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The Influence of Business Risk and Corporate Growth on Debt Policy

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Abstract

Objectives – *This study aims to examine the effect of business risk and corporate growth on debt policy in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The energy sector is characterized by high capital intensity and operational uncertainty, making debt policy a critical financial decision.*

Design/methodology/approach – *This study employs a quantitative research design using secondary data obtained from the annual financial statements of energy sector companies listed on the IDX. The sample consists of 42 companies selected based on purposive sampling criteria. Data were analyzed using panel data regression with a Random Effects Model (REM) through EViews 9.*

Findings *– The empirical results indicate that business risk has a statistically significant effect on debt policy, while corporate growth does not have a significant effect. These findings suggest that during the observed period, debt policy decisions in energy companies were more strongly influenced by risk considerations than by growth opportunities.*

Limitations/Implications of Research – *The first limitation of this study is that the measurement of business risk still uses one financial proxy so that it does not fully reflect the company's operational volatility. Second, the independent variables used are limited to business risks and corporate growth, so the model's ability to explain debt policy is still low and does not include other potentially influential factors. Third, the relatively short research period, namely 2022–2024, has not fully described the long-term dynamics of the energy industry. Fourth, the heterogeneity of subsectors in the energy industry causes the results of the research to need to be generalized carefully.*

JEL : G31, G32, Q40, L94

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INTRODUCTION

The energy sector plays a very vital and strategic role in driving the wheels of a country's economy, including in Indonesia. As a capital-intensive sector, energy companies need massive funding to support infrastructure exploration, production, and distribution activities (Sartono, 2021). However, recent global market dynamics, colored by post-pandemic commodity price fluctuations and international geopolitical tensions, have created very high market uncertainty (Ministry of Energy and Mineral Resources, 2023). This volatile external condition requires the management of energy companies listed on the Indonesia Stock Exchange (IDX) to be more careful in determining the capital structure, especially in making decisions related to debt policy so as not to get caught up in liquidity problems.

The high dependence of the energy sector on external factors directly has implications for increased business risk. Business risk that reflects the level of volatility of a company's operating profit is one of the main considerations before management decides to increase its financial obligations (Brigham & Houston, 2019). For energy companies in Indonesia, income instability due to fluctuations in global energy prices can threaten the company's ability to meet its fixed obligations. According to the Trade-off Theory, when operational risks increase, companies should limit their debt levels to avoid potential financial distress costs that can destroy the company's value (Kraus & Litzenberger, 1973).

On the other hand, corporate growth opportunities are also a significant driver of transformation in the energy sector. During the 2022–2024 period, global and domestic demands to make an energy transition from fossil fuels to new and renewable energy (NRE) forced many energy companies in Indonesia to expand and make long-term investments (Eisgruber, 2022). Theoretically, companies with high growth rates need a large injection of funds to capture those investment opportunities. According to the Pecking Order Theory, debt policy is often the primary option when the accumulation of internal funds (retained earnings) is no longer sufficient to finance such expansion projects, although this option carries the risk of a massive fixed interest expense (Myers & Majluf, 1984).

The operational and financial foundation of this sector is inseparable from the strict regulations implemented by the Indonesian government throughout 2022 to 2024. The government has issued aggressive national energy governance policies, such as Presidential Regulation (Perpres) Number 112 of 2022 concerning the Acceleration of Renewable Energy Development for the Provision of Electricity, as well as the sharpening of the Net Zero Emission (NZE) 2060 roadmap (State Secretariat, 2022). These regulations force conventional energy companies—particularly the coal and petroleum subsectors—to restructure their business models in a greener direction. This tightening of environmental regulations increases compliance costs and radically changes the risk profile and funding needs of companies, which in turn distorts their debt policies.

In addition to sectoral regulations from the Ministry of Energy and Mineral Resources, the financial condition of energy companies is also influenced by macroeconomic and capital market regulations supervised by the Financial Services Authority (OJK). Bank Indonesia's monetary policy in the form of a trend of raising the benchmark interest rate (BI-Rate) throughout 2022 to 2023 in response to global inflation has also tightened national banking liquidity (Bank Indonesia, 2023). This monetary regulatory condition makes the cost of debt much more expensive for corporations. As a result, energy companies on the IDX are faced

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with a complex regulatory dilemma: on the one hand they must comply with capital-intensive energy transition targets, but on the other hand they must face liquidity tightening and rising capital costs due to monetary tightening policies.

