

The Effect of Profitability on Debt Policy with Dividend Policy as a Moderating Variable

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Abstract: Profitability is one of the key indicators in assessing a company's ability to generate profits and plays a crucial role in financial decision-making. According to the pecking order theory, companies with high profitability tend to prefer using internal funds and reduce reliance on debt. This study aims to analyze the effect of profitability on debt policy, as well as to examine the role of dividend policy as a moderating variable in this relationship. The study employed Slovin's formula for sample selection and analyzed 263 non-financial publicly listed companies on the Indonesia Stock Exchange (IDX) in 2023. The data used in this research were secondary data obtained from annual financial reports published on the official website of the IDX or the respective company websites. Profitability was measured using return on assets (ROA), debt policy was measured by the debt-to-equity ratio (DER), and dividend policy was measured by the dividend payout ratio (DPR). The analytical method used in this study was multiple linear regression analysis with the help of the SPSS software. The results indicate that profitability has a negative effect on debt policy, meaning that the more profitable a company is, the less likely it is to depend on debt financing. Additionally, the findings suggest that dividend policy does not significantly moderate the relationship between profitability and debt policy. This implies that whether a company distributes dividends or not does not meaningfully influence how profitability affects its debt decisions. These results are in line with the pecking order theory and provide insight for corporate financial managers in planning funding structures. It also emphasizes the importance of internally generated funds for companies with strong earnings performance

Keywords: Debt Policy; Dividend Policy; Pecking Order Theory; Profitability; Return on Assets

1. Introduction

In an increasingly competitive era of globalization, companies are required to improve their performance to remain relevant and not fall behind competitors. To ensure survival amid intense competition, it is important for companies to continuously innovate and adapt. In the long term, they are expected to maximize their profits. To achieve these targets, companies need to utilize various supporting indicators, including funding from internal and external sources, as well as forming collaborations (Sari, 2020). In advancing a business in a rapidly evolving economic era, companies require substantial funds. When a company experiences rapid economic growth, the need for adequate financial resources becomes highly urgent. In this situation, the role of managers becomes critical, especially in making strategic decisions that will impact the company's future. One of the most important aspects of a company's operational activities is funding decisions (Kurniawan et al., 2023).

The decision to choose a funding source is essential for the company, as it will affect its sustainability. Debt policy arises from management decisions driven by insufficient internal funds to meet and develop the company's needs. The decision to use debt requires the company to balance relatively higher expected returns with increased risk (Brigham and

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Houston, 2001). Among the various funding decisions, debt policy plays a significant role. Debt is not only a financing source, but also has a major impact on the company's ability to expand.

To support its operational continuity, a company requires funds from two main sources: internal, derived from within the company, and external, obtained from outside the company, one of which is through creditors. Thus, debt management becomes an important aspect to be considered in the company's funding strategy (Susanti et al., 2024). There are companies declared bankrupt because they cannot meet their obligations. An example is PT Dwi Aneka Jaya Kemasindo Tbk (DAJK), which was declared bankrupt by the Central Jakarta Commercial Court on November 22, 2017. DAJK was declared bankrupt because it could not repay its debt of IDR 1.15 trillion (Utami, 2018).

Funding decisions are one of the most crucial aspects in a company's financial management (Ompusunggu & Irenetia, 2023). Funding sources can originate from within the company or externally, including through debt. Debt policy greatly affects the company's operational activities; if the policy is chosen wrongly, the company will face a high risk of bankruptcy. Debt policy becomes a primary concern because it directly impacts the capital structure and the company's long-term survival. Careful debt management can support business growth, while excessive use of debt can increase the risk of default. On the other hand, being too conservative regarding debt can limit the company's ability to expand its operations. Therefore, it is important for companies to make balanced and strategic decisions regarding debt policy. Debt policy refers to decisions taken by the company regarding the amount and type of debt to be used to finance their operations and investments. However, this policy can vary significantly among companies. While some companies choose to borrow large amounts, others prefer to prioritize using internal funds or equity. This raises an important question: What distinguishes companies that rely heavily on debt from those that choose to minimize it? Various internal factors such as profitability and dividend policy are believed to play a role in each company's debt policy (Khaddafi & Syahputra, 2019).

