ANALYSIS OF FACTORS AFFECTING THE LEVEL OF CASH HOLDINGS ON NON-FINANCIAL COMPANIES

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Abstract

The existence of cash in a company's financial balance sheet is an important component. Without cash, the company's activities will not be able to run. This research aims to analyze and provide empirical evidence regarding the influence of growth opportunity, net working capital, cash conversion cycle, cash flow, and firm size on cash holding in non-financial companies listed on the Indonesia Stock Exchange, Stock Exchange of Thailand and National Stock Exchange of India in 2018-2022. This research uses secondary data collected. The data used is non-financial company financial report data from 2018-2022. The sample for this research was taken using a purposive sampling technique, namely determining samples that met certain criteria so that 269 companies were used as samples in this research. The research data was then analyzed using Partial Least Square (PLS-SEM). Based on the test results using statistical tests, it shows that the growth opportunity and firm size variables have a significant negative effect on cash holding, the net working capital and cash flow variables have a significant positive effect, while the cash conversion cycle variable does not affect cash holding.

Keywords: Cash Holding, Growth Opportunity, Networking Capital, Cash Flow

INTRODUCTION

Gill and Shah (2012) define cash holding as cash on hand or available to invest in physical assets and to distribute to investors. Thus, cash holding is seen as cash or cash equivalents that can be easily converted into cash. Cash is the most liquid form of asset and can be used immediately to meet the company's operational needs. Increasingly tight competition in the business world requires companies to be able to manage their finances appropriately. The existence of cash in a company is very important because without cash it will result in the company's activities not being able to run. Therefore, companies must maintain the amount of cash following the company's operational needs.

Bates et al. (2009) state that there are four main motives for holding cash, namely: transaction motive, where the company holds cash intending to reduce the costs of liquidating assets when cash is needed urgently; precautionary motive, namely the company holds extra cash to deal with unpredictable situations that require capital expenditure; tax motive, where companies prefer to hold cash rather than pay dividends because of the high taxes that must be paid by the company; and agency motive, in which the manager trained tend to hold onto cash rather than pay it out to shareholders when the company has poor investment opportunities and use the idle cash to make a profit for themselves (Ristianawati et al., 2021). The problem often faced by financial managers in carrying out company operational activities is maintaining the balance of the company's cash. The more important it is to maintain the company's cash balance, the more attention from various parties such as managers and investors will be paid to determining cash holdings Jamil et al. (2016). This is evident from the cash-to-assets ratio which has increased to 9.8% in the 500 largest non-financial companies in America recorded until 2012 Jinkar (2013). Meanwhile, non-financial companies in Pakistan have an average cash holding level of 13.1% for investment and financing purposes (Prasentianto, 2014).

In general, two main theories are used to explain cash holding, namely trade-off theory and pecking order theory. First, the trade-off theory states that there are two concepts in cash holding, namely the costs of holding cash and the benefits obtained from holding cash in optimal amounts. Second, the pecking order theory explains that financing comes from three sources, the first comes from retained earnings (Kartika et al., 2023). When retained earnings are sufficient to fund investments, the company will use accumulated cash holdings.

If this internal funding is insufficient to fund the company's investment activities, it will proceed to the second alternative, namely using debt. When the amount of debt owned is felt to be excessive, investment funding continues with the final alternative option of issuing equity (Sugiharti et al., 2023). In such conditions, agency conflicts arise where managers can use the collected cash for their interests and sacrifice the interests of shareholders Daher's research on cash holding has been carried out before. One of them is research conducted by Anjum and Malik (2013) who researched factors that influence cash holding in non-financial companies in India. In this research, five variables were used that are thought to influence cash holding, namely firm size, leverage, net working capital, cash conversion cycle, and sales growth. The results of this research show that there is a significant relationship between the independent variables and cash holding except sales growth (Kartika et al., 2020).

William and Fauzi (2013) researched factors that influence cash holding in mining sector companies. In this research, three variables were used that can influence cash holding, namely growth opportunity, net working capital, and cash conversion cycle. The results of this research show that growth opportunity, NWC, and CCC have a positive effect on cash holdings and indicate that the optimal amount of liquid assets is strongly influenced by growth opportunity, the size of the work model, and the length of time to obtain cash from operating results. Based on the description above, there are differences between the results obtained from each previous study. This difference is what underlies the author to carry out research again regarding cash holding. This research is a development of research by Wulandari and Setiawan (2019) which examined growth opportunity, net working capital, cash conversion cycle, and dividend payout on cash holding. Where the researcher added two independent variables, namely cash flow and firm size, and changed the research sample to the non-financial industrial sector with research entitled.

