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THE EFFECT OF FREE CASH FLOW, COMPANY GROWTH AND PROFITABILITY ON DEBT POLICY ON MINING SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract : *Growing companies need funds that can be financed through debt. Several factors that influence debt policy include: free cash flow, company growth and profitability. This research is a quantitative research that takes data from BEI, a mining sector company from 2016 to 2018 with a population of 48 company data, using purposive sampling technique obtained as many as 15 company data. The conclusion from the results of this research shows that free cash flow, company growth and profitability as measured using return on assets, have a significant effect on debt policy. The debt policy variable in this research uses the Debt to Asset Ratio measurement. The results of the coefficient of determination obtained a value of 56.5% indicating that debt policy is influenced by free cash flow, company growth and profitability, while the other 43.5% is influenced by other variables not included in this research. Companies need to pay attention to other variables besides debt policy, such as Price Earnings Ratio, Dividend Payout Ratio and Tobin's Q.*

Keywords: *free cash flow, company growth, profitability, debt policy*

1. INTRODUCTION

The abundance of natural resources in Indonesia is inseparable from the problem of competition between state-owned mining companies and private mining companies in this country. The competition between state-owned mining companies and private mining companies in Indonesia is the background of how these companies can survive and achieve their desired goals. These companies compete with the aim of increasing the profits earned. Increased profits indicate increased financial performance, this performance can cause the value of the company in the eyes of investors and potential investors to also be high (Hermanto et al., 2021). The achievement of company goals will be achieved if the management is able to manage the company well by managing company funding. The management of these funds requires careful consideration of decisions. Funding management decisions can be obtained whether using external sources of funds or from internal funds, for example using capital by issuing shares purchased by investors. Debt policy is where the company can increase operational needs or depending on financial conditions through debt policies. In addition, if the company is unable to meet its obligations in paying the debts obtained, it will cause an increase in risk to the company so that management must work hard to minimize the risks borne by the company.

Management feels benefited and prefers to use debt for alternative funding rather than own capital, another reason is because of the interest on debt that can reduce taxes charged by

the company, while shareholders feel disadvantaged, because the dividends obtained are not tax deductible at all. This is of course the shareholders do not benefit.

Management and shareholders are parties with different interests and perspectives in managing the company (Utami & Suprihati, 2021). The purpose of a principal is to increase company values so that managers are forced to do what the shareholders want. Meanwhile, managers carry out activities for the welfare of the company; in this case the manager has the authority to fully manage the company. With the authority possessed by managers, it is possible that managers make policies and decisions that are selfish before the interests of the principal. One example of a manager's decision to prosper the company is taking funds from outside parties or debts without seeing the interests of the principals. The existence of differences in the wishes of the two parties is what is called agency conflict. However, the debt policy is very sensitive to conflicts of interest. Disputes of interest can be minimized by equalizing the interests between agents and principals by using supervisory procedures and increasing share acquisition for managers. With the distribution of shares for these managers will generalize the interests of company managers or agents and shareholders or principals. Thus, the acquisition of shares to managers is a bonus for managers in order to maximize the performance and welfare of the company.

Based on the background that has been explained, the researcher is interested in taking the title of *"The Effect of Free Cash Flow, Company Growth and Profitability on Debt Policy in Mining Sector Companies Listed on the Indonesia Stock Exchange"*.This research aims to examine: (1) What is the free cash flow variable? Affect debt policy variables in mining sector companies? (2) Does the variable of company growth affect the variable of debt policy in mining sector companies?; and (3). Does the profitability variable affect the debt policy variable in mining sector companies?

2. LITERATURE REVIEW

Agency Theory

The relationship between management who acts as an agent while the principal is a shareholder (Ross, 1973). In this case, management as an agent is given an obligation by the shareholders in regulating everything that deals with the company, with the same goal of obtaining company value and prosperity for the principals. The higher the welfare obtained by the principal, the higher the claim for prosperity rights requested by the agent. This is what gives rise to a conflict of interest between the agent or manager and the principal or shareholder.

