

The Effect Of Free Cash Flow And Managerial Ownership On Debt Policy (Study On Islamic Commercial Banks In Indonesia Registered On The Idx For The 2017–2021 Period)

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ABSTRACT

The study aims to determine the effect of the variables Free cash flow, and Managerial Ownership on Debt Policy (DER) at Islamic Commercial Banks in Indonesia that are listed on the IDX in 2017-2021. This study uses quantitative research. Variable data types are secondary data, namely data obtained from annual financial reports (annual reports) published on the official website of each bank for the 2017-2021 period and also the official website of the Indonesia Stock Exchange. Data analysis technique used in this study includes Descriptive Statistical Analysis, Classical Assumption Test, Multiple Linear Regression Test and Hypothesis Test. The result of this study indicates that partially (t test) Free cash flow has a significant positive effect on Debt Policy (DER) with a probability value $0.011 < 0.05$ while the value of $t_{count} > t_{table}$ ($2.722 > 2.05183$). Partially the variable Managerial Ownership has a significant negative effect on Debt Policy (DER) with a probability value of $0.005 < 0.05$ while the $t_{count} > t_{table}$ ($-3.052 > 2.05183$). Simultaneously (F test) the Free cash flow and Managerial Ownership variables have a significant effect on Debt Policy (DER) with a probability value of $0.001 < 0.05$ while the value of $F_{count} > F_{table}$ ($9.996 > 3.34$). The coefficient of determination is 0.425 or 42.5%.

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INTRODUCTION

In its management and operation, it is certain that a company requires quite large funds, which the funds come from internal and external parties, internal funding sources can be obtained from the company owner's capital and retained earnings, while external sources of funds come from shareholders and creditors in the form of debt. Debt is all of the company's financial obligations with other parties that have not been fulfilled and at certain times the debtor has obligations in payment along with predetermined interest. If external funds are needed, the company will be more inclined to use debt rather than equity.

There are several factors that influence debt policy, namely managerial ownership, institutional ownership, dividend policy, asset structure, free cash flow, profitability, and company size. In this study discusses 2 of these various factors, namely free cash flow and managerial ownership.

With the availability of sufficient free cash flow in a company, it can be used to finance internal growth, pay obligations, pay dividends, and enjoy financial flexibility. Meanwhile, companies that do not have free cash flow will not be able to maintain their production capacity. The lack of free cash flow can be an early indicator of liquidity problems, so alternative financing from external sources, namely debt, will be used to solve the problem

METHOD

Study aims to determine the effect of the variables Free Cash Flow and Managerial Ownership on Debt Policy (DER) at the Islamic Commercial Bank in Indonesia that are listed on the IDX. in 2017-2021. This study uses quantitative research. Variable data types are secondary data, namely data obtained from annual financial reports (annual reports) published on the official website of each bank for the 2017-2021 period and also the official website of the Indonesia Stock Exchange.

This data uses a multiple linear regression model supported by quantitative analysis using an econometric model to get a clear picture of the relations between the variables used in. The author uses SPSS version 25.

RESULTS AND DISCUSSION

The decision-making in this test is if the significance value is less than α (Sig. $< \alpha = 0.05$) and the t_{count} value is greater than the t_{table} value ($t_{count} > t_{table}$) then there is a relation between the independent variable (X) and the dependent variable (Y) partially. If the significance value is greater than α (Sig. $> \alpha = 0.05$) and the t_{count} value is less than the t_{table} value ($t_{count} < t_{table}$) then there is no relationship between the independent variable and the dependent variable partially

Tabel 1. T Test Result

		Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,168	,394		-,427	,673
	Free cash flow (X1)	,253	,093	,403	2,722	,011
	Kepemilikan Manajerial (X2)	-,291	,095	-,451	-	,005
					3,052	

a. Dependent Variable: ,Kebijakan Hutang, (Y)

the variable t_{count} value (X1) Free cash flow $> t_{table}$ is $2.722 > 2.05183$ and the sig variable value (X1) Free cash flow < 0.05 means $0.011 < 0.05$ so it can be concluded that Ha1 is accepted and H01 is rejected. This shows that Free cash flow has a significant effect on Debt Policy (Y) in a positive way

the variable t_{count} value (X2) Managerial Ownership $> t_{table}$ $3.052 > 2.05183$ and variable sig value (X2) Managerial Ownership < 0.05 then $0.005 < 0.05$ that can be concluded that Ha2 is accepted and H02 is rejected. This shows that Managerial Ownership has a significant effect on Debt Policy (Y) negatively.