REVIEW OF LITERATURE

Effect of Growth Opportunity on Cash Holding

According to Zulhilmi (2015), companies that have growth opportunities use liquid assets (such as cash) as an insurance policy to reduce the possibility of financial distress and to take good investment opportunities first when external financing is expensive. Following the pecking order theory, companies with high growth opportunities will be companies to

make policies that prefer to hold high amounts of cash to finance their investment opportunities in Indonesia. Growth opportunities also need to determine the level of cash holdings. If the company has opportunities for faster growth, the company will need greater funds for expectations so the company must hold a higher level of investment in current assets (Shabbir et al., 2016).

The results of research by Zulhilmi (2015) show that growth opportunity has a positive effect on cash holding in Thailand. This shows that companies that have high growth opportunities will usually ensure that these opportunities are not missed, so as a precaution, the company will usually create quite large cash reserves until the opportunity can be executed and provide added value to the company.

Effect of Net Working Capital on Cash Holding

Based on the trade-off theory, there is a negative relationship between net working capital and cash holding. According to Ogundipe et al. (2012), net working capital is used as a proxy for investment in current assets that can be used as a substitute for cash when needed, and net working capital can be liquidated quickly to cover the cash shortage needed by the company Ozkan and Ozkan (2004) explain that the cost of converting non-cash current assets into cash is cheaper compared to other assets so that companies do not always depend on the capital market when there is a cash shortage. Therefore, a high level of net working capital can be associated with a low level of cash holding.

According to Marfuah & Zulhilmi, (2018), Net working capital can act as a substitute for the company's cash holdings. This is because it is easy to convert it into cash when the company needs it. Net working capital is measured by dividing current and current assets liabilities by total assets. If the net working capital result is negative or what is usually called a working capital deficit, then the company is allegedly experiencing liquidity difficulties. In general, companies with negative net working capital will create cash reserves. On the other hand, if a company has a large net working capital, it will automatically reduce its cash balance. This argument has been proven by research by Afza and Adnan (2007); Megginson and Wei (2010); Alam et al. (2011) and Rahmadhani et al. (2024)

Influence of the Cash Conversion Cycle on Cash Holding

Fauzi (2013) states that companies in both the public and private sectors will need less cash if they have a short cash conversion cycle. This is related to the cash conversion

cycle, where the longer the cash conversion cycle lasts, the longer it takes for cash to be collected from sales of company products. So, the company's internal funding needs are greater to pay for its operational activities and this causes the company to have to have larger amounts of cash. However, this is different from the short cash conversion cycle. A company does not need cash if they have a short cycle because the company can quickly receive cash from product sales. So that the cash can be used for investment activities and get more income (Kartika et al., 2020).

The length of the cash conversion cycle will determine the company's ability to generate cash from ongoing operations. CCC is considered efficient and beneficial when companies receive cash from their debtors before they have to pay debts to their creditors. Bigelli and Sánchez-Vidal (2012), say that if companies can manage their cash conversion cycles to be shorter, then they will need cash balances in smaller amounts compared to companies that have long cash conversion cycles.

Effects of Cash Flow on Cash Holding

Cash flow is the most important element of cash holding policy. Financial literature defines cash flow as the total profit before taxes and depreciation (Miguel A. Ferreira, 2004). Based on trade-off theory, cash flow is assumed to be a source of liquidity and can be a substitute for cash. According to Ozkan and Ozkan (2004), the pecking order theory indicates that cash flow and cash holding have a positive effect, which means that companies that have high levels of cash flow tend to have large amounts of cash. This is because companies prefer internal funding compared to external funding. So companies that have high levels of cash flow tend to have low debt. Bates, et al (2009) argue that companies with high cash flow will collect larger amounts of cash. Companies that experience increased cash flow tend to retain their income, collecting cash that they can later use to fund investments or utilize when financial distress occurs (Opler et al., 1999). Ferreira and Vilela (2004) and Taswan et al. (2023) found that there is a positive relationship between cash flow and cash holding. These findings are in line with the results of research conducted by (Afza & Adnan, 2007; Bigelli & Sánchez-Vidal, 2012) and (Ogundipe et al., 2012).