Pecking Order Theory

The pecking order theory states that the use of retained earnings is the first step taken by management and the last option is to choose by issuing shares and taking debt (Irham Fahmi, 2015). This is a sequence of funding decisions that must be taken by management. The decision to use funds derived from debt will be more attractive to management because of the low costs incurred than the costs incurred for the issuance of shares. Here it is explained that why companies that are on average profitable prefer to borrow less external funds. It does not deny that the low debt generated by the profitable company uses lower debt funding as well. In contrast to companies that are less profitable, they prefer debt due to other factors where the less profitable companies lack internal funds.

Debt policy

Debt is an activity of a company that made transactions in the past that must be repaid with legal tender, goods and services in the future (Jusup, 2011). Debt is funds from third parties borrowed by companies from financial borrowers, banks, bond sales and so on (Irham Fahmi, 2015)

Free Cash Flow

Free Cash Flow (free cash flow) is the acquisition of cash flow by the company in a certain period of time provided for interested parties, namely creditors and investors (Syahyunan, 2015). Free cash flow can be referred to as profits or returns of a nominal amount for the company's capital providers. The function or usefulness of this free cash flow is that it can be used to pay the resulting company debt, purchase new shares, pay dividends and hold it for the future with opportunities for company growth. Another function of the use of free cash flow is that it can be used to measure the growth of a business or business as well as shareholder payments.

Company Growth

Company growth is a process in which the company experiences significant development by looking at the comparison of the previous year with the current year. The increasing growth of the company allows the company to more easily obtain the funds needed for the Company's operations. The company can be said to experience significant growth if the company is successful in obtaining high profits. With the acquisition of high profits, the increase in company value is also achieved. Good resources also affect the company's growth. By utilizing and maximizing good resources, the company's growth rate also increases (Hardiningsih & Oktaviani, 2012).

Profitability

Companies that have good financial performance are expected to increase the value of the company. To measure whether the company is able to make a profit, it can be seen from its financial performance. The measurement of financial performance indicators is through the calculation of the profitability ratio, which can be seen from the level of asset turnover (Return On Assets / ROA) (Hartono, 2018).

With the ratio of Return On Assets (ROA), the company can find out the profit earned. By knowing the comparison of last year's profit with the current year's profit or the overall monthly profit obtained from the effectiveness and efficiency of the performance of the management (Kasmir, 2010).

Hypothesis Development

Effect of Free Cash Flow on Debt Policy

The research entitled "The Effect of Free Cash Flow, Dividend Policy, Asset Structure, Blockholder Ownership, Company Growth and Company Size on Debt Policy in Manufacturing Companies Listed on the Indonesia Stock Exchange for the Period 2011-2015" shows the results that free cash flow has an effect on debt policy (Doni Hendra Saputra, Inge Lengga Sari Munthe, Myrna Sofia, 2017). This research is in line with (Silalahi et al., 2019) and (Amilia & Asyik, 2019).

The Effect of Corporate Growth on Debt Policy

Research conducted by (Doni Hendra Saputra, Inge Lengga Sari Munthe, Myrna Sofia, 2017) on manufacturing companies listed on the IDX shows that company growth has

an effect on debt policy. This research was supported by (Silalahi et al., 2019) and (Nurjanah & Purnama, 2020).

The Effect of Profitability on Debt Policy

Research conducted by (Silalahi et al., 2019) with the title "The Effect of Free Cash Flow and Profitability on Debt Policy in Food and Beverage Sub-Sector Companies Listed on the Indonesia Stock Exchange" shows that profitability has an effect on debt policy. This research was supported by (Nurdani & Rahmawati, 2020) and (Nurjanah & Purnama, 2020).
Based on the above research, the hypotheses of this research are:
H^1 = Free cash flow affects debt policy
H^2 = Company growth has an effect on debt policy
H^3 = Profitability has an effect on debt policy.

3. METHOD

Population, Sample and Sampling Technique

This study takes data from BEI with mining sector companies from 2016 to 2018 with a population of 48 company data, using purposive sampling technique obtained as many as 15 company data. The number of research indicators needed is 15 x 3 research periods and obtained as many as 45 samples. By using a purposive sampling approach, special criteria are needed. Therefore, the researcher determines the appropriate criteria in order to get a truly representative (representative) sample.

