



Dividend Policy: An Analysis of Leverage, Free Cash Flow, and the Corporate Life Cycle

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Abstract. *This study was conducted with the aim of analyzing the effect of leverage analysis, free cash flow, and corporate life cycle on dividend policy. The population of the study includes 125 companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange during the 2019–2023 period. Using purposive sampling, 16 companies were selected as the sample with a 5-year observation period, resulting in a total of 80 observations. The data used are secondary data obtained from the companies' annual financial reports. The data analysis technique employed in this research is panel data regression, including model selection, classical assumption testing, coefficient of determination test, F-test, and t-test, processed using E-Views 12. The results show that degree of operating leverage, free cash flow, and corporate life cycle simultaneously affect dividend policy. Partially, degree of operating leverage and free cash flow have no significant effect on dividend policy, while corporate life cycle has a negative and significant effect on dividend policy.*

Abstrak. Penelitian ini dilakukan dengan tujuan untuk menganalisis pengaruh analisis *leverage*, arus kas bebas (*free cash flow*), dan siklus hidup perusahaan (*corporate life cycle*) terhadap kebijakan dividen. Populasi penelitian ini mencakup 125 perusahaan pada sektor *consumer non-cyclicals* yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2019–2023. Menggunakan teknik *purposive sampling*, terpilih 16 perusahaan sebagai sampel dengan periode pengamatan selama 5 tahun, sehingga menghasilkan total 80 data observasi. Data yang digunakan merupakan data sekunder yang diperoleh dari laporan keuangan tahunan perusahaan.

Teknik analisis data yang digunakan dalam penelitian ini adalah regresi data panel, yang meliputi pemilihan model, uji asumsi klasik, uji koefisien determinasi, uji F, dan uji t, yang diolah menggunakan E-Views 12. Hasil penelitian menunjukkan bahwa derajat *operating leverage*, arus kas

bebas, dan siklus hidup perusahaan berpengaruh secara simultan terhadap kebijakan dividen. Secara parsial, derajat *operating leverage* dan arus kas bebas tidak berpengaruh signifikan terhadap kebijakan dividen, sedangkan siklus hidup perusahaan berpengaruh negatif dan signifikan terhadap kebijakan dividen.

Keywords:

Dividend Policy;
Analysis of Leverage;
Free Cash Flow;
Corporate Life Cycle

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Introduction

This increasingly large and rapid business growth is supported by increasingly fierce corporate competition. The capital market can be a platform for investment, providing numerous benefits to stakeholders, including improving company operations and even boosting a country's economy (Sandatijaya & Purnamawati, 2021). One of the promising opportunities for investment in the consumer non-cyclicals sector is due to the potential of its stocks, which can significantly impact growth prospects. Companies in this sector operate in essential industries such as food and beverages, tobacco, pharmaceuticals, cosmetics, and household products—goods that are consistently needed by the public and have a broad market share, ultimately supporting high sales levels. If these companies experience strong sales growth, it will positively influence their overall development. Where this can attract investors to gain profits (stock returns) through dividends or capital gains, as well as gaining ownership of a business, Investors prefer dividends to capital gains because they consider dividends to be something certain (Dina, 2025). However, it is important to note that not all consumer non-cyclicals companies are able to distribute dividends (Wirama et al., 2024).

One of the cases experienced by PT Diamond Food Indonesia Tbk was the absence of dividend distribution in 2020 and 2021, which was caused by a decline in revenue. This decrease occurred due to the lack of contribution from individual customers whose purchases exceeded 10% of the company's total revenue. On the other hand, PT Diamond Food Indonesia Tbk also had a high level of debt, amounting to IDR 1,277,906,000,000, and had not yet been able to repay it, resulting in retained earnings. The debt was used to purchase goods from third parties, PT Diamond Cold Storage and PT Sukanda Djaya, through a distribution agreement with Ferrero Asia Limited (FAL). As a result, PT Diamond Food Indonesia Tbk's sales increased by 14.13%, and its cost of goods sold also rose by 14.74% compared to the previous year. This increase was driven by higher sales of both branded and unbranded products, along with increased revenue in 2021. However, the high level of debt impacted the company's Degree of Operating Leverage (DOL), which reached 5%. A high DOL indicates that profits are highly sensitive to sales fluctuations, making it difficult for the company to maintain a stable dividend policy from year to year. Consequently, this situation has led investors to be hesitant about investing in the company.