The influence of business risk on debt policy has been a long academic debate and resulted in mixed findings in the corporate finance literature. Previous research conducted by Sudana (2019) and Haron (2018) shows that business risk has a significant negative effect on debt policy, which is in line with the premise that rational management will reduce debt when operational risk increases. However, there are inconsistencies in the results of research conducted by Nugraha and Sulastri (2021), which found that business risks do not have a significant effect on sectors that receive protection or subsidies from the government. This empirical gap underlies the importance of retesting this variable in the energy sector which is full of regulatory interventions.

Regarding the growth of companies, the financial literature also shows a sharp polarization of empirical results. Research conducted by Kartika (2020) and Dang et al. (2019) supports the Pecking Order Theory by finding a significant positive influence between company growth on debt policy, because companies need external leverage to fund the growth of their assets. On the contrary, research by Wijaya and Utama (2022) actually found a negative or insignificant influence. They argue based on Agency Theory that high-growth companies that have many future investment options (growth options) will tend to avoid high debt to prevent underinvestment problems and agency conflicts with creditors (Jensen & Meckling, 1976).

Although much research has been done on capital structure and debt policy, most previous studies use the pre-pandemic time background or generalize the entire industrial sector broadly (Prasetyo, 2021). It is still very rare to find research that specifically isolates the energy sector in Indonesia in the crucial period of 2022–2024. This period has very unique characteristics because it is a phase of full post-pandemic economic recovery, the initial implementation of Indonesia's Green Taxonomy by the OJK, and a period of extreme volatility in energy commodity prices due to the geopolitical crisis (Financial Services Authority, 2022). Therefore, retesting the variables of business risk and company growth in this period becomes very relevant and urgent.

To bridge these research gaps and empirical inconsistencies, this study was designed using a rigorous quantitative approach. The data used is secondary data sourced from annual audited financial statements from 42 energy sector companies listed on the IDX, which were selectively selected using the purposive sampling method (Sugiyono, 2020). Given that the data collected has cross-time and cross-company characteristics, data analysis was carried out using panel data regression techniques with the Random Effects Model (REM) approach through the help of EViews 9 software. This methodological approach was considered the most effective to capture the dynamics of industry trends while controlling heterogeneity between energy companies during the three years of observation (Gujarati & Porter, 2012).

Based on all the backgrounds, phenomena, regulations, and research gaps that have been presented, this study explicitly aims to test and analyze the influence of business risks and corporate growth on debt policies in energy sector companies listed on the IDX for the 2022–2024 period. Practically, this research is expected to contribute to the management of energy companies in establishing optimal funding strategies amid high operational risks. For

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investors, this research can be a reference in assessing the company's financial stability. Academically, this research is expected to be able to enrich the treasures of the corporate financial management literature, especially in understanding the behavior of capital structures in capital-intensive sectors and sensitive to environmental regulations.

LITERATUR REVIEW

Business Risk

Business risk refers to the uncertainty of a firm's operating income resulting from variations in sales volume, cost structure, and external economic conditions. According to (Hartanto et al., 2024) business risk reflects the variability of operating profit arising from a company's core activities, independent of its financing structure. Firms with higher business risk tend to experience unstable cash flows, which may increase the likelihood of financial distress. (Wisnugroho et al., 2023).

In the context of the energy sector, business risk is particularly high due to exposure to global commodity price fluctuations, regulatory changes, and large fixed operating costs. Such conditions make business risk an important consideration in determining debt policy, as higher risk may affect creditors' perception and firms' repayment capacity.

Corporate Growth

Corporate growth describes a firm's ability to expand its economic scale through increases in assets, sales, or profits. (Artini et al., 2025) define corporate growth as an increase in total assets that reflects business expansion and investment activities. Firms with high growth opportunities generally require additional funding to support expansion projects. According to the Pecking Order Theory, companies prefer internal financing; however, when internal funds are insufficient, firms tend to rely on debt before issuing new equity. In capital-intensive industries such as energy, growth opportunities may increase reliance on external financing, including long-term debt.

