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Capital Structure, Profitability, and Block Holder Ownership on Dividend Policy using Free Cash Flow as Moderation Variable

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Abstract
The aim of this study is to investigate the influence of sales growth, company size, profitability, and non-debt tax shield on the capital structure of food and beverage companies in the consumer sector listed on the Indonesia Stock Exchange between 2017 and 2020. The research utilizes secondary data and employs purposive sampling to select a sample of 38 companies. Data analysis involves quantitative descriptive analysis and the use of SmartPLS software for various calculations. The findings indicate that block holder ownership does not significantly affect dividend policy, capital structure does not significantly impact dividend policy, profitability has a positive influence on dividend policy, and free cash flow does not significantly affect dividend policy. It is hoped that future researchers can add knowledge and insight in the field of financial and financing ratios and examine more deeply related to financial performance in the development of primary consumer goods sector companies on the IDX.

Keywords: Capital Structure, Profitability, Block Holder Ownership, Free Cash Flow, Dividend Payout Ratio

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1.0 INTRODUCTION

Along with the rise of digitalization in the midst of the globalization era, the industry in Indonesia is growing and triggering very competitive competition. Thus, companies need to develop the right strategy to maintain the viability of the company, as well as provide good performance by increasing share prices through company value so that investors can prosper.

Dividend policy refers to the strategic choice made by a company regarding the allocation of its earned profits, either to be reinvested into the business or distributed to shareholders as dividends. This decision is crucial as it can serve as a signal to investors, influencing their perception of the company's value. The Dividend Payout Ratio (DPR) is commonly used to measure the company's dividend policy, reflecting the proportion of earnings paid out as dividends.

According to Asri and Sofie (2015), capital structure pertains to the arrangement of a company's financial resources, encompassing both debt and equity components, used to finance its assets. It represents the combination of permanent equity capital and temporary short-term funding sources that a company utilizes. The capital structure is intricately linked to the sources of funding available to the company. These sources can encompass both more stable long-term debt and higher-risk short-term funding options.

Profitability represents the capacity of a firm to rocketing profits. These profits are derived from the company's sales and investments. Profitability serves as an indicator of management's effectiveness in running the company. One common measure of profitability is the return on equity (ROE), which involves dividing the net profit after tax (earnings after tax) by the company's equity. This calculation provides insights into the company's profitability relative to its own capital.

Blockholder ownership (Renaldo et al., 2021; Sudarno, Renaldo, Hutahuruk, Junaedi, et al., 2022) is a type of ownership structure within a company. As stated by Thomsen et al. (2006), a block shareholder refers to a shareholder who owns a minimum of 5% of the company's shares. Block shareholders' ownership can help mitigate conflicts of agency costs that arise between shareholders and managers. By possessing a significant

amount of shares, block shareholders have the ability to exert their influence and facilitate decision-making processes while overseeing the company's managers. This form of ownership has a negative impact on agency costs.

Jensen (1986) defines free cash flow as the surplus cash flow generated by a company after covering the necessary funds for all profitable projects with positive net present value (NPV). On the other hand, Lucyanda and Lilyana (2012) describe free cash flow as the cash flow within a company that is available to be distributed as returns to shareholders or utilized for debt repayment.

2.0 LITERATURE REVIEW

Signaling Theory

Signal theory proposes that investors interpret changes in dividend payments as signals of management's earnings expectations. This aligns with the findings of Miller and Modigliani (1961), who suggest that an unexpected increase in dividends serves as a "signal" to investors, indicating that company management anticipates future profit growth. Conversely, a reduction in dividends signifies a lower profit projection.

MM signal theory operates under the assumption of symmetric information (Chandra et al., 2018; Nyoto et al., 2023; Renaldo & Murwaningsari, 2023), where all parties, including investors and managers, possess equal knowledge regarding a company's prospects. However, in practice, information asymmetry exists, with managers typically having access to superior information compared to external investors (Brigham & Houston, 2011).

Agency Theory

Agency theory, proposed by Jensen and Meckling (1976), describes the inherent conflict of interest between management and shareholders, leading to potential conflicts. Managers are inclined to prioritize their personal interests, which may not align with the interests of shareholders. Consequently, this misalignment can result in increased costs for the company and diminished profitability (Putri et al., 2022) for shareholders.

Asymmetric Information

As per (Kurniawan & Ardeno, 2012), information asymmetry refers to a situation where there is an imbalance between the agent and the principal due to the uneven information distribution between the two parties.