Influence of Firm Size on Cash Holding

Based on trade-off theory, company size has the best relationship with cash holdings because large companies tend to invest in different growth opportunities rather than hoard

them (Harris & Raviv, 1990). Having certification on investments made will have an effect on stable cash flows plus a small possibility of financial distress (Titman & Wessels, 1988). Large companies also have easy and cheap access to funding. That is the reason why large companies do not need to accumulate large amounts of cash to avoid underinvestment like small companies do (Rozak et al., 2023). The results of the research show that company size hurts a company's cash holding because it is one of the important factors that influence cash holding. Small companies that face greater growth opportunities and higher business risks need to hold large amounts of cash when the costs incurred by small companies to enter the capital markets are greater than those of large companies. Ogundipe et al. (2012) show the results of a negative relationship that occurs between company size and cash holding. Based on trade-off theory, firm size has an inverse relationship with cash holding because large companies tend to invest in different growth opportunities rather than hoard them.

RESEARCH METHOD

According to Ferdinand (2006), population is a combination of elements in the form of events, things, or people who have similar characteristics which is the center of attention of a researcher because it is seen as a research universe. The population used in this research is non-financial companies listed on the Indonesia Stock Exchange, Stock Exchange of Thailand, and National Stock Exchange of India in 2018-2022. According to Ferdinand (2006), a sample is a subset of the population, consisting of several members of the population. This subset was taken because in many cases we can't examine all members of the population, therefore we form a representative population called a sample. A sample is part of the population (Sekaran et al., 2010).

The data source used in this research is secondary data, namely data that already exists. The population of this research is non-financial companies that were listed on the Indonesia Stock Exchange, and National Stock Exchange of India from 2018 to 2022. Data analysis is breaking down the whole into smaller components to find out the dominant components, comparing one component with other components, and comparing one or several components with the whole. Data analysis techniques are used to answer problem formulations or test hypotheses that have been formulated. Data management in this research will use smartPLS 3.2.8 software. Structural Equation Modeling (SEM) is a method used to

cover the weaknesses found in the regression method. According to experts, the Structural Equation Modeling (SEM) research method is grouped into two approaches, namely the Covariance Based SEM (CBSE) approach and the Variance Based SEM or Partial Least Square (PLS) approach.

RESULTS AND DISCUSSION

This section explains the analysis of the results of the research that has been carried out. The data processing process begins with data collection through secondary data in the form of financial reports of non-financial sector companies listed on the Indonesia Stock Exchange, the Stock Exchange of Thailand, and the National Stock Exchange of India for 2018-2022. Data analysis in this research used descriptive analysis and research model testing using SEM-PLS with the Smart-PLS data processing software tool Version 3.2.8. Variable X data is data related to Growth Opportunity, Net Working Capital, Cash Conversion Cycle, Cash Flow, and Firm Size (exogenous variable), while the data in variable Y is data related to Cash Holding (endogenous variable).

Data Processing Using SEM-PLS

Data processing in this research uses the SEM-PLS SmartPLS application. The data that has been filled in by respondents is put together in a CSV (Comma Separated Values) type data tabulation. This data processing is to determine the model form, loading factors, and significance of each latent variable. Data processing using SEM-PLS is carried out by running data so that validity and reliability are met.

Structural Model Analysis (Inner Model)

Inner model or structural model testing is carried out to see the relationship between variables, significance values, and R-square of the research model. Hypothesis testing is carried out using the bootstrapping resampling method. The test statistic used is the t-test statistic.

Table 1
R-Square

Variable	R Square
Growth Opportunities	0.201
Net Working Capital	
Cash Conversion Cycle	
Cash Flow	

Firm Size	

R-square value (coefficient of determination) of 0.201, simultaneously Growth Opportunity, Net Working Capital, Cash Conversion Cycle, Cash Flow, and Firm Size the effect on Cash Holding is 20.1 %. This means that the changes that occur in Cash Holding can be explained by the changes that occur in Growth Opportunity and Net Working Capital, Cash Conversion Cycle, Cash Flow, and Firm Size. While the remaining 79.9% is explained by factors other than these variables.