Debt Policy

Debt policy represents management's decision regarding the proportion of debt used in financing company operations and investments. (Rahmah, 2025) explains that debt policy reflects the extent to which a firm depends on external funding compared to internal equity. Debt usage can provide tax advantages and leverage benefits, but excessive debt increases financial risk and potential bankruptcy costs.(Dewi & Suryani, 2020).

Hypothesis development

The Effect of Business Risk on Debt Policy

Business risk increases uncertainty in operating income, which may raise bankruptcy costs and affect debt capacity. Based on Trade-Off Theory, firms with higher business risk are expected to limit debt usage to reduce the probability of financial distress. However, in capital-intensive sectors such as energy, firms may still rely on debt financing to maintain operational

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continuity despite higher risk levels. Previous research findings show that business risk has a negative effect on debt policy (Rinjani & Indrati, 2023). Based on this explanation, the researcher took a hypothesis, namely:
H_1: Business risk has a positive effect on debt policy.

The Effect of Corporate Growth on Debt Policy

Corporate growth indicates the need for additional funding to support expansion activities. Based on Pecking Order Theory, firms with higher growth are expected to increase debt usage when internal funds are insufficient.
H_2: Corporate growth has a positive effect on debt policy.

RESEARCH METHODOLOGY

Types and Sources of Research Data

This study employs a quantitative research approach using secondary data. The data were obtained from the annual financial statements of energy sector companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period. The financial reports were accessed through the official IDX website and each company's published annual reports. The population of this study consists of 92 energy sector companies listed on the IDX during the observation period. The sampling technique used is purposive sampling, with the following criteria: (1) companies consistently listed in the energy sector during 2022–2024, (2) companies publishing complete financial statements for the observed period, and (3) companies with complete data required for variable measurement. Based on these criteria, 42 companies were selected as the research sample.

Variable Measurement

Meanwhile, the measurement of the variables used for each variable is as follows:

Table 1. Measurement of Variables

Yes	Variable	Measurement	Source
1.	Risks Business	BRISK= Profit before tax / Equity	(Abubakar dkk, 2020)
2.	Corporate Growth	GROWTH = Total assets t - Total assets t-1 X 100 % / Total assets t-1	(Weston dan Copeland, 1995)
3.	Debt Policy	$DP = \frac{Total\ Hutang}{Total\ Asset} x\ 100\%$	(Munawir, 2004)

RESULTS

Table 1. Descriptive Analysis

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Variabel	N	Min	Max	Mean	Std Dev
BR	126	-0.315723	2.742489	0.292513	0.413522
CG	126	-0.537961	1.108727	0.117657	0.256833
DP	126	0.020998	3.700563	0.913086	0..792445

Description:
BR (Business Risk), CG (Corporate growth), DP (Debt Policy).

Best Requirements Testing

1. Chow Test
- Decision making criteria based on probability values (Prob) Cross Section F: If the probability value < 0.05, then the model used is more appropriately used is the Fixed Effect Model.
- If the probability value > 0.05 then the Common Effect Model is more suitable. Decision-making criteria based on the value of F calculated:

Table 2. Test *Chow*

Effects Test	Statistic	d.f.	Prob.
Cross-section F	15.025723	(41,82)	0.0000
Cross-section Chi-square	269.838842	41	0.0000

Source: Processed data (2025)

Based on the results of *the chow* test using *eviews* 9, it is stated that the *probability value cross section* F is 0.0000 which is less than the level of significance (α= 0.05). These results show that the most suitable model is the *Fixed Effect Model* (FEM). Therefore, it is necessary to perform the Hausman Test to determine which model is more appropriate to use between *the Fixed Effect Model* and *the Random Effect Model*.

2. Hausman Test

A thirst *test* is used to determine the best model between *the Fixed Effect Model* and *the Random Effect Model* that is most appropriately performed.

Decision-making criteria:
- If the probability value < 0.05, then the more suitable model is the Fixed Effect Model.
- If the probability value > 0.05, then the more appropriate model to use is the Random Effect Model.

Table 3. Test *Hausman*

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.