The relation between information asymmetry theory and ownership structure variable is when company internal parties have more information than company owners. This causes an imbalance of information that only benefits the company's internal parties.

Dividend Policy

Dividend policy involves deciding whether the company's end-of-year profits will be distributed to shareholders as dividends or retained to fund future investments and increase capital. The dividend payout ratio is used to determine the proportion of retained earnings that will be allocated for dividend payments. A higher level of retained earnings implies a lower amount of profits allocated for dividends.

Kusuma et al. (2018) discuss three primary theories concerning dividends: Dividend Irrelevance Theory, Bird in the Hand Theory, and Tax Preference Theory. Dividend Irrelevance Theory, introduced by Modigliani and Miller (1961), argues that a company's value is not determined by the Dividend Payout Ratio but rather by factors such as pre-tax net income (EBIT) and the level of risk associated with the company. Therefore, dividends are considered inconsequential in terms of enhancing shareholder welfare. Company value is primarily influenced by its ability to generate profits or earnings from its assets (Fauziah, 2017). Modigliani and Miller's perspective is based on the assumption of perfect capital market conditions, no capital market costs, and no taxes. However, in reality, market conditions are not always perfect, and there exists asymmetric information related to agency problems. Agency theory, initially proposed by Jensen (1986), examines the relationship between the principal (company owner) and the agent (manager) within the context of corporate governance. According to this theory, the principal delegates authority to the agent to manage the company. However, conflicts of interest often arise between management and shareholders, giving rise to potential conflicts. Agency theory highlights the presence of information asymmetry between principals and agents, where agents possess more information about the company than the principals. Managers may make decisions that align with their own interests but can potentially harm the interests of the principals and other stakeholders. The MM Model also argues that shareholders will be indifferent to returns from dividends and capital gains because investors who need funds can sell their shares at any time to get the desired funds at no cost (Khan & Ahmad, 2017). However, in practice, buying and selling shares in the capital market involves transaction costs. Additionally, the assumption of no taxes is challenging to apply since income is typically subject to taxation. Shareholders also tend to opt for income types that have lower tax burdens. The Bird in the Hand theory originates from the (Lintner, 1956) model, which states that management tends to be reluctant to change a company's dividend payout level, and will only increase dividend payout if management believes that the increase can be maintained in the future. Hence, a high dividend payout indicates positive future financial prospects for the company. This concept can be linked to Signaling Theory proposed by Bhattacharya (1997), which suggests that company management possesses more information about the company

than investors, and dividend policy serves as a means to communicate this information to investors (Bostanci et al., 2018).

Capital Structure

The evaluation of capital structure is utilized to determine a company's ability to fulfill its obligations in the event of liquidation (Darsono & Asari, 2010:54-55). This ratio indicates that a lower value signifies a higher proportion of company funding sourced from shareholders, offering greater protection (protection margin) to creditors in the case of asset devaluation or substantial losses.

The existence of an arbitration process leads to the equalization of share prices (company value) between companies that utilize debt and those that do not. This process occurs because investors prefer investments that require lower funding while offering the same net income and level of risk. In ideal capital market conditions without taxes, Modigliani and Miller (1958) demonstrated that funding decisions are irrelevant, implying that the use of debt or equity will have equal effects on the wealth of company owners. The tax savings associated with debt usage provide an advantage to company owners, resulting in higher valuations for debt-utilizing companies compared to those that do not use debt.

Free Cash Flow

After a company has allocated its investments towards fixed assets, new products, and working capital required to sustain its operations, any surplus free cash flows are subsequently distributed among shareholders and debt holders (Prihadi, 2012).

Profitability

The profitability ratio, also referred to as the operating performance ratio, is utilized to assess the profit margin derived from a company's operational activities. According to Brigham (2006), the profitability ratio provides insights into the influence of liquidity, asset management, and debt on a company's operational performance. Return on assets is a ratio used to assess how effectively invested capital generates future profits.

Block Holder Ownership

According to Filbeck (1999), when there are other monitoring mechanisms in place, such as the presence of large block holders, the significance of dividends in addressing agency costs diminishes.

According to Ariyani (2008), the relationship between ownership concentration and dividends is characterized by a non-linear pattern. Initially, as insider holdings increase, dividends also increase. However, this positive relationship reaches a turning point at a critical ownership level of 46%. Beyond this threshold, the relationship reverses, indicating a negative association. This negative relationship aligns with the entrenchment effect and tunneling hypothesis, suggesting that majority shareholders may exploit their position at the expense of minority shareholders. This phenomenon is particularly significant when insider ownership constitutes approximately half of the total shares. Interestingly, when insider ownership exceeds the 77% threshold, the influence on dividends becomes positive again. This can be attributed to the liquidity needs faced by major shareholders. Farinha and Foronda (2005) also emphasize the impact of ownership concentration on dividend payments.

