per share}}$

Profitability (X3) Variable profitability is measured using the retrun on Asset (ROA) ratio. ROA analysis measures the ability of a company to generate profits by using the assets owned by the company after adjusting for the costs to fund these assets.³⁷ The measurements are as follows:

 $ROA = \frac{EBITit}{Total Asset}$

Liquidity (X4) The measure of company liquidity that is often used is the current ratio, which is a comparison between current assets and current liabilities. Current assets are generally cash, securities, accounts receivable and inventory. While current debt is generally in the form of trade payables, deferred taxes,

³⁶ Ahadiyah Muslida Dewi Yuniarti, "Pengaruh kepemilikan Manajerial,"^{448.}

³⁷ Ibid.

and deferred costs. CR is a comparison between current assets and current debt,³⁸ while the measurements are formulated as follows:

CR = Current asset Current liabilities

Company Size (X5) The size of the company can be interpreted as the size of the company seen from the value of equity, the value of the company or the total value of assets of a company. The variable size of the company is proxied into the total asset log formula:³⁹

Size = Log total assets

Research Results and Discussion

1. Goodness of Fit Test

The model compatibility test in this study can be seen in the output of Goodness-of-Fit-Statistics (GOF). The results of the analysis are, the chi-square value at df = 1 is 1.83 with P-value 0.17617. GOF characteristics that fit have a small chi-square with P-value> 0.05, so in this study the model can be said to be fit.

The fit model according to Hoelter (1983) ideal Critical N (CN) value is \geq 200. Based on the output of GOF the value of CN = 287,491> 200 thus the model can be said to be fit. Root Mean Square Residual (RMR) is the average residual measure between a correlation or covariance matrix. The ideal RMR value is \leq 0.05, the RMR value in this study is 0.0084964 \leq 0.05, so it can be concluded that the ideal model or good fit.

Goodness of Fit Index (GFI), Adjusted Goodness of Fit Index (AGFI), and Goodness of Fit Index (PGFI) is a measure of model suitability index, in this study GFI> 0.90, and 0.80 <AGFI <0.90. GFI,

³⁸ Ni Wayan Krisnayanti Arwinda Putri and Ni Kt. Lely A. Merkusiwati, "Pengaruh Mekanisme Corporate Governance, Likuiditas, Leverage, dan Ukuran Perusahaan pada Financial Distress," *E-Jurnal Akuntansi Universitas Udayana* 7, no. 1 (2014): 93-106.

³⁹ R. Ahmad and R. Ali, *Manajemen Keuangan ed.* 1 (Jakarta: Mitra Wacana Media, 2010).

and AGFI range in value of 0.90, so the model can be concluded that the model is quite fit. Except for PGFI values that are smaller than 0.90.

Normed Fit Index (NFI), Non-Normed Fit Index (NNFI), Parsimony Normed Fit Index (PNFI), Comparative Fit Index (CFI), Incremental Fit Index (IFI) is a measure of conformity based on a comparison between empirical models and null models. The size of values ranges from 0-1> 0.90 is good fit, while 0.80 <and <0.90 are marginal fit. Value in this study are NFI, NNFI, CFI, and IFI> 0.90 while 0.80 <RFI> 0.90. Based on GOF output in this study NFI, NNFI, CFI, IFI, and RFI were rated at 0.90, except PNFI, which was smaller than 0.90, it, can be concluded that the model is quite good.

According to Joreskog and Sorbom, ECVI is a measure of the difference between a covariance matrix model in a sample analyzed by the expected covariance matrix in another sample of the same size. In other words according to Kaplan, ECVI evaluates how well the suitability of the model for the calibration sample will be proportional to the validation sample. In this study, the value of Expected Cross-Validation Index (ECVI) model 0.69787, ECVI saturated model is 0.70000, and ECVI Independent model is 3.53947, indicating that the ECVI model is closer to the saturated model than the independent model. Thus the ECVI model value is very close to saturated models. The ECVI value is equal to 0.69787 and 90 Percent Interval for ECVI Confidence is (0.68750; 0.79981). This value is close enough in that interval, this indicates that ECVI estimation has good degree precision.