Research Variables and Definition of Operational Variables

The independent variables used in this study are free cash flow, company growth and profitability as measured by Return On Assets (ROA).
By using the formula of (Ross, 1977), the calculation of the free cash flow variable is:

$$\text{FCFit} = \frac{\text{AKOit} - \text{PMit} - \text{NWCit}}{\text{Total Assets}}$$

Information :
FCFit =Free Cash Flow
AKOit =Company with operating cash flow in year-t
PMit = Capital issued by the company in year-t
NWCit =Net capital in company in year-t
For the company growth variable, the researcher uses the formula (Rezki & Anam, 2020), namely:

$$Growth = \frac{\text{Total Aktv t} - \text{Total Aktv t}-1}{\text{Total Aktv t}-1}$$

Information :
Growth = company growth
Total Assets t = Total assets in year t
Total Assets t-1 = Total assets in the previous year from total assets t

In the Profitability variable, the researcher uses the formula from (Henry, 2015) which is measured by Return On Assets (ROA):

$$ROA = \frac{\text{Net profit after tax}}{\text{Total assets owned}}$$

In the debt policy variable, the researcher uses the formula (Margaretha Farah, 2014) with the calculation of the debt to asset ratio (DAR):

$$DAR = \frac{\text{Total liabilities or Debt}}{\text{Total assets owned}}$$

4. RESULT AND DISCUSSION

a. Descriptive Statistical Analysis

From the average value and the level of spread of the variables studied, we can determine descriptive statistical analysis. The mean value is the calculated average of all the variables studied. The existence of outlier data that causes the data is not normally distributed. With that, the researcher uses the calculation of the Z score to overcome the data outliers. It was found that there were 4 data outliers. By eliminating outlier data using the Z score method, the initial data of 45 data becomes 41 data. The results of the descriptive statistical test produced are the minimum value of the FCF of -0.4687 and the maximum FCF of 0.4639, the mean -0.022273 and the standard deviation 0.1847112. The minimum value of GROWTH is -0.1207 and the maximum value of GROWTH is 0.5635, the mean is 0.110422 and the standard deviation is 0.1384907. The minimum value of ROA is 0.0010 and the maximum value of ROA is 0.3928, the mean is 0.114332 and the standard deviation is 0.1066098. The minimum DAR value is 0.1384 while the maximum DAR value is 0.9225, the mean is 0.453510 and the standard deviation is 0.2113024.

b. Classic assumption test

1) Normality test

The results of the One-Sample Kolmogorov-Smirnov Test showed that the statistical test value was 0.133 and the Asymp value. Sig. (2-tailed) > 0.05, i.e. 0.067 greater than the significant value, the result is that this data is normally distributed.

2) Multicollinearity Test

The results of the multicollinearity test show that the variables of free cash flow, company growth and Return On Assets (ROA) as independent variables have tolerance values of 0.938, 0.907 and 0.855, which are more than 0.10 and VIF is 1.066, 1.103, 1.170, respectively less than 10 means that the regression model does not experience multicollinearity.

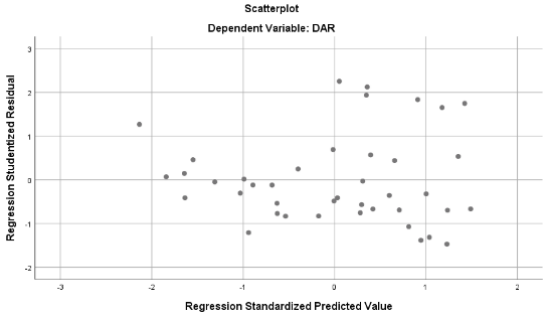
Table 1.
Coefficients[a]

Model		*Collinearity Statistics*	
		Tolerance	*VIF*
1	(Constant)		
	FCF	0,938	1,066
	GROWTH	0,907	1,103
	ROA	0,855	1,170

3) Autocorrelation Test

That the value of the run test obtained a value of -1.579 with a significance value of 0.114 which is greater than 0.05, which means that the autocorrelation test in this study did not experience autocorrelation between residuals.

