
Analysis of the Effect of Free Cash Flow, Liquidity and Profitability on Debt Policy

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Abstract

The purpose of this study was to determine the effect of free cash flow, liquidity and profitability on debt policy in chemical manufacturing companies listed on the Indonesia Stock Exchange for the period 2016 – 2020. The number of research samples is 10 chemical sub-sector companies on the Indonesia Stock Exchange. The sampling technique used is purposive sampling method. Multiple linear regression analysis was used to process the data using SPSS Version 26. The results of the study based on the t-test showed that free cash flow had a negative and insignificant effect on debt policy, liquidity and profitability had a negative and significant effect on debt policy. Meanwhile, based on the Free Cash Flow F test, liquidity and profitability have a significant effect on debt policy simultaneously.

Keywords: *Free Cash Flow, Liquidity, Profitability and Debt Policy*

INTRODUCTION

Along with the times, this requires companies to strengthen management fundamentals so that they can compete by developing innovation and improving company performance so that it runs in accordance with company goals. One source of capital is from shareholders. However, before becoming an investor, there are several criteria that must be considered, such as the shareholder's perspective on the debt policy of a company. In this case, the debt policy is the determination of how much debt the company will use. To analyze the debt policy, there are several influencing factors, namely free cash flow, which is the cash flow available to parties with an interest in the company, namely creditors and investors. In addition, the debt policy that will be taken is related to the company's ability to repay debt, which is called liquidity. And the next factor is profitability which is the company's ability to generate profits. Based on the background described above, the researcher will conduct a research entitled "Analysis of the Effect of Free Cash Flow, Liquidity and Profitability on Debt Policy in Chemical Sub-Sector Manufacturing Companies Listed on the Indonesia Stock Exchange 2016-2020".

METHOD

The type of data used by researchers in this study is secondary data. While the data collection techniques by means of library research such as reading, studying, understanding, reviewing, and reviewing several sources in the form of books, journals, articles, papers and so on to serve as the basis of knowledge and theoretical basis in this research. The number of research samples is 10 chemical sub-sector companies on the Indonesia Stock Exchange. The sampling technique used is purposive sampling method. Multiple linear regression analysis was used to process the data using SPSS Version 26.

RESULTS AND DISCUSSION

Table 1. Multiple Linear Regression Analysis Results

		Coefficients ^a				Collinearity Statistics		
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
Model		B	Std. Error	Beta				
1	(Constant)	.531	.057		9.239	.000		
	X1	-.118	.589	-.026	-.201	.842	.907	1.103
	X2	-.051	.018	-.370	-2.875	.006	.939	1.065
	X3	-1.399	.607	-.311	-2.304	.026	.855	1.170

a. Dependent Variable: Kebijakan Hutang

Based on the results of regression analysis, it can be drawn the function :

$$Y = 0,531 + (-0,026) X1 + (-0,370) X2 + (-0,311) X3 + \varepsilon$$

Table 2. F Test Analysis Results

		ANOVA ^a				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.466	3	.489	6.107	.001 ^b
	Residual	3.681	46	.080		
	Total	5.147	49			

a. Dependent Variable: Kebijakan Hutang

b. Predictors: (Constant), Profitabilitas (X3), Likuiditas (X2), Free Cash Flow (X1)

Hypothesis test :

H1 test: The t-value of -0.201 indicates the direction of the influence of free cash flow on debt policy is a negative effect. The free cash flow variable has a significant value of 0.842 > 0.05, it can be concluded that the free cash flow partially has a negative and insignificant effect on debt policy, which means that H1 is rejected. H2 test: The t value -2.875 indicates the direction of the influence of liquidity on debt policy is a negative effect. The liquidity variable has a significant value of 0.006 < 0.05, it can be concluded that liquidity partially has a negative and significant effect on debt policy, which means that H2 is accepted.

H3 test: The t value of -2.304 indicates the direction of the influence of profitability on debt policy is a negative effect. The profitability variable has a significant value of $0.026 < 0.05$, it can be concluded that profitability partially has a negative and significant effect on debt policy, which means H3 is accepted. Based on the results of the simultaneous test table above, it can be seen that the calculated f is 6.107, because the calculated f value is greater than f table 2.80, it can be concluded that the independent variables simultaneously affect the dependent variable. And from the results of table 4.7 it can be seen that the significant value is 0.001, because the significant value is $0.001 < 0.05$ according to the basis for decision making in the f test, it can be concluded that this research model can be used, meaning that H4 is accepted.

CONCLUSION

1. Free cash flow partially has a negative and insignificant effect on debt policy so that hypothesis 1 is rejected.
2. Liquidity partially has a negative and significant effect on debt policy so that hypothesis 2 is accepted.
3. Profitability partially has a negative and significant effect on debt policy so that hypothesis 3 is accepted.
4. Free cash flow, liquidity and profitability simultaneously have a significant effect on debt policy so that hypothesis 4 is accepted.

Suggestion

1. This study has not been able to prove that there is a significant effect of free cash flow on debt policy in chemical sub-sector companies in this study. The researcher hopes that in future research, other types of companies listed on the Indonesia Stock Exchange can be used.
2. Companies should pay attention to liquidity conditions, because liquidity is very important for the survival of the company. If the company is considered able to meet its short-term obligations, then the company will reduce the level of use of debt so that the company avoids financial risk.
3. The company should also increase the company's profitability by increasing sales and optimal use of company assets.
4. Companies should limit the use of large amounts of debt, this is because the greater the use of debt, the greater the risk that will be incurred in the company. The use of debt must be adjusted to the company's financial situation so as not to cause losses.
5. For further researchers, for the development of knowledge in order to be able to conduct a broader analysis by adding the number of independent variables or using other factors by replacing the independent variables that affect debt policy. In addition, further researchers are also expected to increase the number of references if they want to research with the same variables.
6. For investors who will invest, it is better to pay attention and analyze the factors that influence the company's debt policy such as the level of Free Cash Flow, Liquidity and Profitability because debt policy indirectly affects the amount of return expected by investors.

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