

Factors Affecting Cash Holding in Manufacturing Companies in The Consumer Goods Sector

Stella Elvira Saputra¹, Yuniarwati²

Faculty of Economics and Business, Tarumanagara University

Abstract: The purpose of this study was to examine the effect of leverage, net working capital, and capital expenditure on cash holding in manufacturing companies in the consumer goods sector listed on the IDX for the 2019-2021 period. Determination of sample selection by applying the purposive sampling method, which resulted in a total sample of 32 companies in this study that met the qualifications. Hypothesis testing is used with the model using multiple regression analysis. This data was processed with EViews (Econometric Views) student version lite 12 software. The results of this study indicate that leverage has a negative effect on cash holding. While net working capital has no effect on cash holding and capital expenditure has no effect on cash holding.

Keywords: Leverage, Net Working Capital, Capital Expenditure, Cash Holding

1. Introduction

During the Covid-19 pandemic, economic growth slowed down, which made it more difficult for manufacturing companies to obtain credit. In the post-pandemic period, lenders have become less cautious about granting loans. As the country's economic conditions weaken, management must take precautions to avoid the possibility of bankruptcy by ensuring that companies in Indonesia immediately increase their cash holdings. The Indonesian government has therefore formulated a policy that can act as an incentive for companies to immediately increase their cash holdings, namely credit restructuring, in response to the problems it is facing. Cash holding or cash ownership (Syafrizaliadhi and Arfianto 2014) is an activity related to transactions that are used for the company's needs, such as paying wages, paying debts, buying fixed assets, paying dividends, and other expenses. Therefore, the availability of cash is the most important factor in financing the company's activities. Having a lot of cash certainly brings benefits, such as reducing the cost of converting cash. However, companies are not encouraged to hold too much cash, as holding too much cash will result in a loss of opportunity to generate a lot of profit as a result of idle funds.

Managers have a great deal of responsibility and need wisdom in making decisions related to effective and efficient cash management, because good management is needed in maximizing cash availability planning, which must manage finances effectively. Thus, it is hoped that this research can provide guidelines for consideration in making decisions that can be useful as additional information regarding the company's financial condition both for investment and for providing loans to a company.

2. Theoretical Review

Trade-off Theory. According to Jebran et al. (2019), in order to determine the level of optimality of cash availability in a firm, it is determined based on marginal costs and benefits. Marginal costs, also known as opportunity costs, indicate that there are things that must be sacrificed in order to have a certain amount of cash. As a result, the company will sacrifice the opportunity to make a large profit on the investment. On the other hand, the marginal benefit of holding cash allows the company to avoid financial difficulties and reduce additional costs from external funding sources (Wirianata et al. 2019). Meanwhile, according to (Dewi and Effriyanti 2022), the company must have a strategy for determining risks to avoid financial problems. The company must choose between holding too little cash or too much cash. Each of these choices has its own risks. If there is too little cash, the company may run into financial difficulties. And if there is too much cash, it will lose the opportunity to make expenses that generate money.

Pecking Order Theory. Romel and Ekadjaja (2023) explain that in terms of corporate financing, it is generally preferable to use internal sources of finance rather than external sources of finance. There are several sources of financing in the operation of a company, including internal financing, external financing consisting of debt issuance, and new equity issuance. Thus, it can be concluded that if the own funds are not sufficient, the first step in finding a source of financing can be to use internal financing, such as retained earnings or the sale of current assets. In addition, companies can raise external finance by issuing debt if their obligations are not fulfilled. If after issuing debt, it is still not fulfilled, the last stage can issue new equity. Meanwhile, according to (Darmawan and Nugroho 2022), external funding sources that still require debt issuance costs and have high risks, are cheaper than internal funding.

Cash Holding. Cash Holding is the amount of cash and cash equivalents that can be easily converted into money (Putri and Suhendah 2021). This availability of cash is useful for buying shares, investing, paying dividends, and other purposes. Cash holding provides an overview of how important the availability of adequate cash is in financing the company's activities (Mulia and Yuniarwati 2022). Therefore, managers need to carefully consider the ideal amount of cash to manage.