One relevant theory to explain this phenomenon is the pecking order theory, introduced by Myers and Majluf in 1984. This theory explains that companies have a preference hierarchy in choosing financing sources. Generally, companies prefer to use internal funds, such as retained earnings, because they are considered cheaper and do not affect the ownership structure. When internal funds are insufficient, companies tend to choose debt as an alternative before finally considering issuing equity, which is usually more expensive and may reduce shareholders' control. Based on this theory, companies with high profitability levels tend to take on less debt, as their funding needs can be met through internally generated profits.

A company's continuity heavily depends on financial aspects, where profitability becomes one of the factors determining business stability and growth (Akbari & Arifin, 2023). Profitability reflects the company's ability to generate profits from its operational activities. Within the pecking order framework, companies with high profitability tend to minimize debt use. However, various studies show differing findings regarding the relationship between profitability and debt policy. Some studies, such as Rizanti et al. (2024), found that profitability had no significant effect on debt policy—measured by Return on Assets (ROA)—with a significance level of 0.603, greater than 0.05, on LQ45 companies listed on the Indonesia Stock Exchange. Research by Unnuriyah & Septiana (2021) found that profitability had no significant effect on debt policy in food and beverage companies listed on the IDX from 2015–2018. Similarly, Duwiyanti & Maimunah (2023) found no significant effect on SOEs in Indonesia, and research in the textile manufacturing subsector also showed no significant effect of profitability on debt policy (coefficient = 0.360) (Fikri, 2024).

Other previous studies also found a negative relationship between profitability and debt policy. For instance, Sari & Setiawan (2021) discovered a negative relationship, where companies with relatively high profitability opted for low debt usage because they used retained earnings first rather than debt financing. This finding aligns with Sianturi et al. (2023), who found a significant negative effect of profitability on debt policy in consumer goods manufacturers listed on the IDX from 2019–2022. Another study by Wulandari et al. (2022) showed a significant negative effect of profitability on debt policy, contributing 19.6% to the dependent variable in property and real estate subsector companies listed on the IDX. The negative influence between profitability and debt policy was also confirmed by Setiyani & Sudarsi (2023) in the consumer goods industry subsector on the IDX from 2019–2021.

These findings are consistent with pecking order theory: companies with high profitability prefer to use internal company funds, such as retained earnings, rather than external funding via debt. On the other hand, research by Sari (2020) and Adiat et al. (2022) found a positive effect between profitability and debt policy, because firms with high profitability are considered able to repay their debts. Lestari & Sidik (2022) found a positive effect between profitability and debt policy, with a significance value of 0.019 (< 0.05), indicating that high profitability facilitates operational activities using internal funds; if using debt, they can easily repay it due to the company's strong assets, which increases creditor confidence. Another study by Oppier et al. (2024) also found a positive effect on pharmaceutical companies listed on the IDX from 2019–2022, with significance at 0.001.

The inconsistency of previous research findings—positive, negative, or non-significant relationships—indicates a research gap in this study. Previous studies showing positive effects include those by Adiat et al. (2022); Lestari & Sidik (2022); Oppier et al. (2024); and Sari (2020), where highly profitable firms were considered able to repay debt. Negative effects were demonstrated in studies by Sari & Setiawan (2021); Setiyani & Sudarsi (2023); Sianturi

et al. (2023); and Wulandari et al. (2022). Meanwhile, non-significant findings were reported by Duwiyanti & Maimunah (2023); Fikri (2024); Rizanti et al. (2024); and Unnuriyah & Septriana (2021). These variations suggest that the relationship between profitability and debt policy is influenced by other, complex factors—one of which is dividend policy. Dividend policy has the potential to mediate the influence of profitability on debt policy, as dividend distribution decisions can affect a company's capital structure. When a company chooses to pay dividends, the internal funds available for investment are limited, which pushes the company to use debt as an alternative source of funding. Previous studies have attempted to examine the role of dividend policy in the context of debt policy, such as Herninta (2019); Sianturi et al. (2023); and Wulandari et al. (2022). Firms tend to pay higher dividends when management's shareholding proportion is low. Herninta (2019) explained that as dividend policy increases, debt policy also increases.