Dividend policy is a form of corporate action that reflects a company's commitment to distributing a portion of its profits to shareholders. A company's dividend policy can be attractive to investors because it can impact the company's performance and business activities (Hariyanti & Pangestuti, 2021). Furthermore, dividend decisions made by management can also be a positive signal regarding the company's future prospects (Sumartana, 2024). Dividend policy is a crucial decision in corporate financial management, influencing investor perceptions, company value,

and the relationship between management and shareholders. Internal factors, such as debt policy, cash flow, and the company's life cycle, can play a significant role in determining a company's dividend policy.

Operational leverage occurs when a company uses assets that incur expenses that must be covered from its operating income (Dewi & Baswarasasika, 2021). In addition, dividend policy plays a role in leverage analysis, particularly in measuring the degree of operating leverage (DOL). Degree of operating leverage is defined as a company's ability to utilize operating costs to magnify the impact of changes in sales volume on earnings before interest and taxes (Faturinaldi et al., 2018). Decisions on the degree of operating leverage can reflect how profits are allocated, which in turn can affect the company's operational efficiency and capital structure. Companies with high operational leverage are usually more cautious in using debt as a source of funding, because debt increases the company's fixed costs in the form of interest and installments (Nelsa & Kasim, 2022). This can increase the company's risk of default on its debt obligations. With this debt, companies must limit and consider dividend payments when debt is high. Companies must pay interest expenses first, thereby reducing dividends for shareholders (Brigham & Houston, 2007).

The second factor, free cash flow, is part of the cash flow statement that shows the amount of cash still available to the company after completing investments in fixed assets, new product development, and working capital requirements. Free cash flow also functions as an indicator in assessing the company's ability to provide profits to shareholders (Widiastari & Yasa, 2018). This free cash flow is very important because it reflects the actual liquidity that can be used by capital owners. The greater the free cash flow a company has, the greater the possibility of paying dividends to shareholders (Adiwibowo et al., 2021). Conversely, when a company has low free cash flow, this can be an indication of financial difficulties, which are characterized by increasing debt, delayed dividend payments, and the company's inability to meet its financial obligations (Santoso, 2023). From the perspective of investment opportunities, utilizing internal funding sources such as free cash flow is considered more efficient than external funds, because it can reduce the interest burden that must be paid (Permata et al., 2018).

The final factor is the Company Life Cycle. The company life cycle is a series of development stages that a company goes through gradually and sequentially (Mahwiyah et al., 2024). The company life cycle consists of several stages that a company must go through. It begins with the startup phase, which is associated with investment activities and negative cash flow; followed by the growth phase, which is seen through the company's sales growth; and finally, the shake-out phase, where investment cash flow can be positive or negative (Jayanti, 2017). The company life cycle represents the evolutionary process that a company goes through, from its formation to maturity, and sometimes extending to a decline or transformation phase. This cycle is characterized by changes in organizational structure, strategy, and resource needs that evolve according to the company's growth stage. Previous research is consistent with previous research stating that leverage does not affect dividend policy, while free cash flow does (Mangundap et al., 2018).

This study innovates by focusing on the consumer non-cyclicals sector during the 2019–2023 period and by adding an independent variable, namely the corporate life cycle. The reason for including the corporate life cycle variable is that companies at different stages of their life cycle tend to have distinct financial characteristics, investment needs, and funding strategies, which ultimately affect dividend policy. In this study, when investors observe a decline in dividend policy at certain stages of the corporate life cycle, many remain interested in investing by focusing on potential capital gains and company value growth. Investors realize that companies in the

growth stage that do not pay dividends often show an increase in stock value due to business expansion.

Based on the previous explanation, the hypotheses formulated in this study can be briefly presented as follows :

H1: Degree of operating leverage, free cash flow, and corporate life cycle has an effect on dividend policy.

H2: Degree of operating leverage has an effect on dividend policy.

H3: Free cash flow has an effect on dividend policy.

H4: Corporate life cycle has an effect on dividend policy.

