JDA Jurnal Dinamika Akuntansi
Vol. 8, No. 1, Maret 2016, pp. 23-29

ISSN 2085-4277
http://journal.unnes.ac.id/nju/index.php/jda

THE INFLUENCE OF DIVIDEND PAYOUT RATIO AND FREE CASH FLOW TO DEBT TO EQUITY RATIO

Yurizki Wida Hapsari
Isharijadi
Purweni Widhianningrum*
IKIP PGRI

Abstract
This study aimed to analyze the effect of dividend payout ratio and free cash flow to the debt to equity at the manufacturing companies which listed in the Indonesia Stock Exchange. The population of this study is manufacturing companies which listed in Indonesia Stock Exchange during the year 2010, 2011, 2012, and 2013 a number of 128 companies. Purposive sampling is used for sampling technique, as many as 33 companies. Data analytical technique in the study is multiple linear regression analysis. The results of this study proved that the dividend payout ratio had significant negative effect on the debt to equity. It showed that the dividend payments appeared as a substitute for debt in the capital structure at the company. Free cash flow positively and significantly influenced debt to equity. It was due to the investment in working capital of the company was greater than the company's operating cash flow.

Keywords: Dividend Payout Ratio; Free Cash Flow; Debt to Equity Ratio

INTRODUCTION

The main function of firm financial management consists of the use of funds function that concerns on investment decisions, functions to get the funds regarding the spending decisions (funding) as well as functions of profit allocation regarding to dividend policy (Sugiarto, 2009: 1). The investment decision is determined by two types combined of assets, current assets and assets field form, while funding decision is determined by the combination of two types from funding used by the company (current liabilities and long-term funds) (Larasati, 2011: 103). Important decision made by a financial manager associated with the function of obtaining funds is to determine how much debt that will be used by the company through debt policy. The greater the debt incurred by the company the instalment payments made will be greater and this will effect on the increased inability risk of cash flow from the company to meet such obligations (Sheisarvian, Sudjana, and Saifi, 2015: 1).

Measure that shows the margin of safety for creditors, and also shows the company's ability to survive in unfavourable business conditions is the debt to equity ratio (Reeve et al., 2008). However, creditors and shareholders have different views on the optimal level of debt to equity ratio (Garrison, Noreen and Brewer, 2006). For the creditors, the greater this ratio will be increasingly not profitable because the greater the risk that is beard for failure that may occur in the company. However, for the company the greater the ratio will be better (Kashmir, 2014: 158).

*Purweni Widhianningrum
Email: weni.widhi@gmail.com

Empirical studies of Larasati (2011), Anggraini (2015), and (Sheisarvian, Sudjana, and Saifi, 2015) dividend policy significantly influences the debt to equity ratio. Dividend policy is a decision whether the profits gained by the company at the end of the year will be distributed to shareholders as dividends or be retained to increase the capital in order to finance investment in the future. And the ratio used to determine the amount of profit is divided in the form of cash dividends and retained earnings as a source of funding namely dividend payout ratio (Martono and Harjito, 2007: 253). Dividend payment appears as a substitute of debt in the capital structure at manufacturing companies that go public in Indonesia. The use of debt can reduce conflicts between managers and shareholders, but will move conflict between shareholders with debt holder (Larasati, 2011: 107). However, empirical studies conducted by Indahningrum and Handayani (2009) and Susilawati, Agustina, and Tin (2012) shows different result where dividend policy does not have significant effect to the debt to equity ratio. It is due to the company will reduce dividend payment for most of the profits are used to pay interest and instalment loans. Dividend payment can be made after the obligations of interest payment and debt repayment are met (Indahningrum and Handayani, 2009), so the information of dividend policy has not become critical information in determining the policy of corporate debt, especially for manufacturing companies that consistently do not distribute dividends (Susilawati, Agustina, and Tin, 2012).