Block holder ownership refers to the measurement of the proportion of shares owned by a particular group, which includes closely held shares and ownership stakes exceeding 5%. This encompasses share ownership by various entities, such as company owners, management, directors and their families, trust entities, other companies, and pension funds. This measure uses a broader measure of block holder ownership than previous studies, as it also involves insider ownership (managers) and also large shareholders outside the company (large outside investors), that the measurement error is small if managerial ownership is less than 5%, and if it is more than that then the manager must be considered a block holder.

Influence between Variables and Hypothesis Formulation

Effect of Capital Structure on Dividend Policy

Capital structure pertains to the arrangement of a company's financial resources, encompassing debt, preferred equity, and common stock. The debt-to-equity ratio (DER) is a widely utilized measure to evaluate the capital structure, indicating the company's capacity to fulfill its financial commitments. A lower DER indicates a higher capacity to fulfill obligations, while a higher DER signifies a greater amount of liabilities. Research conducted by Sutrisno (2001) further supports this notion, revealing that a higher debt burden leads to a decreased ability to pay dividends. Hence, there exists a negative and significant relationship between DER and dividend payout ratio (DPR). This finding is also supported by the results of Masdupi's research (2012), which confirms the negative and significant impact of DER on DPR.

H1: Capital structure has a negative effect on dividend policy

Effect of Profitability on dividend policy

Profitability plays a crucial role in determining the number of dividends a company can distribute. Higher profitability indicates a stronger financial position, enabling the company to allocate more funds for dividend

payments. In other words, companies with greater profitability are more likely to distribute higher dividends to their shareholders. The profitability indicator used in this study is ROE. The higher the ROE, the better. ROE has an important meaning for assessing a company's financial performance in meeting shareholder expectations.

Based on research (Lestari et al., 2017) that has been conducted regarding the effect of profitability on dividend policy by conducting partial correlation analysis and partial correlation coefficient significance test, partial correlation results are obtained between profitability and dividend policy if liquidity remains in a positive direction, which means the higher profitability, the higher the dividend policy, and vice versa.

H2: Profitability has a positive effect on dividend policy

Effect of Block holder Ownership on Dividend Policy

As per the research conducted by Djebali and Belanès (2015), the identity of the primary block holder has a noteworthy impact on dividend policy. Specifically, when the largest shareholders are affiliated with the corporate family group, there is a tendency to offer lower dividends. Conversely, if the first block holders are institutional investors, companies are more inclined to distribute higher dividends.

The negative impact of block holder ownership in family-controlled companies can be explained through three main arguments. Firstly, these companies experience fewer conflicts of interest between shareholders and management, although conflicts between controlling and minority shareholders may still be severe. Management positions are often held by members of the controlling family, which puts significant pressure on them. Consequently, family-controlled firms tend to pay lower dividends as a means of addressing agency problems. However, these problems are less pronounced compared to other types of conflicts. Secondly, family-controlled companies prioritize the long-term wealth and reputation of the family, leading them to reduce the target dividend payout rate and reinvest any excess cash flow. This preference for retaining earnings is driven by concerns for future generations. Thirdly, holding large blocks of stock in a single company implies a lack of diversification in the portfolio, which increases the sensitivity to bankruptcy risk. Since dividend payments can heighten this risk, family-controlled companies are often hesitant to distribute dividends. On the other hand, firms controlled by institutional investors tend to have a preference for higher dividend payments.

H3: Block holder ownership has a negative effect on dividend policy

Effect of Free Cash Flow on Dividend Policy

Dividend payments involve the transfer of cash from the company to its shareholders. When a company has a strong cash position, it indicates a higher capacity to distribute dividends to its shareholders. Nevertheless, this scenario frequently gives rise to a clash of interests between managers and shareholders. Managers may prefer to reinvest the available cash into company assets to increase their own incentives and boost sales turnover. On the other hand, shareholders generally prefer that the cash be distributed to them as dividends.

