

Determinants of Capital Structure and Dividend Policy in Manufacturing Companies Listed on the Indonesia Stock Exchange

Syelly Wulandari^{1*}, Ardi Paminto², Anisa Kusumawardani³

Corresponding Author:SyellyWulandari.*

Faculty of Economics and Business, Mulawarman University, Samarinda, Indonesia

ABSTRACT: *One of the factors that causes companies to have long-term competitiveness is the strong capital structure. In developing its business, the company requires a large source of funds so that it can maintain its viability and maximize the welfare of shareholders in the form of dividend distribution. The purposes of this study was to examine the effect of free cash flow, company life cycle and investment opportunities on capital structure and dividend policy as well as how the role of capital structure in mediating the effect of free cash flow, company life cycle and investment opportunities on dividend policy. The population in this study were all manufacturing companies listed on the Indonesia Stock Exchange in 2014-2019. The sample selection used purposive sampling method which resulted 15 samples of listed manufacturing companies. Empirical evidence shows that free cash flow has a negative and significant effect on capital structure, the company's life cycle has a positive and significant effect on capital structure, investment opportunity hasn't significant effect on capital structure, free cash flow has a negative and significant effect on dividend policy, the company's life cycle hasn't significant effect on dividend policy, investment opportunity hasn't significant effect on dividend policy, capital structure has negative and significant effect on dividend policy, capital structure is unable to mediate the effect of free cash flow, company life cycle and investment opportunity on dividend policy.*

KEY WORD: *FreeCashFlow, CompanyLifeCycle, InvestmentOpportunity, CapitalStructure, Dividend Policy*

Date of Submission: 25-07-2022

Date of Acceptance: 06-08-2022

I. INTRODUCTION AND LITERATURE REVIEW

The capital market plays a role in the country's economy because the capital market serves as a place for companies to obtain capital from investors. These funds can be used for expansion or additional working capital. In addition, the capital market can be a medium for the general public to invest in financial products such as stocks, bonds, mutual funds and others (Zulfikar, 2016).

Investment realization in Indonesia has increased significantly. Based on BKPM data, recorded domestic and foreign investment in 2014 amounted to Rp 463.1 trillion with PMA of Rp 307 trillion and PMDN of Rp 156.1 trillion. This increase continued until 2018 where investment realization was recorded at Rp 721.3 trillion with a composition of PMA of Rp 392.7 trillion and PMDN of 328.6 trillion (Aris, 2019). In 2019, the realization of investment in Indonesia increased by Rp. 809.6 trillion with the largest contribution coming from PMA of Rp. 423.1 trillion and the realization of PMDN of 386.5 trillion. This situation shows that investors are still interested in investing in Indonesia and it cannot be denied that Indonesia is still an investment destination country.

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One of the causes of companies to remain competitive in the long term is the strong capital structure. To strengthen its business, a large source of funds is needed so that it can maintain its viability and maximize the welfare of shareholders. To meet these funding needs, managers can choose alternative policies to use external funding sources through debt, or internal funding sources in the form of profit utilization (Sutrisno, 2012).

Capital structure policy is an important decision for managers related to the continuity of the company's operations to determine the composition of debt, common stock, preferred stock and retained earnings used by the company. This source of financing using debt is expected to reduce the cost of capital which in turn improves business performance (Utomo&Djumahir, 2013). However, companies whose capital structure uses debt have not only business risks but also financial risks.

Financial risk due to the use of debt increases net income fluctuations. If the rate of return on assets is greater than the cost of debt, it can be said that the debt is profitable and the return on capital (own capital

profitability) with the use of this debt will also increase. However, debt is a double-edged sword, and if economic profitability is less than the cost of debt, then debt will reduce the profitability of own capital (Widyatuti, 2017). Therefore, meeting this need for capital is a strategic decision made by the management.

The role of management is very important in determining dividend payments. Management as the principal is obliged to increase the value of the company and increase prosperity for its shareholders. So it is hoped that the management will take optimal steps so that through this dividend the wishes of the shareholders are still fulfilled and the survival of the company is not disrupted.

Agency issues are recognized as important issues between shareholders and management. Monitoring mechanisms are needed to prevent managers from acting on their personal goals. The supervisory mechanism incurs costs within the firm which are referred to as agency costs. These agency costs can be decreased through dividend payments (Hansen & Crutchley, 1989).

The manufacturing sector is an attractive sector for investors to invest in. This industry plays an important role in increasing the value of investment and exports so as to support the acceleration of national economic growth. Investment reached Rp195.74 trillion in 2014, then increased in 2016 to Rp335.8 trillion, which year was the highest investment achievement in the manufacturing industry. Entering 2017, investment in this sector began to decline to IDR 274.7 trillion and declined again in 2018 which was recorded at only IDR 222.3 trillion. Referring to BKPM data, the manufacturing sector in 2019 only had an investment of IDR 216 trillion or 26.7% of the total investment (Wildan, 2019).

As a result of the continued decline in investment realization in the manufacturing sector, employment has also decreased compared to previous years. Data from the Investment Coordinating Board shows that investor interest has begun to shift from the manufacturing sector to the service sector. This is evidenced by data on the realization of investment in the service sector which continued to increase from 2016 to 2019 where the realization of this sector was recorded from Rp. 188 trillion to Rp. 465.4 trillion in 2019 (Hidayat, 2019). As a result, the government is increasingly focusing on increasing investment in the manufacturing sector. This is because this sector has a broad multiplier effect on the economy, namely increasing the value added of domestic raw materials, increasing local labor and obtaining foreign exchange from export activities.

Table 1: Average Dividend Payout Ratio, Leverage, Free Cash Flow, Sales Growth and IOS of Manufacturing Companies

Variable	2014	2015	2016	2017	2018	2019
DER	1,118	0,845	0,755	0,971	1,039	0,918
DPR	0,517	0,625	0,654	0,905	0,773	0,921
FCF	0,090	0,112	0,078	0,089	0,081	0,084
LC	0,131	0,089	0,081	0,087	0,101	0,073
IOS	2,754	2,156	2,348	2,339	2,047	2,326

Source: www.idx.co.id (data reprocessed)

Based on the average table above, it can be seen that the leverage of manufacturing companies starting from 2014 then continued until 2018 tends to be unstable and then slightly decreased in 2019. If the leverage ratio value is compared to the value of the free cash flow ratio, it can be seen that the free cash flow increased followed by a decrease in the debt to equity ratio although in 2017 it was seen that the DER increased but the FCF ratio also increased.

The company's life cycle, which is proxied by average sales during the study period, fluctuates and tends to decrease. When compared with the value of the DER ratio, it is known that the increase in average sales is not followed by a decrease in leverage. Likewise with the investment opportunity variable described by the investment opportunity set, it can be seen that throughout the study period the average investment opportunity for manufacturing companies fluctuated and increased in 2019. When compared with the leverage ratio value, it can be seen that the increase in investment opportunities was not followed by an increase in investment opportunities. leverage.

In reality, every company has a different dividend policy. Based on this data, it can be seen that the DER ratio of manufacturing companies from 2014 to 2017 continued to increase then decreased in 2018 and then increased again in the 2019 period. The FCF variable fluctuated and tended to increase throughout 2014 to 2019. However, when compared to the DPR ratio, the decrease FCF does not always lower the DPR ratio.

Furthermore, the company's life cycle as a variable described by the company's sales growth decreased in 2015 then continued to increase until 2018 and decreased again in 2019. If this average sales is associated with the DPR ratio, the increase in sales growth is not followed by an increase DPR ratio. In addition, the investment opportunity variable fluctuated during the study period. When compared with the value of the DPR ratio, it can be seen that the increase in investment opportunities is not always inversely proportional to the decrease in the dividend payout ratio.

The capital structure variable which is calculated through the ratio of DER during the study period has fluctuated. If the value of the DER is compared with the value of the DPR, it can be seen that the increase in the DPR is not inversely proportional to the decrease in the DPR.

The free cash flow hypothesis explains that companies with increased free cash flow will be faced with differences related to profit utilization. Managers can use free cash flow for their personal gain or make investments to increase the resources under their control (Jensen, 1986). The investment made by this manager causes the emergence of overinvestment problems. These issues can be controlled by using leverage in the capital structure. By using debt, the manager is obliged to repay the loan principal along with interest. This periodic payment will reduce the free cash flow in the hands of the manager, thereby reducing agency problems for both parties.