In addition to dividend policy that can affect corporate debt policy, the results of other empirical studies (Indahningrum and Handayani, 2009, Susilawati, Agustina, and Tin, 2012) also proves that free cash flow significantly influence to the debt to equity ratio. Free cash flow is the excess funds in the company after all the investment projects which generate positive net present value held (Sugiarto, 2009: 56). If the free cash flow is negative for NOPAT (net operating profit after tax) also negative, it means that the company is experiencing operating problems. However, many companies with a high growth rate that have positive NOPAT and negative free cash flow, show that the companies invest more in operating assets to support the rapid growth (Brigham and Houston (2007). Good free cash flow encourages the company to increase debt financing as funding in the previous year resulted in cash flow that was profitable with high free cash flow value dividends (Susilawati, Agustina, and Tin, 2012). Based on the background described above, the study aims to determine the significant influence of dividend payout ratio and free cash flow to debt to equity ratio at the manufacturing companies listed on the Indonesia Stock Exchange

METHODS

The population in this study was all manufacturing companies listed on Indonesia Stock Exchange in the period of the year 2010-2013 as many as 128 companies. The sampling technique in this study used purposive sampling with the considerations: 1) Manufacturing companies listed on the Indonesia Stock Exchange during the period of the year 2010, 2009 and 2013, 2) Companies that consistently published financial statements for the period of 2010, 2009 and 2013, 3) Companies that consistently published cash dividend for the period of 2010, 2009 and 2013, 4) Companies that published financial data on free cash flow and debt to equity ratio. Based on the criteria above, then the number of samples obtained a total of 33

companies. All secondary data in the form of company's financial statements was obtained by the researchers through the website of Indonesia Stock Exchange, namely www.idx.co.id.

This study used empirical model of multiple linear regression to analyze the influence between the dependent variable (debt equity ratio) and the independent variables (dividend payout ratio and free cash flow), as illustrated in the following empirical model:

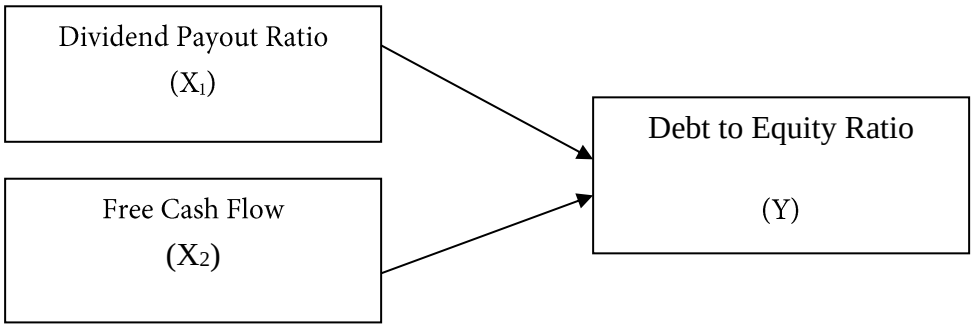

Figure 1
Empirical Model

Hypothesis of the Research

H1 : Dividend payout ratio significantly affects to the debt to equity ratio.

H2 : Free cash flow significantly affects to the debt to equity ratio.

Based on the empirical model above, this study used multiple linear regression equation model with the following mathematical equation:

$Y = b0 + b1X1 + b2X2 + e$

Explanation:

Y = Debt to equity ratio

b0 = Constants

b1,b2 = Regression coefficient of each independent variable

X1 = Dividend payout ratio

X2 = Free Cash Flow

e = Magnitude of the residual value (standart error).

Table 1. Variable Measurement of the Research

Measured Variable	**Proxy**	**Sources**
Dependent Variable: Debt to Equity Ratio	$DER = \frac{Total\ of\ Debt}{Equity}$	Kasmir (2010)

Independent Variable: Dividend payout ratio	$\text{DPR} = \frac{Divident\ per\ share}{Profit\ per\ share}$	(Garrison, Noreen and Brewer, 2006)
Free Cash Flow	$\text{FCFit} = AKOit - PMit - NWCit$	Indahningrum and Handayani (2009)

RESULTS AND DISCUSSION

The result of this study indicated that residual data in a multiple regression equation model has fulfilled classical assumption test, which consists of normality test, heterocedasticity, autocorrelation and multicollinearity. The result of classical assumption test is as follows:

Table 2. The Result of Normality Testing with One Sample Kolmogorov-Smirnov

		Unstandardized Residual
N		132
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,77615683
Most Extreme Differences	Absolute	,073
	Positive	,057
	Negative	-,073
Test Statistic		,073
Asymp. Sig. (2-tailed)		,082[c]

Source: data processed, 2016

Table 2 above, shows that each variable has Kolmogorov-Smirnov significance value amounted to 0.082 and the value is greater than 0.05. It can be concluded that the residual data is distributed normally.