According to the research conducted by Arilaha (2009), the free cash flow of a company does not have an impact on its dividend policy. The research discovered that the size of the free cash flow does not determine whether a company will have a high or low dividend payout. In situations where a company wishes to maximize shareholder wealth through dividend distribution but lacks sufficient free cash flow, it can seek external funding. This aligns with the concept of the Pecking Order Theory, which suggests that companies tend to prioritize internal sources of funding for dividend payments and resort to external financing only when internal funds are insufficient.

H4: Free cash flow has a positive effect on dividend policy

Free Cash Flow Moderates the Effect of Capital Structure on Dividend Policy

An increased level of influence from the capital structure is associated with a decreased ability of the company to fulfill its obligations. Conversely, a higher proportion of debt within the capital structure leads to an increase in liabilities. With a higher debt burden, the company's capacity to distribute dividends is diminished. Consequently, a negative and significant correlation exists between the capital structure and the dividend payout ratio (DPR).

H5: Free cash flow moderates the effect of capital structure on dividend policy

Free Cash Flow Moderates the Effect of Profitability on Dividend Policy

This profitability is needed by a company if the company will pay dividends. Dividend payments are made when the company earns high profits. The greater the profitability, the greater the dividends that shareholders get. Conversely, the lower the profitability, the less dividends will be distributed. The company will try to get as much profit as possible in order to pay dividends.

H6: Free cash flow moderates the effect of profitability on dividend policy

Free Cash Flow Moderates the Effect of Block Holder Ownership on Dividend Policy

Based on the research conducted by Raoudha and Amel (2015), the findings suggest that the influence of the first block holder's identity on dividend policy can be summarized as follows: shareholders or institutional investors have a significant impact. It was observed that companies with larger shareholders tend to pay lower dividends. On the other hand, when the first block holders are institutional investors, companies tend to pay higher dividends. While companies face fewer conflicts of interest between shareholders and management in such cases, conflicts between controlling and minority shareholders remain significant. Controlled companies tend to pay fewer

dividends as a means to mitigate agency problems. However, in cases where these problems are less severe, dividend payments may increase the risk that family-controlled companies are reluctant to pay dividends. The research indicates that firms controlled by institutional investors generally show a preference for higher dividend payments.
H7: Free cash flow moderates the effect of block holder ownership on dividend policy

3.0 METHODOLOGY

Place and time of research
Data from companies in the primary consumer goods sector that were listed on the Indonesia Stock Exchange (IDX) were utilized in this study, which was obtained from the website www.sahamu.com. The time of this research starts from September 2022 to January 2023.

Population and Sample
The target population for this study comprises 110 companies in the primary consumer goods sector that were listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021. Primary consumer goods sector companies consist of drug distributors (D211), food distributors (D112), supermarkets (D113), liquor (D211), soft drinks (D212), fish, meat & poultry products (D231), plantations & Food Crops (D232), Cigarettes (D2311), Household Products (D411) & Body Care Products (D421). The research employed a purposive sampling method, which involved selecting non-random samples based on specific considerations that aligned with the research objectives and met the criteria to be tested. The study collected a sample of 64 companies operating in the food and beverage sub-sector that were listed on the Indonesia Stock Exchange (IDX) between 2017 and 2021.

Table 1. Research Sample Criteria

No	Information	Total
1	Companies operating in the primary consumer goods sector that were listed on the Indonesia Stock Exchange (IDX) during the period of 2017-2021.	110
2	Companies in the primary consumer goods sector that conducted their initial public offering (IPO) before the year 2016.	-46
3	Companies operating in the primary consumer goods sector that experienced a suspension in their operations during the period of 2017-2020.	0
	Total Sample	**64**

Operational and Measurement of Research Variables
In this research, there are dependent variables (influenced variables) and independent variables (influenced variables).

Table 2. Operational Definition and Variable Measurement

No	Variable	Indicator	Scale
1	Capital Structure (X1)	$DER = \frac{Total\ Debt}{Total\ Equity}$ (Kasmir, 2012)	Ratio
2	Profitability (X2)	$ROA = \frac{Net\ Profit\ after\ Tax}{Total\ Assets}$ (Brigham & Houston, 2006)	Ratio
3	Block Holder Ownership (X3)	$BHO = Percentage\ of\ total\ blockholder\ ownership$ (Ariyani, 2008)	Ratio
4	Free Cash Flow (X4)	$FCF = Operating\ Cash\ Flow\ -\ Capital\ Expenditure$ (Prihadi, 2012)	Ratio
5	Dividend Policy (Y)	$DPR = \frac{Dividend\ per\ Share}{Earnings\ per\ Share}$ (Mardasari, 2014)	Ratio

Data analysis technique
This study utilized both descriptive analysis and inferential statistical analysis, employing Partial Least Squares (PLS) as the analytical technique. The data utilized in this study is secondary data sourced from published annual financial reports and independent auditor reports of companies operating in the primary consumer goods sector. The data was obtained from the Indonesia Stock Exchange (IDX) and covers the period from 2017 to 2021, with direct access obtained through the website www.sahamu.com.

