

# ANALYSIS OF FACTORS THAT INFLUENCE THE PAYMENT OF DEVIDENTS ON MANUFACTURING COMPANIES LISTED IN INDONESIA STOCK EXCHANGE 2012-2018

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**Keywords:** Free Cash Flow, NPM, DER, Firm Size, Dividend.

**Abstract:** This study aims to analyze free cash flow, net profit margins, debt to equity ratio, and firm size on dividend payments. The sampling technique used purposive sampling. The research instrument was in the form of documentation of financial statements of banking companies listed on the Indonesia Stock Exchange (BEI) during the 2012-2018 period. The samples used were 5 companies with a total of 21 samples over a period of 7 consecutive years of observation. The analysis technique used in this study is multiple linear regression assisted by SPSS version 22. Based on the results of the t test study, it shows that firm size affects dividend payments and free cash flow, net profit margins, debt to equity ratio has no effect on dividend payments.

## 1 INTRODUCTION

In the era of globalization which is now demanding that every economic activity is carried out in the right way. With the development of existing information technology, enabling every sale and purchase transaction can be done quickly and on a global scale (worldwide). One example of progress in information technology in the economic field is the existence of a capital market. The capital market is a market for sharing long-term financial instruments that can be bought and sold, whether in the form of debt, equity, derivative instruments, or other instruments.

In the Indonesian stock exchange, there are several sectors of the company, including agriculture, mining, basic industries, various industries, and the consumption industry. This table presents the development of sectoral stock trading in 2017 on the Indonesia stock exchange.

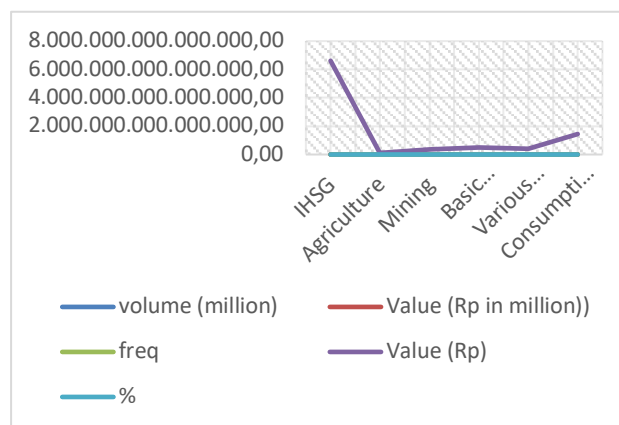


Figure 1. Development of sectoral stock trading in 2017

Source: IDX (2017).

Based on figure 1, it can be seen that in 2017 the agricultural sector contributed 1.69% of the total market capitalization. The agricultural sector is the owner of the smallest capitalization value compared to the sector. The number of issuers in the agricultural sector is also smaller compared to other sector issuers. The development of agricultural sector stock prices in the fourth year of October 2017 closed higher at 1,760.889 levels, this price rose by 0.39% or 6,810 points from the previous week which was closed at 1,754,897. However, the agricultural stock price in October 2017 showed a decrease of 1.45% or 25,837 points when compared to the share price in September 2017 which closed at 1,786,734. And when compared to shares in 2016 which were at 1,864,249, the share prices in 2017 experienced a significant decline in the amount of 5.54% or 103.352 points

The results of the paramitha research (2015) show that free cash flow is significant for dividend payments, in contrast to Hatta (2002) shows that free cash flow has no effect on dividend payments. According to Nurwulansari (2017) free cash flow affects dividend payments. According to anugrawaty sugiarto prajitno (2017) free cash flow affects dividend payments. According to Oktommy Putra (2017) free cash flow has an effect on dividend payments. The results of the study according to cashmere (2012: 197) net profit margin affect the payment of dividends. According to the research of dwidharnita parera (2016) net profit margin shows an effect on dividend payments on companies listed on LQ 45 in the Indonesian Stock Exchange (BEI). According to Lioew (2014) shows that net profit margin has no effect on dividend payments. According to Riska Ariyani et al (2019) net profit margin affects dividend payments.