Companies with high growth opportunities need to reconsider their capital structure, including taking on new debt. The company's increased leverage can be affected by its life cycle. Companies that are in the start-up phase have a larger debt ratio than companies in the growth and mature phases. Furthermore, companies in the growth phase have a larger debt ratio than companies in the mature phase but lower than companies in the start-up phase. Companies at the mature stage have a lower debt ratio than companies at the growth and start-up stages (Nidar&Utomo, 2017).

When the company experiences a funding deficit from its internal capital, the company will use debt as additional funds from outside the company. Debt as part of the capital structure is used to meet operational and investment funding needs quickly when compared to the process of obtaining funds through the sale of shares (Endri et al., 2019). Balanced with the pecking order theory that companies tend to prioritize internal capital through retained earnings and reinvest them. If the internal capital is insufficient, then debt will be chosen because the risk value is low.

Managers have the ability to use the remaining funds to behave opportunistically rather than in the interests of shareholders. Based on the free cash flow hypothesis, firms with excess cash flow than needed to produce projects with positive NPV are prone to agency conflicts where managers can manipulate the free cash flows they control. Companies can reduce free cash under the control of managers through dividend payments.

If the life cycle is related to the decision to pay dividends, then companies that are classified as start-up and growth phases tend to have several investment opportunities which in turn can reduce dividends received by shareholders. In contrast, companies classified as mature stage tend to have few investment opportunities so that dividend payments are high (Nur &Koe, 2016). The high investment opportunities of a company will affect the need for funds and dividend decisions. Smith & Watts (1992) argue that companies with high investment opportunity tend to reduce their dividend payments.

Capital structure is measured using DER, which is the ratio used to measure the extent to which the company's debt is used to acquire assets (Hery, 2016). Research on the effect of free cash flow on capital structure conducted by Chandra (2017) concludes that FCF has a negative effect on capital structure. Meanwhile, Prathiwi&Yadnya (2017) conducted a study with the results of FCF having a positive effect on DER while research by Nurdani&Rahmawati (2020) showed that FCF had no effect on debt.

In addition, Tian et al. (2015) tested the effect of the company's life cycle on the capital structure with the conclusion that the company's life cycle had an effect on the capital structure, while Pebrianti (2017) stated that there was no significant effect between the company's life cycle and the capital structure. Meanwhile, Endri et al., (2019) yielded that investment opportunities had a positive effect on capital structure. In contrast to the research of Mukhibad et al., (2020) which concludes that investment opportunities can reduce capital structure.

Studies on dividend policy factors have also been carried out previously, such as Yeo's research (2018) which shows that FCF has a positive effect on dividend distribution, while Hudiwijono et al. (2018) shows that FCF has no effect on dividend decisions. The effect of the company's life cycle on dividend policy was also investigated by Hassani& Kazem (2013) who concluded that the company's life cycle had an effect on dividend decisions, while Suliana&Susanti (2017) stated that the company's life cycle had no impact on dividend policy. Research on the investment opportunity set variable on dividend decisions was carried out by Saifi (2019) with the result that the investment opportunity set has a positive impact on dividend policy, while the research of Nathani&Gangil (2019) gives the result that investment opportunities have a negative impact on dividend policy. However, research by Tahir & Mushtaq (2016) states that investment opportunity does not have an impact on dividend policy. In addition, the test of the effect of capital structure on dividend policy by Gusni (2017) which gives the result that DER has a negative effect on dividends, while Pattiruhu&Paais (2020) conclude that DER has a positive effect on dividend policy.

In this study, capital structure is an intervening variable because funding decisions are decisions that can determine financial risk for a company, for example profits that may not reach targets or obligations to pay debts that are not fulfilled so that an optimal capital structure is needed that can meet investors' expectations but does not disturb company activities.

The trade-off theory asserts that the optimal company capital, as stated by Cempakasari, et al (2019) is that the company's debt will increase to a certain level, when the tax savings from additional debt are equal to the costs of financial distress and agency costs. When the cost of capital can be minimized then the possibility of paying dividends is high and is accompanied by high stock prices. The results of the research by Pattiruhu&Paais (2020) state that debt has a positive effect on dividend payments. Likewise, Oktarini&Purwaningrat (2017) who researched that debt proceeds could mediate the influence of FCF and IOS on the DPR. In addition to the inconsistency of research results which state that there is no effect of influence between independent variables on the dependent variable, the researcher adds this capital structure variable as a mediating variable.

Capital Structure Theory

Pecking Order Theory

The pecking order theory arises as a result of one party, namely management knowing more information than investors. Pecking order theory does not indicate the achievement of targets in the capital structure but rather explains the order of funding that can be chosen. Funding depends on the investment required. Pecking order theory underlies the reason that profitable companies actually have small debt (Sulindawati et al., 2017).

Trade Off Theory

Based on the trade-off theory, the company will increase its debt to a certain level of debt when the tax shields from additional debt are proportional to the cost of financial distress (financial distress). The cost of financial distress is the cost of bankruptcy (bankruptcy costs) or reorganization due to an increase in agency costs which ultimately reduces the credibility of the company (Sulindawati et al., 2017).

The trade off theory explains that in determining the optimal capital structure it is necessary to consider several factors which include taxes, agency costs and costs of financial difficulties.

Life Cycle Theory

Firms have a relatively clear life cycle which is fundamental to the firm life cycle theory of dividends. His main focus is the agency problem within the firm relating to whether management will maximize shareholder value or simply increase growth to achieve their own interests and invest in assets that are contrary to shareholder interests (Mueller, 1972).

In short, based on the life cycle proposed by Mueller (1972) the company presents an S-shaped growth model, starting from a period of slow growth leading to rapid growth then experiencing stagnant or slowing growth.

Free Cash Flow Hypothesis

The free cash flow hypothesis expressed by Jensen (1986) has important implications in agency problems. This assumption stems from a conflict between shareholders and management, which means that management does not always prioritize the interests of shareholders, but rather uses the company's resources for its own benefit. This is also related to the increase in manager compensation, because changes in compensation have an effect on increasing sales growth (Murphy, 1985 in Jensen, 1986).

Free cash flow is cash available after being used to finance investment activities that generate a positive NPV (Jensen, 1986). If the company generates large cash flows, it will cause a conflict of interest between management and shareholders. This is because when a company generates excess cash flow but no project has a positive NPV, management tends to abuse the free cash flow under its control, resulting in overinvestment problems that affect organizational inefficiency.

Capital Structure

Capital structure is the balance or proportion between capital sourced from external and capital sourced internally. The capital structure shows how much debt is used to fund investment activities so that understanding the capital structure allows investors to know the balance between risk and return on investment (Sulindawati, et al., 2017).The leverage ratio used in this study is the Debt to Equity Ratio (DER). According to Hery (2016) DER is a ratio that is used to measure the amount of debt to equity. This ratio is used to compare the amount of funds sourced from creditors with the amount of funds sourced from company owners. On the creditor's side, this high risk indicates a greater chance of default on the company.

Dividend Policy

Dividends are payments from business profits in the form of shares or cash to shareholders (Ross, 1977). If an investor wants to receive dividends, then he is required to own company shares during the period in which he is recognized as a shareholder in order to be able to receive dividends (Sulindawati, et al. 2017). Therefore,

this dividend policy requires the role of management in deciding how much of the allocation of profits earned by the company during the current period for shareholders.

There are three conditions that must be met by the company to pay cash dividends, namely the existence of retained earnings, sufficient cash, and the support of the board of directors as indicated in the official action of the GMS (Hery, 2016).

Free Cash Flow

Free cash flow is cash available after being used to finance cash disbursements and changes in receivables, inventories and fixed assets needed to generate income (Priest & McClelland, 2011).

Company Life Cycle

The company life cycle is the development of the product life cycle concept or often called the Product Life Cycle (PLC) in the marketing field. Like products, companies also have a life cycle. The stages of a company's life cycle begin with the introduction phase, the growth phase, the establishment phase and the decline phase. Some researchers classify the life cycle into several stages, namely five-stage, four-stage and three-stage models. But in general the company has 4 stages of the cycle, namely:

1. Start-up level

Companies have low growth rates and most of them are relatively young companies. The new company is introduced as a small company. This phase can lead to failure because executives do not understand the market needs and how to meet these needs in more detail. However, when the company is able to get through this period and is successful, then sales begin to grow (Hastuti, 2011).

