INFLUENCE *OF FREE CASH FLOW*, COMPANY GROWTH, PROFIT BALANCE, AND INVESTMENT OPPORTUNITIES ON THE COMPANY'S DEBT POLICY (EMPIRICAL STUDY ON INDONESIA STOCK EXCHANGE COMPANIES IN THE GOODS AND CONSUMPTION INDUSTRY SECTOR 2019-2022)

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Abstract

The purpose of this research is to test the influence of *free cash flow*, company involvement, profit balance, and investment direction on corporate debt policy. The datta used is a secondary type of datta. Research data obtained from reports that have been published from manufacturing companies in the goods and consumption industry sector, there are 100 processing data from 25 companies during 2019-2022. The datta analysis method uses multiple regression analysis. Based on several tests, it was concluded that the variables of the company's investment and investment opportunities had an impact on the company's debt policy because the value of t calculated < t table and the significance value of < 0.05 and *the variables of free cash flow* and profit balance had no effect on debt policy because the value of t calculated > t table and the significance value of > 0.05.

Keywords: *Free Cash Flow*, Company Remuneration, Profit Balance, Investment Opportunities and Corporate Debt Policy.

Abstract

The purpose of this investigation is to test the influence of free cash flow, corporate growth, profit balances, and return on investment on corporate debt policy. The yamg data used is a secondary type of data. Research data obtained from a profit report that has been published from manufacturing companies of the goods and consumption industry sector, there are 100 behavioral data from 25 companies during 2019-2022. Data analysis methods use double regression analysis. Based on the test, it was concluded that the company's growth variables and investment opportunities influenced the corporate debt policy because of the t count value < t table and the

significance value < 0,05 and the free cash flow variable and the profit balance had no influence on the policy of the debt due to t count > t table values and significance values > 0,05.
Keywords: Debt Policy, Free Cash Flow, Company Growth, Retained Earnings, Investment Opportunity.

A. INTRODUCTION

Uncertainty and economic dynamism require companies to continue to strengthen their management foundations to compete with other companies in the globalization stage. The company is committed to continuing to grow in order to survive in the competition through the development of innovation and improvement of company performance. The goal of every company is to maximize the prosperity of the company. When a company goes bankrupt, the company cannot fulfill its main goal (Oktaviani, 2015).

Company managers are trusted by shareholders or capital owners to manage the company to achieve its goals. Company managers or managers have other goals that are often behind the main goals of the company, this causes conflicts of interest between stock interns and managers (Indahningrum & Handayani, 2009 in Oktaviani, 2015). The conflict of interest between managers and stock traders is known as agency problems.

Debt financing can further reduce the number of problems with agents in the company, reducing the possibility of misuse of company management (Irawan, Arifah, and Oemar, 2016). The amount of debt used by the company for operational financing is the company's policy related to its capital structure. The decision of the company's management to fund its operations with debt is known as debt policy. *The dept to equity ratio* (DER) is seen in comparison through debt to company capital. The high debt, the higher the interest payment, the funds offered by the company to reduce the debt ratio (Setiana & Sibagariang, 2013).

Companies in the industrial and consumer sectors often require large investments in product development, distribution network expansion, and technology development. Proper and measurable debt policy is essential to finance these activities, but it must be done carefully to avoid greater financial risk. The phenomenon that occurs is that the average debt policy (DER) of manufacturing companies in Indonesia in 2019-2022 is low, which is only 1 time of the value of their capital. This can be interpreted that the company's activities are more funded by capital that is not from debt. This fact is the same as *pecking order theory*.

