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Determinants of Dividend Policy in Primary Consumer Goods Sector Companies on the Indonesia Stock Exchange

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Abstract

Dividend policy examines the issue that arises when a firm must decide whether to distribute profits as dividends or keep profits for future investment financing. This quantitative study targets to determine the effect of leverage, profitability, sales growth, and free cash flow on dividend policy. As the object of research, this study examines data from consumer non-cyclicals sector firms in the Indonesia stock exchange during the 2018-2020 period. Saturated sampling technique was used to select samples from non-cyclicals sector by obtaining 37 firms as research samples in the 2018-2020 period. The hypothesis was tested using the Panel Data Regression Analysis with Eviews 12 program and a significance level of 5%. The findings of the experiments found out that (1) leverage has an effect on dividend policy, (2) profitability has an effect on dividend policy, (3) sales growth has no effect on dividend policy, and (4) free cash flow has no effect on dividend policy.

Keywords
dividend policy; leverage; profitability; sales growth; free cash flow

I. Introduction

In an era that continues to develop, companies as one of the important components driving the economy must adapt to changing times. Along with the emergence of various advanced technologies that greatly affect people's activities, one of which makes it easier for people to invest. Investors must be careful before investing(Rachmah & Riduwan, 2019). The Indonesia Stock Exchange changed its sectoral index in early 2021, namely the industrial classification index under the name IDX-Industrial Classification. One of them is the Consumer Non-Cyclicals sector. The Non-Cyclical Consumer Sector or Primary Consumer Goods was chosen as the object of research because companies in this sector sell products or distribute products and services to consumers with anti-cyclical goods so that economic growth does not affect this sector.

Investment is an activity of storing or placing funds which is carried out with the hope that it will generate profits or increase the investment value from the deposit of these funds (Azizah et al., 2020). The advantages of investing in the form of shares are in the form of stock returns and dividends(Pangestuti, 2019). This research focuses on dividends. Dividends are company income paid to shareholders in cash or shares based on the number of shares owned (Ross et al., 2013).

When the company has to decide whether to give profits as dividends or hold profits for further investment funding, problems will occur. All of these issues are addressed in dividend policy. This dividend policy can be a source of dispute between the principal and the

company's agent which can lead to agency costs because the agent is directly related to the company's operations so that they have more information.(Sejati et al., 2020).The variables in determining dividend policy in this study are leverage, profitability, sales growth and free cash flow.

Handiman Soetoyo, an analyst at Mirae Asset Sekuritas, in his latest research, said that the consumer sector will offer stable dividends, except for cigarette issuers.(Dance, 2021). The Primary Consumer Goods sector experienced a correction due to investors' expectations of a declining outlook. Slowing performance is considered to be able to reduce profit gains which have an impact on dividend expectations.

Based on dividend per share data, the average dividend per share value of 35% of primary consumer goods sector companies decreased throughout 2018 to 2020. In 2018, the average dividend per share value was 80.11 then in 2019 it decreased again to 78.56. In 2020 there was another decline in dividend per share with an average of 73.21. This decrease in the value of dividends per share makes it possible to reduce investor interest in investing in shares. This is evident from the movement of stock returns in the consumer goods sector which declined during June 2020 to June 2021.

Figure 1. *Movement of Stock Return Performance for the Period June 2020-June 2021*
Source:www.idx.co.id, 2021

As can be seen from the picture above, the return performance for one year (June 2020-June 2021) shows the stock return rate has decreased with the last return of -8.68% and is the sector with the lowest return compared to other sectors. These results indicate that the performance of the Primary Consumer Goods Sector is not good and is less of an investor's choice in making investments. Generally, investors buy stocks with the aim of making a profit. The profit can be obtained from the difference in the selling price of the shares and also through dividends distributed by the company taking into account the net profit owned. Investors tend to be interested in investing in profitable companies (Buchari, 2020).