The size of the dividend can affect stock price. Khaddafi & Syahputra (2019) argue that when dividends paid are high, stock prices tend to be high, thus raising the company's value; conversely, if dividends are small, the stock price is low. The ability to pay dividends is closely related to profit ability. If a company earns large profits, its ability to pay dividends is also large. When cash dividends paid increase, fewer funds remain for reinvestment. A stable dividend policy forces the company to allocate a set amount of funds for regular dividend payments, increasing funding needs.

Based on several previous study findings, there is a research gap or indication of a moderating variable in the influence of profitability on debt policy, necessitating further research. The novelty of this study compared to prior research lies in examining all non-financial publicly listed companies on the IDX, rather than limiting to one or two sectors. Moreover, this study uses dividend policy, measured by dividend payout ratio (DPR), as a moderating variable. Dividend policy was chosen due to its significant role in influencing the relationship between profitability and debt policy. A study by Kasmawati et al. (2023) showed that dividend policy can significantly moderate the effect of profitability on firm value. These findings indicate that dividend policy has a strategic role in strengthening relationships among financial variables, making its testing in the context of debt policy relevant.

An important decision in corporate finance concerns profit distribution, especially dividend policy, which can directly affect capital structure. Dividend policy determines how profits are used because it can strengthen or weaken the impact of profitability on a company's debt structure decisions. In practice, dividend distribution decisions can affect corporate funding structure: the larger the dividends paid, the smaller the internal funds remaining for investment, thus encouraging companies to use debt. The study by Wirama et al. (2024) showed that companies paying large cash dividends tend to have limitations in internal fund allocation, impacting financing decisions via external sources. When firms decide to pay high dividends, retained earnings decrease, which may increase reliance on debt.

Conversely, if small dividends are paid, firms retain more earnings, enabling them to finance operations without borrowing. Nguyen Trong & Nguyen (2021) highlighted that dividend policy plays a role in restraining overinvestment decisions, indicating the control function of this policy. Therefore, it is relevant to further investigate the role of dividend policy as a moderating variable in various financial relationships, including between profitability and debt policy.

A company's financial structure—which includes debt and dividend policy—strongly determines the direction and quality of financial decision-making. These findings support the need to explore the role of dividend policy more deeply as a moderating variable in internal financial relationships within firms (Nurdiansari et al., 2022). Thus, dividend policy was chosen as a moderating variable to test how and to what extent the influence of profitability on debt policy changes depending on the company's dividend policy. Although several studies have been conducted in this field, relatively few have specifically examined the role of dividend policy as a moderator in the relationship between profitability and debt policy. Therefore, this study aims to reanalyze the influence of profitability on debt policy by considering dividend policy as a moderating variable. In connection with the phenomena described above, the researcher is interested in conducting further research on "The Effect of Profitability on Debt Policy with Dividend Policy as a Moderating Variable".

2. Method

This study employs a quantitative approach with an associative design to analyze the relationship between profitability and debt policy, with dividend policy serving as a moderating variable. The research focuses on non-financial publicly listed companies on the Indonesia Stock Exchange (IDX) in 2023. Financial sector companies are excluded due to their distinct characteristics and regulatory frameworks. The population consists of 839 companies, with a final sample of 271 companies determined using the Slovin formula and stratified random sampling techniques. The data used are secondary data in the form of annual financial statements and dividend information obtained from the official IDX website and finance.yahoo.com (Sugiyono, 2023).

The variables examined include profitability (measured by Return on Assets, ROA) as the independent variable, debt policy (measured by Debt to Equity Ratio, DER) as the dependent variable, and dividend policy (measured by Dividend Payout Ratio, DPR) as the moderating variable. Data collection was conducted through non-participant observation by downloading and analyzing the companies' financial reports. All data were compiled into a dataset and processed using Microsoft Excel and SPSS software. The data analysis techniques employed include descriptive statistical tests, classical assumption tests (normality, multicollinearity, heteroscedasticity), model feasibility tests (F-test), coefficient of

determination (R^2), moderated regression analysis (MRA), and hypothesis testing (t-test) to assess the partial effects of each variable (Ghozali, 2018).