Hypothesis Testing

Before testing the hypothesis, a structural model equation can be created based on the statistical test results:

Model:

$$CH = - 0.027\ GO + 0.036\ NWC – 0.010\ CCC + 0.451\ CF – 0.573\ \textit{Firm Size} + \zeta.$$

The model testing results show that:

1. The Growth Opportunity variable has a negative influence on Cash Holding with a coefficient value of -0.027, which means that every time Growth Opportunity increases it will be followed by a decrease in Cash Holding.
2. Net Working Capital has a positive effect on Cash Holding with a coefficient value of 0.036, which means that every increase in Net Working Capital will be followed by an increase in Cash Holding.
3. The Cash Conversion Cycle has a negative influence on Cash Holding with a coefficient value of -0.010, which means that every time the Cash Conversion Cycle increases it will be followed by a decrease in Cash Holding.
4. Cash Flow has a positive effect on Cash Holding with a coefficient value of 0.451, which means that every increase in Cash Flow will be followed by an increase in Cash Holding.
5. Firm Size has a negative influence on Cash Holding with a coefficient value of -0.573, which means that every time Firm Size increases it will be followed by a decrease in Cash Holding.

The Effect of Growth Opportunity on Cash Holding

The effect of Growth Opportunity on Cash Holding can be seen visually in the t-statistic value path diagram. The statistical test results show, that India, Malaysia, and

Indonesia have produced a value of 2.486, 2.247, and 3.687 shows the influence between Growth Opportunities to Cash Holding. To see whether this effect is significant or not, hypothesis testing was carried out using a bootstrapping procedure with the following results.

H_1:

H_a: There is a significant positive influence between Growth Opportunity to Cash Holding.

H_o: There is no significant positive influence between Growth Opportunity to Cash Holding:

Table 2
Test Results of the Direct and Significant Effect of Growth Opportunity on Cash Holding

	Path Coefficient	t Statistics	P Values	Information
Growth Opportunity -> Cash Holding in India	0.025	2.486	0.031	Significant
Growth Opportunity -> Cash Holding in Malaysia	0.032	2.247	0.022	Significant
Growth Opportunity -> Cash Holding in Indonesia	-0.027	3.687	0.003	Significant

The test results shown in Table 2 show a path coefficient of significance on the t-statistic > t-table 1.96 and at P-value < significance level 0.05. Thus, the hypothesis that Growth Opportunity has a significant effect positive towards Cash Holding is not rejected, from the test results it is found that growth opportunity has a significant negative effect on cash holding in non-financial companies in 2018-2022.

The Influence of Net Working Capital on Cash Holding

To find out the influence of Net Working Capital on Cash Holding can be seen visually in the t-statistic value path diagram: The statistical test results shown in India, Malaysia, and Indonesia produce a value of 3.741, 4.126, and 3.214 indicate a direct effect between Net Working Capital with Cash Holding. To see whether this direct effect is significant or not, hypothesis testing was carried out using a bootstrapping procedure with the following results:

H_2:

H_a: There is a significant negative influence on Net Working Capital to Cash Holding.

H_o: There is no significant effect of negative Net Working Capital against Cash Holding

Table 3
Results of Direct Influence Test and Significance Test of Net Working Capital on Cash Holding

	Path Coefficient	t Statistics	P Values	Information

Net Working Capital -> Cash Holding in India	0.028	3.741	0.001	Significant
Net Working Capital -> Cash Holding in Malaysia	0.023	4.126	0.000	Significant
Net Working Capital -> Cash Holding in Indonesia	0.036	3.214	0.007	Significant

The test results shown in Table 3 show a path coefficient of 0.036 which is significant on the t-statistic > t-table 1.96 and P value < significance level 0.05. Thus, the hypothesis which states that Net Working Capital has a significant negative effect f on Cash Holding is rejected because the results of hypothesis testing show that net working capital has a positive and significant effect on cash holding in non-financial companies in 2018-2022.