2. Growth rate

In this phase, companies tend to pay small dividends with high sales growth rates, as well as high capital expenditure values despite their relatively young age (Anthony & Ramesh, 1992).

3. Mature level

At the mature or mature stage, the company is described as a mature company. At this stage the manager is considered professional. However, the age of a company is almost at the final stage in the company's life cycle. Some companies are able to survive when they are at this stage for a long period of time, while others are also experiencing bankruptcy (Hastuti, 2011).

4. Rate of decline

In this phase, there is no significant increase in sales and the company's profits begin to decline. It is indicated by a decrease in sales growth, less investment activity, and a decline in profit due to a decline in expansion activities (Anthony & Ramesh, 1992).

Investment Opportunity Set

IOS is a description of the value of a company whose amount is adjusted to the expenditure chosen by management in the future, which requires consideration to choose investments that will produce high returns (Gaver&Gaver, 1993).

IOS proxies are divided into 4 types, namely: (Kallapur& Trombley, 2001)

1. Price-based iOS

This measurement is based on the assumption that a growing company will have a higher market value for its assets than a non-growing company.

2. Investment-based IOS

Investment opportunities are described by their investment activities.

3. IOS based variant

Indicates that an option as measured by variability is based on an increase in assets.

4. Combined IOS

Alternative measurements are used to anticipate measurement errors in individual ratios as measured by common factor analysis.

Hypothesis Development

Effect of Free Cash Flow on Capital Structure

Based on the free cash flow hypothesis proposed by Jensen (1986) there is a conflict involving shareholders and managers using debt as a solution to reduce agency costs because by increasing debt, managers act to behave selfishly in using free cash flow to invest in projects. that is not profitable for the company can be reduced.

One mechanism to reduce agency problems due to the use of free cash is debt policy. An increase in the amount of corporate debt and obligations related to interest payments arising from loans will bind corporate executives to pay and due to a decrease in free cash flow, they will reduce agency costs (Javid & Mino, 2015).

Companies with low growth opportunities but high cash flows will implement financing policies for control purposes (Javid & Mino, 2015). Jensen (1986) shows that in companies with lower growth, based on free cash flow theory, there is an inverse relationship between financial leverage and growth opportunities. Changes in free cash flow cause positive changes in the company's financial leverage ratio.

Research conducted by Prathiwi&Yadnya (2017) and Yeo (2018) shows that there is an effect of free cash flow on capital structure in a positive direction and has significant value.

H₁: Free cash flow affects the capital structure

Effect of Company Life Cycle on Capital Structure

Based on the pecking order theory, the company does not follow the target level of leverage, but the company follows the pattern in the debt policy. The company life cycle according to Gup & Agrawal (1996) is divided into four phases which include: start-up, growth, mature and decline. However, in this study, the company's life cycle only consists of growth and mature. At the growth stage, the company is still looking for new business opportunities, including new business expansion, where the company's profit is more stable. Therefore, the company still needs external funding to support some investment activities. In general, the average sales growth ranges from 10%-49% so that this stage is positively related to the capital structure (Suyono et al., 2017).

Then it enters the mature stage, profits and sales reach the highest level. In this phase the debt ratio decreases because the company begins to use cash flow to pay off its debts. The average sales growth ranges from 0 to 9.9% so that at this stage there is a negative relationship with the capital structure (Suyono et al., 2017).

The study of the influence of the company's life cycle has been investigated through Tian et al. (2015), (Suyono et al., 2017), Nidar&Utomo (2017) give the results that there is a significant effect of the company's life cycle on capital structure.

H₂: The company's life cycle affects the capital structure

The Effect of Investment Opportunities on Capital Structure

IOS is an investment decision that is chosen in the form of utilizing company assets to be invested so that it affects the value of the company in the future and is related to the company's efforts to take advantage of opportunities compared to other companies of the same level to earn a profit.

Companies that are developing can increase their value so as to generate greater profits (Mukhibad et al., 2020). This statement is in line with the elaboration of the pecking order theory regarding the level of funding that the company can choose, namely the use of retained earnings, increasing debt and then shares.

Fama& French (2002) explain when a company has investments whose value is higher than the amount of retained earnings it has, at that time there is an increase in debt, on the contrary when the company has investments whose value is less than retained earnings, there is a decrease in debt. Thus, it can be concluded that debt also affects the size and size of investment opportunities owned by the company because of the emergence of periodic obligations which include repayment of principal and interest as a result of the use of debt.

Research examining the effect of investment opportunities on capital structure has been investigated by Endri et al. (2019) and Mukhibad et al., (2020) which show that there is a significant influence on investment opportunities on capital structure.

H₃: Investment opportunities affect the capital structure

Effect of Free Cash Flow on Dividend Policy

Based on the free cash flow hypothesis proposed by Jensen (1986) Agency conflict will be more complicated when the company generates high free cash flow. By increasing dividend payments, it will reduce the manager's control over free cash flow.

Rosdini (2009) concludes that there is an allegation of managers to dispose of the available free cash flow to investments that cause inefficiency resulting in low returns. Smith & Watts (1992) stated that overinvestment could actually be avoided by pressuring management to distribute large dividends. This action is taken to reduce agency costs to the company.

Rosdini (2009) and Hudiwijono et al. (2018) conducted a study which states that free cash flow has a significant influence on dividend policy.

H₄: Free cash flow affects dividend policy

Effect of Company Life Cycle on Dividend Policy

The relationship between the company's life cycle and dividend policy affects the increase in shareholder wealth when they receive dividends on the profits generated because this gives an idea to shareholders that the company is able to manage cash and make good use of investments.

In this study, the company's life cycle consists of growth and mature stages. During the growth phase, sales increase as a result of gaining market share. In addition, another impact is an increase in the ratio of capital to debt, liquidity, and profit so that at this stage the company has started paying dividends. The company has been able to pay dividends, although the amount is not too large due to the company's investment activities that require high cash availability (Lestari & Yulianto, 2017). At this stage the company has more investment opportunities, low retained earnings and it is likely that the company will tend to maintain its profits.

When in the mature stage, companies tend to pay higher dividends because investment opportunities decrease. This phase of sales activity reaches its peak due to the strong market share thereby increasing the company's liquidity. It is expected that at this stage the company is able to obtain high profits and cash flows from operating activities (Lestari & Yulianto, 2017).

Research related to the company life cycle has been carried out by Yusra et al. (2019) and Budiarso et al. (2019) which states that the company's life cycle has a significant influence on dividend policy.

H₅: The company's life cycle affects dividend policy

The Effect of Investment Opportunities on Dividend Policy

Pecking order theory is a theory that arises due to information asymmetry. Myers & Majluf (1984) found that information asymmetry caused by management to shareholders, managers tend to use internal cash flows to make funding decisions. Dividend payments in the previous period will affect the amount of retained earnings and the amount of cash available for future investment.

The distribution of dividends is influenced by the company's investment opportunities. If the company has high investment opportunities, sufficient internal funding is needed so that this will encourage the company to reduce its dividend payments. In addition, a decrease in investment opportunities will affect an increase in dividends.

Research related to the effect of investment opportunities on dividend policy has been carried out by Hussain & Usman (2013), Dewasiri et al. (2019) which states that investment opportunities have a significant influence on dividend policy.

H₆ : Investment opportunities affect dividend policy

Effect of Capital Structure on Dividend Policy

Based on the pecking order theory, companies usually seek external funding in the form of debt if internal funding is insufficient. The capital structure determined by the DER shows how management can properly monitor the company's capital structure by determining the ratio between the amount of debt financing and the amount of equity financing. This ratio is used to measure the ability of an entity to pay off all of its obligations (Hery, 2016).

Research on the effect of capital structure on dividend policy has been carried out by Ahmad and Wardani (2014), Kaźmierska-Jóźwiak (2014) and Gusni (2017) which give the result that capital structure has a significant influence on dividend policy.