Descriptive Analysis

In descriptive statistics, we will discuss ways of presenting data with ordinary tables and graphical distributions. The objective of this descriptive statistical analysis is to offer a comprehensive overview of the processing of financial data and annual reports from mining sector companies listed on the Indonesia Stock Exchange. The analysis seeks to describe and summarize the important variables pertaining to capital structure, profitability, blockholder ownership, free cash flow, and dividend policy.

Inferential Statistical Analysis

In accordance with Sutrisno (2012), inferential statistics is a statistical method employed to analyze data from a sample and make inferences or generalizations about the larger population based on the findings. In this study, the statistical analysis involves employing a variance-based model with the Partial Least Squares (PLS) method for path analysis on financial data of companies operating in the primary consumer goods sector from 2017 to 2021. In the PLS framework, the structural model that examines the relationships between latent variables (variables that cannot be directly measured) is referred to as the inner model, while the measurement model that assesses the indicators and their relationship with the latent variables is referred to as the outer model.

Outer Model sampling

The measurement model, also known as the outer model, is used to evaluate the validity and reliability of each construct. In the case of convergent validity, particularly in a reflective model, indicators are assessed based on their correlation with the construct scores calculated by PLS (Partial Least Squares). A reflective measure is considered strong if it correlates above 0.70 with the construct it is intended to measure. However, during the scale development phase, loading values ranging from 0.50 to 0.60 are generally considered sufficient. Discriminant validity of the measurement model, when reflective indicators are employed, is determined by examining cross-loading measurements with constructs. If the correlation between a measurement item and its corresponding construct is higher than its correlation with other constructs, it indicates that the latent construct is a better predictor of the measurement item compared to the other constructs in the model.

This method is employed to evaluate discriminant validity by comparing the square root of the Average Variance Extracted (AVE) for each construct with the correlations between other constructs within the model. If the square root of AVE for a given construct is higher than the correlation value with other constructs in the model, it indicates good discriminant validity. This measurement can also assess the reliability of latent variable component scores and typically yields more conservative outcomes compared to composite reliability. It is recommended for the AVE value to exceed 0.50. Composite reliability, which gauges the reliability of a construct, can be assessed using two measures: internal consistency and Cronbach's Alpha.

In the case of formative constructs, the assessment of the measurement model is based on the significance of the weights assigned to each indicator. Consequently, construct validity and reliability tests are not required. However, in this study, the measurement model is included to determine the extent to which the chosen path model can explain the research. The significance of the weights must be assessed through a resampling (or bootstrapping) procedure. Additionally, a multicollinearity test is conducted for formative constructs by calculating the Variance Inflation Factor (VIF) and its counterpart, Tolerance. If the T-statistics significance value of the weight is greater than 1.96, it can be concluded that the construct indicator is valid. It is recommended to have VIF values below 10 or 5, according to Ghozali (2015). However, it is important to note that for path analysis with observed variables using SmartPLS, conducting measurement model assessments to test validity and reliability is not necessary. As a result, the estimation of the structural model can be conducted directly.

Inner Model

The structural model, also referred to as the inner model, is employed to assess the predictive power of a model by examining the significance of all estimated paths. The predictive power of the structural model can be determined by examining the R-Square value of the endogenous or dependent variables. The PLS R-Square results indicate the proportion of variance in the constructs that can be explained by the model. Modifications in the R-Square value can be utilized to clarify the influence of particular independent variables on the dependent variable, helping to determine if they possess a significant impact.

a. The value of $R - squares$ is 0.75 categorized as a strong model
b. The $R - squares$ value of 0.50 is categorized as a moderate model
c. The value of $R - squares$ is 0.25 categorized as a weak model

Apart from considering the R-Square, evaluating a PLS (Partial Least Squares) model can also involve examining the Q2 predictive relevance. The Q2 measure assesses the model's ability to effectively generate observed values and estimate its parameters. A Q2 value above 0 indicates that the model possesses predictive relevance, while a Q2 value below 0 indicates a lower level of predictive relevance.