GOF Size	Match levels	Estimated Value	Model compatibility with data
Chi- Square P-Value	Small Value P-Value > 0.05	1.83 0.17617	good fit
CN	CN > 200	287.491	good fit

Table 3. Goodness Fit Test Results

RMR	StandardizedRMR ≤ 0.05	0.008964	good fit
ECVI	The ECVI value that is close to the saturated ECVI value indicates good fit	M*: 0.69787 S*: 0.70000 I*: 3.53944	good fit
GFI	GFI ≥ 0.90	0.99691	good fit
AGFI	$AGFI \ge 0.90$	0.82028	Marginal fit
NFI	$NFI \ge 0.90$	0.99320	good fit
NNFI	$NNFI \ge 0.90$	0.9280	good fit
CFI	CFI ≥ 0.90	0.9966	good fit
IFI	$IFI \ge 0.90$	0.9961	good fit

Source: Results of the research

Based on Table 3, the results show that the path analysis model as a whole has a good ability to match sample data. In other words, the convent matrix estimation of the Path Analysis model does not differ statistically from the sample data covariance matrix.

2. Direct Effect Coefficient Analysis, Indirect Effects, Total Effects, and Other Effects

Direct Influence Coefficient Between Variables and other influences (error). Output Lisrel used to determine the direct effect between variables in this study is GAMMA, which explains the direct effect of independent variables (exogenous) on the dependent variable (endogenous).

GAMMA	X1	X2	X3	X4	X5
Y1	-0.18090	-0.11768	0.15095	-0.51215	-0.12601
Y2	-0.06050	-0.06848	0.54736	0.64607	-0.06224

Source: Output Lisrel

From the output lisrelit is known that the direct effect of X1 to Y1 is -0.18090, X1 to Y2 of -0.06050, X2 to Y1 is -0.11768, X2 against Y2 at -0.068, X3 against Y1 are 0.15095, X3 against Y2 at

0.54736, X3 against Y1 is -0.51215, X4 against Y2 at 0.64607, X5 against Y1 is -0.12601, X5 against Y2 at -0.06224.

PSI	Y1	Y2`
Note: This matrix is diagonal	0.63546	0.08606

Source: Output Lisrel

Output Lisrel used to determine the effect of another variable is PSI that displays the output of variant error dependent variable where the coefficient has been standardized. Other influences for structural equation 1 (Y1) have variant error 0.63545 meaning that 63.545% is influenced by other variables and the remaining 36, 455% are influenced by variables X1, X2, X3, X4, and X5. Thus managerial ownership, dividend policy, profitability, liquidity, and company size have an influence of 0.36455 on debt policy.

Other influences for substructural equation 2 (Y2) have variant error 0.08606, which means 8.606% is influenced by other variables and the remaining 91.394% is influenced by variables X1, X2, X3, X4, and X5. Thus managerial ownership, dividend policy, profitability, liquidity, and company size have an influence of 0.91394 on financial distress.



Figure 2. Path diagram of the effect coefficient analysis

While the influence between the dependent variables is known from the Standardized Total Effects of Y1 on Y2 output, that is, the effect of debt policy on financial distress is -0.36441. Thus the path diagram model coefficient of direct influence can be seen in Figure 2.

Coefficients for Total Influence and Indirect influence. The calculation of indirect effects and total influence in this study uses the formula outlined previously, namely, the effect of the total is equal to direct influence plus the number of indirect effects. Thus it can be formulated as follows:

TCE = DCE + ICE or PT = PL + \sum PTL

The total effect of Y1 on Y2 is based on Lisrel output of - 0.36441 with details Y1 to Y2 not having an indirect effect; means PTL = 0 so that the total effect becomes PT = -0.36441 + 0 = -0.36441.