The development of the average net profit of 35% of companies in the primary consumer goods sector showed a decline in 2019 which had an average net profit of 1,576,839 in 2018 to 1,500,102 in 2019 and an increase in 2020 by having an average the average is 1,808,825. The development of net profit seen from the average for three consecutive years was stable and increased. This is inversely proportional to the development of a declining dividend per share. Thus, the development between dividends per share and net

income is not in line with the theory that shows a positive relationship between dividends and company profits as indicated by Kusuma et al. (2018).

Based on the phenomena and research gaps found in previous studies, therefore the researchers conducted a study entitled: "Determinants of Dividend Policy in Primary Consumer Goods Sector Companies on the Indonesia Stock Exchange".

II. Review of Literature

2.1. Signaling Theory, Dividend Signaling Theory and Agency Theory

Signaling theoryis a theory developed by Ross, signal theory shows that company executives who have superior knowledge or have better information about the company will have the urge to provide this information to potential investors, resulting in an increase in the company's stock price (Ross et al., 2013). According to Darmawan (2018), MM has the opinion that when dividends increase it shows a signal for investors who expect good profitability in the future. On the other hand, a decrease in dividends will be interpreted by investors as an indication that the company may experience difficult times in the future.

2.2 Dividend Policy

Dividend policy refers to the choice of whether the company's profits earned during a period are given to shareholders in the form of dividends or are retained as retained earnings to reinvest in the company (Astakoni & Utami, 2019). Considerations in responding to the dividend payout ratio, namely the dividend payout ratio, are closely related to the successful performance of the company. If the performance of a company is strong, the company will be considered capable of adopting a dividend payout ratio policy that is in line with the expectations of shareholders without ignoring the company's interests (Arifah & Suzan, 2018). The most important theories that attempt to explain distribution policy include:

a. Irrelevant Theory from MM
   According to this theory, profit-sharing decisions have no effect on the stock price in the market or the market value of the company. The market value of a company is affected only by the income generated from asset management and not by the way this income is divided among shareholders through cash distributions or retained earnings.
b. Bird-In-The-Hand Theory
   The theory developed by Gordon and Litner shows that dividend policy has a direct impact on the market value of the company through its effect on market share prices because the required rate of return on owned funds decreases with increasing dividends.
c. Tax Preference Theory
   According to this theory, if the capital gains associated with the sale of shares are not taxed or if the tax rate on these profits is less than the tax rate on cash dividends distributed.
d. Theory "Signalling Hypothesis"
   This theory states that managers use dividend payments as a signal to share personal information regarding the company with potential external investors and shareholders about the prospects for profits and successful company performance.
e. "Clientele Effect" Theory
   This Securities Client Theory shows that due to changes in dividend policy, investors always make decisions depending on the dividend policy chosen by the company which is able to encourage investors to continue investing in the company or prefer to transfer to other companies (Kanakriyah, 2020).

2.3 Leverage

Leverageis a method of increasing the potential returns of shareholders by leveraging assets and other sources of capital at a fixed cost. Funds obtained from creditors can be used to limit the availability of free cash flow for company managers to avoid using them for their own interests. The negative relationship between leverage on dividend payments shows that with increasing debt, dividend payments will tend to decrease. The reason for paying dividends is because with an increase in debt levels, the company's financial risk increases and to deal with this, creditors make debt agreements that limit the use of free cash flow. Leverage has the strongest negative impact on dividend payout decisions of firms that have a high proportion of debt in their capital structure (Tahir & Mushtaq 2016).

H1: Leverage has an effect on Dividend Policy.

2.4 Profitability

Company profitability is a measure of financial performance that shows income after expenses and other deductions. Companies that have a consistent level of profitability will pay large dividends. The company's ability to earn profits affects dividend policy. Along with previous research that explains the profitability variable has a large enough impact on dividend policy (Tahir & Mushtaq, 2016). The existence of the company can grow and be sustainable and the company gets a positive image from the wider community (Saleh, 2019). The positive relationship of profitability with the dividend payout ratio illustrates that if the profitability of a company increases, it will be in line with the increase in the dividend payout ratio automatically. Very strong or high company profitability makes investors more interested in the company to invest (Khan et al. 2017). Return on assets is met on profitability and operational efficiency. A positive return on assets indicates a company that is profitable for the company, and vice versa. Therefore, a higher return on assets allows the company to prosper the shareholders (Kusuma et al., 2018).