Research Method

This research method employs a quantitative approach with descriptive methods to present an objective picture of the actual conditions of the research object. The quantitative approach emphasizes numerical data and utilizes statistical analysis in its processing. The type of data used in this study is secondary data, which allows researchers to utilize previously available information. The use of secondary data contributes to time and cost efficiency, as it does not require direct new data collection.

Table 1. Research Variables and Measurements

Variables	Measurement
Degree of operating leverage (X1)	$DOL = \frac{EBIT \text{ Change}}{\text{Change in sales}}$
Free cash flow (X2)	$FCF = \frac{\text{Net Operating Cash Flow} - \text{Net Investment Cash Flow}}{\text{Total Assets}}$
Corporate Life Cycle (X3)	$RE/TE = \frac{\text{Retained earning}}{\text{Total Equity}}$
Dividend policy (Y)	$DPR = \frac{\text{Dividend Per Share}}{\text{Earnings Per Share}}$

The population in this study was non-cyclical consumer sector companies listed on the Indonesia Stock Exchange for the 2019-2023 period. The sample was determined using purposive sampling, a sampling technique based on specific considerations, resulting in a total of 16 samples.

Results and Discussion

Panel Data Model Testing

Table 2. Panel Data Test Results

Chow Test	Prob. 0,0000 < 0,05	<i>Fixed Effect Model</i>
Hausman Test	Prob. 0,0422 < 0,05	<i>Fixed Effect Model</i>
Lagrange Multiplier Test	Test not performed	-

Based on the analysis results, several tests were conducted to determine the most appropriate model. The Chow test indicated that the Fixed Effect Model was the most appropriate model. Furthermore, the Hausman test also indicated that the Fixed Effect Model was the most suitable model for this study. Because the panel data test had already yielded the best results for the Fixed Effect Model, the Lagrange Multiplier test was not performed.

Classical Assumption Test

Normality Test

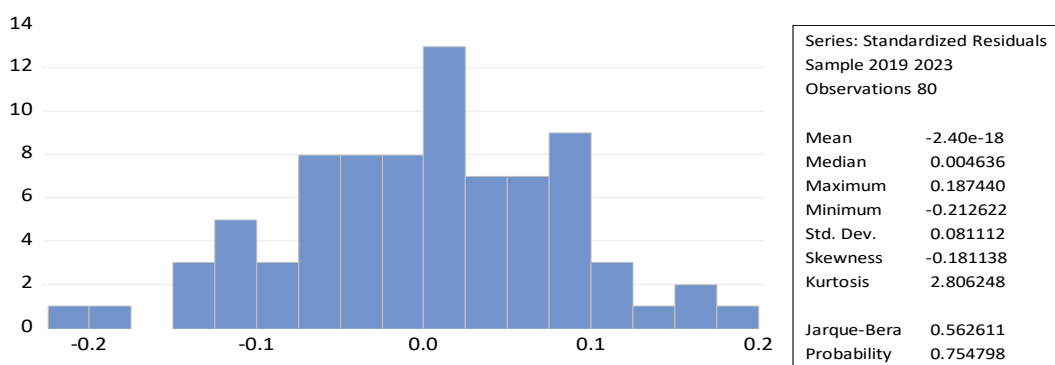


Figure 1. Normality Test Results

The results of the normality test show that the Jarque-Bera (J-B) value is 0.562611, with a probability value of 0.754798, which means it is greater than the significance level of 0.05. Based on these results, it can be concluded that the data is normally distributed.

Multicollinearity Test

Table 3. Multicollinearity Test Results

Variables	Degree of operating leverage (X ₁)	Free cash flow (X ₂)	Corporate life cycle (X ₃)
Degree of operating leverage (X ₁)	1.000000	0.100433	0.116827
Free cash flow (X ₂)	0.100433	1.000000	0.483786
Corporate life cycle (X ₃)	0.116827	0.483786	1.000000

Based on the results of the multicollinearity test above, the correlation value of Degree Of Operating Leverage on Free Cash Flow is 0.100433. The value of Degree Of Operating Leverage with Corporate Life Cycle is 0.116827. And the value of Free Cash Flow with Corporate Life Cycle is 0.483786 where the correlation value of these variables is <0.90 so it can be concluded that in this study there was no multicollinearity found between the Independent Variables.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

Heteroskedasticity Test: White			
Null hypothesis: Homoskedasticity			
F-statistic	1.289409	Prob. F(9,70)	0.2583
Obs*R-squared	11.37649	Prob. Chi-Square(9)	0.2508
Scaled explained SS	9.694032	Prob. Chi-Square(9)	0.3758

According to the table above, the Heteroscedasticity test with the white test produces a Prob Chi Square Obs*R-squared value (9) of 0.2508 which is greater than the standard error significance level determined by the author, namely 0.05 (0.2508 > 0.05), so it is concluded that there is no heteroscedasticity problem.