Leverage. Leverage is a financial analysis instrument that compares total liquidity and total assets. According to Kasmir (2018, p.113), leverage aims to show the amount of assets financed by the company through the issuance of debt. According to Alicia et al. (2020), leverage is an instrument used to study corporate spending by comparing debt to capital and its ability to cover fixed costs such as interest.

Cash Holding Motive. According to Keynes (1937) (in Suherman 2017), there are several motives for firms to hold cash, namely transaction motive, precautionary motive, speculative motive, and arbitrage motive. The transaction motive explains the interest in holding cash for transactional purposes. The precautionary motive refers to the interest in holding cash in order to keep the firm afloat, either in an emergency or just in case. The speculation motive is the interest in holding cash in order to take advantage of opportunities for profitable investments that are not foreseen. The arbitrage motive is holding cash to take advantage of global political differences.

Net Working Capital. According to (Adiputra and Nataherwin 2022), net working capital can finance the company's operating activities without affecting its ability to pay current debts. Meanwhile, according to (Putri and Suhendah 2021), net working capital can replace cash because it is easy to convert net working capital into cash. Therefore, with a high level of net working capital, there is a tendency to hold a low amount of cash.

Capital expenditure. A capital expenditure is an expense that has a long-term benefit that extends over more than one accounting period. Expenditure that has a period of one accounting period on a large scale and is made on a non-routine basis is referred to as capital expenditure. According to Setyowati et al. (2016, p.21), it was found that capital expenditure is an expenditure that is used to purchase new fixed assets or to pay for the improvement of existing fixed assets by extending their useful life for an accounting period of more than one year.

3. The Relation Between Variables

Leverage and Cash Holdings. Leverage is a financial analysis method that shows the ability of a company to meet all its liabilities (Hery 2016, p.24). According to (Maxentia, Tarigan, and Verawati 2022), a high level of leverage indicates that the company is financing assets with debt. This is an indication of the likelihood that the company will be unable to meet its obligations. Therefore, it is important for external parties to know the leverage of a company before investing. A high level of leverage indicates that the company's financial position relies heavily on external parties to pay for its assets. Conversely, a low level of leverage indicates that the company's financial position is capitalized on internal resources.

Net Working Capital and Cash Holdings According to Bangun and Natsir (2022), there is a significant relationship between net working capital variables and cash holdings, which are included in current assets. Instead of using external sources of finance, which is more costly, it is better for companies to use net working capital, which is liquid. Companies with a high level of net working capital tend to have a low level of cash. It will be very difficult for the company to obtain external sources of finance, especially if its financial situation is in crisis. In this case, net working capital can be used instead.

Capital Expenditure and Cash Holdings. According to (Angelica and Suhendah 2022), it is clear that before using external funds for capital expenditure, the firm will first use sufficient internal funds so that the internal funds including the cash holding will be reduced. The amount of expenditure required for capital expenditure is usually relatively high, and high capital expenditure generates more assets that can be used as loan collateral (Hadiwijaya and Trisnawati 2019). With the amount of capital expenditure financed by internal funds, the firm's cash holdings will be reduced (Kwan and Lau 2020).

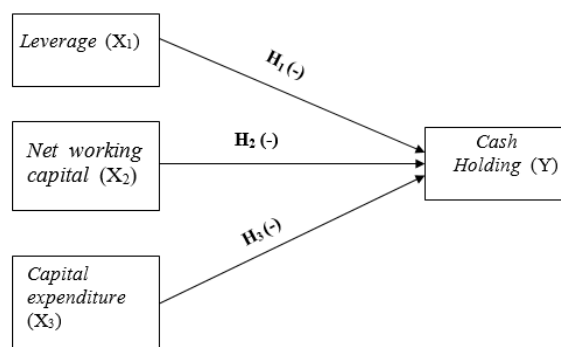
Hypotheses Development

According to the results of several studies, leverage has a negative relationship with cash holdings. Romel and Ekadjaja (2023) and (Wildiany, Mahri, and Utami 2022). Conversely, referring to the results carried out by other studies that show that leverage has a positive effect on cash holdings. Alicia et al. (2020) and Mulia and Yuniarwati (2022). H_1 : Leverage has a negative impact on cash holdings.