Moderated regression analysis was used to examine whether dividend policy strengthens or weakens the relationship between profitability and debt policy. The regression model is considered valid if it meets the requirements of classical assumption testing and the model feasibility test indicates statistical significance. The R^2 value was utilized to determine the extent to which the independent variable explains the dependent variable. The t-test results indicate the significance of the partial influence of each variable on debt policy. The findings of this study are expected to contribute to financial decision-making among non-financial companies in Indonesia (Kasmir, 2019; Sugiyono, 2023; Ghozali, 2018)).

3. Results and Discussion

3.1 Research Data Analysis Results

The following explanation outlines the results of the descriptive statistical analysis and the classical assumption tests, including the normality test, heteroscedasticity test, and multicollinearity test. Furthermore, the results of the model feasibility test (F-test), the coefficient of determination (R^2), the moderated regression analysis (MRA), and the hypothesis test (t-test) are presented. These analytical stages and statistical tests were conducted using the Statistical Program for Social Sciences (SPSS).

3.2 Descriptive Statistical Analysis

Descriptive statistics aim to examine the characteristics of the variables used in this study. This test provides a description or summary of the data based on the mean, standard deviation, maximum, and minimum values. This study involves one independent variable, namely profitability (Return on Assets or ROA), one dependent variable, namely debt policy (Debt to Equity Ratio or DER), and one moderating variable, namely dividend policy (Dividend Payout Ratio or DPR). Based on data processing using SPSS version 26, the following are the results of the descriptive statistical analysis from the initial 263 sample data points before conducting the classical assumption tests, as presented in Table 1 below:

Table 1. Descriptive Statistical Analysis Results

	N	Minimum	Maximum	Mean	Standard Deviation
ROA	263	0,00	2.7	6,74	5,75
DPR	263	0,00	9,85	26,88	72,44
DER	263	0,00	12,82	85,16	119,39
Valid N (listwise)	263				

Source: Processed data (2025)

Based on Table 1 above, the descriptive statistical test output for each research variable can be described as follows:

- a. N = 263, indicating that the number of sample data processed in this study is 263 observations. The descriptive statistical test was conducted on the research variables,

namely Debt Policy (Y) measured by DER, Profitability (X) measured by ROA, and the moderating variable Dividend Policy (Z) measured by DPR.

b. Profitability (X)

For the profitability variable (ROA), the average (mean) value was 6.74. The minimum value of ROA among the companies was 0.00, while the maximum value was 2.7, recorded by the company UNVR. The standard deviation was 5.75, which is lower than the mean, indicating a relatively low variation in profitability levels across the sample.

c. Debt Policy (Y)

For the debt policy variable (DER), the average value was 85.16. The minimum DER was 0, while the maximum value reached 12.82, observed in the company ATIC. The standard deviation was 119.38, which is higher than the mean, suggesting a wide variability in debt policy among the companies analyzed.

d. Dividend Policy (Z)

For the dividend policy variable (DPR), the average value was 26.88. The minimum DPR was 0, while the maximum value was 9.85, recorded by the company ITMG. The standard deviation was 72.44, exceeding the mean value, which indicates considerable dispersion in dividend policy practices among the sampled companies.

3.3 Classical Assumption Test Results

3.3.1 Normality Test

The normality test aims to examine whether the residuals in the regression model are normally distributed or not. The basis for decision-making in the statistical normality test uses the One-Sample Kolmogorov-Smirnov Test, with the following criteria:

- If the Asymp. Sig. (2-tailed) value > 0.05 , then H_0 is accepted, indicating that the data are normally distributed,
- If the Asymp. Sig. (2-tailed) value < 0.05 , then H_0 is rejected, This indicates that the data are not normally distributed.