H2: Profitability has an effect on Dividend Policy.

2.5 Sales Growth

An increase in sales leads to an increase in working capital or an increase in investment. To maintain the same dividend payout ratio, companies must increase external financing.Arifah & Suzan (2018) concluded that there was an inverse relationship between sales growth and the dividend payout ratio. Sales growth increases the need for investment in new projects and hence a large amount of internal financing is required. Companies that want to distribute dividends should pay attention to sales growth. According to Nurwulandari (2020), sales growth has a detrimental but marginal impact on dividend policy. This reflects that if the company prefers to emphasize revenue growth, the expenditure of funds will increase even more so that management is forced to distribute low dividends or not distribute at all.

H3: Sales Growth has an effect on Dividend Policy.

2.6 Free Cash Flow

Free Cash Flowdescribes the size of the company's cash that is able to show the performance of a company.Rosdini (2009)argues that free cash flow is able to represent the health of the company, and companies that have free cash flow will outperform other companies because they benefit from possibilities that other companies do not have. Companies that have significant free cash flow can help prevent agency problems because

they tend to pay large dividends to shareholders. This is done to ensure that the available free cash flow is not only used to carry out profitable projects. The positive relationship of free cash flow with dividend policy is in line with research findingsRochmah & Ardianto (2020). The available Free Cash Flow can be used by the company to re-invest or increase the dividends to be distributed (Rachmah & Riduwan, 2019).

H4: Free Cash Flow has an effect on Dividend Policy.

III. Research Methods

The population is a group of objects that have the number, quality and characteristics identified by the researcher. The population in this study are primary consumer goods sector companies on the Indonesia Stock Exchange during the 2018-2020 period. The sample is a part of the population. Samples obtained from the population must represent the entire population. The sample used was companies in the primary consumer goods sector on the Indonesia Stock Exchange before the 2018-2020 research period and distributed dividends for the 2018-2020 period using the sampling method, namely saturated sampling. A sample of 37 companies was obtained.

IV. Discussion

4.1 Results

a. Descriptive Statistical Analysis

Descriptive statistical analysis is useful for reflecting the picture through the data that has been collected which can be shown from the average, minimum, maximum, and standard deviation values. The following shows the results of descriptive statistics:

Table 1. Descriptive Statistics

	POLICY _DIVIDEND	LEVERAGE	PROFITABILITY	SALES_ GROWTH	FREE_CAS H _FLOW
mean	0.379207	1.128217	0.153041	0.026761	0.103188
median	0.311200	0.914300	0.109800	0.043600	0.020900
Maximum	6.218400	4.227900	1.450900	0.295500	1.743600
Minimum	-8.815700	0.050000	-0.069100	-0.576500	-0.481100
Std. Dev.	1.274324	0.976839	0.236334	0.151622	0.284806
Observations	111	111	111	111	111

Source: E-views 12

The interpretation of the results of descriptive statistics is described as follows:

a. Dividend Policy Variables

The average proxy for the dividend policy variable, namely the dividend payout ratio (DPR) from 111 observational data, is 37.9207%. This indicates that the level of dividend payments per share to net income per share in primary consumer goods sector companies during the 2018-2020 period is on average good. DPR with the highest ratio value of 6.218400 in the companyUNVR in 2019. The UNVR company distributed dividends using the benchmark number of shares before the stock split so that the company experienced an increase in dividend payments of 62%. Meanwhile, the lowest value was -8,815700 for ANJT company in 2018. ANJT paid dividends in the previous year which

had not been given to shareholders. So that the company continues to provide dividends even though in 2018 it experienced a net profit loss. And the DPR's standard deviation of 1.274324 shows that there is a gap between the minimum value and the maximum value because the DPR has a smaller average than the DPR's standard deviation.