Test f Square (effect size)

The f-square value obtained in this study indicates a significant impact of the independent variables on the dependent variable. The independent variable in this study is cash issuance, while the dependent variable is the obligation to be paid. The evaluation criteria for f-square, proposed by Henseler (2009), are as follows:

a. $0.02 \leq f \leq 0.15$ = small effect
b. $0.15 \leq f \leq 0.35$ = medium effect
c. $f \geq 0.35$ = large effect

Structural Equation Analysis

To test the effect of moderating variables using interaction tests or Moderate Regression Analysis (MRA). The equation model used in this study is:

$$Y = a1 + b1X1 + b2X2 + b3X3 + b4Mod + e1$$

$$Y = a2 + b5X1 + b6X2 + b7X3 + b8Mod + b9X1Mod + b10X2Mod + b11X3Mod + e2$$

Information:

Y	=	Dividend Policy
$b_1 \ldots b_{11}$	=	Regression Coefficient
X1	=	Capital Structure
X2	=	Profitability
X3	=	Blockholder Ownership
a_1 & a_2	=	Constants
Mod	=	Free Cash Flow
e_1 & e_2	=	Errors

Hypothesis Test (t test)

The proposed hypotheses can be tested and the level of significance can be determined by examining the t-statistics (t-Statistics) using the bootstrapping procedure, as outlined by Santoso et al. (2017). The PLS program includes the analysis of the level of significance within the Inner Model analysis. The direct effects of the research variables can be assessed by examining the Path Coefficient, while the indirect effects can be examined through indirect effects. As per Ghozali (2015), the threshold for accepting or rejecting the proposed hypotheses is 1.96. When the t-value surpasses this threshold, the hypothesis is deemed significant and can be accepted.

a. The t-statistic value is below 1.96, so the hypothesis is rejected.
b. The t-statistic value is above 1.96, so the hypothesis is accepted.

Testing Using SmartPLS

For this study, a structural equation modeling (SEM) approach was employed, as it allows for conducting path analysis tests involving latent variables. SEM is a suitable model for examining the relationships between variables and assessing the direct and indirect effects in a comprehensive manner. Partial Least Squares (PLS) according to Ghozali (2015) is a type of variance-based SEM that was created to overcome the problems posed by covariance-based SEM. The Partial Least Squares (PLS) analysis method is suitable for testing weak theories and handling weak data, such as small sample sizes or issues related to data normality.

4.0 RESULTS AND DISCUSSION

Multicollinearity Test

The results of the multicollinearity test, performed using the Variance Inflation Factor (VIF), suggest that the VIF values for the variables Capital Structure (DER) (X1), Profitability (ROA) (X2), Block Holder Ownership (X3), Free Cash Flow (X4), and Dividend Policy (DPR) (Y) are all below 10. When the VIF values are below 10 and the tolerance values are above 0.1, it can be inferred that the data is devoid of multicollinearity.

Table 1. Multicollinearity Test Results

Variable	Without Moderation	With Moderation
Free Cash Flow	1,070	7,479
Block Holder Ownership	1,079	1,600
Profitability	1,237	1,802
Capital Structure	1,188	1,635
Free Cash Flow x Capital Structure		1,696
Free Cash Flow x Profitability		1,620
Free Cash Flow x Block Holder Ownership		6,670

Source: Processed Data (2023)

Determination Coefficient Test (R2)

In the absence of moderation, the coefficient of determination is 0.550, indicating that capital structure, profitability, block holder ownership, and free cash flow collectively account for 55% of the influence on the dividend policy. The remaining 45% is attributed to other factors not included in the analysis. With moderation, the coefficient of determination is 0.574, implying that capital structure, profitability, block holder ownership, and free cash flow as a moderating variable contribute to 57.4% of the influence on the dividend policy. The remaining 42.6% is influenced by other factors not considered in the study.

Table 4. Results for the Coefficient of Determination (R2)

	Without Moderation	With Moderation
R-square adjusted	0.550	0.574

F Square test

The findings from the F Square test, conducted without moderation, indicate that capital structure (DER) (X1), profitability (ROA) (X2), block holder ownership (X3), and free cash flow (X4) have a significant influence on the dividend policy (DPR) variable (Y). However, the results of the F Square test with moderation suggest that the impact of capital structure (DER) (X1), profitability (ROA) (X2), block holder ownership (X3), and free cash flow (X4) on the dividend policy (DPR) variable (Y) is not statistically significant.