H₇: Capital structure affects dividend policy

The Effect of Free Cash Flow on Dividend Policy Through Capital Structure

Based on the free cash flow hypothesis, the underlying action is that managers do not always act in line with the interests of shareholders due to differences in the interests of both parties. This opportunistic behavior from managers to shareholders causes the need for supervisory actions so that the management can carry out their duties in accordance with the wishes of the shareholders. The way that can be taken to minimize agency conflict is to increase funding through debt. This debt is expected to reduce agency conflicts because the company has the responsibility to return the principal and interest costs periodically so that these conditions cause managers to try to take advantage of the debt to increase profits so that they can meet their obligations and if they have excess funds, these funds can be given to shareholders. in the form of dividends as a signal that the company has good prospects in the future.

Research on the effect of free cash flow on dividend policy mediated by capital structure has been conducted by Oktarini & Purwaningrat (2019) which gives the result that capital structure is able to mediate the effect of free cash flow on dividend policy.

H₈: Capital structure can mediate the effect of free cash flow on dividend policy

The Influence of the Company's Life Cycle on Dividend Policy Through Capital Structure

A company's financing strategy can change over its life cycle. Companies that have high growth and profits are more likely to use debt as an external funding source than companies with low sales (Aulia et al. 2018). Companies that enter the growth stage, begin to meet market needs so that their growth and profits increase rapidly (Aulia et al. 2018). During this phase, the company strives to develop and maintain market

share, which leads to high capital investment. In addition, the company's profitability increased due to sales growth.

Entering the mature stage, cash flow and profit will increase more quickly. Debt can be used to help finance company investments. Companies with good prospects try to avoid selling shares and seek capital, for example by increasing debt. This is because when a company issues new shares, it indicates that the company is difficult to find sources of funding because investors think the company is not performing well. This increase in debt will be used to finance operational activities so as to increase the company's income. If the company earns a profit as a result of using debt properly, then the company will have the opportunity to provide high dividends as a return.

H₉: Capital structure can mediate the effect of the company's life cycle on dividend policy

The Effect of Investment Opportunities on Dividend Policy Through Capital Structure

Dividend policy refers to the allocation of profits that become the rights of shareholders. Conflicting interests between management and shareholders are the tendency of shareholders to want dividend payments rather than to be reinvested while managers want the opposite (Jensen, 1986). For investors, the company's growth is a profitable prospect. This favorable prospect will give investors hope that they will earn high returns in the future.

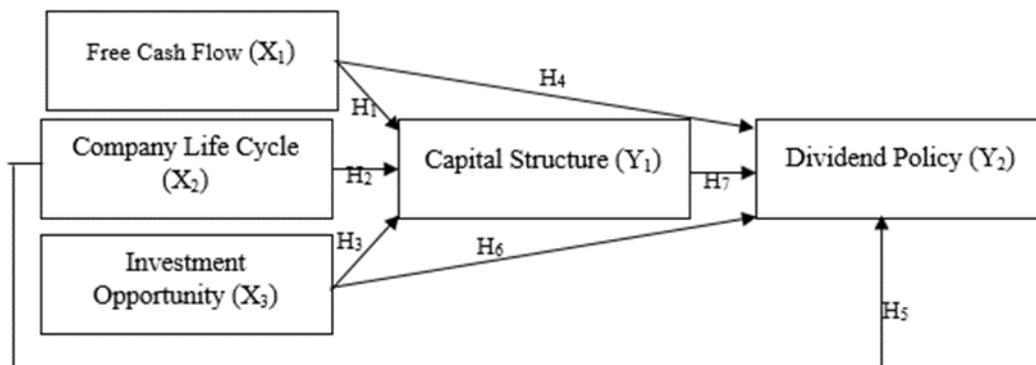
Companies are more likely to use internal funding through profit, except when internal funds cannot meet the company's needs, the use of debt can be used as an option. Companies with high investment opportunities usually depend on external capital. The high cost of stock issuance compared to the cost of borrowing debt makes debt sources a better choice. The increased investment opportunities of this company can affect creditors' confidence in the company which will lead to the willingness of creditors to provide funding with long-term debt. Furthermore, through the debt, the assets owned by the company will be used as collateral. With the use of debt, management actions will be more controlled and can spur the company's performance to earn profits or even increase profits so as to increase the distribution of dividends.

Research on the effect of investment opportunities on dividend policy mediated by capital structure has been conducted by Oktarini and Purwaningrat (2019) which gives the result that capital structure is able to mediate the effect of investment opportunities on dividend policy.

H₁₀: Capital structure can mediate the effect of investment opportunities on dividend policy

Based on the hypotheses that have been described, the empirical model can be described as follows:

Figure 1: Empirical Model



Source: Data reprocessed

1.2 Research Objectives

The type of data in this study is quantitative data. The data sources used are secondary data originating from the company's audited annual financial statements for the financial year ending December 31, 2014 to December 31, 2019. All data sources used to calculate each variable in this study were obtained from the website www.idx.co.id and www.finance.yahoo.com.

1.3 Research Methodology and Data Analysis

The independent variables in this study are Free Cash Flow (X_1), Company Life Cycle (X_2), and Investment Opportunity (X_3). Then the moderating variable is Capital Structure (Y_1) and the dependent variable is Dividend Policy (Y_2). The population in this study includes all manufacturing companies listed on the Indonesia Stock Exchange from 2014-2019 totaling 178 companies. Meanwhile, the sample was selected using purposive sampling method. Based on the sample selection, the number of samples studied is 90 data with the number of companies studied as many as 15 companies.

The data analysis method used in this study is path analysis using SmartPLS 3.0. This model is used to see the level of: (1) the direct influence between the variables of free cash flow, company life cycle and investment opportunities on capital structure; (2) direct effect of free cash flow, company life cycle and investment opportunities on dividend policy (3) indirect effect of free cash flow, company life cycle and investment opportunities on dividend policy through capital structure.

Capital structure: is the composition between debt and capital owned by the company. Capital structure is measured through the debt to equity ratio, where this ratio is used to determine how much debt is allocated to capital. Therefore, the higher this ratio, the more the company's funds are financed mainly by debt and the greater the risk for the company in the event of financial difficulties. Debt to equity ratio or DER is the dependent variable indicated by Y_1 and measured on a ratio scale. This capital structure can be calculated using the formula (Hery, 2016) as follows:

$$\text{Debt to equity ratio} = \frac{\text{Total Liability}}{\text{Total Equity}}$$

Information:

Total Liability = Total liabilities of company i in year t

Total Equity = Total equity of company i in year t

Dividend policy: is management's decision to distribute the profits generated by the company to shareholders for one year. Dividend policy is measured by the dividend payout ratio. Dividend Payout Ratio is the ratio of profits distributed by the company in the form of dividends per share divided by earnings per share. In this study, dividend policy as the dependent variable is indicated by Y_2 and measured by the ratio scale. Dividend policy is calculated using the formula in Hery (2016), namely:

$$\text{Dividend payout ratio} = \frac{\text{dividend per share}}{\text{earnings per share}}$$

Information:

Dividends per share = Cash dividends paid by the company divided by the number of shares outstanding.

Earnings per share = Net income divided by the number of shares outstanding.