The effect of total X1 on Y1 is based on Lisrel output of -0.18090 with details X1 to Y1 having no indirect effect; means PTL = 0 so that the total effect becomes PT = (-0.18090) + 0 = -0.18090. While the effect of total X1 on Y2 is 0.00542, with details X1 against Y2 having a direct influence PL = -0.06050 and having an indirect effect through Y1 PTL = 0.06592, so that PT = -0.06050 + 0.06592 = 0.00542.

The effect of total X2 on Y1 based on Lisrel output is - 0.11768 with details X2 to Y1 having no indirect effect; means PTL = 0 so that the total effect becomes PT = -0.11768 + 0 = -0.11768. While the effect of total X2 on Y2 is -0.02560, with details X2 on Y2 having a direct influence PL = -0.06848 and having an indirect effect through Y1 PTL = 0.04289, so PT = -0.06848 + 0.04289 = -0.2560.

The effect of total X3 on Y1 based on Lisrel output of 0.15095 with details X3 against Y1 does not have an indirect effect; means PTL = 0 so that the total effect becomes PT = 0.15095 + 0 = 0.15095. While the effect of total X3 on Y2 is 0.929235, with details X3 on Y2 having a direct influence PL = 0.54736 and having an indirect

effect through Y1 PTL = -0.05501, so that PT = 0.54736 + (-0.05501) = 0.49235.

The effect of total X4 on Y1 is based on Lisrel output of - 0.51215 with details X4 to Y1 having no indirect effect; means PTL = 0 so that the total effect becomes PT = -0.51215 + 0 = -0.51215. While the effect of total X4 on Y2 is 0.01632, with details X4 on Y2 having a direct influence PL = -0.06224 and having an indirect effect through Y1 PTL = 0.04592, so PT = -0.06224 + 0.04592 = -0.01632.

The effect of total X5 on Y1 is based on Lisrel output of - 0.12601 with details X5 to Y1 having no indirect effect; means PTL = 0 so that the total effect becomes PT = -0.12601 + 0 = -0.12601. While the effect of total X5 on Y2 is 0.83270, with details X5 on Y2 having a direct influence PL = 0.64607 and having an indirect effect through Y1 PTL = 0.18663, so that PT = 0.64607 + 0.18663 = 0.83270.

Causal	Influence Level		
	PL	PTL	Total
Y1 →Y2	-0.36441	-	-0.36441
X1→Y1	-0.18090	-	-0.18090
X1→Y2	-0.06050	0.06592	0.00542
$X2 \rightarrow Y1$	-0.11768		-0.11768
X2 →Y2	-0.06848	0.04289	-0.02560
X3 →Y1	0.15095	-	0.15095
X3 →Y2	0.54736	-0.05501	0.49235
$X4 \rightarrow Y1$	-0.51215	-	-0.51215
X4 →Y2	0.64607	0.18663	0.83270
$X5 \rightarrow Y1$	-0.12601	-	-0.12601
$X5 \rightarrow Y2$	-0.06224	0.04592	-0.01632

Table 4. Recapitulation of Direct Influence (PL), Indirect Effects(PTL), and Total Influence (PT)

Source: Results of the research

It is known from table 4., the recapitulation of PTL, PL and PT is the number of PTL> PL, then overall debt policy can be

mediated variables for each independent variable in this study on financial distress variables. The number of hypotheses in this study are 16 hypotheses that will be tested, while the discussion will be explained in the next point.

Discussion

-				-
Hypothesis	Lane	t-	t-tabel	Result
		counted		(Accepted/Reje
				cted H1)
H1	β ₁₂	-8.86	> ± 1.66	Accepted
H2	γ_{11}	-1.878	> ± 1.66	Accepted
H3	γ_{21-1}	1.83791	> ± 1.66	Accepted
H4	γ_{21}	-1.67	> ± 1.66	Accepted
H5	γ_{12}	-1.142	<±1.66	Rejected
H6	γ ₂₂₋₁	-1.428	<±1.66	Rejected
H7	γ ₂₂	-1.79	> ± 1.66	Accepted
H8	γ ₁₃	1.4478	< ± 1.66	Rejected
H9	γ ₂₃₋₁	-1.4288	< ± 1.66	Rejected
H10	γ ₂₃	14.081	> ± 1.66	Accepted
H11	γ_{14}	-5.638	> ± 1.66	Accepted
H12	γ_{24-1}	4.7565	> ± 1.66	Accepted
H13	γ_{24}	16.35	> ± 1.66	Accepted
H14	γ ₁₅	-1.3604	< ± 1.66	Rejected
H15	γ ₂₅₋₁	1.3446	< ± 1.66	Rejected
H16	γ ₂₅	-1.81	> ± 1.66	Accepted