b. Variable Leverage

The average leverage variable proxy, namely debt to equity ratio (DER) of 111 observational data is 1.128217. This indicates that the level of debt to equity in primary consumer goods sector companies during the 2018-2020 period is on average less good because more than 1 implies that the company is having difficulty fulfilling its debt obligations. DER with the highest ratio value of 4.227900 in SDPC companies in 2019. SDPC experienced an increase in debt by 4% and an increase in equity by 1%. It can be seen that there was a greater increase in debt than equity. The increase in debt included bank loans and accounts payable, while the increase in equity was only seen from the company's retained earnings which also increased. On the other hand, the lowest value is 0.050000 for PALM companies in 2020. The company experienced an 85% increase in equity capital with a -26% decrease in debt. And the standard deviation of DER is0.976839 smaller than the average in DER, therefore this condition shows a minimum value and a maximum value that does not have a gap.

c. Profitability Variable

The average proxy for profitability variable, namely return on equity (ROE) of 111 observation data, is 15.3041%. This indicates that the rate of return on equity in primary consumer goods sector companies during the 2018-2020 period is on average good. ROE with the highest ratio value of 1.450900 at the UNVR company in 2020. The UNVR company experienced an increase in the rate of return by 16%. Meanwhile, the lowest value was -0.069100 for PALM companies in 2018. PALM companies experienced a decrease in company sales by -57% so that net income decreased by -36%. And the standard deviation of ROE is0.236334 greater than the average ROE. showing the minimum and maximum values have gaps.

d. Sales Growth Variable

The average sales growth of 111 observation data is 2.6761%. This indicates that the level of sales growth in primary consumer goods sector companies during the 2018-2020 period is on average good. Sales growth with the highest value of 0.295500 in the companyKino in 2019. Increased sales of personal care products, beverages, food, pharmaceuticals and pet food so that sales growth increased by 29%. Meanwhile, the lowest value was -0.576500 for PALM companies in 2019. PALM companies experienced a decline in sales of palm oil products, palm kernel and fresh fruit bunches so that sales growth decreased by -57%. And the standard deviation of 0.151622 explains the gap between the minimum value and the maximum value because the standard deviation is greater than the average sales growth.

e. Variable Free Cash Flow

The average free cash flow (FCF) of the 111 observation data is 10.3188%. This indicates that the level of free cash flow to assets in primary consumer goods sector companies during the 2018-2020 period is on average good. Free cash flow with the highest value of 1.743600 at the BISI company in 2020. The BISI company experienced an increase in operating cash flow by 126% which was greater than the increase in capital expenditure by the company of 119%, so that free cash flow increased by 127% compared to previously. Meanwhile, the lowest value is -0.481100 for ICBP companies in 2020. An increase in capital expenditures made by ICBP by 1357% while operating cash flow at the company only increased by 16% causing a decrease in the company's free cash flow by -

163%. And the standard deviation of 0.284806, which is greater than the FCF average, shows that there is a gap between the minimum and maximum values.

b. Panel Data Regression Analysis

Based on the results obtained from the Restricted F Test (0.000 < 0.05) and Hausman Test, (0.003 < 0.05) it can be concluded that the most appropriate panel data regression model to be used is the Fixed Effect Model. Data processing with the help of Eviews 12 obtained the results in the following table:

Table 2. Results of Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	1.029743	0.236867	4.347341	0.0000
LEVERAGE	-0.789289	0.22004	-3.587611	0.0006
PROFITABILITY	1.257638	0.626803	2.006432	0.0487
SALES_GROWTH	0.052070	0.444991	0.117013	0.9072
FREE_CASH_FLOW	-0.096051	0.312631	-0.307235	0.7596