According to Kuniawan (2016) debt to equity ratio influences dividend payments. According to the research of irfan muttaqin (2018) shows that debt to equity ratio influences dividend payments on state-owned companies listed in the BI. According to laim (2015) shows that debt to equity ratio influences negative to dividend payments because it reflects the company in meeting the needs of the company. According to Melinda Ibrahim (2019) the debt to equity ratio affects the dividend payment. According to Atmoko et al (2017) the debt to equity ratio has an effect on dividend payments. According to Octommy son (2017) the debt to equity ratio affects the dividend payment. According to Fitri Handayani Sabri et al (2017) the debt to equity ratio affects the dividend payment. according to Nafiah (2013) shows that firm size has an effect on dividend payments, according to anugrawaty sugiarto prajitno (2017) has an effect on dividend payments and according to Puspita (2009) shows that firm size has a negative effect on dividend payments. According to Nurwulansari (2017) firm size has an effect on payment dividends. According to atmoko et al (2017) firm size influences dividend payments. According to fitri handayani sabri et al (2017) net profit margin affects dividend payments.

The formulation of the problem of this research are: 1. Does the free cash flow affect dividend payments? 2. Does the net profit margin affect the dividend payments? 3. Does the debt to equity ratio affect dividend payments? 4. Does the size of the company affect the payment of dividends? The benefits of this research are: the benefits of academics, 1) As a reference for further researchers to examine the factors that influence dividend payments at manufacturing companies listed on the Indonesia Stock Exchange in 2014-2017. Benefits of practitioners: For investors and interested parties, this research can be useful to add references, indicators of dividend payments made by manufacturing companies listed on the Indonesia Stock Exchange in 2014-2017. The purpose of this study was to analyze the effect of free cash flow, net profit margin, debt to equity, and firm size on dividend payments.

## 2 LITERATURE REVIEW

### Agency Theory

Agency theory is the formulation of the problem that explains the conflict between the company's owner (principal) with the company manager (agent) Sisharini (2013). The manager who is the manager of the company certainly has an interest in maximizing his own welfare. On the other hand, managers also have an obligation to carry out their duties to maximize the welfare of the owners of the company (principal) both in the short and long term. The existence of differences in objectives and the separation between ownership and management of the company causes managers to act according to their own desires without regard to the interests of the principal. Sisharini (2013) explains that the objectives of the company manager often conflict with the increasing prosperity of understanding through increasing the value of the company. This creates a conflict of interest between managers and shareholders. To minimize these conflicts of interest, companies can implement a supervisory mechanism that can align related interests. The emergence of the supervisory mechanism can result in costs, which are referred to as agency costs. There are several alternatives to reduce agency cost, including the application of good corporate governance (Haruman, 2008). Jensen and Meckling 1976, stated that agency theory

is the relationship of a contract between the principle and the agent to perform a service on behalf of the owner and make authority to the agent in making decisions the best for the owner. Therefore the agent or management must be responsible for all its work to the principal or owner (Godfrey et al, 2010).

### Framework and Hypothesis

The framework of thought in this study is as follows:

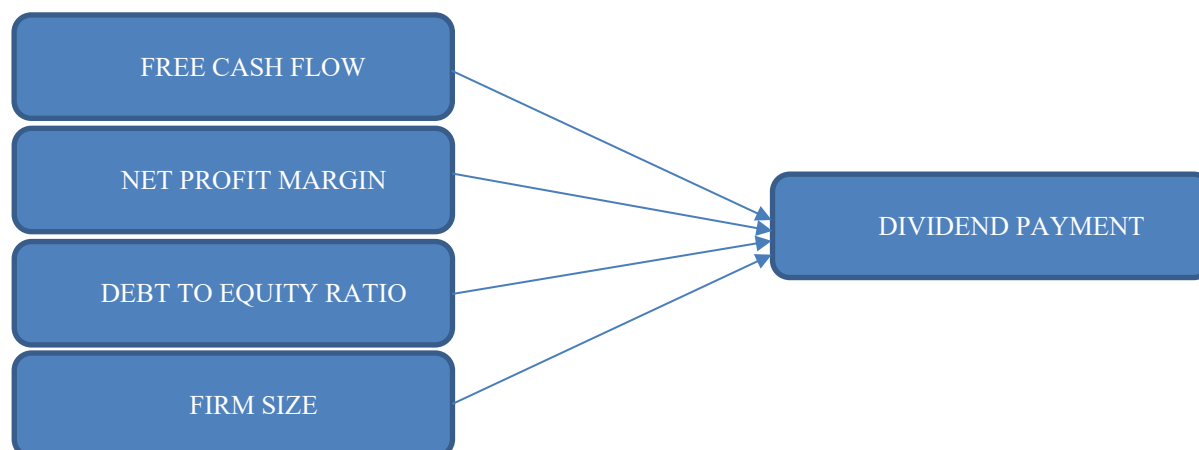


Figure 2. Research Framework

Source: Researcher data (2019).