The Influence of the Cash Conversion Cycle on Cash Holding

To find out the influence of the Cash Conversion Cycle on Cash Holding can be seen visually in the t-statistic value path diagram. The statistical test results shown in India, Malaysia, and Indonesia produce a value of 2.659, 1.968, and 0.463. shows the influence of the Cash Conversion Cycle against Cash Holding. To see whether this effect is significant or not, hypothesis testing was carried out using a bootstrapping procedure with the following results:

H_3:

H_a: There is a significant positive influence between the Cash Conversion Cycle on Cash Holding.

H_o: There is no significant positive influence between the Cash Conversion Cycle on Cash Holding.

Table 4
Test Results of the Direct and Significant Influence of the Cash Conversion Cycle on Cash Holding

	Path Coefficient	t Statistics	P Values	Information
Cash Conversion Cycle -> Cash Holding in India	0.022	2.659	0.010	Significant
Cash Conversion Cycle -> Cash Holding in Malaysia	0.014	1.968	0.038	Significant
Cash Conversion Cycle -> Cash Holding in Indonesian	-0.010	0.463	0.510	Not significant

The test results shown in Table 4 show that the path coefficient in Indonesia is -0.010, which is not significant on the t-statistic. 0.659 < t-table 1.96 and at P -value 0.510 > significance level 0.05. Thus, the hypothesis that states that the Cash Conversion Cycle has a significant positive effect on Cash Holding is rejected, from the results of hypothesis testing it is found that the Cash Conversion Cycle does not affect Cash Holding in non-financial companies in 2018-2022. However, in India and Malaysia have results of hypothesis testing found that the Cash Conversion Cycle positive effect on Cash Holding in non-financial companies in 2018-2022.

Effect of Cash on Cash Holding

To find out the effect of Cash Flow on Cash Holding can be seen visually in figure path diagrams of t-statistical values:

H_4:

H_a: There is a significant positive influence on Cash Flow and Cash Holding level

H_o: There is no significant effect of positive Cash Flow on Cash Holding

Table 5
Results of Direct Influence Test and Significance Test of Cash Flow on Cash Holding

	Path Coefficient	T Statistics	P Values	Information
Cash Flow -> Cash Holding in India	0.133	1,867	0,043	Significant
Cash Flow -> Cash Holding in Malaysia	0.247	3,624	0,011	Significant
Cash Flow -> Cash Holding in Indonesia	0.451	6,576	0,000	Significant

The test results shown in Table 5 show a path coefficient value which is significant on the t-statistic > t-table 1.96 and P -value < significance level 0.05. Thus, the hypothesis states that Cash Flow has a significant positive effect on Cash Holding acceptability.

Influence of Firm Size on Cash Holding

To find out the effect of Firm Size on Cash Holding can be seen visually in the figure as the t-statistic value path diagram. The statistical test results shown in India, Malaysia, and Indonesia produce a value of 1.423, 3.137, and 6.164 showing the influence between Firm Size against Cash Holding. To see whether this effect is significant or not, hypothesis testing was carried out using a bootstrapping procedure with the following results:

H5:

H_a: There is a significant negative effect between Firm Size on Cash Holding

H_o: There is no significant negative influence between Firm Size on Cash Holding

Table 6
Test Results of the Direct and Significant Effect of Firm Size on Cash Holding

	Path Coefficient	t Statistics	P Values	Information
Firm Size -> Cash Holding in India	0.063	1.423	0,096	Not Significant
Firm Size -> Cash Holding in Malaysia	-0.128	3.137	0,031	Significant
Firm Size -> Cash Holding in Indonesia	-0.573	6.164	0,000	Significant

The test results shown in Table 6 show a path coefficient value in Malaysia and Indonesia have -0.128 and -0.573 which is significant on the t-statistic > t-table 1.96 and at P-value < significance level 0.05. Thus, the hypothesis states that Firm Size has a significant effect negative f e towards Cash Holding acceptable.

Effect of Growth Opportunity on Cash Holding

The results of the analysis show that growth opportunity has a significant negative effect on cash holding. Judging from the research results shows that the higher the investment opportunities a company has, the lower the company's ability to obtain returns that can be used as cash reserves. Companies with high growth opportunities will have low cash holdings. Therefore, it can be concluded that growth opportunity has a significant negative effect on cash holding. Increasing sales growth requires large amounts of inventory to meet it (Sugiharti, 2023). Apart from that, increasing sales growth was also supported by the increase in the number of receivables owned by the company. As sales growth increases, opportunities to invest in different company operations also increase (Anjum & Malik, 2013).