Table 3. The Result of Multicolinearity Testing with Tolerance and VIF

Variable	**Tolerance**	**VIF**	**Explanation**
DPR	1,000	1,000	No Multicolinearity
FCF	1,000	1,000	No Multicolinearity

Source: data processed, 2016

Table 3 above shows that each variable has a value of Tolerance > 0.1 and Variance Inflation Factor (VIF) <10. Therefore, it can be concluded that there is no multicolinearity between independent variables.

Table 4. The Result of AutocorrelationTesting with Durbin Watson

DU	DW	4-DU	Explanation
2,269	2,238	1,731	No Autocorrelation

Source: data processed, 2016

Table 4 above shows that the value of Durbin Watson amounted to 2.238, and located between DU and 4 - DU (1.731 <2.238 <2.269). Hence, it can be concluded that there is no autocorrelation in regression model in this study.

Table 5. The Result of AutocorrelationTesting withGlejser Test

Variable	Sig.	Explanation
DPR	,558	There is no heteroscedasticity
FCF	,196	There is no heteroscedasticity

Source: data processed, 2016

Table 5 above shows that each independent variable has a significant value above 0.05. So, it can be concluded there is no heteroscedasticity in the regression model.

Table 6. Summary of Multiple Linear Regression Result Dependent Variable: Debt to Equity Ratio (DER)

Independent Variable	Coef Regression	t	sig
Deviden Payout Ratio (DPR)	-0,240	-3,023	0,003
Free Cash Flow (FCF)	2,769	2,727	0,007
Constants	4,938	17,397	0,000
Adj R^2	0,098		
N	132		

Source: data processed, 2016

Table 6 above, showed that the two independent variables that entered in the regression model were significant. It was seen from the significant value of DPR and FCF variables that were greater than 0.05. So, the regression equation could be formulated as follows:

Y = 4,938 - 0,240DPR + 2,769FCF

It meant that the constant of 4.938 which stated that if the company did not have dividend payout ratio and free cash flow, so the debt to equity ratio was 4.938. Regression coefficient of -0.240 showed that every reduction of 1% in the variable of dividend payout ratio, the debt to equity ratio will increase by 0.240%. Regression coefficients of 2.769 showed that every increase of 1% in free cash flow variable, the debt to equity ratio will increase by 2.769%.The value of adjusted R2 was 0.098, it meant that 9.8% of debt to equity ratio variation could be explained by the variation of two independent variables, namely dividend

payout ratio and free cash flow. While, the remaining 90.2% was explained by other factors outside the regression model.

The result of the first hypothesis (H1) which stated that dividend payout ratio significantly influenced the debt to equity ratio, was accepted. The negative sign in the regression coefficient value of DPR indicated that dividend payment had influence not unidirectional with the company's debts policy. The greater the ratio of the dividend, so the smaller the company's debt to equity ratio. Dari 33 From 33 research sample companies, showed that 20 of them were companies that distributed dividends was unstable or tends to fluctuate. It proved that companies with unstable dividends reflected less good company's financial condition (Sudana, 2011: 171) and dividend payments appeared as debt substitute in the capital structure of the company (Larasati, 2011: 107).

The result of the second hypothesis (H2) which stated that free cash flow significantly influenced to the debt to equity ratio, was accepted. The positive sign in the regression coefficient value of FCF showed that free cash flow had an influence in line with the policy of company's debt. The greater the ratio of free cash flow, the greater the company's debt to equity ratio. The findings of the company's financial data that became samples in this study showed that 24 sample companies had negative free cash flow. It was due to the investment in working capital of the company was greater than the company's operating cash flow. According to Brigham and Houston (2007), negative free cash flow is not necessarily a bad thing for the company. If free cash flow was negative for NOPAT (net operating profit after tax) was positive with a high growth rate, it indicated that the company has invested heavily in operating assets in order to support its rapid growth. So, there is nothing wrong with negative free cash flow throughout the company is able to increase profitable growth. The result is consistent with the empirical results of Indahningrum and Handayani (2009) and Susilawati, Agustina and Tin (2012). Market pressures will encourage managers to distribute free cash flow to shareholders. Companies with big free cash flow which has a high debt level will decrease agency cost of free cash flow (Indahningrum and Handayani, 2009: 204).