Tabel 2 F Test Result

		ANOVA ^a				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	37,134	2	18,567	9,996	,001 ^b
	Residual	50,149	27	1,857		
	Total	87,283	29			

a. Dependent Variable: , . Debt policy (Y)
b. Predictors: (Constant),,,: . Managerial Ownership (X2), *Free cash flow* (X1)

The F statistic test (simultaneous test) is a test used to see whether all independent variables have an effect simultaneously on the dependent variable. The decision-making in this test is if the significance value is less than α (Sig.< $\alpha = 0.05$) and the Fcount value is greater than the Ftable value ($F_{\text{count}} > F_{\text{table}}$) then there is a relationship between the independent variable (X) and the dependent variable (Y) simultaneously. If the significance value is greater than α (Sig.> $\alpha = 0.05$) and the Fcount value is smaller than the Ftable value ($F_{\text{count}} < F_{\text{table}}$) then there is no relationship between the independent. variable (X) and the dependent. variable (Y) simultaneously.

Based on Table 2 it is known that the Fcount value is greater than the Ftable value ($9.996 > 3.34$), with a significance value of $0.001 < 0.05$. Thus, H0 is rejected, and Ha is accepted, which means it can be stated that simultaneously the Free cash flow and Managerial Ownership variables have as significant effect on Debt Policy

The Effect of Free Cash Flow on Debt Policy at Islamic Commercial Banks Registered on the IDX

The free cash flow variable has a positive and significant effect on debt policy at Islamic Commercial Banks in Indonesia that are listed on the IDX. This can be proven by the value of $t_{\text{count}} > t_{\text{table}}$, which is $2.722 > 2.05183$. With a significance value of $0.011 < 0.05$.

Free cash flow has a significant effect on debt policy. This can happen because debt can be used to control the excessive use of free cash flow by managers. Apart from that the shareholders will also enjoy more control over their management team as if the company issues new Debt and uses the proceeds to buy back the outstanding common stock then management is obliged to pay cash to cover this debt, overall reducing the amount of cash flow available to management to being toyed with, also with debt the company will definitely benefit, namely because debt has a cost in the form of an interest rate that must be paid which can reduce the company's profit which will then reduce the amount of tax that must be paid to the government. In addition, with the free cash flow owned by the company, it will distribute to shareholder so that the debt policy taken will be even greater.

The Include of Managerial Ownership on Deb Policy at Islamic Commercial Banks Registered on the IDX

The Managerial Ownership Variable has a negative, significant effect on Debt Policy at Islamic Commercial Banks in Indonesia that are listed on the IDX. This can be proven by the value of $t_{\text{count}} > t_{\text{table}}$, $3.052 > 2.05183$. With a significance value of $0.005 < 0.05$

Due to the ownership of the manager, it will be able to align the interests of the manager and the shareholders by reducing the optimal use of debt which creates financial risk or bankruptcy risk and the manager can feel directly the consequences of making an incorrect decision.

The Include of Simultaneous Free Cash Flow and Managerial Ownership on Deb Policy at Islamic Commercial Banks Registered on the IDX

The simultaneous analysis of the F test of the variable Free cash flow and Managerial Ownership which was carried out stated that the results showed $F_{\text{count}} > F_{\text{table}}$, namely $9.996 > 3.34$. Then Ho is rejected and Ha is accepted, meaning that it can be stated that simultaneously Free cash. flow and Managerial ownership have a significant effect on Debt Policy (DER). In this study, the results of testing the coefficient of determination obtained an R Square value of 0.425.

CONCLUSION

Based on the result data analysis and the results of previous research related to Free cash flow and Managerial Ownership of Debt Policy at Islamic Commercial Banks in Indonesia listed on the IDX, the following conclusions can be obtained:

1. Free cash flow has a significant positive effect on the Debt Policy of Islamic Commercial Banks that are partially listed on the IDX.
2. Managerial ownership has a significant negative effect on the Debt Policy in Islamic Commercial Banks that are partially listed on the IDX.
3. Free cash flow and Managerial Ownership have a significant positive effect on the Debt Policy of Islamic Commercial Banks listed on the Simultaneous IDX

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