Sales growth is associated with investment opportunities that the company has (Opler et al., 1999). Say that senior managers in companies with high investment opportunities may hold cash and use it for personal interests. Managers in companies with low opportunities are expected to hold large amounts of cash to ensure the availability of funds for investment (Ferreira & Vilela, 2004; Salim et al., 2022). The results of this research are in line with research conducted by Limanta and Malelak (2017) which states that growth opportunity has a significant negative effect on cash holding.

The Influence of Net Working Capital on Cash Holding

The results of the analysis show that net working capital has a significant positive effect on cash holding. Cash is part of net working capital so when cash increases, net working capital will also increase. In addition, current assets other than cash cannot be a substitute for cash at any time. In some special conditions, such as during a crisis, current assets cannot be converted into cash easily (Rahmadhani & Indriyani, 2019). Therefore, company managers usually create cash reserves to maintain liquidity. This is very important because if an economic shock occurs, cash and current assets can save the company from the threat of bankruptcy (Jinkar, 2013). The results of this research are in line with research conducted by Jinkar (2013) which states that net working capital has a positive and significant effect.

The Influence of the Cash Conversion Cycle on Cash Holding

The results of the analysis show that the cash conversion cycle does not affect cash holding, which means that whether the cash conversion cycle is fast or slow does not affect the cash holding policy of non-financial companies in Indonesia. The negative value in the cash conversion cycle coefficient is because companies tend to sell their products on credit, whereas in Indonesia many people have the habit of not paying their credit on time, which will have an impact on the income received by the company so that the company will also take a long time to pay off its debts to suppliers (Rozak et al., 2021). Non-financial companies take too long to get cash from product sales, so to anticipate this, company managers will increase leverage by increasing the company's debt (Rahmadhani & Faisal, 2018). The increase in total debt is due to purchasing raw materials on credit and also financing the company's operational activities so that the cash spent by the company will decrease and increase the cash held by the company.

Influence of Cash Flow on Cash Holding

The analysis results show that cash flow has a significant positive effect on cash holding. The results of the test can be interpreted as meaning that if cash flow increases, then holding cash will also increase. Cash flow or cash flow is a report that presents information about the cash inflow and cash outflow of a company in a certain period. Cash flow is the most important element of cash holding policy. In trade-off theory, cash flow is assumed to be a source of liquidity and can be a substitute for cash. According to the trade-off theory,

cash flow has a relationship with cash holding, the company will use debt more to gain benefits so that the company can increase cash reserves from cash flow to avoid liquidation problems and to pay the company's debt (Hardiningsih et al., 2024). The results of this research are in line with the results of research by Basheer (2014) which found a positive and significant relationship between cash flow and cash holdings. This positive relationship is consistent with predictions from the pecking order theory which states that companies with high cash flow prefer to hold significant amounts of cash (Praptitorini et al., 2021).

The Influence of Firm Size on Cash Holding

The results of the analysis show that firm size has a significant negative effect on cash holding. The results of this research support the research of Gill and Shah (2012) which found a significant negative relationship between firm size and cash holding, which implies that companies that have a large scale will face a low level of vulnerability to financial distress so they will not carry out large amounts of cash holding (Kartika et al., 2022). Trade-off theory predicts a negative relationship between company size and cash holding. According to trade-off theory, companies will try to determine the optimal amount of cash holding, taking into account the benefits and costs arising from the use of cash holding. The larger the firm size, the more the company tries to maintain optimal cash holding, because errors in determining cash holding will affect the value of the company.

CONCLUSION

Based on the results of research conducted and based on the formulation and research objectives that have been determined to determine the analysis of factors that influence Cash Holding in Non-Financial Companies Listed on the Indonesia Stock Exchange, the Stock Exchange of Thailand, and the National Stock Exchange of India in 2018-2022. It is hoped that from the results of this research, the company can provide information regarding the factors that influence cash holding. Growth opportunity, cash conversion cycle, cash flow, and firm size need to be considered by companies in determining the level of cash holding, because growth opportunity, net working capital, cash flow, and firm size are proven to influence the cash holding of non-financial companies listed on the Stock Exchange in India, Malaysia, and Indonesia.

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