

**THE INFLUENCE OF FREE CASH FLOW AND
CAPITAL STRUCTURE
ON DIVIDEND POLICY
(Empirical Study on Manufacturing Companies listed on
the Indonesia Stock Exchange 2016-2020)**

Oktri Laldi, Siti Hanah

Accounting Department Pamulang University
Email: oktri04@gmail.com, titi.hanah@gmail.com

ABSTRACT

This study aims to analyze and provide empirical evidence free cash flow and capital structure on the dividend policy response. This type of research is quantitative descriptive using secondary data taken from the IDX website, company website, and Idnfinancials.com. The population in this study manufacturing companies listed on the Indonesia Stock Exchange in period 2016-2020. The sample selection procedure in this study is using purposive sampling method, only 64 company data that meet the criteria. The data analysis technique used in multiple linear regression analysis using Eviews 9. The result of this study indicate that simultaneously free cash flow and capital structure have no effect on dividend policy. Meanwhile, partially free cash flow has a significant effect on dividend police and capital structure has no effect an dividend policy

Keywords: Free Cash Flow, Capital Structure, Dividend Policy

1. INTRODUCTION

Companies listed on the Indonesia Stock Exchange (IDX) are increasing in number. And also showed more and more stock transactions that occurred on the Indonesia Stock Exchange (IDX). Investors will want a higher rate of return than the sacrifices that have been spent to get the investment. Therefore dividends become one of the considerations for investors in a company to find a rate of return on investment. On the other hand, the company also expects growth for the company's survival. In this section explained that dividends are very important for a stakeholder and also investors to be able to cooperate with the company Jayati & Cahyonowati (2014).

In a company, investment activity is an activity that is faced with various risks and uncertainties that are often difficult for investors to predict. To reduce the possibility of risks and uncertainties that will occur, investors need a variety of information, both information obtained from the company's performance and other relevant information such as economic and political conditions in a country. Information obtained from the company is usually based on the company's performance reflected in the financial statements. In accordance with financial accounting standards (1999) which requires every company (especially public companies) to present financial statements, both interim / quarter (unaudited) financial statements and annual financial statements (audited). Based on financial statements, investors can find out the company's performance in its ability to generate profitability and the magnitude of dividend per share.

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

The main purpose of investors to invest their funds into the company is to obtain income or the level of return on investments in the form of dividend yield and income from the difference in the selling price of shares against their purchase price (capital gain). Dividends are distributions in the form of cash, other assets, letters or other evidence stating the company's debt to shareholders as a proportion of the number of shares owned by the owner. According to Saxena in Dewi (2016) the issue of dividends is very important for various reasons, including: first, the company uses dividends as a way to show outsiders or potential investors with respect to the stability and growth prospects of the company in the future. Second, dividends play an important role in the company's capital structure.

A company has perfect market value and capital markets, rational investors have strong assumptions about the dividend policy theory. At the established stage the company is in the last four centuries which makes the main payment method in the form of dividends. The most popular and efficient method of distributing cash to investors and shareholders is dividends. Regarding parties who have different levels of interest, companies must take very important decisions in dividend policy. The funding policy can be directly linked to the company's dividend policy, as dividends are determined by retained earnings. If the company's retained earnings are high, then the dividends paid will be even greater According to Yusra & Herman (2018).

According to Sofyaningsih and Hardiningsih (2011: 142), the dividend policy relates to the policy regarding how much profit the company earns will be distributed to shareholders. Retained earnings are one of the most important sources of funds to finance a company's growth, but a large flow of money flowing into the hands of shareholders can form dividends.

The greater the nominal cash flow per share of a company, the greater the dividend payments rate. This can happen because companies that have a larger cash flow per share figure tend to indicate that the company has a larger company size, so the likelihood for dividend payments will be greater. Research conducted by Efni (2013), said that free cash flow has a positive effect on dividend policy. The greater the free cash flow, the dividend policy will get pressure from shareholders to provide dividends.

The company's capital structure is projected by Debt to Equity Ratio (DER), where the Debt to Equity Ratio is the ratio used to measure the level of leverage (use of debt) to the total shareholder equity owned by the company According to Puspita (2009). The larger the DER ratio indicates the greater its liability and the lower the ratio will indicate the higher the company's ability to meet its obligations. Nuhu et al. (2014), Manneh and Kamal (2015), Ardestani et al. (2015), Tahir and Muhammad (2016) and Sulystiowati et al. (2013) stated that capital structure negatively affects dividend policy.

Manufacturing is a branch of industry that applies equipment and a medium of process for the transformation of raw materials into finished goods for sale. This effort involves all the processes between those needed for the production and integration of components of a product. Manufacturing Company is a company that processes raw materials into semi-finished goods (to be processed to the next stage), or process raw materials into finished products. According to Simanjutak (2011) the manufacturing sector is the largest sector compared to other sectors in the IDX. Therefore, investment in the manufacturing sector is a promising investment in Indonesia.

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

Problem Formulation

Based on the background of the problems that have been outlined, the formulation of the problems in this study is as follows:

1. Does free cash flow and Capital Structure affect dividend policy?
2. Does free cash flow affect dividend policy?
3. Does the capital structure affect dividend policy?

Research objectives

Related to existing problems, the goals to be achieved in this study are:

1. To know and provide empirical evidence of the influence of free cash flow and capital structure on dividend policy.
2. To find out and provide empirical evidence of the influence of free cash flow on dividend policy.
3. To know and provide empirical evidence of the influence of capital structure on dividend policy.