Source: E-views 12

Based on the data processing table above, it is obtained that the dividend policy panel data regression equation = 1.029743 – 0.789289 (Leverage) + 1.257638 (Profitability) + 0.052070 (Sales Growth) – 0.096051 (Free Cash Flow) + e with the following interpretation:

a. Based on the results of the regression model testing, it can be seen that the constant value is 1.029743. This value shows that if the independent variables explained by leverage (DER), profitability (ROE), sales growth and free cash flow are considered constant or 0 then the Dividend Policy value is 1.029743.
b. The value of the leverage regression coefficient is proxied by the Debt to Equity Ratio of –0.789289, indicating that if the leverage value increases by 1 (assuming other variables are fixed or zero), the dividend policy will decrease by –0.789289. A negative coefficient indicates that there is a negative relationship between leverage and dividend policy.
c. Profitability coefficient value proxied Return on Equity1.257638indicates if the ROE value increases by 1 (assuming other variables are fixed or zero), then the dividend policy also increases by1.257638. A positive coefficient indicates that there is a positive relationship between profitability and dividend policy.
d. The value of the sales growth coefficient of 0.052070 indicates that if the value of sales growth increases by 1 (assuming other variables are fixed or zero), then the dividend policy will also increase by 0.052070. A positive coefficient indicates a positive relationship between sales growth and dividend policy.
e. The free cash flow coefficient value is -0.096051, indicating that if the free cash flow value increases by 1 (assuming other variables are fixed or zero), the dividend policy will decrease by -0.096051. A negative coefficient indicates a negative relationship between free cash flow and dividend policy.

c. Partial Test (T Test)

Next, test the hypothesis with a t-test to determine whether there is an effect ofleverage, probability, sales growth, and free cash flow on dividend policy. The following are the results obtained from the t-test:

Table 3. Partial Test Results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	1.029743	0.236867	4.347341	0.0000
LEVERAGE	-0.789289	0.22004	-3.587611	0.0006
PROFITABILITY	1.257638	0.626803	2.006432	0.0487
SALES_GROWTH	0.052070	0.444991	0.117013	0.9072
FREE_CASH_FLOW	-0.096051	0.312631	-0.307235	0.7596

Source: E-views 12

Based on the eview data processing table above, it can be seen that the variableleverage has a negative effect on dividend policy and profitability has a positive effect on dividend policy. Meanwhile, sales growth and free cash flow have no effect on dividend policy. This can be seen by comparing the t-count with the t-table. If t-count > t-table, then leverage, probability, sales growth, and free cash flow affect the dividend policy of primary consumer goods sector companies on the Indonesia Stock Exchange. On the other hand, if t-count < t-table, then leverage, probability, sales growth, and free cash flow have no significant effect on dividend policy in primary consumer goods sector companies on the Indonesia Stock Exchange. The statistical table shows the t-table value with a significance of 0.05, degree df = number of observations n – (number of independent variables (K)+1). So the value of the t-table using the following formula 111-(4+1) = 106 is 1.98260. Based on the table above, the t-count leverage = -3.587611 < t-table = -1.98260 and t-count profitability = 2.006432 < t-table = 1.98260 indicates that leverage and profitability variables affect dividend policy in primary consumer goods sector companies in Indonesia. Indonesia stock exchange. Meanwhile, the t-count value of sales growth = 0.117013 < t-table = 1.98260 and t-count free cash flow = -0.307235 > t-table = -1.98260 indicate that sales growth and free cash flow variables have no effect on dividend policy in primary consumer goods sector companies on the Indonesia Stock Exchange.

d. Coefficient of Determination Test (R2 Test)

The coefficient of determination is a test that determines how well a regression line fits the data. This test is essentially a percentage that assesses the capacity of the reference equation model to explain variance. The following shows the results of the coefficient of determination test:

Table 4. Results of the Coefficient of Determination

Adjusted R Square	Results
0.736887	73.69%

Source: E-views 12

It can be seen that the adjusted R-squared value in table 4 is 0.736887 or 73.6887%. This finding indicates that the independent variables, namely leverage, profitability, sales growth and free cash flow can explain and provide information about the dependent variable or dividend policy of 73.69%. While the remaining 26.31% (100% - 73.69%) is explained by variables other than the 4 variables contained in this study.