4) Heteroscedasticity Test
Based on the picture by looking at the scatterplot graph, it can be concluded that the spread of the points above, below or around the number 0, the pattern of the spread of the dots forms a wave. With the requirements of passing the heteroscedasticity test that has been mentioned, this study passed the heteroscedasticity test.



c. Hypothesis testing

1) Multiple Linear Regression Analysis Test
Multiple linear regression analysis in this study obtained the following equation.
Y = 0.568 + 0.634 + 0.472 – 1.330 + e
The equation obtained above can be explained as follows:
a. The constant value is 0.568. This shows that if the value of free cash flow, company growth and Return On Assets (ROA) is equal to 0, then 0.0568 is the value of debt policy.
b. The obtained value of 0.634 is the regression coefficient of the free cash flow variable. That is, if the free cash flow variable experiences an increase in value of one unit, the value of the debt policy will increase by 0.634.
c. Obtaining a value of 0.472 is the regression coefficient of the company's growth. Which means, if the company's growth variable experiences an increase in value of one unit, the value of the debt policy will increase by 0.472.
d. Obtaining a value of -1.330 is the regression coefficient of Return On Assets (ROA). Which means, if the ROA variable experiences an increase in value of one unit, the value of the debt policy will decrease by -1.330.

Table 2.
Coefficients[a]

Model		*Unstandardized Coefficients* B	Std. Error
1	(Constant)	0,568	0,036
	FCF	0,634	0,128
	GROWTH	0,472	0,174
	ROA	-1,330	0,232

2) Simultaneous test (F test)
Based on the simultaneous test, it was found that the F-count with a value of 16.019 with a significance level of 0.000, where 0.000 < 0.05. From the results of the

simultaneous test, it is stated that the hypothesis is accepted. Which means simultaneously the independent variable is positive and significant to the dependent variable.

Table 3.
The result of F test

Model		*Unstandardized Coefficients* B	Std. Error
1	(Constant)	0,568	0,036
	FCF	0,634	0,128
	GROWTH	0,472	0,174
	ROA	-1,330	0,232

3) Partial Test (t test)
Based on the partial test, the following results were obtained:
   a. Testing this hypothesis is carried out on the hypothesis which reads "free cash flow has a significant effect on debt policy". Which means that there is a significant positive effect of the free cash flow free variable on the dependent variable of debt policy.
   b. This hypothesis testing is carried out on the hypothesis which reads "company growth has a significant effect on debt policy". Which means that there is a significant positive influence of the independent variable on the company's growth on the dependent variable of debt policy.
   c. This hypothesis testing is carried out on the hypothesis that reads "Return On Assets (ROA) has a significant effect on debt policy". Which means that there is a significant negative effect of ROA on the dependent variable on debt policy.

Table 4.
The result of t test

		Coefficients[a] t	Sig.
Model			
1	(Constant)	15,589	0,000
	FCF	4,949	0,000
	GROWTH	2,716	0,010
	ROA	-5,722	0,000

4) Coefficient of Determination
The results of the coefficient of determination obtained a value of 56.5% debt policy is influenced by free cash flow, company growth and Return On Assets (ROA). Another 43.5% is influenced by other variables.

5. CONCLUSION

Based on the above results it can be concluded that:

1. Positively significant free cash flow variable affects debt policy. The test results in this study were obtained using a partial test with a significant value obtained was 0.000. Thus, the hypothesis is accepted and proven true.
2. Positively significant company growth variables affect debt policy. The test results in this study were obtained using a partial test with a significant value obtained was 0.0010. Thus, the hypothesis is accepted and proven true.
3. Negatively significant profitability variable proxied by Return On Assets (ROA) has an effect on debt policy. The test results in this study were obtained using a partial test with a significance value obtained was 0.000. Thus, the hypothesis is accepted and proven true.
4. The simultaneous influence of independent variables is positively significant on the dependent variable. The test results in this study were obtained by the F test where the significance value obtained was 0.000. Thus, the hypothesis is accepted and proven true.

The limitations of this study are that it focuses on data on mining sector companies listed on the Indonesia Stock Exchange, so the generalization of the research results is limited to mining sector companies only. In addition, this study has other limitations which only take the research period from 2016 to 2018. The management also needs to be careful and pay attention to other factors that influence decision-making related to funding.

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