 Table 5. Results of the Hypothesis

Source: Processed data

Debt Policy (DER) and Financial Distress (Altman Z-Score). Debt Policy has an effect on the condition of the Financial Distress. This hypothesis is proven, because the t-value is 8.86 <-1.66, has a significant (-) relationship. So it can be concluded that the higher the debt policy, the higher the level of financial distress. This is in accordance with previous studies conducted by Andre, with Leverage results having a positive (+) significant effect, different from this study which stated negative (-) significant, this was caused because in previous studies financial distress indicators used dummy variables which states if 1 (one) = financial distress, 0 (zero) = non financial distress, is inversely proportional to the measurement of financial distress with Altman Z-score. Thus the results of the research conducted by Andre, in accordance with the results of this study. The higher the debt policy, the higher the level of financial distress in the company will have. Because debt policy is a funding decision from an external party or investor, this means that the company has an obligation to return the fund and interest, a very high return on interest allows the decrease in net income to be greater, if the net profit decreases the company will experience financial difficulties and potentially lead to bankruptcy. This is in accordance with the Theory of Trade-Off which states that the higher the debt, the higher the probability of bankruptcy.

Managerial Ownership (MOWN) with Debt Policy (DER). Managerial ownership influences the debt policy of this hypothesis is proven, with the results of t-value-1.878 <-1.66, has a negative influence (-) is not significant. That is, the lower managerial ownership the higher the policy debt. This result is also in line with the research conducted by Faisal,⁴⁰ Kurnia,⁴¹ and Novita.⁴² The three states that managerial ownership has no significant negative effect on debt policy. Managerial ownership means share ownership by company managers, company managers have a role in making funding decisions in companies, if the decision is wrong then managers and shareholders have an impact. Therefore managers will be careful in making decisions,

⁴⁰ M. Faisal, "Analisis Pengaruh Free Cash Flow, Set Kesempatan Investasi, Kepemilikan Manajerial, dan Ukuran Perusahaan terhadap Kebijakan Hutang (Studi Empiris pada Perusahaan- Perusahaan Sektor Industri Manufaktur di Bursa Efek Jakarta)," (Universitas Diponegoro Semarang, 2004).

⁴¹ Y. S. Kurnia, "Kepemilikan Saham, Kebijakan Dividen, Karakteristrik Perusahaan, Risiko Sistimatik, Set Peluang Investai dan Kebijakan Hutang," *Jurnal Bisnis dan Akuntansi* 13, no. 3 (2011): 195-210.

⁴² D. L. Novita, "Analisis Faktor-Faktor Yang Mempengaruhi Kebijakan Hutang Perusahaan (Studi pada Perusahaan Manufaktur yang Terdaftar di BEI Tahun 2009-2013)," (Universitas Dipoenogoro, Semarang, 2015).

because if it is wrong it has a personal impact as a shareholder, and the impact of the company's organization. Thus the higher managerial ownership, the more the lack of decisions on the use of debt, in other words the higher managerial ownership, the lower the debt policy in the company.

Managerial Ownership (MOWN) with Financial Distress (Altman Z-score). Managerial ownership influences financial distress. This hypothesis is proven, because t-value -1.67 <-1.66 has a negative (-) and no significant effect, meaning that the higher the level of managerial ownership the lower the level of corporate financial distress. When companies experience difficulties with risk, the manager will diversify to reduce personal risk as shareholders. As a result, the higher the level of financial distress, the lower the level of managerial ownership indirectly through Debt Policy has an effect on financial distress. This hypothesis is accepted because the total influence is 1.84> 1.66. Seeing the indirect effect of 0.06592, and the indirect effect of -0.06050, PTL> PL, thus debt policy can be used as an intermediary variable (mediation) between managerial ownership of financial distress.