Based on the *pecking order theory*, some companies believe that using existing internal funds is safer than issuing new debt. According to (Mamduh, 2004 in Abubakar, 2020) a large proportion of debt in the capital structure will be a risk for companies. However, if the company has little or no debt, it is felt that it does not use capital from outside to improve the company's operations. Company managers where managers are required to take into account decision-making on the company's debt policy. And the *opinion of the trade of theory* is that the high debt, the higher the bankruptcy rate. So both theories argue that companies should use low debt. However, many companies still choose to use high debt

The formulation of the problem in this research is whether *free cash flow*, company involvement, profit balance, and investment opportunities affect the company's debt policy?. Meanwhile, the purpose of this research is to test the influence of *free cash flow*, company commitment, profit balance, and investment opportunities on the company's debt policy.

B. LITERATURE REVIEW

Agency Theory

Mecking and Jesen (1976) in Setiana and Sibagariang (2013) interpret agency theory as a separator between management and business owners, followed by costs caused by a lack of harmony between the interests of owners and managers. This fee is known as the agency fee. The agnsi theory assumes that everyone is motivated only by personal interests, which results in a conflict of interest between the principal and the agent.

When decisions about financing are made, there are often conflicts between management and capital owners. Briham and Houston (2011) in Natasia (2015) said that one option in reducing conflict is by increasing debt, it is hoped that the use of debt will force leaders to be more disciplined. A large company needs oversight to reduce agency costs, because large companies have enough internal funds to reduce debt policies.

Pecking Order Theory

Pecking order ttheory defines the sequence of financial decision-making when a company decides on its source of funding. Yulia and Nurhaidah (2015) argue that there is a hierarchy of financing where companies use internal funds as the first choice to reduce debt. The use of internal funds does not carry any risk for the company, because the internal costs

do not comply with the payment deadline.

Companies with high margins have a low ratio of debt to equity. High free cash flow , there is a debt policy with a small presetan (Natasha, 2015). In terms of investigative opportunities, this restriction indicates that if a company invests, the use of internal funds will tend to reduce the company's debt policy. Companies with sufficient free cash flow are not expected to use debt to finance company operations, even if the investment opportunity is high, the company's participation will be higher because it takes advantage of the high investment opportunity.

Corporate Debt Policy

Debt policy includes external financing decisions. Debt policy is every type of debt that is made or produced by a company (Bible, 2012). Meanwhile, Hardiningsih and Oktaviani (2012) revealed that debt policy is a company's decision to receive capital from a third party for investigation. Debt policy is the policy of company managers in financing company operations using debt.

The Debt to Equity Ratio (DER) is carried out to assess the virtue of corporate debt. (DER) describes the total debt used to finance the company's operations. The larger the debt-to-equity ratio (DER), the lower the amount of capital available to the company from its shareholders. The lower the debt-to-equity ratio (DER), the easier it will be for the company to pay its long-term debt (Darsono & Ashari, 2005).

Free Cash Flow

In the form of a power supply part in a company that is used for many purposes. Free cash focuses on the money obtained from operational activities after being used for reinvestment (Murhadi, 2013). Companies with a large amount of *free cash flow* exceeding other companies are made because the company manager can take advantage of opportunities that other companies may not have. *High free cash flow* of companies tends to have the strength to survive in bad situations for longer, due to the high level of *free cash flow* of the company, low interest rates of the company, and debt receipts reduce *free cash flow* (Rosdini, 2009).

Company Growth

Remuneration is a tool for companies to help channel or integrate many aspects of their financial and investment policies. The ability of a company to grow shows its ability to ensure the continuity of its business (Rudyawan & Badera, 2009 in Margaretha 2014). Surya and Rahayuningsih, (2012) explained that the company's involvement shows that the company is enlarging its business so that it can be

ascertained that the company needs funding to support the expansion of the business being run.

Profit Balance

The profit balance is in the form of a part of the company's net margin and is not given to shareholders as dividends. Profits are accumulated and reported as owner's equity on the profit balance. In most cases, the size of a company is determined by the policy of the board of directors, which will undoubtedly differ from the policy of one company to another (Hardiningsih & Oktaviani, 2012). The profit balance including the passive account under the capital account is included in the balance sheet statement. According to Natasia's (2015) research, the profit balance is not a measure of proportionality, therefore in proxies using the natural logarithm of the profit balance.