CONCLUSION

Based on the research results, it proves that dividend payout ratio has negative and significant effect to the debt to equity ratio at manufacturing companies listed in Indonesia Stock Exchange in the period of 2010-2013. The negative sign indicates that dividend payments have a negative effect in line with the policy of company's debt. The greater the ratio of the dividend, the smaller the company's debt to equity ratio. While, free cash flow has positive and significant effect to the debt to equity ratio at manufacturing companies listed in Indonesia Stock Exchange in the period of 2010-2013. It proves that the investment in working capital of the company is greater than the company's operating cash flow.

Advice can be given by the researchers for the investors, to pay more attention to dividend payout ratio and free cash flow of the company in predicting debt policy so the investors know that the funds invested in the company are used optimally for the benefit of the company's operations and for the welfare of the investor. For the further research, it is suggested to increase the period of the study and use of other

variables such as firm size, ownership structure, ROA, and asset structure to predict the company's debt policy. As well as use other types of companies as research samples such as banking and real estate. Thus, further research will be able to expand the horizons on the debt policy and can be used as a comparison material to this research.

REFERENCES

Anggraini, N. (2015). Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional, Kebijakan Dividen Dan Ukuran Perusahaan Terhadap Kebijakan Hutang (Studi Pada Perusahaan Manufaktur di Bursa Efek Indonesia (BEI) Tahun 2010 - 2012). *Journal Of Accounting*, *1*(1).

Brigham and Houston. 2010. Dasar-dasar Manajemen Keuangan Edisi 11 Buku 1. Jakarta: Salemba Empat.

Garrison, Ray H., Eric W. Noreen. Peter C. Brewer. 2007. Managerial Accounting Manajemen Keuangan. Jakarta: Salemba Empat.

Indahningrum, R. P., & Handayani, R. (2009). Pengaruh kepemilikan manajerial, kepemilikan institusional, dividen, pertumbuhan perusahaan, free cash flow dan profitabilitas terhadap kebijakan hutang perusahaan. *Jurnal Bisnis Dan Akuntansi*, *11*(3), 189–207.

James M. Reeve, Carl S. Werren, Jonathan E. Duchac, Ersa Tri Wahyuni, Gatot Soepriyanto, Amir Abadi Yusuf, Chaerul D. Djakman. 2010. Pengantar Akuntansi Adaptasi Indonesia. Jakarta: Salemba Empat.

Kasmir. 2010. Pengantar Manajemen Keuangan. Jakarta: Kencana Prenada Media Grup.

Kasmir. 2014. Analisis Laporan Keuangan. Jakarta: PT RajaGrafindo Persada.

Larasati, E. (2011). Pengaruh Kepemilikan Manajerial, Kepemilikan Institusional dan Kebijakan Dividen terhadap Kebijakan Hutang Perusahaan. *Jurnal Ekonomi Bisnis*, *16*(2), 103–107.

Martono and Agus Harjito. 2007. Manajemen Keuangan. Yogyakarta: Ekonisia.

Sheisarvian, R. M. (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*, *22*(1).

Sudana, I Made. 2011. Manajemen Keuangan Peusahaan Teori & Praktik. Jakarta: Erlangga.

Sugiarto.2009. Struktur Modal, Stuktur Kepemilikan Perusahaan, Permasalahan Keagenan & Informasi Asimetri. Yogyakarta: Graha Ilmu.

Susilawati, C. D. K., Agustina, L., & Tin, S. (2012). Faktor-Faktor Yang Memengaruhi Kebijakan Utang Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Keuangan Dan Perbankan*, *16*(2), 1187–1778.