Benefits of Research

Practical Benefits

1. For Further Researchers, the results of this study are expected to add insight and knowledge of the author, strengthen previous research and can contribute to the development of literature and research in the field of accounting.
2. For Beloved Campus, this research is expected to contribute to adding information and additional knowledge for all parties at Pamulang University.

Theoretical Benefits

1. For Manufacturing Companies, the results of this study can provide understanding to managers in order to make good financial policies, especially debt policies and corporate dividend policies that are expected to be considered in an effort to reduce agency conflicts.
2. For Investors, the results of this study are able to provide information that can be used as investor consideration related to factors considered by the company in determining dividend policies that will affect the prosperity of shareholders.

2. LITERATURE REVIEW

Agency Theory

Agency theory is a concept that explains the contractual relationship between principal and agent. Principal is the party that hires agents to perform tasks for the benefit of the principal, while the agent is the party that carries out the interests of the principal in Scott (2015). Agency relationships can cause problems between managers and shareholders. Conflict that often occurs is due to human economic creatures who have a basic nature of selfishness. Shareholders and managers want their goals met. The result is that there is a conflict of interest. Shareholders want a greater and faster return on the investments they invest, while managers want their interests accommodated by the provision of compensation or incentives that are as much as possible for their performance in running the company.

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

The agency theory is based on three assumptions, namely;

- 1) assumptions about human nature, suggest that humans have a tendency to be selfish (self interest), have limited rationality (bounded rationality), and do not like risk (risk aversion).
- 2) assumptions about organization, is the existence of conflicts between members of the organization, efficient as productivity criteria and asymmetric information between company owners and management.
- 3) Assumptions about information, explaining that information is viewed as a commodity that can be traded. According to Eisenhardt (1989)

Factors Affecting Dividend Policy

The higher the dividend distributed to shareholders will reduce the company's opportunity to get an internal source of funds in order to hold a reinvestment. This in the long run will decrease the value of the company, because dividend growth will decrease, therefore the company's management must determine the optimal dividend policy in order to maintain the value of the company. To determine the dividend policy managers need to determine and consider several factors that exist in the company, can be seen from the performance of a company through its financial ratio According to Yosephine & Tjun (2016). In this study used several factors of dividend policy, namely free cash flow and capital structure.

Free Cash Flow

Free cash flow is cash flow that is truly available to be distributed to all investors after the company has placed all of its investments in fixed assets, new products, and working capital needed to sustain ongoing operations in Arfan and Maywindlan (2013).

According to Brigham & Daves (2003). defines free cash flow as cash flow resulting from an ongoing business operation and available for redistribute to shareholders. The cash distribution is not considered to affect the company's current growth rate.

Capital Structure

The purpose of the capital structure is to combine the sources of funding used by the company to maximize the value of the company by maximizing the stock price, minimizing the cost of capital and balancing between risk and the rate of return. The capital structure (use of debt) is a signal conveyed by the manager to the market. If the manager has confidence that the company's prospects are good, and therefore wants the stock price to rise, he wants to communicate it to investors. Managers can use more debt, as a more credible signal. Companies that increase debt can be viewed as companies that are confident in the company's future prospects. Investors are expected to pick up on those signals, a signal that the company has good prospects. Thus debt is a sign or positive signal According to Ross (1977).

Previous Research

Research conducted by Setyawan, B. (2019). Namely the Influence of Free Cash Flow, Profitability and Liquidity On The Value of The Company With Dividend Policy As An Intervening Variable., the results of the study showed free cash flow did not have a significant influence on dividend policy

Research conducted by Ita tLopolusi, I. (2013) is an analysis of factors that affect the dividend policy of the manufacturing sector listed on the indonesia stock exchange for

the period 2007-201. The results showed that free cash flow had no significant negative effect on variable dividend policy changes.

Research conducted by Prasetyo, D. A., & Suryono, B. (2016). that is The effect of profitability, free cash flow, investment opportunity set against dividend payout ratio. The results showed that free cash flow (fcf) had a positive effect on the dividend payout ratio (dpr), return on asset positively affect the dividend payout ratio.

Framework of Thought

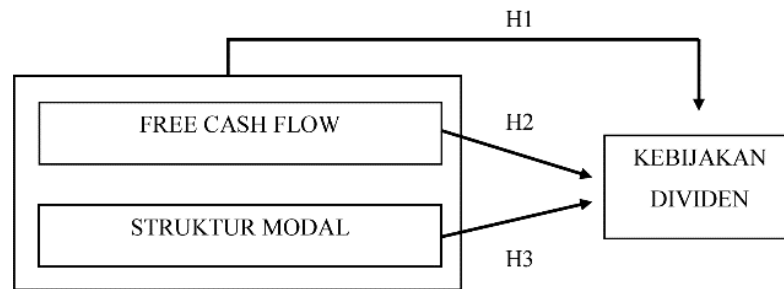


Figure 1.
Framework of Thought

In Figure 1 the frame of mind can be spelled out as follows in this study conducted by researchers have research models and hypotheses while among the free and bound variables that have been determined in the title of the study conducted. In the initial hypothesis shown in the figure is the effect between variables X1 and X2 on variable Y dividend policy given the symbol H1, the second hypothesis of the influence between variable X1 on variable Y given the symbol H2, the third hypothesis states the influence between variable X2 to variable Y given symbol H3.