Investment Opportunities

The set of investment opportunities is in the form of opportunities or investment opportunities that can be used by companies to become a tool of control over the company's debt policy decisions and help achieve its goals (Damayanti, 2006 in Rusnawati, 2020). Smith and Watts (1992) in Susanto, (2011) found that companies in the foreclosure prospect with high debt ratios have lower capital. Equity financing tends to reduce corporate debt because the existence of debt in its modular structure is threatened.

C. RESEARCH METHODS

This research uses a quantitative research design to analyze the impact of independent variables. The quantitative research method is one of the research methods based on the positivist philosophy, which is used for research on certain populations and samples, data collection techniques using research instruments, and quantitative or statistical data analysis that aims to test hypotheses that have been determined. In this research, the population used is manufacturing companies in the goods and consumption industry sector listed on the Indonesia Stock Exchange in 2019-2022, there are 25 published financial statements.

D. RESULTS OF RESEARCH AND DISCUSSION

RESEARCH RESULTS

1. Descriptive Statistical Analysis

Debt Policy has an average value of 0.7116 with a standard deviation of 0.50950 so that the results show that the datta does not vary because the standard deviation

value < the average value. *Free Cash Flow* has an average value of IDR 858,561,558,699.90 with a standard deviation of IDR 3,410,453,821,931.13 so that the results show that the datta does not vary because the standard deviation value < the average value. The Company's remuneration has an average value of 1.1119 with a standard deviation of 0.21078, so the results show that the datta does not vary because the standard deviation value < the average value. The Profit Balance has an average value of IDR3,963,921,006,169.02 with a standard deviation of IDR 8,102,586,601,987.69 so that the results show that the datta does not vary because the standard deviation value < the average value. The investigation opportunity has an average value of 0.0624 with a standard deviation of 0.06238, so this result shows that the datta does not vary because the standard deviation value < the average value.

2. Classical Assumption Test

a) Normality Test

Based on the *Kolmogorov-Smirnov one-sample* using *IBM SPSS Statistics 22*, the significant value is normally distributed if the *asymp sig* (2-tailed) value in the *Kolmogorov-Smirnov one-sample* is more than α = 0.05. The normality test in this research can obtain an Asymp value. Sig (2-tailed) by 0.77 > 0.05. So it can be concluded that the datta that is tested is normally distributed.

b) Multicollinearity Test

The free cash flow *tolerance value* was 0.916, the company's investment was 0.985, the profit balance was 0.905, and the investment opportunity was 0.999. All of these tolerance values > 0.1 each. VIF *free cash flow* was 1,091, company growth was 1,015, profit balance was 1,104, and investment opportunities were 1,001. VIF value < 10. Thus, the regression model of this research does not show symptoms of multicollinearity.

c) Heteroscedasticity Test

Based on the output results of the heteroscedasticity test with the white method, R2 was 0.109, while the number of samples (N) was 100. Thus, the c2 count is 10,900 (0.109x 100) and the c2 table is 11,070. This shows that c2 counts smaller than c2 tables, so it can be concluded that there is no heteroscedasticity.

3. Multiple Regression Analysis

Coefficientsa

Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,228	,271		,842	,402
	FCF	-9,845E-15	,000	-,066	-,651	,516
	GROW	,515	,236	,213	2,184	,031
	R/E	-7,085E-15	,000	-,113	-1,107	,271
	E/P	-1,743	,791	-,213	-2,202	,030

It can be known that the value of the Constant is 0.228. The *free cash flow variable* was -9.845, the company settlement variable was 0.515, the profit balance variable was -7.085 and the investment opportunity variable was -1.743. Then it is transformed into a logarithmic linear regression equation *(double log)* as follows:

Y = a + b1X1 + b2X2 +b3x3 + b4X4 + e

Y = 0.228 - 9,845X1 + 0,515X2 - 7,085X3 - 1,743X4 + e

4. Hypothesis Test

a) Model Feasibility Test (Test F)

ANOVAa

Type		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2,803	4	,701	2,908	,026b
	Residual	22,896	95	,241		
	Total	25,700	99			

Based on the F test above, it can be known that the significance value is 0.026 < 0.05. Therefore, it can be concluded that the variables *of free cash flow*, company growth, profit balance, and investment opportunities simultaneously affect the company's debt policy.

b) Partial Test (t-Test)

Coefficientsa

Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,228	,271		,842	,402
	FCF	-9,845E-15	,000	-,066	-,651	,516
	GROW	,515	,236	,213	2,184	,031
	R/E	-7,085E-15	,000	-,113	-1,107	,271
	E/P	-1,743	,791	-,213	-2,202	,030

The formula finds t table = (a/2, n-k-1) = (0.10/2, 80-4-1) = (0.05, 75) = 1.992. This number is then used as a reference to find the t-table. So it was found that the t-table value was 1.992.

a. Results of the first hypothesis test

obtained the result of the t-value calculated -0.651 < 1.992 t table. In conclusion, the first hypothesis states that there is a negative influence of *free cash flow* on the Company's debt policy. The significant value of t *free cash flow* is 0.516 so the significant value is greater than 0.05. Thus, it can be concluded that *free cash flow* has a positive impact on the company's debt policy of being rejected.

b. Results of the second hypothesis test

obtained the results of the t-value calculation of 2,184 < 1,992 t tables. In conclusion, the second hypothesis which states that there can be a positive influence on the company's involvement

against debt policy. The significant value of the company's t-settlement is 0.031 so that the significant value is less than 0.05. Thus, it can be concluded that the company's involvement has a positive influence on the Company's policy is accepted.

c. Results of the third hypothesis test

obtained the results of the t-value calculated -1.107 < 1.992 t table. In conclusion, the third hypothesis states that there is a negative influence on the profit balance on the company's debt policy. The significant value t of the profit balance is 0.271 so that the significant value is greater than 0.05. Thus, it can be concluded that the profit balance has a negative impact on the debt policy of rejection.

d. Results of the fourth hypothesis test

obtained the results of the t-value calculation -2.202 < 1.992 t table. In conclusion, the fourth hypothesis states that there is a negative influence on the investigative opportunity on the company's debt policy. The significance value of t of the investigation opportunity is 0.030 so that the significant value is less than 0.05. Thus, it can be concluded that investment opportunities that have a negative effect on the Company's debt policy are accepted.

c) Coefficient of Determination Test (Adjusted R Square Test)

It can be seen from the Adjusted R Square value of 0.072 or 7.2% which means that the number of free variables consisting of *free cash flow*, company participation, profit balance and investment opportunities together affect the bound variable, namely the company's debt policy of 7.2% and the remaining 92.8% is affected by other variables that are not included in this research.

E. CONCLUSIONS AND SUGGESTIONS

A. Conclusion

Based on the results of the research and discussion of the previous chapters regarding the factors that trigger the company's debt policy in manufacturing companies in the industrial and consumption sectors listed on the Indonesia Stock Exchange in 2019-2022, it can be concluded that the company's investment and investment opportunities affect the

Corporate debt policy. *Free cash flow* and profit balance have no effect on the company's debt policy.

B. SUGGESTION

Based on the conclusions that have been described. The researcher's suggestions are as follows:

1. It is hoped that stock apprentices can invest in manufacturing companies that have *free cash flow and* low or high profit balances, because these conditions do not encourage the rise or fall of the company's debt policy which is proxied by the debt to equity *ratio (DER).*
2. It is expected that shareholders, in making investments, are advised to first study the debt policy adopted by manufacturing companies that have high corporate commitment.
3. It is hoped that the next researcher can add some other variables or moderation variables that can be used in future studies to investigate the company's debt policy further.

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