Dividend Policy (DPR) with Debt Policy (DER). Dividend policy influences financial distress. This hypothesis is not proven, because the t-value is -1.14> -1.66; has no influence. So dividend policy has no effect on debt policy. This result is contrary to the study conducted by Larasati⁴³ who found that dividend policy had an effect (-) significant on debt policy. However, the findings of this study are in accordance with previous studies conducted by Indahningrum and Handayani in manufacturing and non-manufacturing companies at IDX, Surya & Ariyanti⁴⁴ in non-financial companies on BEI, and Muslida in manufacturing companies. All of them state that dividend policy has no influence on debt policy.

⁴³ E. Larasati, "Pengaruh Kepemilikan Manjerial,"103.

⁴⁴ D. Surya and D. R. Ariyanti, "Faktor-Faktor Yang Mempengaruhi Kebijakan Hutang Perusahaan Non Keuangan Yang Terdaftar dalam Bursa Efek Indonesia," *Jurnal Bisnis dan Akuntansi* 14, no.3 (2012): 213-225.

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Dividend Policy (DPR) with Financial Distress (Altman Zscore). Dividend policy has an effect on financial distress. This hypothesis is proven because the result of t-value is -1.79 <-1.66. then the dividend policy variable has a negative (-) significant effect on financial distress variables. In previous studies, to test whether a company experienced financial distress, can be determined in various ways; one of them is Lau (1987) and Hill in Almilia and Kristijadi⁴⁵ use the absence of employment or eliminate dividend payments, in testing predicting financial distress. In the research conducted by Almilia & Kristijadi,⁴⁶ states that financial distress can be interpreted as a company that has several years of net income, but for one year does not pay dividends. Thus, the dividend policy prefers earnings to be held in the interests of the company and excludes dividend payments to shareholders, then the policy will contradict and influence the growth of the company.

This dividend policy has an indirect effect through debt policy towards financial distress. This hypothesis is not proven, because the t-value (total effect) is -1.438> -1.66, and PTL is 0.04289, PL is -0.06848, so PTL <PL, then partially the debt policy variable in this study cannot be used as an intermediary variable (mediation) between the dividend policy variable on financial distress. This is because debt policy with dividend policy has no influence. Thus, dividend policy does not influence indirectly through debt policy towards financial distress.

Profitability (ROA) with Debt Policy (DER). Profitability does not affect debt policy. This hypothesis is not proven because the t-value is 1.45 <1.66, so the profitability variable (ROA) does not influence and is not significant towards the debt policy variable (DER). This was reinforced by previous research conducted by Yanti,⁴⁷ with the same case study in companies listed on the JII,

⁴⁵ Almilia and Kristijadi, "Analisis Rasio Keuangan," 25.

⁴⁶ Ibid.

⁴⁷ R. Yanti, "Pengaruh Profitabilitas, Likuiditas, Ukuran Perusahaan, Kebijakan Dividen, dan Free Casf Flow Terhadap Kebijakan Hutang (Studi Kasus

but only different periods of observation. In the study, it was stated that partially the profitability variable (ROA) had no influence on debt policy (DER). Thus profitability has no effect on debt policy.

Profitability (ROA) with Financial Distress (Altman Z-Score). Profitability has an effect on financial distress. This hypothesis is proven because t-value is 14,081> 1.66, then the profitability variable has an effect (+) significant on the financial distress variable. This result is consistent with the research conducted by Mas'ud & Maymi,⁴⁸ and Dwi and Agustina.⁴⁹ Both state that profitability has a negative (-) effect on financial distress, in contrast to this study, which states a positive (+) significant. This is caused because in previous studies financial distress indicators used dummy variables which stated if 1 (one) = financial distress, 0 (zero) = non-financial distress, is inversely proportional to the measurement of financial distress with Altman Z-score.