The Effect of Free Cash Flow and Capital Structure on Dividend Policy

The main purpose of investors in investing into the company is to find returns in the form of dividends and capital gains, namely income from the difference in the selling price of shares to their purchase price, but dividend policies often have non-positive consequences among related parties in the company, namely the owner of the company as the principal and management as an agent. The negative consequences that arise are at the time of dividend distribution by the company to its shareholders. The owner of the company or principal wants to give a high amount of dividends while the company's management or agent wants to give a low amount of dividends. Based on the above description formulated the following hypothesis:

H1: Free Cash Flow and Capital Structure affect Dividend Policy

The Effect of Free Cash Flow on Dividend Policy

Free Cash Flow is cash available in companies that are free from taxes and other costs in the company. Rosdini (2009) mentioned that the portion of cash that is actually available to shareholders will be reflected in free cash flow. The greater the free cash flow available, the dividends that will be distributed will also be greater. The opposite opinion expressed by Putri Awalina (2016) shows that "free cash flow indicates a negative direction towards dividend policy, i.e. the higher the value of free cash flow, the lower the dividend distributed, the negative direction is because with the negative free cash flow value the company still distributes dividends and a company that produces high cash flow

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

does not always report the amount of cash in its balance sheet is also high". Based on the above description can be formulated the following hypothesis:

H2: Free Cash Flow affects dividend policy

The Effect of Capital Structure on Dividend Policy

Research by Haider (2012), Arif and Akbar (2013), as well as Uttari, I. A. S., & Yadnya, I. P. (2018) showed that capital structure had a significant negative effect on dividend policy. Based on the above description formulated the third hypothesis as follows:

H3: Capital Structure affects dividend policy

3. RESEARCH METHODS

Type of research

The research used in this study is descriptive research with a quantitative approach. The study aims to test statistically and explain existing phenomena by using numbers to determine the characteristics of individuals or groups. Quantitative descriptive research is obtained from a sample of the study population, analyzed according to the statistical methods used. This research will examine the Effect of Free Cash Flow and Capital Structure on the influence of Dividend Policy.

Location and Time of Research

The research was conducted by means of documentation, namely taking data on the Indonesia Stock Exchange (IDX) contained on the official website of the Indonesia Stock Exchange (www.idx.co.id). The data taken is the annual report of manufacturing companies in 2016-2020. The study was conducted from December 2020 until completion.

Operational Research Variables

Dependent Variables

Variables that are affected or become a result due to the presence of independent variables. In this study the dependent variable is the dividend policy (Y). According to Sugiyono (2013:39). Dividend policy is projected with Dividend payout Ratio (DPR) which is a comparison between dividends paid with net income According to Brigham and Houtson (2006).

$$DPR = \text{Stock per lembar dividend} / \text{Net income per share}$$

Independent Variables

Independent variables are often referred to as stimulus variables, predictors, antecedents. In Indonesian is often referred to as a free variable. Free variables are variables that affect or are the cause of their change or the emergence of dependent (bound) variables. The independent variables in the study are Free Cash Flow (X1) and Capital Structure (X2). According to Sugiyono (2014:39)

Free Cash Flow

Free Cash Flow in this study is measured by the net value of the increase / decrease in cash flow from the company's operating activities (Cash Flow from Operations) which is reduced by the purchase / investment of fixed assets in cash (Capital Expenditure). In Ade Dwi Suryani, (2015) quoted Penman writing the formula for free cash flow measurement as follows:

$$FCF = CFO - CFI$$

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

The free cash flow ratio is measured by dividing free cash flow by total assets in the same period with the aim to be more comparable for the companies sampled. Thus generating the following formula: $FCF = CFO - CFI / Total Assets$

Information:

FCF = Free Cash Flow

CFO = operating cash flow

CFI = investment cash flow

Capital Structure

The capital structure in this study is illustrated through the Debt to Equity Ratio (DER) expressed in percent (%) which is used to measure the level of leverage against the total shareholder equity owned by the company According to Puspita (2006).

$DER = Total Debt / Total Equity$

Population and Sample

Population is a generalization area consisting of: objects or subjects that have certain qualities and characteristics that are determined by the researcher to be studied and then drawn conclusions. The subject of this study is all manufacturing companies go public which is marked by the inclusion on the Indonesia Stock Exchange (IDX) with certain criteria. The object in the study was the financial statements of each company registered with the IDX in 2016-2020. According to Sugiyono (2018: 80).

A sample is part of the number and characteristics that the population has. So that the sample is part of the existing population, so for sampling must use a certain way based on existing considerations. The companies that sampled the study were manufacturing companies that went public registered with the IDX in 2016-2020. According to Sugiyono (2011:81)

Types and Sources of Data

Data is a description that can give an idea of a situation. The data obtained is then processed to provide answers to research problems such as those that have been formulated obtained from the official website of the Indonesia Stock Exchange in www.idx.co.id.

Data Collection Methods

The data collection method used in this study is documentation, which is based on financial statements published by the Indonesia Stock Exchange through the Indonesian Capital Market Directory (ICMD) and annual financial statements of each company during 2016-2020 obtained from the official website of the Indonesia Stock Exchange in www.idx.co.id.

Analytical Techniques

The analysis in this study will use Eviews Statistics 9. The following data analysis techniques used in this study include:

Selection of Panel Data Estimation Model

In this study, common effect, fixed effect and random effect methods can be used in panel data analysis techniques. But before that, tests must be carried out to determine the methods that are in accordance with the material in this study. Therefore, the Chow Test and Hausman Test will be used to determine the method to be used in Mahulete (2016).

PROCEEDING

Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”

Model Pooled (Common Effect)

The Common Effect model is the simplest model, because the method used in common effect is simply by combining time series and cross section data. The equation of this method can be formulated as follows Mahulete (2016):

$$Y_{it} = \alpha + \beta_j X_{it} + \epsilon_{it}$$

Fixed Effect Model

This method is used because of course every analysis method used has weaknesses. Likewise with the analysis of panel data that uses the common effect method. However, this can be overcome by using fixed effect methods.