4.2 Discussion

a. Leverage on Dividend Policy

The results of this study conclude that leverage has an effect on dividend policy in Primary Consumer Goods Sector companies on the IDX in 2018-2020. The more debt the company has, the smaller the dividends distributed by the company to investors, on the contrary if the debt is getting smaller, the dividends are getting bigger. Based on signaling theory, dividend reductions or increases that are lower than expected dividends indicate a signal that management predicts unfavorable earnings in the future. If it is associated with debt, debt financing that is too high will increase the company's financial risk which will have an impact on reducing dividends. Thus, it can be concluded that an increase in debt gives a negative signal to investors. This condition is shown by, among other things, the ULTJ Company which experienced a decrease in dividends during the 2018-2020 period accompanied by an increase in the level of leverage. Furthermore, the companies AALI, AMRT, BUDI, MYOR, PALM, ROTI, SKLT, STTP, TGKA, in 2019 experienced an increase in dividends followed by a decrease in debt. The lower ownership of debt obligations will increase the amount of dividends distributed to shareholders. This is because the company has made debt payments in advance so that the profits from capital utilization after being used to pay debts can increase the amount of dividends paid by the company in 2019 experienced an increase in dividends followed by a decrease in debt. The lower ownership of debt obligations will increase the amount of dividends distributed to shareholders. In addition, it is proven from 37 companies in the primary consumer goods sector for the 2018-2020 period that experienced a decrease in dividends accompanied by an increase in leverage or vice versa, an increase in dividends accompanied by a decrease in leverage had a percentage of 76%. While 24% shows the percentage of companies experiencing a decrease in dividends accompanied by a decrease in leverage. This evidence strengthens the finding that leverage has an effect on dividend policy. Previous research that supports the findings was carried out by Sarumpaet & Suhardi (2019) and Buchari (2020).

b. Profitability against Dividend Policy

These findings indicate that the Primary Consumer Goods Sector companies on the IDX in 2018-2020 experienced an increase and decrease in profitability which was able to have an influence on dividend policy. The higher the profitability, the greater the profit. If the company has large profits, it has a good effect because it shows the company's ability to carry out maximum company operations, pay debts and pay dividends. This shows a positive signal to investors. In accordance with the (Ross et al., 2013) which states that dividends are company profits paid to shareholders, so it is very reasonable if the profits generated by the company greatly affect the dividend policy set by the company. This condition occurred in PALM and RANC companies during the 2018-2020 period, which experienced an increase in dividends accompanied by an increase in profitability. In addition, as evidenced by 37 companies in the primary consumer goods sector for the 2018-2020 period, which experienced an increase in dividends accompanied by an increase in profitability or a decrease in dividends followed by a decrease in profitability, the percentage was 67%. While 33% shows the percentage of companies that experienced an increase in dividends but the company experienced a decrease in profitability. This evidence strengthens the finding that profitability has an effect on dividend policy. Previous research that supports the findings of the research conducted bySarumpaet & Suhardi (2019) and Pangestuti (2020).

c. Sales Growth on Dividend Policy

The movement of sales growth is not able to give effect to dividend policy. Based on theoryDarmawan (2018)states that companies will always need new funds to invest in

profitable projects, one of which comes from retained earnings because companies tend to take advantage of retained earnings rather than issuing new shares. Therefore, retained earnings for the need for larger investment funds cause dividend payments to decrease. However, the results of this study show something different. It can be seen that DSNG companies during the 2018-2019 period experienced an increase in sales growth accompanied by an increase in dividend policy which showed a positive relationship between sales growth and dividend policy. This result is in line with the findingsAzizah et al. (2020).Then in 2020 the weakening of people's purchasing power resulted in a decline in product or service sales so that sales growth in the primary consumer goods sector decreased. The company's sales decline will result in decreased profit. This has an impact on the company so that in 2020 the company lowers the dividend policy that will be paid to shareholders. This condition can be seen in BISI, CAMP, DSNG, EPMT, JPFA, MAIN, MLBI, TCID, ULTJ and UNVR companies in 2020 which experienced a decrease in dividends accompanied by a decrease in sales growth. The decline in the company's sales causes the cash obtained by the company to decrease.