Profitability affects the level of financial distress, because profitability is a company's ability to increase profits, so that the company can maintain its existence in competition, of course profit in business is very necessary, so that it can pay obligations. If the company does not get a small profit or profitability so that it cannot pay obligations, the company will find it difficult to maintain its existence in business competition, and will lead to losses resulting in bankruptcy.

Profitability influenced indirectly through debt policy towards financial distress. This hypothesis is not proven, because t-value (total effect) is 0.49235 <1.66, and PTL is -0.05501, PL is 0.54736, so PTL <PL; then partially the debt policy variable in this

Pada Perusahaan yang Terdaftar di Jakarta Islamic Index (JII) Periode 2011-2014)," (Jurusan Ekonomi Syariah STAIN Pekalongan, 2016).

⁴⁸ I. Mas'ud and R. S. Maymi, "Analisis Rasio Keuangan untuk Memprediksi Kondisi Financial Distress Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia," *Jurnal Akuntansi Universitas Jember* 10, no. 2 (2012): 139-154.

⁴⁹ Christine Dwi Karya Susilawati, Lidya Agustina, and Se Tin, "Faktor-Faktor yang Mempengaruhi Kebijakan Hutang," 16.

study cannot be used as an intermediary variable (mediation) between profitability variables towards financial distress. This is also due, debt policy with profitability has no influence. Thus, profitability does not influence indirectly through debt policy towards financial distress.

Liquidity (CR) with Debt Policy (DER). Liquidity affects debt policy. This hypothesis is proven because, t-value-5.638 <-1.66, the liquidity variable has a negative (-) and significant effect on the debt policy variable. This result is contrary to the research conducted by Yanti (2016). With the same case study, namely in companies listed on III, only different observation periods of 2011-2014, Yanti found that partially that liquidity (CR) does not affect debt policy (DER). Yanti stated that the company listed on III in the research observation period was a non-liquid company, which meant that the company had not been able to fulfill its obligations. However, it is different in this study, where it is found that liquidity influences debt policy. This result is supported by previous studies conducted by Kurnia⁵⁰ and Mersi.⁵¹ Both states that liquidity has a negative (-) and significant effect. Thus, the higher the CR, the lower the DER. This means that the lower the level of liquidity, the lower the level of debt policy.

Companies that have a large CR ratio mean that they can meet their short-term obligations. That is, the company has liquid finance. When a company is liquid, the company has the ability to fulfill its short-term obligations. The higher the level of liquidity, the higher the company can fulfill its obligations, so the company has a low debt level.

Liquidity (CR) with Financial Distress (Altman Z-score). Liquidity affects financial distress. This hypothesis is proven, because t-value16.35> 1.66, then it has a positive (+) significant effect. The higher the CR, the higher the Altman Z-Score ratio, which means that if liquidity is high then the bankruptcy rate of the company will be lower. This study is not in accordance with

⁵⁰ Y. S. Kurnia, "Kepemilikan Saham," 195.

⁵¹ R. N. Mersi, "Analisis Kebijakan Hutang," 6.

the research conducted by Kurnia (2011) stating that liquidity has a negative (-) effect on financial distress. In contrast to this study which states positive (+) is significant, this is caused because in previous studies financial distress indicators used a dummy variable which states if 1 (one) = financial distress, 0 (zero) = non financial distress. This is inversely proportional to the measurement of financial distress. Liquidity has an indirect effect through debt policy on financial distress. This hypothesis is proven because, t-value 4.7565> 1.66, and liquidity also influence debt policy, the debt policy variable can be used as an intermediary variable (mediation) between variable liquidity towards financial distress.

Company Size with Debt Policy (DER). Company size influences debt policy. This hypothesis is not proven because of t-value -1.3604> -1.66, then the variable size of the company does not have an influence on the debt policy variable. This is in accordance with previous research conducted by Mersi (2012), in his research that the size of the company does not affect debt policy.