In the fixed effect model, each individual is an unknown parameter and will be estimated using dummy variable techniques that can be formulated as follows Silalahi (2014):

$$Y_{it} = \alpha_i + \beta_j X_{it} + \sum^n \alpha_i D_i + \epsilon_{it}$$

Random Effect Model

In this Random Effect method the difference between individual characteristics and time is accommodated with errors of the model used. Considering that there are two components that contribute to the formation of errors, namely, then in this method it needs to be described into errors from individual components, errors for the time component and combined errors. The random effect equation can be formulated as follows Mahulete (2016).

$$Y_{it} = \alpha + \beta_j X_{it} + \epsilon_{it} ; \epsilon_{it} = u_i + v_t + W_{it}$$

2. RESULTS OF RESEARCH AND DISCUSSION

Overview of Research Objects

Description of Research Objects

The object of this research is an annual report with stock financial data on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2016-2020. The data used is secondary data in the form of annual financial statements that have been published through the Indonesia Stock Exchange website, namely www.idx.co.id and other official websites such as www.idnfinancials.com to obtain annual financial statement data of each company in 2016-2020.

Observation of samples in this study was done using purposive sampling techniques that are sampling based on certain criteria. The criteria used to select a sample in this study are companies that meet the following criteria:

Table 1.
Sample withdrawal criteria

No.	Criteria	Criteria Violation	Number of Companies
1	Number of Indonesian manufacturing companies listed on the IDX		193
2	Number of Indonesian manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020	(60)	133
3	Number of companies that present annual financial statements expressed	(18)	115

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

	in rupiah during the 2016-2020 research period in a row		
4	Number of companies that distributed dividends during 2016-2020 consecutively	(73)	42
5	The number of companies that have complete data related to the variables used in the study. And has a positive value for each variable	(29)	13
Number of samples used			13
Observation year			5
Number of outliers			1
Total data processed			64

Source: Secondary data processed 2021

Research Results

Descriptive Statistical Analysis

Descriptive statistics is a part of the science of statistics that only manages and presents data without making decisions. In other words, just look at the general picture of the data obtained. Descriptive tests of variables are presented to determine the mean value, standard deviation, minimum and maximum. Below are descriptive statistics of the variables used:

Table 2.
Descriptive Statistical Test Results

Date: 12/22/21
Time: 14:01
Sample: 2016 2020

	X1	X2	Y
Mean	0.140084	0.570691	0.578018
Median	0.117604	0.386194	0.481785
Maximum	0.412188	3.159024	2.248694
Minimum	0.012388	0.083299	0.011505
Std. Dev.	0.103172	0.654139	0.436232
Skewness	0.929250	2.669576	1.520802
Kurtosis	2.918694	9.789771	5.853297
Jarque-Bera	9.228362	198.9534	46.38042
Probability	0.009910	0.000000	0.000000
Sum	8.965407	36.52421	36.99316
Sum Sq. Dev.	0.670605	26.95760	11.98881
Observations	64	64	64

Source: secondary data processed through Eviews 9, 2021

Based on the results of output in the table above can be concluded:

1. N = Initial data 65 to 64 because the results are not normal and must be in outlier, after the data in Outlier to 64, meaning the amount of data obtained in this study is as many as 64 consisting of 13 companies manufacturing for five years from 2016 to 2020.

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

2. Free Cash Flow

The Free Cash Flow variable has a minimum value of 0.012388, namely at Nippon Indosari Corpindo Tbk, while the maximum value is 0.412188 by PT Hanjaya Mandala Sampoerna Tbk. The average cash holding value is 0.140084 and the standard deviation is 0.103172.

3. Capital Structure

The Capital Structure variable has a minimum value of 0.083299, namely in PT Industri Jamu and Farmasi Sido Tbk, while the maximum value is owned by PT Unilever Indonesia Tbk of 3.159024. The average value of the Capital Structure is 0.570691 and the standard deviation is 0.654139.

4. Dividend Policy

The Dividend Policy Variable has a minimum value of 0.011505, namely in Ultrajaya Milk Industry and Trading Company Tbk, while the maximum value is owned by PT Indocement Tunggal Prakasa Tbk of 2.248694. The average value of the Dividend Policy is 0.578018 and the standard deviation is 0.436232.

The selection of the most appropriate model for managing panel data used in the study was based on statistical considerations. This needs to be done to obtain proper and efficient guesses. Consideration of the statistics intended to go through testing.

Chow Test

Table 3.
Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.982722	(12,49)	0.0000
Cross-section Chi-square	63.805995	12	0.0000

Sumber : Output Eviews 9

The results of the Chow Test showed that the probability value of the Cross section was 0.0000 or < 0.05 , hence H_0 was rejected. Therefore the model chosen is Fixed Effect. Next will be regression with the Random Effect model, to determine which model is most appropriate.

Hausman Test

Tael 4.
Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.180731	2	0.9136

Sumber : Output Eviews 9

Based on the results of the Hausman Test above, it can be seen from the Random Cross-Section Probability value of 0.9136 or > 0.05 , this means that H0 is accepted and H1 is rejected. The selected model is the Random Effect Model (REM).

Lagrange Multiplier Test

Table 5.
Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	37.24709 (0.0000)	0.430249 (0.5119)	37.67734 (0.0000)
Honda	6.103039 (0.0000)	-0.655934 --	3.851685 (0.0001)
King-Wu	6.103039 (0.0000)	-0.655934 --	2.483464 (0.0065)
Standardized Honda	6.838658 (0.0000)	-0.412313 --	1.270841 (0.1019)
Standardized King-Wu	6.838658 (0.0000)	-0.412313 --	0.050864 (0.4797)
Gourieriou, et al.*	--	--	37.24709 (< 0.01)

Sumber : Output Eviews 9

Based on the lagrange multiplier test above, the pagan Both-Breusch value shows a value of 0.0000 which means smaller than $\alpha (0.05)$, so the H0 is rejected and the selected model is a random effect model.