The results that have been carried out by several studies show that net working capital on cash holdings has a negative effect, which is in line with research conducted by Bangun and Hengsaputri (2020) and Bangun and Natsir (2022), but other studies have found that net working capital has a significant positive effect on cash holdings by Abbas, Eksandy, and Mulyadi (2020) and Adiputra and Nataherwin (2022). H_2 : Net working capital has a negative effect on cash holdings.

The results carried out by several studies show that capital expenditure has a negative effect on cash holding, which is consistent with the research carried out by Kwan and Lau (2020) and Mumtaz, Ahmad, and Shah (2020). Conversely, referring to the findings of Pausi (2022), who obtained the results that capital expenditure has a positive effect on cash holdings, H_3 : Investment has a negative effect on cash holdings.

From the above description, the following framework can be formulated:



1. Figure Research Model

4. Methodology

The methodology of this study uses quantitative research with secondary data from financial reports published on the company's website or from www.idx.com during the period 2019-2021. In selecting the sample, a purposive sampling method was used with the following criteria: a) Manufacturing companies in the consumer goods sector that are listed on the IDX during the period 2019-2021, b) Consumer goods companies that have not conducted an IPO from the IDX during the period 2019-2021, c) Consumer goods companies that have not delisted from the IDX during the period 2019-2021, d) Consumer goods companies that have not changed sector during the period 2019-2021, e) Consumer goods companies whose financial reports are available in full and in rupiah currency units during the period 2019-2021, f) Consumer goods companies that present financial reports with positive net working capital during the period 2019-2021. Based on the above criteria, the total number of data in the sample used in this study is 96.

Table 1. Operational Variables and Measurement

No	Variable	Source	Indicator	Scale
1.	Cash holding	Darmawan dan Nugroho (2022)	$\frac{\text{Cash and Cash Equivalents}}{\text{Total Asset}}$	Ratio
2.	Leverage	Alicia et al. (2020)	$\text{DAR} = \frac{\text{Total Liabilities}}{\text{Total Asset}}$	Ratio
3.	Net Working Capital	Murtini dan Ukru (2021)	$\frac{\text{Current Aset} - \text{Current Liabilites}}{\text{Total Asset}}$	Ratio
4.	Capital Expenditure	Kudu dan Salim (2021)	$\frac{\text{Total Fix Asset}}{\text{Total Asset}}$	Ratio

5. Result and Conclusion

In the classical assumption test, there are several tests that need to be performed before testing the hypothesis, in the form of normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test. Normality test with a probability value of $0.056002 > 0.05$ after outliers are made so that normal distribution test results are obtained. Multicollinearity test with a probability value of $-0.5294633, 0.06883282$ and $-0.7434679 < 0.90$, so it can be concluded that there is no multicollinearity problem. The autocorrelation test is carried out using the Durbin-Watson (DW) test with a DW value of 1.7456 and is between DU of 1.7326 and $4-DU$ of 2.2674, so it can be concluded that there is no autocorrelation problem. The heteroscedasticity test was carried out with the Glesjer test, which was obtained with a probability value of $0.0894 > 0.05$.

In the testing of panel data, there are three tests to choose the ideal model, which is between the common effect model, the fixed effect model, and the random effect model. In order to be able to choose a model from the three tests above, there are stages that need to be carried out, namely the Chow test, the Hausman test, and the Langrange multiplier test. The Chow test obtained a probability value of $0.0000 < 0.05$, so it can be concluded that the fixed effect model is the best choice. The Hausman test obtained a probability value of $0.3664 > 0.05$, so it can be concluded that the random effect model is the best. The Langrange Multiplier test obtained a probability value of $0.0000 < 0.05$, so it can be concluded that the Random Effect model is the best choice. Then, for the coefficient of determination test, a value of 0.108977 was obtained.