Company Size with Financial Distress (Altman Z-Score). The size of the company influences financial distress. This hypothesis is proven, because -1.81 <-1.66 the variable size of the company has a negative (-) effect on the financial distress variable. This result is in accordance with the research conducted by Ni Wayan and Ni Kt. Lely⁵² that states that company size has a negative effect on financial distress.

The size of the company indirectly influences through debt policy towards financial distress. This hypothesis is not proven, because the t-value of 1.3446 <1.66, the variable size of the company does not influence indirectly through the debt policy variable on financial distress. That is, the debt policy variable partially cannot be an intermediary variable (mediation) between the size of the company and financial distress.

⁵² Ni Wayan Krisnayanti Arwinda Putri and Ni Kt. Lely A. Merkusiwati, "Pengaruh Mekanisme Corporate Governance," 93.

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Correlation	Results		
DER→Altman Z-Score	Negative effect (-) Sig.		
MOWN→DER	Negative effect (-) not Sig.		
MOWN→Altman Z-Score	Negative effect (-) not Sig.		
DPR→DER	Has no effect		
$DPR \rightarrow Altman Z$ -Score	Negative effect (-) not Sig.		
ROA→DER	Has no effect		
$ROA \rightarrow Altman Z$ -Score	Positive effect (+) Sig.		
CR→DER	Negative effect (-) not Sig.		
$CR \rightarrow Altman Z$ -Score	Positive effect (+) Sig.		
SIZE→DER	Has no effect		
SIZE→ Altman Z-Score	Negative effect (-) not Sig.		
Indirect Relationships through DER			
MOWN-DER→ Altman Z-Score	Positive effect (+)		
DPR-DER \rightarrow Altman Z-Score	No effect		
$ROA-DER \rightarrow Altman Z-Score$	No effect		
$CR-DER \rightarrow Altman Z-Score$	Positive effect (+)		
SIZE-DER \rightarrow Altman Z-Score	No effect		

Table 6. Recapitulation of Discussion Results

Source: Data Processing

Conclusions

Based on the description of the discussion of the research results, it is known that Debt Policy (DER) has a significant negative effect on Financial Distress (Altman Z-Score Modification 1995). Managerial Ownership (MOWN), Dividend Policy (DPR), Profitability (ROA), Liquidity (CR), and Company Size (SIZE) have an overall effect on DER. With an error value of 0.63545, it means that 63.545% DER is influenced by variables outside the variables that are not examined. However, it is simultaneously known that MOWN has no significant negative effect, CR has no significant negative effect, and DPR, ROA, and SIZE have no influence on DER.

While Managerial Ownership (MOWN), Dividend Policy (DPR), Profitability (ROA), Liquidity (CR), and Company Size (SIZE) as a whole have an effect on Financial Distress (Altman Z-Score),

with an error value of 0.08606. That is, 8.606% of financial distress is influenced by variables outside the variables that are not examined. But simultaneously it is known that MOWN, DPR, and SIZE have a negative but not significant effect, while ROA, and CR have a positive and insignificant effect on the company's financial distress.

From the calculation of direct influence (PL) and indirect influence (PTL) it is known that the direct effect is -0.14799 and indirect effect of 0.28635, then PTL> PL, thus the overall debt policy variable (DER) can be used as an intermediary variable or mediation between the independent variable in this study is the prediction of financial distress of companies listed in the Jakarta Islamic Index for the period 2013-2016.

Based on the description of the discussion the researcher has various suggestions including:

- 1. For the next researcher it is recommended to use data that better reflects the overall debt policy and financial distress by adding other independent variables not found in this study, or using methods that are more in-depth than the methods in this study.
- 2. For companies that choose to fund companies from external funds or have gone public, especially companies that are sampled in this study in order to consider carefully in deciding debt policy because debt policy can affect the level of financial distress of the company.
- 3. Examining the case studies of a company in debt and financial policies in the context of more specific and in-depth research.

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