Classic Assumption Test

1. Normality Test

The normality test is used to determine whether the data used in the regression model has been distributed normally or not. In testing a hypothesis, the data must be distributed normally. If the probability > a significance value of 0.05, then the data is already distributed normally.

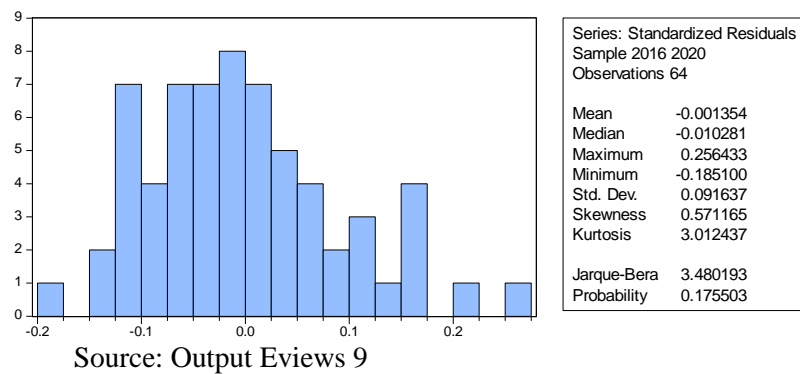


Figure 2. Normalita Test Results

2. Multicollinearity Test

The Multicollinearity test aims to find out if there is a high correlation between the free variables in the model used. If the coefficient value between variables < 0.9 then there is no linear relationship, or no multicollinearity. Here are the results of the multicollinearity test:

Table 6.
Multicollinearity Test Results

	X1	X2
X1	1.000000	0.415213
X2	0.415213	1.000000

Sumber : Output Eviews 9

3. Heteroskedasticity Test

The Heteroskedasticity test is a test that assesses whether there are variant and residual inequalities for all observations on a linear regression model. Heteroskedasticity testing in this study was conducted using the white test. The model is said to be heteroskedasticity if the significance value is less than 0.05, and if the significance value is above 0.05 then there is no heteroskedasticity.

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

Table 7.
Heteroskedasticity Test Results

Heteroskedasticity Test: White

F-statistic	0.831437	Prob. F(5,59)	0.5326
Obs*R-squared	4.278484	Prob. Chi-Square(5)	0.5101
Scaled explained SS	15.94348	Prob. Chi-Square(5)	0.0070

Sumber : Output Eviews 9

4. Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between a nuisance error in the t period and a nuisance error in the (previous) t-1 period.

Table 8.
Autocorrelation Test Results

Weighted Statistics			
R-squared	0.079645	Mean dependent var	0.202248
Adjusted R-squared	0.049469	S.D. dependent var	0.286758
S.E. of regression	0.278833	Sum squared resid	4.742601
F-statistic	2.639384	Durbin-Watson stat	1.904563
Prob(F-statistic)	0.079550		
Unweighted Statistics			
R-squared	0.109063	Mean dependent var	0.578018
Sum squared resid	10.68128	Durbin-Watson stat	0.845646

Sumber : Output Eviews 9

Hypothesis Test

Test T (Partial)

The t statistical test is used to show how much influence one independent variable (Free Cash Flow and Capital Structure) individually influences in explaining the variation of dependent variables (Dividend Policy). The basis of decision making is as follows:

1. If the sig value < 0.05 or t calculates the $> t$ of the table, it can be concluded that there is an independent variable effect on the dependent variable.
2. If the sig value > 0.05 or t calculates the $< t$ of the table, it can be concluded that there is no effect of independent variables on dependent variables.

Table 9.
T (Partial) Test Results

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.407714	0.131641	3.097163	0.0030
X1	1.149054	0.528342	2.174832	0.0335
X2	0.019731	0.087637	0.225143	0.8226

Sumber : Output Eviews 9

With observations (n = 64), the number of independent and dependent variables (k = 3), then the degree of freedom (df) = n-k = 64-3 = 61, where the level of significance is $\alpha = 0.05$. So the T table is as large as in this test, the data used T table is 1.67022 and the significant level of α used is 0.05.

Test Results F (Simultaneous)

Table 10. Test Results F (Simultaneous)

R-squared	0.079645	Mean dependent var	0.202248
Adjusted R-squared	0.049469	S.D. dependent var	0.286758
S.E. of regression	0.278833	Sum squared resid	4.742601
F-statistic	2.639384	Durbin-Watson stat	1.904563
Prob(F-statistic)	0.079550		

Sumber : Output Eviews 9

Based on the results of the statistical test output F (ANOVA test) shown in table 4.12 obtained by 2.639384 with a significant value of 0.079550. F table can be seen in statistical table F at a significant rate of 0.05 with df 1 (k-1) = 2 and df 2 = n-k or 64-3 = 61 (n is the amount of data and k is the number of variables), then obtained results for F tables of 3.15 and F calculations of 1 2.639384 so F calculates > F table (2.639384 < 3.15) and significant 0.05 (0.079550 > 0.05), based on the basis of such decision making, H0 is accepted and H1 is rejected, namely Free Cash Flow and Capital Structure has no simultaneous influence on dividend policy.