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Cross-section random	0.765764	2	0.6819

Source: Processed data (2025)

Based on the results of the *thirst test, the* probability *value* is 0.6819 where this result is more than the significance level value (α= 0.05). Thus, the most appropriate model to use is the *Random Effect Model*.

3. *Uji Lagrange Multiplier* (LM)

The *Lagrange Multiplier* (LM) test is used to determine whether the most appropriate Common *Effect Model* or *Random Effect Model* is used:

Table 4. Test *Lagrange Multiplier* (LM)

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	84.38423 (0.0000)	1.182588 (0.2768)	85.56682 (0.0000)
Honda	9.186089 (0.0000)	-1.087468 --	5.726590 (0.0000)
King-Wu	9.186089 (0.0000)	-1.087468 --	0.919246 (0.1790)
Standardized Honda	9.432044 (0.0000)	-0.818523 --	1.531153 (0.0629)
Standardized King-Wu	9.432044 (0.0000)	-0.818523 --	-1.332317 --
Gourierioux, et al.*	--	--	84.38423 (< 0.01)

*Mixed chi-square asymptotic critical values:

1%	7.289
5%	4.321
10%	2.952

Source: Processed data (2025)

Uji Hypothesis

Table 6. Random *Effect Model*

Variabel	Prediction	Coefficient	T-Statistics	Prob.	Explanation
C		0.802057	6.479871	0.0000	

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Variabel	Prediction	Coefficient	T-Statistics	Prob.	Explanation
BR	-	0.402132	2.822567	0.0028	RB has an effect on KU and has a different direction, meaning it does not support the theory
CG	+	-0.056096	-0.391821	0.3479	PP has no effect on KU and has a different direction, meaning it does not support the theory
R-Squared					0.062085
Adjusted R-Squared					0.046835
F-Statistic					4.071008
Prob (F-Statistic)					0.019411

Source: Processed data (2025)
Description:
BR (Business Risk), CG (Corporate growth), DP (Debt Policy).

Coefficient Determination Test

Table 7. Determination Coefficient Test Table

Weighted Statistics

R-squared	0.062085	Mean dependent var	0.230924
Adjusted R-squared	0.046835	S.D. dependent var	0.337922
S.E. of regression	0.329914	Sum squared resid	13.38770
F-statistic	4.071008	Durbin-Watson stat	1.706323
Prob(F-statistic)	0.019411		

Based on table 1.6 *R-Square* shows a value of 0.046835 which means that there is a 4.6% variation in the variables Business Risk, Corporate growth.

Partial Test (T-Test)

The results of the test using *the Random Effect Model* (REM) can be concluded as follows:
1. Business Risk with a probability value of 0.0056/2 = 0.0028 < 0.05, can be interpreted as the Business Risk variable has a negative and statistically significant effect on Debt Policy
2. Corporate growth with a probability value of 0.6959/2 = 0.3479 > 0.05, can be interpreted as the Corporate growth variable has a positive and statistically significant effect on Debt Policy.

DISCUSSION

The Effect of Business Risk on Debt Policy

Berikut adalah draf bagian Pembahasan: Pengaruh Risiko Bisnis terhadap Kebijakan Utang (*The Effect of Business Risk on Debt Policy*) yang disusun secara mendalam. Pembahasan ini mengintegrasikan hasil empiris dari abstrak Anda (di mana risiko bisnis

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berpengaruh signifikan), mengaitkannya dengan teori keuangan standar, konteks industri energi di Indonesia periode 2022–2024, serta dilengkapi dengan *body note* (format APA).

HASIL DAN PEMBAHASAN

The Effect of Business Risk on Debt Policy

Based on the results of hypothesis testing using panel data regression analysis with *Random Effects Model* (REM), it was found that business *risk* has a statistically significant influence on debt *policy* in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. These empirical findings indicate that the fluctuations in the level of volatility of operating profits experienced by energy companies in Indonesia are a very crucial determinant and are carefully considered by management in formulating the proportion of debt use in their capital structure.

