

Cash Holding and Value of Indonesia Manufacturing Companies Listed in Indonesia Stock Exchange

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Abstract— The research aims at testing the association between cash holding and firm value. Population of research is manufacturing companies listed at Indonesian Stock Exchanges during period 2015-2018. Sample of research consist of 63 companies selected by using purposive sampling and using annual data. Data analyzed using simple linear regression model and using SPSS 20. The research result indicates that cash holding significantly has a negative effect on firm value.

Keywords— cash holding, firm value, manufacturing companies, and Indonesian Stock Exchanges.

I. INTRODUCTION

Public companies in general are companies that have good management (corporate management) and corporate governance. These companies listed their shares and traded in the Stock Exchange. In Indonesia, public companies are listed in Indonesian Stock Exchange.

Manufacturing industry in Indonesia is the driver of economic growth, occupies a strategic position to continuously improve its performance. But in recent years there have been various problems. In addition, research on manufacturing companies in Indonesian Stock Exchange is relevant considering that the Indonesian capital market is included in the emerging market category whose characteristics are different from the capital markets in developed countries.

In 2015, there were 521 companies listed on the Indonesia Stock Exchange, 142 of them are manufacturing companies. These companies can be categorized into three industrial sectors. First, the basic industrial and chemical sectors consisting of the cement industry sub-sector; ceramics, porcelain and glass; metal and the like; chemistry; plastic and packaging; animal feed; wood and its processing; and paper pulp. Second, various industrial sectors consisting of machinery and heavy equipment industry sub-sectors; automotive and its components; textiles and garments; footwear; cable; and electronics. Third, the consumer goods industry sector consisting of the food and beverage industry

sub-sector; cigarettes; pharmacy; cosmetics and household use; and household appliances.

The urgency of firm value encourages academics and practitioners to determine the determinants (factors that determine) the value of the company. So far, based on the results of the study, there are many factors that affect the value of the company. The most important factor is the size and profitability of the company (Sri Hermuningsih, 2013). In addition to these two variables, corporate governance is a main factor affecting the value of the company. Corporate governance is proxied with board size, CEO duality, board independence (Amarjit S. Gill and Nahum Biger, 2012), board intensity, audit committee, and foreign board membership (Choi, 2012)

Other variables that influence firm value are: ownership structure, cash holding, financial risk, dividends, investment opportunities, capital structure (Sri Hermuningsih, 2013) working capital management (Bana Abuzayed, 2012), cash level (Azmat, 2014), CEO compensation, and customer satisfaction (Basuroy, et.al., 2014).

Cash management is an important part of working capital management which can affect the value of the company. Corporate cash holdings are an interesting area of research when a number of large companies such as Microsoft Corporation and Exxon Mobil had more than 30 billion dollars in cash at the end of 2006. Apple and Google

Inc. has more than 10 billion dollars in cash. This situation invites a question mark considering that cash is not considered productive by investors (Azmat, 2014).

Agency theory can explain why corporate cash holdings are not at a level that maximizes shareholder wealth. Agency theory can also help identify companies that might hold too much cash (Opler, et.al., 1999).

According to agency theory, managers have a greater preference for cash because it can reduce company risk and increase managerial discretion. This preference can lead managers to put too much emphasis on the precautionary motive by holding large amounts of cash in excess of the amount needed to maximize shareholder wealth or company value (Opler et.al, 1999).

Although cash management is so important, financial researchers have ignored this issue for quite a long time (Azmat, 2014). Most researchers pay more attention in working capital management which is broader in scope (cash management is part of working capital management).

This study will examine whether cash holdings affect the value of manufacturing companies in Indonesian Stock Exchange. This research can be theoretically useful and help managers in making policy.

II. LITERATURE REVIEW

The agency cost literature includes two opposing positions regarding cash balances (Sola et.al., 2013). Myers and Majluf (1984) argue that companies optimally provide large amounts of cash balances to avoid outside funding because cash balances provide flexibility benefits and do not cause agency costs. Meanwhile Jensen (1986) argues that the company optimally provides a minimum cash balance because excess cash balances cause

agency costs and do not provide flexibility benefits. Therefore, DeAngelo and DeAngelo (2007) state that cash balances require agency costs and bring flexibility benefits. Cash accumulation is no longer useful and investors will pressure the company to limit cash balances to avoid agency costs, and encourage managers to provide sufficient cash balances to fund capital needs that can appear suddenly.

Based on transaction and precautionary motives, cash is beneficial to the company. This means that high cash holdings can increase company value. Because, companies need cash to carry out business activities normally and take advantage of profitable investment opportunities in the future. Conversely, based on the theory of free cash flow, high cash ownership can reduce the value of the company. Because cash ownership requires agency costs. The manager holds a large amount of cash and is under his control so that it can make expenses for his interests which decrease the value of the company. The company's cash ownership is one of the factors that influences the company's value (Sola et.al: 2013

III. RESEARCH METHODS

A. Research Design

This research is an explanatory research. Population of research is manufacturing companies listed at Indonesian Stock Exchanges during period 2015-2018. Sample of research consist of 63 companies selected by using purposive sampling and using annual data.

B. Data Analysis Techniques

This study uses simple linear regression analysis using SPSS 20. The simple regression is based on the functional or causal relationship of one independent variable with one dependent variable. The equation is $Y = a + bX$ (Sugiyono, 2016)

IV. DISCUSSION

A. Research result

Model Summary

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.167 ^a	.028	.024		.2148396

a. Predictors: (Constant), Kas

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.361	1	.361	7.826	.006 ^b
	Residual	12.554	272	.046		
	Total	12.916	273			

- a. Dependent Variable: Nilai Perusahaan
b. Predictors: (Constant), Kas

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.711	.062		11.440	.000
Kas	-1.240	.443	-.167	-2.798	.006

a. Dependent Variable: Nilai Perusahaan

Based on the results of data processing using SPSS 20 obtained R square value (coefficient of determination) of 0.028. this shows that 2.8 percent of changes in the dependent variable are explained by changes in the independent variable. While 97.2 percent is caused by other variables not mentioned in the model.

The significance value of 0.006 which is smaller than 0.05 means that the independent variable significantly influences the dependent variable. The coefficient value is -1.240 means that the effect is negative. If the level of cash holdings increases by 1 point, the company's value will decrease by 1.240 point. Conversely, if cash holdings decrease by 1 point, the company's value will increase by 1.240 units.

B. The influence of cash holdings on firm value

Based on the results of the research data, it was found that cash ownership has a negative effect on firm value. Changes in the level of cash holdings result in changes in the value of manufacturing companies listed in Indonesian Stock Exchange. This means that there is an association between the two variables and the association is negative.

The finding of this study support the theory of free cash flow which states that high cash holding can reduce firm value. Because cash ownership requires agency costs. If company managers hold large amounts of cash, this can lead them to spend on their behalf and will decrease the value of the company (Sola et al: 2013).

V. CONCLUSIONS

In accordance with the results of the study discussed earlier, it was found that cash holding has a significant negative effect on firm value. This means that if cash holding level increases, the value of the company will

decrease, conversely if cash holding level decreases, the company's value will increase.

RECOMMENDATIONS

Based on the results of this study it is recommended that companies should maintain the level of cash holding in order to increase the firm value. And for investors to prefer investing in companies that implement a good cash management.

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