Regression Analysis Results

Coefficient of Determination (Adjusted R2) Test

The coefficient of determination is used to test how much independent variables are capable of explaining dependent variables According to Ghozali (2016). The coefficient of determination also shows the proportion of dependent variables described by independent variables. Can be measured by formula:

$$KD = r^2 \times 100\%$$

Description: r = Correlation

Table 11.
Determination Coefficient Test Results (Adjusted R2)

PROCEEDING

Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”

R-squared	0.079645	Mean dependent var	0.202248
Adjusted R-squared	0.049469	S.D. dependent var	0.286758
S.E. of regression	0.278833	Sum squared resid	4.742601
F-statistic	2.639384	Durbin-Watson stat	1.904563
Prob(F-statistic)	0.079550		

Sumber : Output Eviews 9

From the Table above it is known that the coefficient of adjusted determination (adjusted R Square) of 0.079645 or 7.96% of dependent variables i.e. dividend policies can be explained or influenced by independent variables (Free cash flow and Capital Structure). The remaining 92.04% (100% - 7.96%) was explained by other variables not studied in the study.

Multiple Linear Regression Analysis

Multiple regression analysis is used to test the effect of more than one independent variable (free variable) on one dependent variable According to Ghozali (2016:7). The regression equation model proposed in this study is:

Table 12.
Multiple Linear Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.407714	0.131641	3.097163	0.0030
X1	1.149054	0.528342	2.174832	0.0335
X2	0.019731	0.087637	0.225143	0.8226

Sumber : Output Eviews 9

Based on table 12, the model of multiple regression equations is as follows:

$$Y = 0.07714 + 1.149054X1 + 0.019731X2 + e$$

Based on the regression equation above can be concluded as follows:

- The constant value of 0.07714 indicates that if the independent variable (free cash flow and capital structure) on observation to i and period to t is fixed.
- The Free cash flow variable (X1) has a regression coefficient of 1.149054. The positive coefficient value indicates that, if each increase in one unit of free cash flow variables, assuming other variables remain then the dividend policy variable will increase by 1.149054 assuming another independent variable remains.
- The Capital Structure Variable (X2) has a regression coefficient of 0.019731. The positive coefficient value indicates that, if each increase in one variable of capital structure, assuming other variables remain then the dividend policy variable will increase by 0.019731

4. RESULT AND DISCUSSION
Research Discussion

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

This research was conducted with the aim to find empirical evidence whether there is an influence between free cash flow and capital structure on dividend policies in manufacturing companies on the Indonesia Stock Exchange in 2016-2020.

The Effect of Free Cash Flow and Capital Structure on Dividend Policy simultaneously

Based on the results of the study from the F test showed that the value of F of 2.639384 with dfl (K-1) (3-1) = 2 and df2 (N-K) (64-3) = 61 then obtained the result for F table 3.15. Thus, F calculates the > F table (2.639384 < 3.15) and the probab value of (0.079550 > 0.05), based on the basis of the decision-making, H1 is rejected and H0 is accepted i.e. free cash flow and the capital structure has no simultaneous influence on dividend policy.

The Effect of Free Cash Flow on Dividend Policy

Based on the above research on the variable free cash flow resulting in a significant rate of $0.0335 < 0.05$ and the value of t calculated < t table which is $2.174832 > 1.67022$, then obtained the second hypothesis (H2) is free cash flow has a significant influence on dividend policy, with positive coefficients or in other words H2 received. The result concludes that free cash flow affects the level of dividend distribution to shareholders, the greater the free cash flow owned by the company, the greater the level of dividend distribution given to shareholders.

Effect of Capital Structure on Dividend Policy

Based on the above research on the variable free cash flow resulting in a significant rate of $0.08226 > 0.05$ and the value of t calculated < t table which is $0.225143 < 1.67022$, then obtained the third hypothesis (H3) is that the Capital Structure has no influence and is not significant to the dividend policy, with a positive coefficient or in other words H3 is rejected.

5. CONCLUSION

The study aims to test how much influence free cash flow and capital structure have on dividend policy, on manufacturing companies listed on the Indonesia Stock Exchange in 2016-2020. This test uses regression analysis of panel data using the help of Eviews 9. The results of hypothesis analysis and testing in this study can be concluded as follows:

1. Based on the results of the first hypothesis test shows that the variables of free cash flow and capital structure together (simultaneously) have no effect on dividend policy. The results of this study are in line with the research according to Saputro, F. S. (2016). That states the capital structure and free cash flow have no significant effect on the dividend initiation policy.
2. Based on the results of the second hypothesis test shows that free cash flow partially affects dividend policy. This is because free cash flow affects the level of dividend distribution to shareholders, the greater the free cash flow owned by the company, the greater the level of dividend distribution given to shareholders. This research is in line with research conducted by Suherman, R., Lukman, I., & Kusnadi, K. (2017) which states that free cash flow has a significant effect on dividend policy.
3. Based on the results of the third hypothesis test showed that the capital structure partially had no positive effect on dividend policy. The capital structure reflects the company's ability to meet all its obligations. This shows that the higher the level of capital structure,

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

the higher the composition of debt, so it will result in lower ability to pay dividends. According to Sartono (2014) the increase in debt in turn will affect the small net income available to shareholders including dividends received because of its obligation to pay debts more prioritized than dividend distribution. This result is in line with research according to Firdaus, I., & Sedias, S. R.B. (2017). That states the variable capital structure partially has no positive effect on dividend policy.