Free cash flow: is cash available in the company after being used to fund investments that provide a positive net present value. Free cash flow is an independent variable represented by X_1 and is measured by a ratio scale. Free cash flow is calculated by a formula derived from research by Gul & Tsui (1997), namely:

$$\text{FCF it} = \frac{\text{CFO it} - \text{DIV it}}{\text{TA}(t-1)}$$

Information:

FCF it = Free cash flow of company i in year t

CFO it = Cash flow from operating activities of company i in year t

DIV it = Dividend of company i in year t

TA_{t-1} = Total assets of company i in year t-1

The company life cycle: is a phase of business development or life characteristics of a company. The company's life cycle is an independent variable indicated by X_2 and measured by a ratio scale. The company's life cycle is measured by sales growth by calculating the difference between sales in year t and sales in the previous period then divided by sales in the previous period. The company's life cycle is calculated using a formula sourced from the research of Suyono et al. (2017) namely:

$$\text{SG it} = \frac{\text{Sales it} - \text{Sales i}}{\text{Sales i}(t-1)}$$

Information:

SG_{it} = Sales growth company i in year t

Sales_{it} = Net sales of company i in year t

Sales_{i(t-1)} = Net sales of company i in year t-1

The investment opportunity: is a management decision to invest in the use of the company's assets, and the investment decision is expected to generate high profits in the future in order to increase the value of the company. Investment opportunity is an independent variable which is denoted by X_3 and measured by ratio scale. Investment opportunities are calculated using a formula sourced from Mukhibad et al., (2020), namely:

$$\text{MBVA} = \frac{(\text{Total Assets} - \text{Total Equity}) + (\text{number of shares outstanding} \times \text{closing price})}{\text{Total Assets}}$$

Information:

Total Assets = Total assets of company i in year t

Total Equity = Total equity of company i in year t

Number of shares outstanding = Number of shares outstanding in company i in year t

Closing price = The closing share price at the end of the company year i in year t

1.3.1 Data Analysis

Data analysis using the SmartPLS 3.0 analysis tool. Partial Least Square (PLS) is a powerful analytical method because it is not based on many assumptions. PLS analysis can predict that the definition of the independent variable is a linear series of indicators. The weight estimation forms the value of the variable used in the structural model that connects the variables (inner model) and the measurement model that connects the indicator with the construct (outer model) so as to produce residual variance output from the dependent variable (Ghozali, 2017).

The analysis of the PLS method can be carried out in stages, namely, the analysis of the outer model and the inner model. The analysis of the outer model as a metric selection test is consistent with valid assumptions (Ghozali, 2017). Structural research model will be evaluated using R-square for the dependent variable, Stone-Geisser Q-square test for predictive relevance and t-statistics test and p-value of the coefficients of structural path parameters. In addition to looking at the R-square value, the PLS (Partial Least Square) model is also evaluated by looking at the predictive Q-square value of relevance for the constructive model.

In testing the hypothesis, it can be seen from the t-statistic and p-value. The hypothesis is accepted if the t-statistic value is > 1.96 and the p-value is < 0.05 , so the hypothesis will be rejected if the t-statistic value is < 1.96 and the p-value is > 0.05 .

Descriptive Statistical Analysis

The results of descriptive statistical calculations of the variables in this study are as follows:

Table 2: Descriptive Statistical Results

No.	Variable	Mean	Median	Min	Max	Standard Deviation
1.	DER	0,854	0,541	0,171	2,909	0,737
2.	DPR	0,608	0,488	0,092	3,521	0,549
3.	FCF	0,088	0,074	0,008	0,246	0,056
4.	LC	0,074	0,065	-0,255	0,317	0,094
5.	IOS	2,328	1,862	0,355	7,114	1,415

Source: Secondary Data processed with SmartPLS 3.0

Based on table 2 above, it can be seen that the average value of capital structure proxied by DER is 0.854 with a standard deviation of 0.737 and a median value of 0.541. The minimum value of 0.171 was owned by PT Delta Jakarta Tbk in 2017. The maximum value of the DER variable during the research period was 2.909 owned by PT Unilever Indonesia Tbk in 2019.

The dividend policy variable proxied by the DPR has an average value of 0.608 with a standard deviation of 0.549 and a median value of 0.488. The minimum value of 0.092 is owned by PT SelamatSempurnaTbk in 2014. The maximum value of 3.5211 is owned by PT Trisula International Tbk in 2017.

The free cash flow variable denoted by FCF has an average value of 0.088 with a standard deviation of 0.056 and a median value of 0.074. The minimum value of 0.008 is owned by PT Trisula International Tbk in 2016. The maximum value of 0.2462 is owned by PT Nippon IndosariCorpindoTbk in 2015.

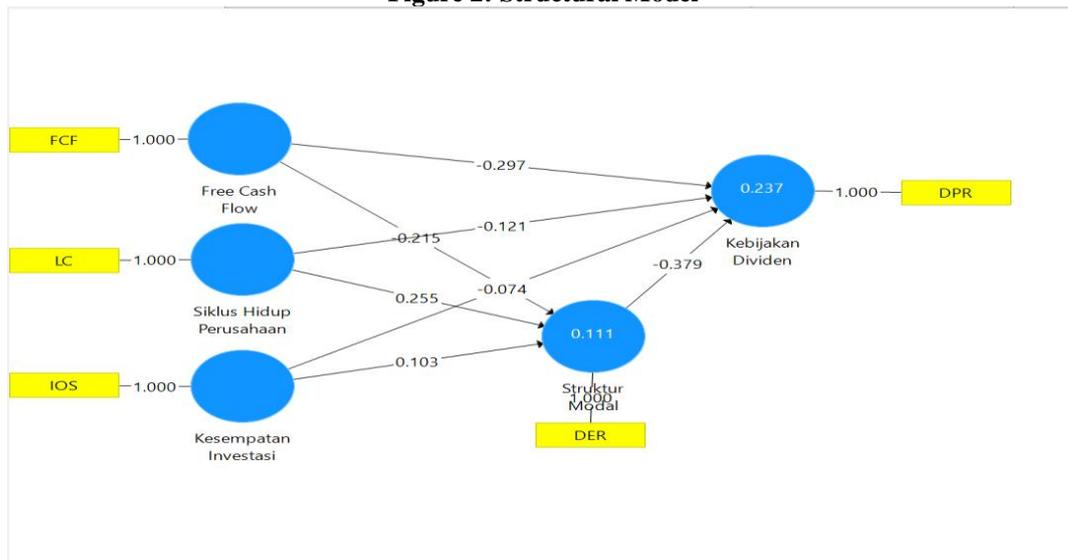
The company life cycle variable which is proxied by sales growth has an average value of 0.074 with a standard deviation of 0.094 and a median value of 0.065. The minimum value of -0.255 is owned by PT Delta Djakarta Tbk in 2015. The maximum value of 0.317 is owned by PT Ricky Putra GlobalindoTbk in 2018.

The investment opportunity variable proxied by IOS has an average value of 2,328 with a standard deviation of 1,415 and a median value of 1,862. The minimum value is 0.355 which is owned by PT Delta Djakarta Tbk in 2014. The maximum value is 7.114 which is owned by PT Kalbe FarmaTbk in 2014.

SEM-PLS Test Results

This test includes the analysis of the inner model. The researcher did not analyze the outer model because each variable used only used one indicator. Testing of the inner model or structural model is carried out to see the relationship between the construct, significance value and R-square of the research model. The structural model was evaluated using R-square for the dependent construct of the t-test and the significance of the coefficients of the structural path parameters.

Figure 2: Structural Model



Source: Secondary Data processed with SmartPLS 3.0

In assessing the model with PLS, it begins by looking at R-square for the dependent latent variable and Q-square for predictive relevance. Based on data processing carried out with the SmartPLS 3.0 program, the R-Square values obtained are as follows:

Table 3: R-Square . Value

Variable	R-Square	Adjusted R-Square
Capital Structure	0,111	0,080
Dividend Policy	0,237	0,201

Source: Secondary Data processed with SmartPLS 3.0

In table 3 the R-Square value obtained is 0.111 for the structure variable. This value interprets that the variables of free cash flow, company life cycle, and investment opportunities are only able to explain the capital structure variance of 11.1%, the rest is influenced by other factors not included in this study. In addition, the R-Square value obtained on the dividend policy variable is 0.237. This value interprets that the variables of free cash flow, company life cycle, and investment opportunities are only able to explain the variance of dividend policy by 23.7%, the rest is influenced by other factors not included in this study. The goodness of fit assessment is known from the Q-Square value. The calculation of the Q-Square value is as follows:

$$\begin{aligned}
 \text{Q-Square} &= 1 - [(1-R^2_1) \times (1-R^2_2)] \\
 &= 1 - [(1-0,111) \times (1-0,237)] \\
 &= 1 - (0,889 \times 0,763) \\
 &= 1 - 0,678 \\
 &= 0,322
 \end{aligned}$$

Based on the results of the Q-Square calculation, a value of 0.322 is obtained. This shows that the diversity of research data that can be explained by the research model is 32.2%, while the remaining 67.8% is explained by other factors outside the research model.