In addition, as evidenced by 37 companies in the primary consumer goods sector for the 2018-2020 period, which experienced an increase in dividends accompanied by an increase in sales growth or a decrease in dividends followed by a decrease in sales growth, the percentage was 54%. Meanwhile, 46% shows the percentage of companies that experienced an increase in dividends despite a decrease in sales goth. This evidence strengthens the finding that sales goth has no effect on dividend policy. The results of the study are supported by previous research conducted byKhan et al. (2017)andAzizah et al. (2020).

d. Free Cash Flow against Dividend Policy

The findings in this study are not in line with the theory which states that excess cash owned by the company is able to make the company distribute dividends or choose to reinvest to fund a project. The higher the free cash flow, the higher the dividend payout ratio. This is done by planning to reduce agency costs by distributing cash dividends in increasingly higher amounts. Research findings that have no effect are in line with research findingsDiana & Hutasoit (2017). Conditions that are not in accordance with the theory, among others, are shown by AMRT, BUDI, CEKA, DLTA, HOKI, ICBP, INDF, KINO, MIDI, RANC, STTP, and TGKA companies which in 2020 experienced a decrease in free cash flow but increased dividends. The company's capital expenditures, especially in 2020, were greater than the cash generated from the company's operating activities due to delays in production activities due to the covid-19 pandemic. As many as 30% of companies in the primary consumer goods sector experienced the impact, showing that the company had a negative free cash flow. However, this does not have an impact on dividends, this can be seen from as many as 24% of primary consumer goods sector companies in 2020 who continue to distribute dividends even though they have negative free cash flow.

In addition, it is proven from 37 companies in the primary consumer goods sector for the 2018-2020 period that experienced a decrease in dividends accompanied by an increase in free cash flow or vice versa, an increase in dividends accompanied by a decrease in free cash flow had a percentage of 81%. While 29% shows the percentage of companies that experienced an increase in dividends accompanied by an increase in free cash flow. This evidence strengthens the finding that free cash flow does not have an effect on dividend policy. Previous research that supports the findings of the research conducted Diana & Hutasoit (2017).

V. Conclusion

Four hypotheses were proposed in this study. The results of the first hypothesis show that leverage has a negative effect on dividend policy, meaning that the use of debt over a certain period of time, whether large or small, will have an impact on determining the company's dividend distribution decision. The results of the second hypothesis indicate that profitability affects dividend policy, meaning that the profits earned by the company have an impact on the distribution of dividends to shareholders. The results of the third hypothesis show that sales growth has no effect on dividend policy. Whereas in general, companies that focus on sales growth will prioritize using funds for investment rather than paying dividends. And the results of the fourth hypothesis indicate that free cash flow does not affect dividend policy. Even though, the excess cash owned by the company is able to play a more effective role in reducing agency costs by paying dividends. This research has limitations due to the Covid-19 pandemic, making this research constrained and only a few companies in the primary consumer goods sector as many as 37 companies have continued to try to distribute dividends for the last 3 years.

The suggestions that can be submitted related to this research include:It is hoped that the next researcher can carry out further research by extending the observation time of the existing sample data in order to be able to provide better and interesting findings from this research. For companies in the primary consumer goods sector, it is expected that they will pay more attention to the composition of their capital and debt and be able to utilize their assets and capital so that they will obtain maximum profit. Investors are expected to be more careful in paying attention to the financial performance of the company where investors will invest their capital, especially on leverage and profitability.

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