Multiple Linear Regression Analysis

Table 5. Results of Multiple Linear Regression Analysis Test

Variable	Coefficient	Std. Error	t-statistic	Prob.
C	0.711830	0.032735	21.74507	0.0000
X1	-0.000221	0.001492	-0.148148	0.8827
X2	0.228523	0.138851	1.645819	0.1049
X3	-4.023907	0.322637	-122.47195	0.0000

Based on the regression equation above, the following conclusions can be drawn:

$$NP = 0.711830 - 0.000221 \cdot X1 + 0.228523 \cdot X2 - 4.023907 \cdot X3 + 0.032735$$

1. The constant value of 0.711830 indicates that if the variables degree of operating leverage (X1), Free cash flow (X2) and corporate life cycle (X3) decrease by one unit on average, then the dividend policy variable will increase by 0.711830.
2. The degree of operating leverage has a regression coefficient of -0.000221, identifying that every increase in the degree of operating leverage with the assumption that other variables are zero, there will be a decrease in dividend policy of -0.000221.
3. Free Cash Flow has a regression coefficient of 0.228523, identifying that every increase in free cash flow with the assumption that other variables are zero, there will be an increase in dividend policy of 0.228523.
4. Corporate Life Cycle has a regression coefficient of -4.023907, identifying that for every increase in a Corporate Life Cycle with the assumption that other variables are zero, there will be a decrease in dividend policy of -4.023907.

Hypothesis Testing

Simultaneous test (F Statistic Test)

Table 6. Results of the F-Statistic Test

R-squared	0.836323	Mean dependent var	0.398538
Adjusted R-squared	0.788025	S.D. dependent var	0.200490
S.E. of regression	0.092307	Akaike info criterion	-1.723549
Sum squared resid	0.519754	Schwarz criterion	-1.157817
Log likelihood	87.94194	Hannan-Quinn criter	-1.496731
F-statistic	17.31585	Durbin-Watson stat	2.017709
Prob(F-statistic)	0.000000		

Based on the table above, the simultaneous significance test (F statistic test) shows that the F count shows a result of 17.31585 with a significance value of 0.000000. Meanwhile, to find the F table with the number of samples (n) = 80 and the number of variables (k) = 4. The F table can be seen in the F distribution table with a significance level of 0.05 with $df1 = 4 - 1 = 3$; and $df2 = n - k = 80 - 4 = 76$, so the F table is 2.72. with the test results of F count > F table, namely $17.31585 > 2.72$ and a probability value of $0.000000 < 0.05$, which means H_0 is rejected and H_1 is accepted. Therefore, it can be concluded that the Degree of Operating Leverage, Free Cash Flow and Corporate life cycle together (simultaneously) have a positive and significant effect on dividend policy.

Partial Significance Test (t-Statistic Test)

Table 7. Results of the t-Statistic Test

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 07/06/25 Time: 17:51				
Sample: 2019 2023				
Periods included: 5				
Cross-sections included: 16				
Total panel (balanced) observations: 80				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.711830	0.032735	21.74507	0.0000
X1	-0.000221	0.001492	-0.148148	0.8827
X2	0.228523	0.138851	1.645819	0.1049
X3	-4.023907	0.322637	-12.47195	0.0000

Based on the results obtained in the table above, it is known that the corporate life cycle variable has a significance value <0.05 , which means that this variable influences the dependent variable, namely dividend policy, so H3 is accepted. Meanwhile, the degree of operating leverage and free cash flow have significance values >0.05 , which means that these two variables do not affect dividend policy, so H1 and H2 are rejected.