Table 2. The Results of Multiple Linear Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.208811	0.075573	2.763020	0.0069
DAR_X1	-0.128167	0.062766	-2.041969	0.0440
NWC_X2	0.048808	0.082374	0.592508	0.5550
CAPEX_X3	-0.120565	0.093245	-1.292980	0.1993

Based on the above tests, the multiple regression equation that will be used in this study is as follows:

$$CH = 0.208811 - 0.128167DAR + 0.048808NWC - 0.120565CAPEX + \epsilon.$$

Based on the results of the above equation, the coefficient value is 0.208811, which means that if the value of the leverage, net working capital, and capital expenditure variables is zero (0), the cash holding value is 0.208811. The value of the leverage coefficient is 0.128167, which means that if the leverage increases by one unit with the assumption that the variables of net working capital and capital expenditure are held constant, then the cash holding decreases by 0.128167. The coefficient value of net working capital is 0.048808, which means that if the net working capital increases by one unit with the assumption that the leverage and the capital expenditure variables are held constant, the cash holding decreases by 0.048808. The coefficient value of the capital expenditure is 0.120565 that is, if the capital expenditure increases by one unit, assuming that the leverage variable and the net working capital are held constant, the cash holding decreases by 0.120565.

T-test (partial), which aims to determine the existence of a relationship and is carried out separately on the independent and dependent variables. Based on Table 2, Leverage obtained with a probability value of 0.0440 partially explains how the variable Leverage affects cash holdings. Net working capital obtained with a probability value of 0.5550 partially explains that the variable net working capital has no effect on cash holdings. Capital expenditure obtained with a probability value of 0.1993, partially explains that the capital expenditure variable has no effect on cash holdings.

Table 3. F-Test Result

	Weighted Statistics		
R-squared	0.137115	Mean dependent var	0.031966
Adjusted R-squared	0.108977	S.D. dependent var	0.039687
S.E. of regression	0.037462	Sum squared resid	0.129116
F-statistic	4.873022	Durbin-Watson stat	1.745638
Prob(F-statistic)	0.003438		

Based on Table 3, the F-test (simultaneous) shows that the Prob (F-statistic) results in a value of 0.003438 < 0.05, which means that the independent variables, namely leverage, net working capital, and capital expenditure, simultaneously have a significant effect on the dependent variable, namely cash holdings.

The Coefficient of Determination (R²) test aims to assess the extent to which the dependent variable can be explained in this model. The Adjusted R-squared value is 0.108977, or 10.89%. It can be concluded that the independent variable has an influence on the dependent variable, which is 10.89%.

6. Discussion

The results of the above research show that leverage has a negative effect on cash holdings. These results demonstrate the company's ability to carry out its operating activities by using debt as a substitute for cash. Leverage is seen as flexible and easy to use when the company has financial problems and does not have sufficient cash to finance the shortfall. The results of this study are in line with Romel and Ekadjaja (2023) and Wildiany et al. (2022). Net working capital shows that there is no effect on cash holdings. This result proves that when there is an increase or decrease in the net working capital variable, it does not affect the amount of

cash available to the company. This can happen because not all the financial conditions of the company allow current assets other than cash to be quickly converted into money. From the results that have been carried out by several studies in line with Hanaputra and Nugroho (2021) and Viriany and Jenny (2022). Capital expenditure shows that it has no effect on cash holdings. This result proves that an increase or decrease in the capital expenditure variable does not have a significant effect on the amount of cash held by the firm. The possibility of this happening is due to the fact that there are differences in the level of capital expenditure, and not all companies in the sample buy fixed assets with cash but with debt, so cash does not affect capital expenditure. The results of this study are in line with Kudu and Salim (2021) and Dewi and Effriyanti (2022).

7. Limitation and Future Research

The limitations of this study are that the sample is limited to manufacturing companies in the consumer goods sector, the variables tested are less varied, the research period is relatively short, and the annual accounts data are not synchronized each year. Therefore, the results obtained do not describe the overall state of cash holdings. It is hoped that future research will be able to extend the research period, expand the industrial sector to be re-observed, and multiply or use variants of other dependent variables with more variety and precision in order to better explain the factors affecting cash holdings.

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Corresponding Author: [Stella Elvira Saputra](#), Faculty of Economics and Business, Tarumanagara University.

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