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DETERMINANTS OF DIVIDEND POLICY

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ABSTRACT

This study aims to analyze the influence of Free Cash Flow, Profitability, Liquidity and Leverage on Dividend Policy. This research was conducted at manufacturing companies listed on the Indonesian Stock Exchange in the Consumer Goods Industry sector in the 2015-2018 period. The data analysis technique used multiple linear regression analysis. This study used purposive sampling technique to obtain samples according to the specified criteria. The number of companies based on the criteria in the study was 13 companies. The results of this research are free cash flow, liquidity, and leverage have no significant effect on dividend policy, while profitability has a significant positive effect on dividend policy.

Keywords: Free Cash Flow, Profitability, Liquidity, and Leverage.

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INTRODUCTION

Dividend policy is a policy regarding profit sharing within the company, which needs to be considered and considered because in dividend policy it affects the value of the company is paying dividends to shareholders, the company may not be able to maintain sufficient funds to finance its growth in the future. Therefore it is increasingly the greater the retained earnings, the smaller the profit distributed to shareholders, which causes problems faced in allocating profits. Shareholders have the main objective to improve their welfare, namely expecting returns in the form of dividends and *capital gains*. Community et al. (2012) revealed. Puteri's research (2012) revealed that on the other hand, the company also expects continuous growth to maintain its survival. When the company earns a profit, the company can use that profit to be reinvested into retained earnings or distributed to shareholders in the form of dividends.

The manager as an agent entrusted by shareholders to make decisions that maximize shareholder wealth has created a potential conflict on the interests of each party called the conflict the agency (*agency conflict*) in the context of agency theory (*agency theory*) Latiefasari and Diana (2011). Agency conflicts arise as a result of the separation between ownership and control of the company. There is a conflict of interest between the shareholder (*principal*) and the management (*agent*) in the dividend distribution. According to Arilaha (2009), agency theory states that in company management, management is more concerned with themselves than shareholders. Puteri (2012)

revealed that based on the agency theory, conflicts caused by the separation between ownership and management functions are called agency conflicts.

Conflicts of interest do not only occur between shareholders and managers; conflicts of interest can occur between shareholders and creditors. Latiefasari and Diana (2011). In general, shareholders want projects with a high *expected return*. Unfortunately, in the real world, investments that provide high *returns* have high risk. The high risk will cause creditors to share the risk. The aim of investors to invest their funds in a company is to maximize *returns* without neglecting the risks they will face. *This return* can be in the form of *capital gains* or dividends for investment in debt securities. *This return* is an indicator to increase the *wealth* of investors, including shareholders. Kadir (2010) Dividend is one form of increasing shareholder *wealth.* Investors get a higher return on their investment from time to time. Therefore, it has an interest in being able to predict how much the return on their investment will be.

Dividend policy involves two interested parties and contradicting each other, namely the interests of shareholders who expect dividends and the interests of the company on retained earnings, depending on the size paid by the dividend policy. Investors prefer to pay higher shares because paying higher can provide high dividends. So that it can attract investors to invest in the company. Research on *free cash flow* with dividend policy in Indonesia conducted by Nurdiana (2007) and Yunita (2008) found that *free cash flow* has a significant effect on dividend policy. Meanwhile, the research results of Endang and Minaya (2003) found that *free cash flow* did not have a significant effect on Hamzah's dividend policy (2020).

Research on dividend policy with *profitability*, *liquidity* and debt conducted by Oktorina (2005) shows that *profitability* and *liquidity* have a positive relationship with dividend policy and the level of *leverage* has a negative relationship with dividend policy. Community et al. (2012). According to Suharli (2007), *profitability* has a positive correlation with Puteri's dividend policy (2012). Prihantoro (2003) states that the debt and equity ratio (DER) has a significant negative relationship with DPR Welas and Nugroho (2019). Mahadwartha (2003) states that debt policy affects dividend policy with a negative relationship. Ismiyati and Hanafi found that the debt variable has a negative and significant relationship with the DPR. Meanwhile, Hamzah's research (2020) found that debt policy does not affect dividend policy. Welas and Nugroho (2019) show that *Return On Investments* and *Debt to Total Assets* do not have a significant effect on cash dividends. Yunita (2008) found that *profitability* is measured by *the return on investment* (ROI). And *Debt to Equity* (DER) has no effect on the *dividend payout ratio* (DPR).

This research is the development of research conducted by Princess (2012), and Yunita (2008). Research by Puteri (2012) did not use the *free cash flow* variable to affect the *dividend payout ratio.* Meanwhile, research conducted by Yunita (2008) did not use the *liquidity* variable to influence the *dividend payout ratio.* Puteri's research (2012) looked at manufacturing companies that pay dividends consecutively during the observation period. Yunita's (2008) research only looked at companies that distributed dividends from 2004 to 2005, while the observation period of this study was from 2004 to 2007.

METHODS

This research uses descriptive quantitative research methods. This study analyzes and tests the value theory of the research variables using statistical methods to determine the relationship between these variables—internal data used in the form of financial reports, *historical data* and company summaries. External data sources come from previous research in the form of journals and theses with the variables *free cash flow,* profitability, liquidity, and *leverage*. The population of this study is a manufacturing company in the consumer goods industry for the period 201 5 to 2018. Sampling using *purposive sampling* so that the total sample size is 52 company

financial reports. The determination of the sample of this study considers the following criteria: 1) The number of manufacturing companies in the consumer goods industry sector listed on the IDX in the period 201 5 -2018, 2) Companies that do not publish complete financial reports and do not end on December 31, 3) Companies that do not receive positive profits, and 4) Companies that do not pay dividends during the research year.