Coefficient of Determination Test (R²)

Based on the results of the determination coefficient test above, it can be seen that the Adjusted R-Squared result is 0.788025 so that the results indicate that the independent variables Degree of Operating Leverage, Free Cash Flow, and Corporate Life Cycle are able to explain the dependent variable, namely Dividend Policy, by 78.8% and the remaining 21.2% can be explained by variables that were not tested in this study and were not included in the research model.

Discussion**Degree of operating leverage, free cash flow and corporate life cycle on dividend policy.**

Based on the analysis, the hypothesis of degree of operating leverage, free cash flow, and the corporate life cycle is interrelated in determining dividend policy. Companies with a high degree of operating leverage (DOL) tend to have a large proportion of fixed costs in their operating cost structure. In this situation, small changes in sales revenue can lead to large changes in operating profit, reflecting a high level of operational risk. However, if the company has consistent free cash flow, this risk can be more manageable. The availability of sufficient cash flow allows the company to maintain stable liquidity while still distributing dividends to shareholders. This situation will be even more advantageous if the company is in the maturity stage of its life cycle.

The effect of degree of operating leverage on dividend policy

Companies with high operating leverage do not always have the ability or intention to distribute large dividends. This may be due to the company's need to retain earnings to fund expansion plans, new investments, or maintain long-term financial stability. Therefore, although operating leverage indicates the potential for profit growth, dividend policy is more influenced by strategic decisions and the company's internal needs. Within the context of agency theory, there is a potential conflict of interest between management (agents) and shareholders (principals), where managers have a tendency to use company profits for projects or investments that benefit them personally, but do not necessarily maximize shareholder benefits.

The effect of free cash flow on dividend policy

Companies with substantial free cash flow tend to be able to pay higher dividends to shareholders. Conversely, if a company's free cash flow is relatively small, the dividends distributed will be lower. In such situations, companies with abundant free cash flow often choose to distribute it as dividends rather than retain it as retained earnings, with the aim of building and maintaining investor confidence in the company's performance. When free cash flow is high, management has greater flexibility in determining how these funds will be used. However, this situation also increases the risk of agency problems, as managers may allocate excess funds to unprofitable projects or even hidden personal interests, ultimately providing no added value to shareholders. According to agency theory, high dividend distributions are considered one way to control conflicts of interest between management and owners. By distributing dividends, companies limit the amount of free funds that can be used inefficiently by managers, thereby encouraging more optimal and responsible cash use.

The effect of corporate life cycle on dividend policy

A company's life cycle stage influences its dividend policy, reflecting its approach to optimal financial management, prioritizing investment needs and operational sustainability over profit distribution to shareholders. During a downturn, companies typically face declining profitability and unstable cash flow, limiting their ability to distribute dividends. In such situations, companies tend to retain profits as reserves to ensure operational continuity and minimize potential bankruptcy risk, rather than distributing them to shareholders.

Conclusion and Recommendations

Dividend policy is not entirely determined by the level of operating leverage or the amount of free cash flow, but rather by strategic considerations and the company's internal conditions. Furthermore, the stage of a company's life cycle has been shown to significantly influence dividend distribution decisions. Companies in a decline stage generally prefer to retain earnings to ensure operational continuity, rather than distributing them to shareholders.

The results of this study provide important implications that are expected to serve as a reference for companies and investors in making decisions regarding dividend policy. It was found that the degree of operating leverage and free cash flow did not significantly influence dividend policy, while the corporate life cycle was shown to have a negative effect on dividend policy. This indicates that as a company declines in its life cycle, its propensity to distribute dividends decreases, with companies focusing more on maintaining operational continuity, implementing efficiency measures, and preparing funds for investment or restructuring, rather than distributing profits to shareholders. However, it is important to acknowledge the limitations of this study that may affect the results. First, this study only used a sample of 16 non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX). Therefore, the results should be interpreted with caution and cannot always be generalized to all industrial sectors. Second, this study only examined the influence of a few variables on dividend policy, thus other factors that could potentially influence dividend policy were not included in the analysis model. For future research, it is recommended to use a broader and more diverse sample to make the results more representative and applicable to various types of companies. In addition, the addition of other variables that have the potential to influence dividend policy, such as capital structure, market conditions, or macroeconomic factors, can provide a more comprehensive picture.

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