The results of the normality test can be seen in Table 4.3 below:

Table 2. Normality Test Results

		Unstandardized Residual
N		263
Normal Parameters ^{a,b}	Mean	,0000000
	Standard	,45652600
	Deviation	
Most	Extreme Absolute	,058
Differences	Positive	,052
	Negative	-,058
Test Statistics		,058
Asymp. Sig. (2-tailed)		.,52c

Source: Processed data, (2025)

Based on Table 2 above, the output of the Kolmogorov-Smirnov normality test shows that the data are normally distributed. This can be observed from the Asymp. Sig. (2-tailed) value of 0.052, which is greater than 0.05, indicating that the regression model in this study is appropriate and has met the assumption of normality in classical tests.

3.3.2 Multicollinearity Test

The purpose of the multicollinearity test is to determine whether there is a correlation among the independent variables in the regression model. A good regression model should not exhibit multicollinearity among the independent variables. To detect the presence of multicollinearity in the regression model, it can be assessed through the Tolerance value (which should be greater than 0.10) and the Variance Inflation Factor (VIF) (which should be less than 10). The results of the multicollinearity test based on the 263 sample data are presented in Table 3 as follows:

Table 3. Multicollinearity Test Results

Variables	Tolerance	VIF	Information
ROA	,957	1,045	There is no multicollinearity
DPR	,957	1,045	There is no multicollinearity

Source: Processed data, (2025)

Based on Table 3 above, the output of the multicollinearity test shows that there is no multicollinearity issue among the independent variables in the regression model. This is indicated by the Tolerance values being greater than 0.10 and the Variance Inflation Factor (VIF) values being less than 10. Specifically, the tolerance values for all variables are above 0.10, at 0.957, and the VIF value is below 10, at 1.045. Thus, it can be concluded that the regression model in this study is appropriate and has met the classical assumption of multicollinearity.

3.3.3 Heteroscedasticity Test

The heteroscedasticity test is used to determine whether there is a variance inequality in the residuals across observations in a regression model. If the variance of the residuals remains constant from one observation to another, it is referred to as homoscedasticity. Conversely, if the variance differs, it is known as heteroscedasticity. A good regression model should not exhibit heteroscedasticity, meaning it should show homoscedasticity.

Heteroscedasticity can be tested using the Glejser Test, which is performed by regressing the absolute residual values (Abs_Res) against the independent variables. If the significance values are greater than 0.05, it indicates that there is no heteroscedasticity problem. The results of this test are presented in Table 4 as follows:

Table 4. Heteroscedasticity Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	,407	,041		9,945	,000
ROA	-,069	,051	-,089	-1,342	,181
DPR	-3.32	,000	-,009	-,133	,894

Source: Processed data, (2025)

From Table 4, it can be seen that the significance probability values (Sig. values) for each variable, namely ROA and DPR, are 0.181 and 0.894, respectively. Since these values are above the confidence level of 0.05, it can be concluded that the regression model does not exhibit heteroscedasticity for any of the variables.

3.4 Model Feasibility Test (F Test)

The simultaneous significance test (F-test) is used to determine whether all the independent variables collectively have a significant effect on the dependent variable. If the significance value is below 0.05, it indicates that the independent variables simultaneously have a significant influence on the dependent variable. The results of the model feasibility test (F-Test) in this study are presented in Table 5 below:

Table 5. Model Feasibility Test Results

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2,622	3	,874	4,190	,007b
Model Summary						
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate		
1	,225a	,051	,038	,45675		
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,83	0,070		26,34	,000
	ROA	-0,222	0,084	-0.175	-2,623	,019
	DPR	0,003	0,002	0,417	1,704	,090
	ROA*DPR	-0,002	0,001	-0.413	-1,662	,098

Source: Processed data, (2025)

Based on Table 5, the output of the simultaneous significance test (F-test) indicates a significance value of 0.007, which is lower than the threshold of 0.05. This suggests that the variables Profitability (ROA), Dividend Policy (DPR), and the interaction between Profitability and Dividend Policy collectively have a significant effect on Debt Policy (DER).