RESULTS AND DISCUSSION

Data normality testing uses the P-Plot test with the criteria for residual data to be said to be normally distributed if the data or points spread around the diagonal line and follow the diagonal direction, on the other hand, the data is said to be not normally distributed if the data or points spread far from the direction of the line or do not follow the diagonal. In this study, multicollinearity test measured with the fulfilment of the criteria if nil ai VIF is not more than ten, and the value of *tolerance* is more than 0.1. Multicollinearity test results VIF ≤ 10 for all independent variables, also with a *tolerance value* ≥ 0.01. Thus it can be concluded that there is multicollinearity between the independent variables in the regression model. Results testing indicate that the value *tolerance* FCF is 0.9 63, the value of *tolerance* ROI is .914, the value of *tolerance* CR is 0.406, and the value of *tolerance* DER is 0, 408. VIF FCF is 1, 039, VIF ROI is 1.059, VIF CR is 2,464, and VIF DER is 2,451. All variables used include FCF (*free cash flow),* ROI (profitability), CR (liquidity) and DER (*leverage*), each variable at *tolerance* above 0.100 and VIF value below 10,000 means that the four variables do not occur multicollinearity, which means that all of these variables can be used as mutually independent variables. The results of the heteroscedasticity test on the sample of companies showed the sig value. 0, 000 or greater than 0.05, so it is decided that heteroscedasticity occurs or the data is said to have unequal variants. So that the model is not free from heteroscedasticity symptoms. This study uses the *Durbin Watson* test criteria as an autocorrelation test method. The results of the autocorrelation test using the *Durbin Watson* test showed that the *Durbin Watson* value was 2.164. Testing criteria autocorrelation in *Durbin Watson* value of 2.164 lies between 1, 7223 up to 2.2777 which means that the model is not clicking experienced symptoms of autocorrelation or do not have a relationship (correlation) with other observations that are arranged according to time series.

Table 1. Data Analysis

Model	Unstandardized Coefficients	
	B	Std. Error
(Constant)	.438	.246
FCF	.002	.007
ROI	.176	.178
CR	.028	.033
DER	.055	.113

Source: SPSS, Data processed in 2020

Multiple linear regression analysis is used in order to determine the formulation of the effect of the independent variable on the dependent variable. Based on the results of the analysis, the formulation of the multiple linear regression analysis models in this study is as follows: $Y = 0.438 - (0.0 02) X_1 + (0 .176) X_2 + (0 .28) X_3 + (0 .055) X_4$

The constant value in the regression equation above is 0.438, which means that if all the independent variables have a value of 0, the dividend policy value is 0.438. Variable coefficient value FCF (*free cash flow*) in the regression equation at 0.002 which means that if another independent variable the value fixed and increased 1 %, then k OLICY dividend will experience an enhancement of 0, 002. The variable coefficient value of ROI (profitability) of 0.176, which means that if another independent variable the value fixed and increased 1 %, then k OLICY

dividend will experience an enhancement at 0.176. Coefficient of CR (liquidity) of 0.028, which means that if another independent variable the value fixed and increased 1 %, then k OLICY dividend will experience an enhancement at 0.028. Coefficient of DER (*leverage*) amounted to 0.055, which means that if another independent variable the value fixed and increased 1 %, then k OLICY dividend will experience an enhancement at 0.055.

Based on the t-test results, *free cash flow* has at the value of 0.256, with a significant value of 0.799. Meanwhile, the t table value obtained by looking at the t table is 2.00665. The significant value is greater than the probability value α (0.05) or 0.799> 0.05, which means insignificant, then $H_{1\ is}$ rejected, and $H_{0\ is}$ accepted. So it can be concluded that *free cash flow* no significant effect on dividend policy. Based on the results of the t-test, it shows that the t value of the variable is 0.091, with a significant value of 0.027. At the same time, the t table value is obtained by looking at the t table, which is equal to 2.00665. The significant value is smaller than the probability value α (0.05) or 0.027 <0.05, which means significant, then $H_{2\ is}$ accepted, and $H_{0\ is}$ rejected. So we can conclude that the profitability of a significant effect on policy dividend. Based on the results of the t-test, *free cash flow w* has at the value of 0.853, with a significant value of 0.398. Meanwhile, the t table value obtained by looking at the t table is 2.00665. The significant value is greater than the probability value α (0.05) or 0.398> 0.05, which means it is not significant, then $H_{3\ is}$ rejected, and $H_{0\ is}$ accepted. So it can be concluded that liquidity has no significant effect on dividend policy. Based on the results of the t-test, *leverage* has a value of t count of 0.481, with a significant value of 0.632. At the same time, the t table value is obtained by looking at the t table, which is equal to 2.00665. The significant value is greater than the probability value α (0.05) or 0.632> 0.05, which means insignificant, then $H_{4\ is}$ rejected, and $H_{0\ is}$ accepted. So it can be concluded that the *leverage* is not taken effect significantly to Policy dividend. The coefficient of determination test aims to find out how much the ability of the model to explain independent variation to dependent variation. Keofisien test of determination using the value of *R square* (R^2). The test results on the value of the coefficient of determination *R square* (R^2) of 0.034 or 34%. This value indicates that *free cash flow,* profitability, liquidity, and *leverage* affect dividend policy by 34 %.

CONCLUSION

The results of this study can be concluded as follows: *free cash flow has* no effect on dividend policy, profitability ratio has no effect on dividend policy, liquidity ratio has no effect on dividend policy, and *leverage* ratio has no effect on dividend policy. For suggestion, based on the results of the research and the conclusions that have been obtained, the researchers' suggestions are as follows: 1) it is necessary to conduct research on dividend policy using operational cash flow 2) For investors, it is recommended to first analyze the company's performance in the past several periods to find out how the company operates before investing.

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