Limitations of Research

After conducting research and analyzing the results of research. This study has limitations that can be used as a consideration for the next researcher in order to get better research results. Limitations of this study include the following:

1. The number of samples used in this study was only 65 data consisting of 193 manufacturing companies registered with the IDX for the period 2016-2020 of which only 13 companies met the criteria in this study, and 1 data was declared outlier because it had extrem data, so only 64 data from 13 manufacturing sector companies were used as samples.
2. Independent variables in this study are only able to explain as large as the dependent variables, so there are other factors that explain the dependent variables in this study.
3. This study only uses company data that has a positive value to all variables used.
4. This study only uses 2 independent variables in the form of free cash flow and capital structure. While there are still many variables that can affect dividend policy.

Suggestion

Based on the conclusions and limitations of the research contained in this study, there are several things that are recommended, among others:

1. For further researchers, it is recommended that it can add other variables as independent variables. So that it can give better results
2. For researchers who will conduct similar research can expand or increase the number of company samples, research year periods, and research objects other than manufacturing companies only, but can be developed using samples from other groups of companies listed on the Indonesia Stock Exchange (IDX) so that the results obtained are even better.

REFERENCES

- Abidin, Z., Yusniar, M. W., & Ziyad, M. (2014). Pengaruh Struktur Modal, Kebijakan Dividen Dan Size Terhadap Nilai Perusahaan (Studi Pada Perusahaan Properti Di Bursa Efek Indonesia). *Jurnal Wawasan Manajemen*, 2(3), 91–102.
- Artini, L. G. S., & Puspaningsih, N. L. A. (2011). Struktur Kepemilikan Dan Struktur Modal Terhadap Kebijakan Dividen Dan Nilai Perusahaan. *Jurnal Keuangan Dan Perbankan*, 15(1), 66–75.
- Bukti, P., Dividen, K., Indonesia, D. I., Paramita, R. A. S., & Kunci, K. (2015). FREE CASH FLOW , LEVERAGE , BESARAN DAN SIKLUS HIDUP, 15(1), 169–181.
- Dewi, N., & Sedana, I. (2014). Pengaruh Struktur Modall, Likuiditas Dan Pertumbuhan Terhadap Kebijakan Dividen Di Bei. *E-Jurnal Manajemen Universitas Udayana*, 3(6), 254804.
- Firdaus, I., & Sedias, S. R. B. (2017). Pengaruh Profitabilitas, Likuiditas Dan Struktur Modal Terhadap Kebijakan Dividen. *Jurnal Ilmiah Manajemen dan Bisnis*, 3(3).

PROCEEDING

Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”

- Flow, F. C., & Ratio, D. P. (2012). Pengaruh Free Cash Flow Dan Struktur Kepemilikan Terhadap Dividend Payout Ratio. *Jurnal Dinamika Akuntansi*, 4(2), 129–138. <https://doi.org/10.15294/jda.v4i2.2171>
- Palupi, M., Sudjana, N., & A, Z. (2017). PENGARUH STRUKTUR MODAL TERHADAP KEBIJAKAN DIVIDEN (Studi Pada Perusahaan Manufaktur Sektor Industri Dasar & Kimia Yang Terdaftar Di Bursa Efek Indonesia Periode 2013-2015). *Jurnal Administrasi Bisnis S1 Universitas Brawijaya*, 44(1), 76–82.
- Hasan, M. A. (2014). Pengaruh Kepemilikan Manajerial, Free Cash Flow Dan Ukuran Perusahaan Terhadap Kebijakan Utang (Studi Pada Perusahaan-Perusahaan Industri Dasar Dan Kimia Yang Terdaftar Di Bei). *Jurnal Akuntansi*, 3(1), 90–100.
- Hasana, R., Mardani, R. M., & Wahono, B. (2017). Pengaruh Free Cash Flow, Profitabilitas, Likuiditas Dan Leverage Terhadap Kebijakan Dividen Pada Perusahaan Food And Beverage Yang Terdaftar Di Bursa Efek Indonesia (BEI) Periode 2014-2016. *E-Jurnal Riset Manajemen*, (Idx), 124–135. <http://ejournal.unibba.ac.id/index.php/AKURAT>. (2017), 8, 82–92.
- Kurniawati, S., & Isroah, I. (2017). Pengaruh Earning Per Share, Arus Kas Kegiatan Operasi, Likuiditas Dan Struktur Modal Terhadap Kebijakan Dividen Tunai Pada Perusahaan Go Public Yang Terdaftar Pada Indeks Kompas 100 Periode 2011 - 2015. *Nominal, Barometer Riset Akuntansi Dan Manajemen*, 6(2). <https://doi.org/10.21831/nominal.v6i2.16655>
- Lestari, W. J. (2017). Pengaruh Struktur Modal, Struktur Kepemilikan Dan Free Cash Flow Terhadap Kebijakan Inisiasi Dividen. *Jurnal Ekonomi Bisnis*, 7(2), 192–204.
- Lopolusi, I. (2013). Analisis Faktor-faktor Yang Mempengaruhi Kebijakan Dividen Sektor Manufaktur Yang Terdaftar Di PT Bursa Efek Indonesia Periode 2007-2011. *Jurnal Ilmu & Riset Akuntansi Vol.2 No.1*, 2(1), 1–18. <https://doi.org/10.1002/cbic.200800077>
- Naini & Wahidahwati. (2014). Pengaruh Free Cash Flow dan Kepemilikan Institusional terhadap Kebijakan Hutang dan Nilai Perusahaan. *Ilmu & Riset Akuntansi*, 3(4), 1–17.
- Novelma, S. (2014). Pengaruh Insider Ownership, Free Cash Flow dan Profitabilitas terhadap Kebijakan Dividen (Pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia). *Jurnal Akuntansi*, 2(1), 1–27.
- Palupi, M., Sudjana, N., & A, Z. (2017). PENGARUH STRUKTUR MODAL TERHADAP KEBIJAKAN DIVIDEN (Studi Pada Perusahaan Manufaktur Sektor Industri Dasar & Kimia Yang Terdaftar Di Bursa Efek Indonesia Periode 2013-2015). *Jurnal Administrasi Bisnis S1 Universitas Brawijaya*, 44(1), 76–82.
- Putra, A. D., & Yusra, I. (2015). Pengaruh Free Cash Flow Terhadap Kebijakan, 1(Februari 2018), 105–117. <https://doi.org/10.6084/m9.figshare.7773899>
- Rosharlianti, Z. (2018). PENGARUH PRUDENCE DAN FAMILY OWNERSHIP TERHADAP NILAI PERUSAHAAN DENGAN KEBIJAKAN DIVIDEN SEBAGAI VARIABEL INTERVENING. *JABI (Jurnal Akuntansi Berkelanjutan Indonesia)*, 1(1), 61-82.
- Saputro, F. S. (2016). Pengaruh Struktur Modal, Struktur Kepemilikan dan Free Cash Flow Terhadap Kebijakan Inisiasi Dividen (Studi pada Perusahaan yang Melakukan IPO (Initial Public Offering) pada Bursa Efek Indonesia Tahun 2006-2014.
- Seto, T. A., Abas, A., Anwar, R., & Susanto, H. (2021). Pengaruh Free Cash Flow, Investment Opportunity Set dan Kebijakan Hutang Terhadap Kebijakan Dividen (Pada Perusahaan Industri Barang Konsumsi yang Terdaftar di Bursa Efek Indonesia Tahun 2015-2019). *HUMANIS (Humanities, Management and Science Proceedings)*, 1(2).