Table 5. F Square Test Results

	Without Moderation	With Moderation
Free Cash Flow	0.001	0.034
Block holder Ownership	0.025	0.074
Profitability	0.996	0.644
Capital Structure	0.006	0.020
Free Cash Flow x Capital Structure		0.001
Free Cash Flow x Profitability		0.025
Free Cash Flow x Block holder Ownership		0.063

Hypothesis testing

Hypothesis testing is one of the uses of inferential statistics that is often used in statistical methods. By using this method, we can find out whether an assumption or opinion is true or not, and examine the influence between variables. The t-test is employed for hypothesis testing, where the calculated t-value is compared to the corresponding values in the table for each independent variable. The individual parameter significance test, also referred to as the t-test, is utilized to ascertain whether each independent variable has a statistically significant effect on the dependent variable, assuming that the other independent variables remain unchanged.

Table 6. Test Results t

Without Moderation	Hypothesis	Original sample (O)	T statistics	P values (1-tailed)	Result
Free Cash Flow -> Dividend Policy	+	0.020	0.134	0.447	Rejected
Block Holder Ownership -> Dividend Policy	-	0.106	1.048	0.148	Rejected
Profitability -> Dividend Policy	+	0.718	4.676	0.000	Accepted at 1%
Capital Structure -> Dividend Policy	-	-0.055	0.539	0.295	Rejected
With Moderation	**Hypothesis**	**Original sample (O)**	**T statistics**	**P values (1-tailed)**	**Result**
Free Cash Flow -> Dividend Policy	+	-0.306	0.821	0.206	Rejected
Block Holder Ownership -> Dividend Policy	-	0.209	1.278	0.101	Rejected
Profitability -> Dividend Policy	+	0.657	4.525	0.000	Accepted at 1%

Capital Structure -> Dividend Policy	-	-0.112	0.661	0.255	Rejected
Free Cash Flow x Capital Structure -> Dividend Policy	weaken	-0.038	0.085	0.467	Rejected
Free Cash Flow x Profitability -> Dividend Policy	strengthen	0.187	0.774	0.220	Rejected
Free Cash Flow x Block Holder Ownership -> Dividend Policy	weaken	0.673	1.377	0.085	Rejected

Source: SmartPLS Processed Data, 2023

The research findings indicate that the capital structure variable does not significantly affect the dividend policy variable (DPR) (Y) based on the observed P-values. However, the profitability variable (ROA) (X2) shows a significant influence on the dividend policy variable (DPR) (Y) as indicated by the P-value. The block holder ownership variable does not have a significant impact on the dividend policy variable (DPR) (Y) according to the obtained P-values. Similarly, the free cash flow variable (X4) does not demonstrate a significant effect on the dividend policy variable (DPR) (Y) based on the obtained P-value.

Outer Loading Test

The research results obtained are deemed reliable as the data obtained has a validity score exceeding 0.7.

Table 7. Outer Loading

Variables	Outer Loading
Free Cash Flow	1.000
Dividend Policy	1.000
Block Holder Ownership	1.000
Profitability	1.000
Capital Structure	1.000

Source: SmartPLS Processed Data, 2023

Discussion

The Influence of DER on the DPR

The results of the hypothesis testing suggest that there is no statistically significant negative correlation between the Debt-to-Equity Ratio (DER) and the Dividend Payout Ratio (DPR). Nevertheless, the descriptive analysis implies that a higher debt burden has a detrimental impact on the company's capacity to distribute dividends.

Research results aligning with theory can stem from various factors. In the case of increasing debt burden, companies tend to rely more heavily on debt to fulfill their financing requirements, which makes it less likely for them to distribute dividends. These findings are in line with previous research made by Sutrisno (2001).

Effect of ROA on the DPR

The results of the hypothesis testing reveal a noteworthy and positive correlation between Return on Assets (ROA) and the Dividend Payout Ratio (DPR). This implies that as the ROA (as found in previous studies by Suhardjo, Renaldo, Suyono, et al., 2022; Suyono et al., 2021) rises and the company's performance improves, shareholders can expect higher dividend payments. The significant and positive impact of ROA on the DPR indicates that an increase in dividends is linked to an improvement in the ROA.

There are various reasons why research results may align with theory. One possibility in this study is that the increase in profitability enables the company to operate effectively, as it generates higher profits and demonstrates improved financial performance. As the return-on-investment increases, investors receive greater rewards in the form of dividend income. Additionally, these findings are in line with prior research made by Lestari et al. (2017).