### Hypothesis Formulation

The results of research conducted by Paramitha (2017) show that free cash flow has an effect on dividend payments. Research results according to Nurwulansari (2017) show that free cash flow has an effect on dividend payments. The results of the study according to Anugrawaty sugiarto prajitno (2017) showed that free cash flow affects dividend payments. And according to Oktommy son (2017) shows that free cash flow affects dividend payments.

*H1: Free Cash Flow affects dividend payments*

The results of research conducted by cashmere (2012: 197) show that net profit margins affect dividend payments. According to Dwidharnita Parera (2016) shows that net profit margins affect dividend payments. According to Riska Ariyani et al (2019) shows that net profit margins affect dividend payments.

*H2: Net Profit Margin affects the dividend payment*

The results of research conducted by Kuniawan (2016) show that debt to equity ratio has an effect on dividend payments. According to Irfan Muttaqin (2018) the debt to equity ratio has an effect on dividend payments. According to Melinda Ibrahim (2019) debt to equity ratio affects dividend payments. According to Atmoko et al (2017) the debt to equity ratio has an effect on dividend payments. According to Sabri et al (2017) debt to equity ratio affects dividend payments.

*H3: Debt To Equity Ratio affects dividend payments*

The results of the study conducted by Nafiah (2013) show that firm size influences dividend payments. According to angrawaty sugiarto prajitno (2017) shows that firm size affects dividend payments. According to nurwulansari (2017) shows that firm size affects dividend payments. According to Atmoko et al (2017) shows that firm size affects dividend payments.

*H4: Firm size has an effect on dividend payments*

### 3 METHODOLOGY

This type of research is quantitative research. The variables in this study are: (1) Dependent Variable, is dividend payment Independent Variable, is free cash flow, net profit margin (NPM), Debt to Equity Ratio (DER), and firm size The data used in this research is secondary data. The population in this study are basic industrial and chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2013-2017. Sampling was done by purposive sampling method. Data analysis techniques using the classic assumption test (normality, autocorrelation, multicollinearity and heteroscedasticity); multiple linear regression test (regression test, model accuracy test, t test and coefficient of determination test).

#### Dividend Payout Ratio

Laim (2015), said the Dividend Policy is the company's decision to share the profits of the company with shareholders as expected. Dividend policy determines the placement of profits, ie between paying to shareholders, and reinvesting in a company.

$$\text{Dividend} = \text{Cash Dividend Per Share} / \text{Earning Per Share}$$

#### Free Cash Flow

The manager's way to increase the value of his company is to increase Sartono's free cash flow (2001: 101-102). Free cash flow is calculated by the formula (Jones & Sharma, 2001 in Arfan and Maywindlan, 2013):

$$\text{Free cash flow} = \text{operating cash flow} + \text{net investment flow} / \text{Total Assets}$$

#### Net Profit Margin

Werner R. Murhadi (2013) reflects the ability of a company to obtain a net profit from each sale. If the higher the value of NPM, then it shows the better.

$$\text{NPM} = \text{Net profit after tax} / \text{Net sales revenue}$$

#### Debt to Equity Ratio Concept

Kuniawan (2016), said that the company's debt ratio in the form of Debt To Equity Ratio (DER) reflects the company's ability to meet all its obligations as indicated by several parts of its own capital used to pay debts.

$$\text{DER} = \text{Total liabilities} / \text{Total equity}$$

#### Firm Size

Pantow (2015) large companies also need large funds to support their operations and one alternative is to fulfill them with insufficient foreign capital.

$$\text{Firm size} = \text{Ln (total assets)}.$$

### 4 FINDINGS AND DISCUSSION

The selection of samples used by agricultural sector manufacturing companies in 2012-2018, amounting to 21 companies, agricultural sector manufacturing companies that split did not divide dividends amounted to 16 companies while those dividing dividends and which became sample companies amounted to 5 companies. Researchers conducted observations for 7 consecutive years and this study used outlier data of 3 so the number of samples used was 32.

normality test results have results normal test results because it has a standard value of the agricultural sector manufacturing companies. And multicollinearity test results on free cash flow, net profit margins, debt to

equity ratio, and firm size do not occur multicollinoly. The results of this autokorrelation test use the DW value of the test results from no autocorrelation. Heteroscedasticity test results show that free cash flow, net profit margin, debt to equity ratio and firm size do not occur heteroscedasticity because it exceeds the indicated standard value.