3.5 Coefficient of Determination (R²) Test Results

The coefficient of determination (R²) essentially measures the extent to which the model can explain the variance in the dependent variable. A low R² value implies that the ability of

the independent variables to provide the necessary information to predict the variation in the dependent variable is very limited.

Based on Table 5, the output shows an Adjusted R-Square value of 0.038, indicating that the variables Profitability (ROA), Dividend Policy (DPR), and their interaction are able to explain only 3.8% of the variation in Debt Policy (DER). The remaining 96.2% is explained or influenced by other factors not examined in this study.

3.6 Moderated Regression Analysis (MRA) Results

The basic concept of Moderated Regression Analysis (MRA) involves three variables: the independent variable, the dependent variable, and the moderating variable. This statistical technique is used to understand whether the relationship between the two main variables is influenced by a third variable, called the moderator. MRA can be interpreted as an interaction test between the independent variable and the moderating variable, aimed at identifying whether the moderator strengthens or weakens the influence of the independent variable on the dependent variable. The MRA regression equation in Table 5 can be explained as follows:

3.6.1 Constant

The regression output shows a constant value of 1.83, which means that if the independent variable (X) is held at zero (constant), then the dependent variable (Y) is predicted to be 1.83.

3.6.2 Coefficient of Variable X: Profitability (ROA)

The coefficient value for the profitability variable (X) is -0.222, indicating a negative relationship between profitability and debt policy (Y). This implies that if profitability increases by one unit, while holding other independent variables constant, the debt policy will decrease by 0.222 units. Conversely, if profitability decreases by one unit, the debt policy will increase by 0.222 units, assuming all other variables remain unchanged.

3.6.3 Coefficient of Moderating Variable Z: Dividend Policy (DPR)

The coefficient value for the dividend policy variable (Z) is 0.003, which indicates a positive relationship between dividend policy and debt policy. This means that if the dividend policy increases by one unit, the debt policy will also increase by 0.003 units, assuming other independent variables remain constant. Likewise, if the dividend policy decreases by one unit, the debt policy will decrease by 0.003 units under the same assumption.

3.6.4 Coefficient of Interaction Variable XZ (Interaction between Profitability and Dividend Policy on Debt Policy)

The coefficient value for the interaction variable (XZ) is -0.002, indicating a negative interaction effect on the debt policy (Y). This suggests that an increase of one unit in the interaction variable (XZ) will result in a decrease of 0.002 units in the debt policy, assuming other variables are held constant. Conversely, a decrease of one unit in XZ would lead to a 0.002 unit increase in the debt policy under the same conditions.

3.7 Results of Hypothesis Testing (t-Test)

The t-test is used to determine the extent to which an individual independent (explanatory) variable significantly affects the dependent variable. If the significance value is below 0.05, it indicates that the independent variable has a significant partial effect on the dependent variable.

Based on Table 5, which presents the results of the individual parameter significance test (t-test) for the Moderated Regression Analysis (MRA), the following interpretations can be made:

- a. The X variable, Profitability (ROA), has a significant effect on Debt Policy (DER), as indicated by a significance value of 0.009, which is less than 0.05. This result confirms that Profitability significantly influences Debt Policy, thus Hypothesis H1 is accepted.
- b. The XZ interaction variable (the interaction between Profitability and Dividend Policy) does not significantly moderate the relationship between Profitability and Debt Policy. This is demonstrated by a significance value of 0.098, which is greater than 0.05. Therefore, it can be concluded that Dividend Policy does not serve as a moderating variable in the relationship between Profitability and Debt Policy, and thus Hypothesis H2 is rejected.

4. Discussion of Research Findings

4.1 The Effect of Profitability on Debt Policy

Based on the results of the partial (t-test) analysis, it was found that profitability has a negative and significant effect on debt policy, as indicated by the significance value of 0.009, which is less than 0.05. This indicates that profitability significantly affects debt policy, thereby supporting Hypothesis H1.