Theoretically, the results of this study provide strong empirical support for *the Trade-off Theory* thinking. This theory states that in determining the optimal capital structure, companies must balance the tax benefits from the use of debt (*tax shield*) with the costs arising from the potential *financial distress cost* (Kraus & Litzenberger, 1973). Companies engaged in the energy sector naturally have high business risks due to the characteristics of their capital-intensive operations, have long project cycles, and are highly sensitive to macroeconomic shocks (Brigham & Houston, 2019). As a company's business risk increases—which is reflected by earnings before interest and tax (*EBIT)* instability—the probability of default on debt securities will also increase. Therefore, in order to minimize the risk of bankruptcy, rational management of energy companies will respond to increased business risks by reducing dependence on financing derived from debt (Sudana, 2019).

The unique context of the observation period (2022–2024) provides a logical explanation for why business risk is a very dominant factor in influencing the debt policy of the energy sector in Indonesia. During this span of the year, the global and domestic energy markets experienced extreme commodity price volatility due to international geopolitical tensions and the dynamics of post-pandemic economic recovery (Ministry of Energy and Mineral Resources, 2023). These volatile fluctuations in coal, petroleum, and natural gas prices directly distort the stability of energy companies' operating income on the IDX. According to Haron (2018), companies with high revenue volatility face cash *inflow* uncertainty. In this uncertain situation, adding new debt is a very risky step because the company is still required to pay fixed interest expense and principal debt to creditors regardless of the condition of its operating profit.

In addition to market factors, the strict environmental regulatory intervention in Indonesia throughout 2022 to 2024 has also boosted the sector's business risks, which in turn suppresses corporate debt policies. The enactment of Presidential Regulation Number 112 of 2022 concerning the acceleration of renewable energy development and the plan for the early shutdown of coal-based steam power plants (PLTU) has increased *compliance costs* for conventional energy issuers (State Secretariat, 2022). This uncertainty regarding future operational sustainability increases the company's business risk profile in the eyes of financial institutions. In line with the view of *asymmetric information*, creditors or banks will become much more selective and apply strict credit requirements (*debt covenants*) and charge higher interest rates for companies with high operational risks (Myers & Majluf, 1984). This high cost *of debt* makes management limit the withdrawal of new debt.

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The results of this study are also consistent with several previous studies conducted by Nugraha and Sulastri (2021) and Ross et al. (2020) which found that a high level of business risk acts as a limiting brake for companies in exploiting *leverage*. Financial flexibility is a top priority for management; When core business operations are in turmoil, maintaining low debt levels is the best strategy to maintain the company's resilience. Overall, this test proves that for the energy industry in Indonesia in the 2022–2024 period, debt policy is not just a tool to obtain quick capital, but a strategic instrument whose use is highly controlled by the size of the business risks faced by the company.

The Effect of Corporate Growth on Debt Policy

The Effect of Corporate Growth on Debt Policy

Based on the results of the panel data regression analysis that has been carried out, it was found that corporate growth **does not have a significant influence** on debt *policy* in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. These empirical findings indicate that the high or low growth rate of assets and investment opportunities owned by energy companies in Indonesia is not the main determinant or driving factor for management in making decisions to increase or decrease the company's debt portion.

The results of this study provide an interesting portrait because it shows the inconsistency with the basic assumptions *of Pecking Order Theory*. According to Myers and Majluf (1984), this theory predicts that companies with high growth rates will tend to increase the use of external debt if the accumulation of internal funds (retained earnings) is no longer sufficient to fund the expansion project. However, the insignificance of the results in this study indicates that energy companies on the IDX during the 2022–2024 period are very conservative. Although companies have great growth opportunities or expansion demands, they do not necessarily exploit debt as a primary source of funding. Management seems to prefer to exercise restraint or look for other funding alternatives that do not increase the company's fixed burden.

This condition can be explained through the lens of the characteristics of the energy industry in Indonesia, which is experiencing a major transition period throughout 2022–2024. As stipulated in Presidential Regulation Number 112 of 2022 regarding the acceleration of renewable energy development, this industry is required to start switching from fossil-based projects to clean energy (State Secretariat, 2022). The growth of assets or investments in this period is largely not a conventional business expansion that produces quick cash flow (*quick-yielding projects*), but a capital-intensive long-term investment with a slow rate of return (*long-gestation periods*). According to Brigham and Houston (2019), financing long-term projects that are uncertain to generate short-term cash flow using debt (which has periodic fixed interest obligations) is very dangerous for a company's liquidity. Therefore, growth potential does not automatically improve debt policy.