The results of the multiple linear regression analysis test constast on unstandardized coefficients  $\beta$  0.803, free cash flow has an unstandardized coefficient value  $\beta$  0.394, net profit margin has an unstandardized coefficient value  $\beta$ -0.140, debt to equity ratio has an unstandardized coefficient value  $\beta$ -0.70 and the size of the company has unstandardized coefficients value  $\beta$  -0.25. F test results have a decent model test results. Hypothesis test results on free cash flow, debt to equity ratio, and firm size have an effect because they have the normal standard specified in the calculation, while the net profit margin does not affect the dividend payment because it does not have the normal standard value specified in the calculation. Determination coefficient test results show that free cash flow, net profit margin, debt to equity ratio and firm size have a percentage that affects the dividend payment.

## Discussion

$$Y = 0,800 + 0,394.FCF - 0,140.NPM - 0,70.DER - 0,25.UP$$

The constant is worth 0.800 so it can be concluded that if all independent variables have a value of 0, then the dividend payment is 0.800. The value of the free cash flow regression coefficient is positive at 0.394. It can be concluded that if the free cash flow variable increases by 1 percent with the assumption that the other variables are fixed, it will be followed by an increase in dividend payments of 0.394. The net profit margin regression coefficient is negative by -0,140. It can be concluded that if the return on asset variable increases by 1 percent assuming the other variables are fixed, it will be followed by a decrease in dividend payments of -0,140. The debt to equity ratio regression coefficient value is negative of -0.70. It can be concluded that if the debt to equity ratio variable rises by 1 percent assuming the other variables are fixed, it will be followed by a reduction in dividend payments of -0.70. Regression coefficient of firm size is negative value of -0.25. It can be concluded that if the firm size variable increases by 1 percent assuming the other variables are fixed, it will be followed by a decrease in dividend payments of -0.25

### *Free Cash Flow affects dividend payments*

The results found that free cash flow affects dividend payments. The results of this study are in line with research conducted by Lucyanda and Lilyanda (2012), which means that the higher the profit of a company, the company tends to make dividend payments.

### *Net Profit Margin Affects Dividend Payments*

The results show that net profit margins have no effect on dividend payments. Net Profit Margin is a ratio to measure the company's ability to generate net income from sales activities, so the greater the value of NPM shows the company's high ability to generate net income. The results of the study show the small net profit margins so that the company's profit margin cannot be used to pay dividends. This is also supported by research conducted by Lioew (2014).

### *Debt to Equity Ratio Effect on Dividend Payments*

The results found that the debt to equity ratio affects dividend payments. This research is also supported by (Darsono, 2005), the greater the debt to equity ratio, the greater the loan capital so that it will cause the greater debt burden (interest costs) that must be borne company. The greater the debt burden of the company, the amount of profit distributed as cash dividends will decrease.

### *Firm Size Affects Dividend Payments*

The results showed that the size of the company affected dividend payments. Firm size can be based on total company assets or total sales or stock market prices. Large companies can easily access capital markets, so they have greater flexibility and ability to obtain funds for dividend payments (Nafiah, 2013).

## 5 CONCLUSION

This study aims to determine whether there is an influence of free cash flow, net profit, debt to equity ratio, and the size of the company on payments to agricultural sector manufacturing companies in 2012-2018. The population used in this study were all agricultural sector manufacturing companies in 2012-2018. The sampling method using purposive sampling method. Based on the sampling method obtained by companies that fit the criteria is equal to 5 agricultural sector manufacturing companies. The sample in this study is the financial statements of agricultural sector manufacturing companies (annual report) in 2012-2018, amounting to 35 samples. And using data outlier 3 companies. Based on the results of hypothesis testing (t test) shows that the variable free cash flow (X1), debt to equity ratio (X3) and firm size (X4) affect the dividend payment. Whereas net profit margin (X2) has no effect on dividend payments. Based on the results of the feasibility testing model (F test), it shows that the independent variables (free cash flow, net profit margins, debt to equity ratio, and company size) affect the dependent variable (dividend payments) As for the limitations of this study are (1) This study only uses a very limited sample, namely in the agricultural sector manufacturing companies and the observation period in the study is only 7 years from 2012-2018. (2) Variables that divide dividends are only 5 companies. (3) Samples of registered agricultural sector manufacturing companies are only 21 companies. (4) Samples of registered agricultural sector manufacturing companies are only 21 companies. (5) Samples of registered agricultural sector manufacturing companies are only 21 companies.

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