The negative and significant relationship implies that lower profitability leads to higher debt usage in financing operational activities. Conversely, higher profitability allows for lower debt usage, as companies tend to prioritize internal sources of financing, allocating most of their profits to retained earnings and minimizing debt usage. Companies with high profitability tend to rely less on external funding since their operations are supported by internal resources (Pidianti & Murtianingsih, 2023). These findings are consistent with the Pecking Order Theory, which states that firms prefer to use internal funds (retained earnings) as their primary source of financing. When internal funds are insufficient, firms will opt for external financing, beginning with the safest instruments, such as debt, before eventually issuing equity securities like common stock or convertible bonds (Febriansyah, 2023).

Profitability in this study is measured using Return on Assets (ROA). This ratio reflects the financial performance of a company over time and can be used as a basis for evaluating the effectiveness of management decisions. A higher ROA indicates better financial performance, which reduces the company's reliance on debt. The higher the ROA, the more

likely a firm is to use internal funds rather than debt to finance its operations. This finding is consistent with the study by Sianturi et al. (2023), which found that profitability has a negative and significant effect on debt policy in consumer goods manufacturing companies listed on the Indonesia Stock Exchange for the 2019–2022 period. Similarly, Wulandari et al. (2022) found that profitability negatively and significantly affects debt policy, contributing 19.6% to the dependent variable in property and real estate subsector companies listed on the IDX. However, this result contrasts with the findings of Azara & Fardianti (2021), who concluded that profitability, measured by ROA, does not significantly influence debt policy, as indicated by a t-value of -0.903 and a significance level of 0.374 (greater than 0.05), in property and real estate companies listed on the IDX during the 2015–2019 period.

The significant results in this study support the assumption that profitability negatively and significantly affects a firm's debt policy. This is aligned with the Pecking Order Theory, which suggests that companies prefer to use retained earnings before seeking external funding. Therefore, the higher a company's profitability, the less dependent it is on debt. Consequently, more profitable firms tend to maintain lower levels of debt in their capital structure.

4.2 Dividend Policy as a Moderator in the Relationship between Profitability and Debt Policy

Based on the results of the partial test, it was found that the dividend policy variable does not moderate the effect of profitability on debt policy, as indicated by a significance value of 0.098, which is greater than the threshold of 0.05. This result indicates that dividend policy does not serve as a moderating variable between profitability and debt policy. This finding is consistent with Sianturi et al. (2023), who reported that interaction tests showed dividend policy does not moderate the relationship between profitability and debt policy, with a significance level of 0.888 in consumer goods manufacturing companies listed on the Indonesia Stock Exchange during the 2019–2022 period. Similarly, Wulandari et al. (2022) concluded that dividend policy does not influence the relationship between profitability and debt policy in the property and real estate sector listed on the IDX.

These results suggest that although, theoretically, dividend policy could either strengthen or weaken the relationship between profitability and debt policy, this moderating role is not empirically supported in this study. The absence of such empirical evidence may be attributed to a tendency among companies to prioritize internal financing sources, such as retained earnings or issuing new equity, rather than debt, particularly when profitability is high. In such conditions, dividend policy functions more as a mechanism to distribute profits to shareholders rather than as an instrument to manage capital structure. Therefore, within the context of this study, dividend policy does not have a significant role in moderating the relationship between profitability and debt policy. Moreover, firms often avoid debt due to its associated bankruptcy risks and may opt to fund their operations through new equity

issuance rather than debt financing. This finding leads the researcher to assume that dividends may not be relevant to debt policy decisions. Instead, dividends should be considered as part of investment decisions rather than financing decisions, allowing room to increase dividend payments in the future if they can be maintained in a stable condition.

5. Conclusions

Based on the results of the analysis conducted, the following conclusions can be drawn to address the research problems posed:

Profitability has a negative impact on debt policy. The findings reveal that the higher a company's profitability, the lower its tendency to rely on debt as a source of financing. This result aligns with the pecking order theory, which suggests that companies prefer using internal sources of financing before turning to external funding such as debt.

Dividend policy does not moderate the relationship between profitability and debt policy. The results from the interaction variable test indicate that dividend policy neither strengthens nor weakens the relationship between profitability and debt policy. This suggests that dividend policy does not serve as a significant moderating variable in this study.

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