In addition, the lack of an effect on corporate growth on debt policy also reflects restrictions on the supply of *funding (credit rationing*) by financial institutions. During the 2022–2024 period, the Financial Services Authority (OJK) began to aggressively implement sustainable finance principles through the Indonesian Green Taxonomy (Financial Services Authority, 2022). This makes national and international banks very selective in distributing working capital loans or new investment loans to energy companies, especially those that are

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still based on fossil commodities such as coal. As a result, even if an energy company shows operational growth or intends to expand, they face a thick wall in the form of tightening environmental sanctions rules from creditors, so that their access to new debt becomes limited (Kartika, 2020).

These findings are also in line with *the Agency Theory* developed by Jensen and Meckling (1976). In agency theory, companies with high growth opportunities tend to avoid debt levels that are too tight to prevent the phenomenon of *underinvestment problems*, where management is forced to miss out on profitable projects because existing cash flows are exhausted to pay debt commitments to creditors. This insignificant finding is also supported by empirical research from Wijaya and Utama (2022) which states that in industrial sectors that are full of regulation and high capital, asset growth is not a debt trigger because management prioritizes financial *flexibility* and long-term capital resilience over aggressive growth financed by leverage.

CONCLUSION

Based on the results of data analysis and discussions that have been carried out regarding debt policies in energy sector companies listed on the Indonesia Stock Exchange (IDX) for the 2022–2024 period, two main conclusions can be drawn. First, business risk has been shown to have a statistically significant influence on corporate debt policy. This indicates that the management of energy companies takes into account fluctuations in operating profits and business uncertainty in formulating the proportion of their funding. Second, the company's growth was found to have no significant influence on debt policy. These findings confirm that during the 2022–2024 period, the decision to increase debt to the energy industry in Indonesia was driven more by the calculation of strict operational risk management than by the use of expansion opportunities or asset growth alone.

This research provides important implications for the development of the corporate financial management literature, particularly in strengthening the relevance of *Trade-off Theory*. The finding that business risk has a significant effect on debt policy supports the premise of this theory, where companies operating in high-volatility sectors tend to be very cautious in increasing *leverage* to avoid *financial distress costs*. On the other hand, the insignificance of the influence of company growth shows that there is an anomaly to *the Pecking Order Theory* in the context of Indonesia's energy sector in the observation period. This indicates that growth potential does not necessarily make companies aggressively seek debt, especially when macroeconomic conditions and sectoral regulations are uncertain.

The practical implications of this study are aimed at the management of energy companies and investors in the capital market. For management, these results confirm the importance of maintaining operational cash flow stability, as the ability to control business risks is the main key in maintaining the company's capacity to access external financing. Management should not be rash in using debt just to pursue quantitative growth targets without mitigating its operational risks first. For investors and creditors, the study signals that in assessing the financial health of energy companies, an evaluation of business risk profiles and compliance with new regulations is much more crucial than simply looking at the growth rate of a company's assets.

Based on the above conclusions and implications, several applicable suggestions for

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stakeholders are proposed. Energy company management is advised to implement a more comprehensive risk management strategy, such as *hedging* commodity price fluctuations to reduce business risk volatility. In addition, given the strict regulations regarding the green energy transition in Indonesia, management must start diversifying funding sources, for example through the use of green financial instruments (*green bonds* or *sustainability-linked loans*) that offer a more efficient cost structure. For regulators (Ministry of Energy and Mineral Resources and OJK), it is hoped that they can continue to provide financial incentives or regulatory easement for energy companies that are transitioning, so that the burden of compliance costs does not worsen their business risks.

Finally, this research has several limitations that can be used as a reference for the development of further research. Since the panel data regression model in this study still has relatively low explanatory ability (*R-squared*) and uses only one financial proxy for business risk, the next researcher is advised to expand the independent variables by including external factors such as domestic interest rates, exchange rate fluctuations, or green regulatory intensity indexes. In addition, given that the 2022–2024 research period is relatively short and the energy industry has very heterogeneous subsectors (such as coal vs. renewable energy), future research should extend the observation year range and conduct cluster-by-subsector analyses to produce more specific and accurately generalized conclusions.

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