The Effect of Block Holder Ownership on the DPR

The results obtained from the hypothesis testing suggest that there is no statistically significant negative correlation between Block Holder Ownership and the Dividend Payout Ratio (DPR). This implies that companies with a higher level of block holder ownership, where shareholders pay lower dividends, tend to pay higher

dividends. The findings highlight that the identity of shareholders influences dividend payments, indicating a tendency for companies controlled by investors to prioritize higher dividend payouts.

There are several potential reasons for the alignment of research findings with theoretical expectations. Companies that have high block holder ownership tend to reduce dividend payments. Management tries to maintain and avoid financial distress in order to remain stable. Increasing block holder supervision is related to block holders being the majority shareholder, so they will certainly demand high returns on their investment and if problems occur in the company. then the block holder will also be the party that will bear the loss. The results of this study align with the previous research conducted by Djebali and Belanes (2015).

The Effect of Free Cash Flow on the DPR

The results obtained from the hypothesis testing indicate that there is no statistically significant positive association between Free Cash Flow and the Dividend Payout Ratio (DPR). This implies that while a stronger Free Cash Flow position in the company may suggest a greater capacity to distribute dividends to shareholders, the relationship between these variables is not deemed statistically significant. These results differ from the previous research conducted by Arilaha (2009).

Effect of DER on DPR through Free Cash Flow

The results of the hypothesis testing indicate that there is no significant negative relationship between Debt-to-Equity Ratio (DER) and the Dividend Payout Ratio (DPR). This suggests that a lower impact of DER does not necessarily imply a higher ability for the company to meet all its obligations. Conversely, a higher debt level, as indicated by the capital structure position, leads to a greater amount of liabilities.

Effect of ROA on DPR through Free Cash Flow

The hypothesis testing results indicate that there is a significant positive relationship between Return on Assets (ROA) and the Dividend Payout Ratio (DPR). This implies that as a company's profitability and earnings (Sudarno, Renaldo, Veronica, et al., 2022) increase, shareholders receive higher dividends. Consequently, companies strive to achieve greater profitability in order to allocate more significant dividends to their shareholders.

The Influence of Block Holder Ownership on the DPR through Free Cash Flow

The hypothesis testing results indicate that there is no significant positive or negative influence of Block Holder Ownership on the Dividend Payout Ratio (DPR). This suggests that shareholders have a tendency to receive lower dividends, while companies tend to distribute higher dividends. The influence of shareholder identity on dividend payout suggests that companies controlled by investors tend to have a preference for higher dividend payments.

5.0 CONCLUSION

Conclusion

The conclusions drawn from the research, which investigated the relationship between capital structure, profitability, blockholder ownership, and Free Cash Flow as a moderating variable in the primary consumer goods sector between 2017 and 2021, are as follows:

1. Capital structure has no significant effect on the DPR in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2017-2021.
2. Profitability has a significant effect on the DPR in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2017-2021.
3. Blockholder Ownership has no significant effect on the DPR in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2017-2021.
4. Free Cash Flow has no significant effect on the DPR in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2017-2021.
5. Capital structure has no significant effect on the DPR through Free Cash Flow in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2017-2021.
6. Profitability has a significant effect on the DPR through Free Cash Flow in primary consumer goods sector companies listed on the Indonesia Stock Exchange in 2017-2021.
7. The capital structure does not have a substantial impact on the dividend payout ratio (DPR) through free cash flow in companies operating in the primary consumer goods sector and listed on the Indonesia Stock Exchange between 2017 and 2021.

Recommendation

By conducting research on the effect of capital structure, profitability, blockholder ownership in primary consumer goods sector companies through Free Cash Flow as a moderating variable for the 2017-2021 period, the researcher provides advice to:

1. For the Company
   a. Can use all the variables in this study as a company consideration to be able to increase the company's ability to generate company profitability.
   b. Company management should pay attention to changes in DER and ROA in order to be more effective and efficient in making decisions to get maximum profit.
2. For academics
   It is hoped that academics can serve as a reference or comparison for further research with more in-depth and detailed studies. In addition, it is hoped that the campus will add more references in the form of research journals on the primary consumer goods sector.
3. For future research
   It is hoped that future researchers can add knowledge and insight in the field of financial and financing ratios and examine more deeply related to financial performance (ROA) in the development of primary consumer goods sector companies on the IDX. Future researchers can also add variables such as environmental aspect (Sudarno, Renaldo, Hutahuruk, Suhardjo, et al., 2022), liquidity (Suyono et al., 2022), bonus compensation (Suhardjo, Renaldo, Andi, et al., 2022), and others to be able to explain a better dividend policy.

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