1.4 Findings and Interpretation

Based on the data processing that has been done, the results can be used to answer the hypothesis in this study. Hypothesis testing in this study was carried out with the t-statistic value and p-value. Endogenous variables are declared to have a significant effect on exogenous variables if t-statistic > 1.96 and p-value < 0.05. The following are the results of data processing in this study using SmartPLS 3.0:

Table 4: Hypothesis Test Results

	T-Statistic	P-Value	Coefficient	Information
FCF → DER	2,403	0,017	-0,215	Negative and Significant
FCF → DPR	4,242	0,000	-0,297	Negative and Significant
LC → DER	2,246	0,025	0,255	Positive and Significant
LC → DPR	0,953	0,341	-0,121	Negative and Insignificant
IOS → DER	0,871	0,384	0,103	Positive and Insignificant

IOS → DPR	0,824	0,410	-0,074	Negative and Insignificant
DER → DPR	4,048	0,000	-0,379	Negative and Significant

Source: Secondary Data processed with SmartPLS 3.0

Based on table 4 it can be seen that the direction of influence of each variable is as follows:

1. The effect of free cash flow on the capital structure has a value of -0.215. This indicates that if the capital structure increases by 1, the free cash flow will decrease by 0.215. T-Statistic value of 2.403 > 1.96 and P-Value 0.017 < 0.05 indicates that free cash flow has a negative and significant effect on capital structure.
2. The effect of free cash flow on dividend policy has a value of -0.297. This indicates that if the dividend policy increases by 1, the free cash flow will decrease by 0.297. T-Statistic value of 4.242 > 1.96 and P-Value 0.000 < 0.05 indicates that free cash flow has a negative and significant effect on dividend policy.
3. The effect of the company's life cycle on the capital structure has a value of 0.255. This indicates that if the capital structure increases by 1, the company's life cycle will increase by 0.255. The T-Statistic value of 2.246 > 1.96 and P-Value of 0.025 < 0.05 indicates that the company's life cycle has a positive and significant effect on capital structure.
4. The effect of the company's life cycle on dividend policy has a value of -0.121. This indicates that if the dividend policy increases by 1, the company's life cycle will decrease by 0.121. The T-Statistic value of 0.953 < 1.96 and P-Value 0.341 > 0.05 indicates that the company's life cycle has no significant effect on dividend policy.
5. The effect of investment opportunities on capital structure has a value of 0.103. This indicates that if the capital structure increases by 1 then investment opportunities will increase by 0.103. T-Statistic value of 0.871 < 1.96 and P-Value 0.384 > 0.05 indicates that investment opportunities have no significant effect on capital structure.
6. The effect of investment opportunities on dividend policy has a value of -0.074. This indicates that if the dividend policy increases by 1, the investment opportunity will decrease by 0.074. The T-Statistic value of 0.824 < 1.96 and P-Value of 0.410 > 0.05 indicates that investment opportunities have no significant effect on dividend policy.
7. The effect of capital structure on dividend policy has a value of -0.379. This indicates that if the dividend policy increases by 1, the capital structure will decrease by 0.379. The T-Statistic value of 4.048 > 1.96 and P-Value 0.000 < 0.05 indicates that the capital structure has a negative and significant effect on dividend policy.

After testing the hypothesis, the next step is to test the effect of intervening.

Table 5: Total Indirect Effect

	T-Statistic	P-Value	Information
FCF → DER → DPR	1,908	0,057	Not Mediating
LC → DER → DPR	1,871	0,062	Not Mediating
IOS → DER → DPR	0,812	0,417	Not Mediating

Source: Secondary Data processed with SmartPLS 3.0

Based on table 5 it can be concluded as follows:

1. The effect of free cash flow on dividend policy through capital structure has a T-Statistic value of 1.908 < 1.96 and a P-Value of 0.057 > 0.05 so this shows that the capital structure is not able to mediate the effect of free cash flow on dividend policy.
2. The effect of the company's life cycle on dividend policy through the capital structure has a T-Statistic of 1.871 < 1.96 and a P-Value of 0.062 > 0.05 so this shows that the capital structure is not able to mediate the effect of the company's life cycle on dividend policy.
3. The effect of investment opportunities on dividend policy through capital structure has a T-Statistic of 0.812 < 1.96 and P-Value of 0.417 > 0.05 so this shows that the capital structure is not able to mediate the effect of investment opportunities on dividend policy.

Discussion

Effect of Free Cash Flow on Capital Structure

These results have the same results as previous research conducted by Javid & Milad (2015) and Robiansyah, et al (2020) which gave the result that free cash flow has a negative and significant effect on capital structure. This effect illustrates that the higher the free cash flow, the lower the use of debt.

Free Cash Flow is the remaining funds after the company uses these funds to meet investment interests and operational activities. This result is not in accordance with the free cash flow hypothesis that when the cash flow is free that there is a contradiction in decision making between investors and managers. Management wants funds for company investment while shareholders want to be distributed as dividends. Thus, supervision is

needed which will incur agency costs. Debt is a way to reduce agency costs. This supports the statement of Nafisa et al., (2016) which states that when a company has high free cash flow, it can be said that there are still excess internal funds that have not been used for investment and operating activities, so the company will use it as much as possible to meet company needs and reduce the use of debt for financing activities.

In accordance with the pecking order theory which explains that companies prioritize funding through internal funding. Hardiningsih&Oktaviani (2012) state that in pecking order theory, companies will use internal funds as the main choice for investment and company operations, so that if the internal funds they have are sufficient, the debt will not be chosen by the company to meet their needs.

As done by PT ArwanaCitramuliaTbk, this company engaged in the manufacture of ceramics in 2017 experienced a decrease in the DER ratio to 0.5556 with an FCF ratio of 0.1354. In 2018 the company's FCF ratio increased to 0.1678 and in that period the company experienced a decrease in the DER ratio to 0.5073. This shows conformity with the pecking order theory where when the company has excess cash, the funds will be used as the main source of funding to finance the company's operational activities first rather than choosing to increase debt.

Effect of Company Life Cycle on Capital Structure

This study has similar results to those conducted by Nidar, et al. (2017) which gives the result that the company's life cycle has a significant effect on capital structure. Thus it can be said that the life cycle has an influence on leverage decisions or the capital structure of a company. The positive coefficient indicates that the higher the stage of the company's life as proxied by sales growth, the capital structure also increases.

When the company is in a period of growth or growth, the company still needs additional funding sources to strengthen its business operations. Generally, companies need extra funds to create a wider market share, strengthen business networks to generate profits. Therefore, the existence of external sources of funds such as debt is still beneficial for the company to improve its performance. However, when the company is in the mature stage, the company has been able to achieve the maximum level of profit so that the internal sources of funds owned by the company are considered sufficient.

However, the results of this study indicate that companies that are classified as mature also increase their debt. This happened to PT Ricky Putra GlobalindoTbk and PT Trisula International Tbk, companies engaged in the textile sector during the study period continued to experience an increase in debt even though the average sales growth of the two companies were in the mature category. One of the reasons is because during the research period the garment industry in Indonesia faced challenges due to the economic slowdown that affected commodity prices, increased electricity rates, regional minimum wages and the volatility of the Rupiah exchange rate against the USD so that the growth of the manufacturing industry was slightly hampered. Thus, several companies also increase their debt as additional capital to finance their operational activities.

The Effect of Investment Opportunities on Capital Structure

This study shows that investment opportunities do not have a significant effect on capital structure, so the results of this study are not in line with research conducted by Endri et al. (2019) and Mukhibad et al., (2020) which state that investment opportunities have a significant effect on capital structure. However, the results of this study are similar to those conducted by Kurniawan (2019) and Pratama, et al (2020) which state that investment opportunities have no significant effect on capital structure.

Investments can allow a company to grow, but determining the right level of investment and in what form requires careful consideration. Investment Opportunity Set (IOS) is an investment decision in the form of a combination of assets in place (assets in place) and investment options in the future, and IOS is associated with the company's ability to make better use of these opportunities compared to other companies in the same industry.

Based on the Pecking Order Theory, companies that are developing if they need large amounts of funds tend to choose internal funding by using retained earnings and then reinvesting them. However, if internal funds are insufficient, the company's management chooses the debt with the smallest risk value. The results of this study indicate that investment opportunities do not have a significant effect on capital structure. This is because despite the high investment opportunity, some companies in the manufacturing sector prefer to use internal funding first compared to using debt.