PROCEEDING

*Call for Paper – 3rd International Seminar on Accounting Society
“The Review and Outlook of The Economy after Covid 19 Pandemic”*

- Setyawan, B. (2019). PENGARUH FREE CASH FLOW, PROFITABILITAS DAN LIKUIDITAS TERHADAP NILAI PERUSAHAAN DENGAN KEBIJAKAN DIVIDEN SEBAGAI VARIABEL INTERVENING (Studi Pada Emiten Sub-Sektor Perdagangan Eceran yang Terdaftar di Bursa Efek Indonesia). *Jurnal Mitra Manajemen*, 3(7), 815-830.
- Sheisarvian, R. (2015). PENGARUH KEPEMILIKAN MANAJERIAL, KEBIJAKAN DIVIDEN DAN PROFITABILITAS TERHADAP KEBIJAKAN HUTANG (Studi pada Perusahaan Manufaktur yang Tercatat di BEI Periode 2010-2012). *Jurnal Administrasi Bisnis SI Universitas Brawijaya*, 22(1), 85888.
- Sitanggang, A. V., Mulyadi, A., Rizaldi, A., Ernawati, T., Pratikto, V. R. B., & Nofryanti, N. (2020). ANALISIS PENGARUH FREE CASH FLOW, LEVERAGE RATIO DAN UKURAN PERUSAHAAN TERHADAP MANAJEMEN LABA (Studi Empiris pada Perusahaan Jasa Sektor Property, Real Estate dan Konstruksi Bangunan yang terdaftar di BEI Periode 2016-2018). *PROCEEDINGS UNIVERSITAS PAMULANG*, 1(1), 32-42.
- Telaah, J., Akuntansi, R., Arus, P., Bebas, K. A. S., Assets, C., & Arfan, M. (2013). Pengaruh Arus Kas Bebas, Collateralizable Assets, Dan Kebijakan Utang Terhadap Kebijakan Dividen Pada Perusahaan Yang Terdaftar Di Jakarta Islamic Index. *Jurnal Telaah Dan Riset Akuntansi*, 6(2), 194–208.
- Triana, C., Lestari, D., Luh, N., Wiagustini, P., & Badjra, I. B. (2012). KEBIJAKAN DIVIDEN SERTA HARGA SAHAM PADA PERUSAHAAN, 6(2), 119–129.
- Wahyuliza, S., & Fahyani, R. (2019). Pengaruh Pertumbuhan Perusahaan, Ukuran Perusahaan, Struktur Modal Dan Return on Equity Terhadap Kebijakan Dividen Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek
- Widyaningrum, S. W. (2012). Pengaruh Free Cash Flow, Profitabilitas dan Pertumbuhan Perusahaan terhadap Struktur Modal (Studi Empiris pada Perusahaan Manufaktur yang Terdaftar di Bursa Efek Indonesia Tahun 2007-2011). *Universitas Lampung*.
- Wulandari, R. (2021). PENGARUH KOMITE AUDIT DAN STRUKTUR MODAL TERHADAP PENGUNGKAPAN SUSTAINABILITY REPORT (Studi Empiris Pada Perusahaan yang Mengikuti Asia Sustainability Reporting Rating Periode 2015-2020). *Accountthink: Journal of Accounting and Finance*, 6(02).
- Yuniati, M., Raharjo, K., & Oemar, A. (2016). Pengaruh Kebijakan Deviden, Kebijakan Hutang Profitabilitas Dan Struktur Kepemilikan Terhadap Nilai Perusahaan Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Periode 2009-2014. *Journal of Accounting*, 2(2).
- ZAKI RAMADHAN, Z. A. I. D. A. N. (2020). *ANALISIS KINERJA KEUANGAN PADA PERUSAHAAN MANUFAKTUR YANG TERDAFTAR DI BEI TAHUN 2018-2019* (Doctoral dissertation, Universitas Muhammadiyah Metro).