For example, PT Kalbe Farma, Tbk during the research period had a fluctuating DER ratio, even during the research period Indonesia's economic situation was also weakened due to trade tensions between the United States and China. In Indonesia, GDP grew by 5.02 percent, supported mainly by government spending and growing household consumption. The inflation rate was recorded at 2.72 percent, the lowest level for about two decades. The Rupiah exchange rate was relatively stable and appreciated in line with the United States Central Bank's decision to loosen its monetary policy, thereby reducing pressure on the domestic pharmaceutical industry, which is still dependent on imports of raw materials. Despite the unstable conditions, the company

continues to build new factories and develop biopharmaceutical drug production facilities. In addition, the company also builds factories for liquid nutrition products. This indicates that even though the company has decreased debt it does not affect the company's investment decisions because when the company still has adequate internal funds to finance its investment, the company will prioritize using internal funding sources.

Effect of Free Cash Flow on Dividend Policy

The results of this study indicate that free cash flow has a significant effect on dividend policy, the results of this study are in line with research conducted by Parsian& Amir (2014) and Ramdhany, et al (2020) which states that free cash flow has a significant effect on dividend policy.

Free Cash Flow can describe the financial condition of a company, and can provide information about the amount of dividends to be paid. The existence of free cash flow triggers a feud between investors and company management, where investors pressure the company management to distribute free cash flow to them because it is considered an advantage that they are entitled to receive, while on the other hand the company needs more funds to support its business expansion.

Research from Parsian& Amir (2014) and Ramdhany, et al (2020) which states that free cash flow has a significant effect on dividend policy in a negative direction. This indicates that the greater the free cash flow, the lower the dividend payment. Free cash flow can provide issues regarding company finances and can be a benchmark or indicator in investing in a company. Companies that experience an increase in free cash flow do not necessarily pay dividends.

Zweig (2016) argues that currently the basic argument for paying small dividends is not that companies need funds, but that companies can use these funds for immediate and immediate benefits for shareholders by holding them for profitable expansion. Strong and growing companies are more likely to reduce the amount of their dividend payments to reinvest profits into the business, especially when holding those profits can be relied on to increase profits.

One of them is the dividend policy implemented by the company PT Surya Toto Indonesia Tbk. During the research period the company implemented a fluctuating dividend policy, in 2014 the company's FCF ratio was 9.13% and the DPR ratio was 40.4%. Then in 2015 when the FCF ratio decreased to 6.08% the company increased dividend payments to 42.55%. In 2016 the company experienced a slight increase in the FCF ratio to 7.71% with the DPR ratio being 48.9%. However, when the company experienced an increase in the FCF ratio in 2017 to 13.28%, the DPR ratio slightly decreased to 48.11%. Likewise, when the company experienced a decrease in the FCF ratio in 2018 to 6.38%, the company actually increased its dividend payment to 53.59%. Then in 2019 the company again lowered its dividend policy to 44.05% with an FCF ratio of 5.87%.

During the research period, it is seen that companies tend to hold their profits rather than distribute large dividends. In fact, the company also refrained from expanding due to market uncertainty and the projected market demand which is still sloping due to the trade war between the United States and China which has not yet fully faded. The global economic condition that has not yet improved has caused the market demand to be stifled. In fact, China is one of the countries that are the company's export destinations with a large contribution to TOTO sales.

Effect of Company Life Cycle on Dividend Policy

This study shows the results that the company's life cycle does not have a significant effect on dividend policy, the results of this study are similar to research conducted by Suliana&Susanti (2017) which states that the company's life cycle has no significant effect on dividend policy.

The policy in paying dividends tends to follow the company's life cycle. Ratmono& Devi (2015) found a relationship between the stages of the company's life cycle and dividend policy usually characterized by (1) large companies, (2) high profitability, and (3) low growth opportunities. On the other hand, companies with low profitability but high growth opportunities and higher investment expenditures than earnings choose to maintain their profits and not distribute dividends.

The relationship between the company life cycle and dividend policy is in accordance with the idea that companies can generate higher cash, increase investment opportunities and can optimally pay out profits to shareholders in the form of dividends. The more the company develops from the growth to mature stage, the higher the dividend paid. This is because at the growth stage the company spends a large investment to develop, maintain market share and mastery of technology so that in that phase the company tends to reduce its dividend payments and may even not pay dividends. However, when the company is in the mature stage, sales growth is at its maximum point, the company's investment activity for fixed asset capital has begun to decrease and the company is able to generate profits from assets invested in the previous life cycle period, so it tends to pay high dividends (Yusra, et al., 2019). However, in this study, the company's life cycle does not have a significant influence on dividend policy and has a negative value, which means that the more the company is in the mature stage, the company tends to reduce its dividend payments.

One of them is the dividend policy implemented by PT Astra International Tbk. Although on average the company's sales growth is at a mature stage, during the research period the company tends to reduce its dividend payments. In 2014 the company distributed dividends with a ratio of 32.07%. The following year the company again lowered its dividend payment to 31.65%. Then in 2016 to 2018 the company again lowered its dividend payout ratio to 30.21%, 27.9% and 28.81%. However, in 2019 the company increased its dividend payment to 39.93%. This shows that although mature companies are considered more capable of paying high dividends, companies still need to consider the company's financial condition and future cash needs to support the company's operational and investment activities if the profits that are owned after being used to finance the chosen investment are still available, the company will distribute it in the form of dividends.

The Effect of Investment Opportunities on Dividend Policy

This study shows that investment opportunities do not have a significant effect on dividend policy, the results of this study are in line with research conducted by Alamsyah, et al (2020) which states that investment opportunities do not have a significant effect on dividend policy.

According to Gaver&Gaver (1993), the Investment Opportunity Set is an investment opportunity whose amount depends on the expenditure determined by management in the future, at that time it is an investment decision that is expected to generate high returns. The high growth of the company is usually accompanied by a decrease in dividends. Although the results of this study show an insignificant effect, the direction of the influence of the investment opportunity set variable on dividend policy has a negative value. This negative value means that the higher the investment opportunity, the dividend payment will decrease.

Based on the pecking order theory, companies tend to use internally sourced funds to invest. Companies that use cash flows to fund profitable investments in the future will use large amounts of funds so that the impact on dividend payments is small. If the company's condition is very good, the management will tend to prefer new investments rather than paying high dividends. Funds that should be paid as dividends to shareholders will be used for profitable investments.

One of them is the dividend policy applied to PT Mandom Indonesia Tbk. During the research period the company had a fluctuating IOS ratio. In 2016 the company had an IOS ratio of 1.3342 with a DPR ratio of 0.5087. However, when the company had an increase in the IOS ratio in 2017 to 1.7370, the dividend policy was indicated by the DPR ratio having decreased to 0.4602. The cause of this influence is not significant because there are companies that even though have a high IOS ratio, the DPR ratio is also high. For example, PT Semen Indonesia (Persero) Tbk in 2014 had an IOS ratio of 3.0717 with a DPR ratio of 0.4001. The same thing happened when in 2015 the company had a decrease in IOS to 2.0531, the company continued to distribute dividends with a ratio of 0.4001. Likewise, when in 2016 there was a decrease in the IOS ratio to 1.5392, the company's DPR ratio actually increased to 0.4002.

Effect of Capital Structure on Dividend Policy

This study shows that capital structure has a negative and significant effect on dividend policy, the results of this study are in line with research conducted by Ahmad &Wardani (2014), Kaźmierska-Jóźwiak (2014) and Gusni (2017) which state that capital structure has a significant effect on dividend policy.

Based on the pecking order theory, the company prefers internal funding (retained earnings) compared to external funding. However, if the company requires additional capital that must be met through external funding, the company will choose debt first and then issue shares. The results of testing the hypothesis above show that DER has a negative effect on DPR, the lower the debt level of the company, the higher the company's ability to pay all its obligations to creditors and the higher the company's ability to fulfill its obligations to shareholders. This is because the greater the proportion of debt used in the company's capital structure, the greater the amount of its liabilities. The increase in debt in turn will affect the size of the net profit available to shareholders, including the dividends they will receive, because the company's obligations will be prioritized over dividend distribution.

For example, the dividend policy implemented by PT Delta Djakarta Tbk, a company engaged in producing and selling alcoholic and non-alcoholic beverages. In 2015 the company had a debt ratio of 0.2221 and a dividend ratio of 0.5042. Then in 2016 when the company's debt ratio decreased to 0.1832 there was an increase in the dividend ratio to 0.5678. Likewise in 2017 when the debt ratio again decreased to 0.1714, the dividend ratio increased to 0.7450.

The Effect of Free Cash Flow on Dividend Policy Through Capital Structure

Based on the results of testing the total indirect effect on the effect of free cash flow on dividend policy through capital structure, it states that capital structure is not able to mediate the effect of free cash flow on dividend policy, the results of this study are in line with research conducted by Sugiyanto, et al (2021) which gives the results that capital structure is not able to mediate the effect of free cash flow on dividend policy.

These results indicate that free cash flow which is excess cash in the company after being used to finance its investment activities can be distributed to shareholders. Based on the pecking order theory in choosing the right funding structure, companies are more likely to use retained earnings first compared to using debt, but when internal funds are insufficient to finance their investment activities, the company will choose external sources through debt. When viewed from the results of this study, the capital structure is not able to mediate the effect of free cash flow on dividend policy because the manufacturing companies sampled in this study tend to prioritize funding from retained earnings first to finance their investment activities. The greater the free cash flow, the debt owned by the company decreases because the company will of course use these funds to finance debt first. Likewise, the effect of free cash flow on dividend policy, where in this study the higher the free cash flow, the lower the dividend policy. This proves that a company when it has a large free cash flow is more likely to hold its profits so that it can be used to finance its investment activities compared to distributing high dividends.

The Influence of the Company's Life Cycle on Dividend Policy Through Capital Structure

Based on the results of testing the total indirect effect on the effect of the company's life cycle on dividend policy through capital structure, it states that the capital structure is not able to mediate the effect of the company's life cycle on dividend policy, the results of this study are in line with research conducted by Sugiyanto, et al (2021) which gives the results that capital structure is not able to mediate the effect of free cash flow on dividend policy Susilawati (2020) which gives the result that debt is unable to mediate the effect of the company's life cycle as proxied by sales growth on dividend policy.

Decision making in determining the company's capital structure is important because it must be in line with the conditions and objectives of the company. When the company is in a state of being able to generate high profits, the company has high internal sources of funds. The amount of internal funds can be used to meet the company's operational needs, so that external sources of funds are considered not yet needed. On the other hand, companies with low profit generating conditions do not have sufficient internal funds to fund operational activities, so the company chooses to increase the level of debt (Yuliana & Yuyetta, 2017).

Dividend payments tend to be paid by mature companies. Basically, growth-stage companies with multiple investment opportunities will tend to have lower free cash flow, and consequently tend to pay much lower dividends. On the other hand, companies with mature stages will have fewer investment opportunities so that they have high cash flows and can distribute high dividends as well (Thanatawee, 2011).

When viewed from the results of this study, the more the company develops into a mature stage, the need for funding from debt has increased. This is because during the research period the condition of the manufacturing company was not yet conducive. Throughout 2014 to 2019 this sector was faced with many factors, namely rising wages, rising electricity tariffs, limited gas supply, the impact of the strengthening of the dollar exchange rate, as well as high imports of raw materials and components, all of which increased production costs and caused a decrease in competitiveness. In addition, recent world economic conditions have also been unfriendly to the development of the manufacturing industry, in particular the weakening economic growth of Indonesia's main export market, the occurrence of political turmoil in several parts of the world, and the swift flow of trade liberalization in the world. The existence of this has caused several companies to become involved in increasing their debt in order to be able to survive to finance their operational activities. Therefore, under these conditions, adding more debt will actually increase the company's risk so that in this case debt cannot be a mediator to increase the company's dividend policy.

The Effect of Investment Opportunities on Dividend Policy Through Capital Structure

Based on the results of testing the total indirect effect on the effect of the company's life cycle on dividend policy through capital structure, it is stated that capital structure is not able to mediate the effect of investment opportunities on dividend policy. The results of this study are in line with research conducted by Sugiyanto, et al (2021) which shows that capital structure cannot mediate the effect of investment opportunities on dividend policy.

Based on the trade-off theory, investment opportunities affect the company's capital structure. When the benefits generated are greater, the company can increase the proportion of its debt. Companies that have high investment opportunities certainly require a high capital structure as well. When internal funds are insufficient to finance the company's investment activities, the company requires additional funds from debt. This increase in debt is expected to be used by the company to finance its investment activities that generate a positive NPV so that in the end it can help increase company profits. Through increased profits, shareholders are likely to receive returns in the form of dividends. However, the results of this study state that capital structure does not mediate the effect of investment opportunities on dividend policy. These results prove that manufacturing companies tend to prioritize their internal funding first through profit reserves to meet the company's investment compared to adding debt which can actually increase the risk of financial distress for the

company. In addition, the unstable situation of the manufacturing sector during the study period, such as the depreciation of the rupiah against the US dollar, so that the manufacturing sector requires larger funds to meet raw materials, of which around 64% of the raw materials for the manufacturing industry themselves come from imports. This of course increases production costs in the manufacturing industry so that increasing debt is considered too risky.

Conclusions and Recommendations

Based on the results of analysis and testing, the conclusions obtained from this study are as follows:

1. Free cash flow has a negative and significant effect on the capital structure. This shows that the greater the free cash flow, the company tends to reduce its debt because internal funding is still sufficient to finance the company's operational activities.
2. The company's life cycle has a positive and significant effect on the capital structure. This shows that companies that are in the mature stage also have an increase in debt during the study period due to the slowing condition of the manufacturing sector due to several macroeconomic factors so that companies need additional capital sourced from debt to finance the company's operational activities.
3. Investment opportunities have no significant effect on capital structure. This shows that although high investment opportunities can increase the company's debt. However, some companies tend to prioritize the use of their internal funds first to finance their investment activities.
4. Free cash flow has a negative and significant effect on dividend policy. This shows that the greater the free cash flow, the company tends to reduce its dividend payments, because the company prefers to hold its profits so that it can be reused to finance company operations, investment activities and pay debts.
5. The company's life cycle has no significant effect on dividend policy. This shows that although some companies are in the mature stage, they do not always increase their dividend payments to shareholders because the company prefers to use these funds to finance the company's operational activities.
6. Investment opportunities have no significant effect on dividend policy. This shows that although some companies have high investment opportunities, they do not always reduce their dividend payments because basically the dividend distribution itself is influenced by the availability of cash. So even though the investment opportunity is high, the company still has sufficient funds to pay high dividends to shareholders, so this can be done.
7. Capital structure has a negative and significant effect on dividend policy. This shows that the higher the debt owned by the company, the lower the dividends paid to shareholders because debt payments are considered more important to fulfill than paying dividends.
8. Capital structure is not able to mediate the effect of free cash flow, company life cycle and investment opportunities on dividend policy. This is because the manufacturing sector in carrying out policies on its funding structure prioritizes fulfillment through internal sources first compared to increasing debt. In addition, the condition of the manufacturing sector, which was not in a stable condition during the study period, led to an increase in debt that actually increased the risk for the company.

Based on the results of the research and the conclusions above, the suggestions that can be given regarding the determinants of capital structure and dividend policy are as follows:

1. Investors who wish to invest with high dividend expectations should pay attention to the free cash flow variable because it has the strongest influence on dividend policy as indicated by the value of the highest level of significance and t-statistic value.
2. Investors should pay attention to the debt ratio of manufacturing companies if they want to invest in the manufacturing sector because the debt ratio has a significant effect on reducing dividend payments.
3. For further researchers, it is better to add the latest observation period in order to obtain better results.
4. For further researchers, if they want to use company life cycle variables in their research, it is better to group companies based on their life cycle stages separately so that they can provide an overview of how the influence of variables at each stage of their life cycle.
5. For further researchers, other proxies can be used for investment opportunity variables such as IOS proxies based on investment.

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Syelly Wulandari, et. al. "Determinants of Capital Structure and Dividend Policy in Manufacturing Companies Listed on the Indonesia Stock Exchange." *International Journal of Business and Management Invention (IJBMI)*, vol. 11(08), 2022, pp. 18-36. Journal DOI-10.35629/8028