
THE EFFECT OF PROFITABILITY, LEVERAGE, NET WORKING CAPITAL AND GROWTH OPPORTUNITY ON CASH HOLDING IN NON-CYCLICAL CONSUMER COMPANIES

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ABSTRACT

This study purpose to determine and analyze the effect of Profitability, Leverage, Net Working Capital and Growth Opportunity on Cash Holding. The population in this study is Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange for the period of 2019-2022. The type of research used in this research is causal research. The sample of this research were 61 companies, the sample method use was purposive sampling. Testing data using multiple linier regression analysis with SPSS 23.

Reseach result show that Return on Asset has a positive significant effect on Cash Holding with regression coeficient value of 0,003 and significant value of 0,000. Debt to Equity Ratio has a negative Insignificant effect on Cash Holding with regression coeficient value of -0,581 and significant value of 0,116. Net Working Capital has a positive significant effect on Cash Holding with regression coeficient value of 0,177 and significant value of 0,000. Growth Opportunity has a positive Insignificant effect on Cash Holding with regression coeficient value of 0,003 and significant value of 0,567.

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1. Introduction

Cash is the company's most current asset, so cash can be easily used in various transactions in the company. The existence of cash in the company is very important because without cash it will result in company activities not running smoothly. Cash in the company is used to fulfill operational activities, whether routine or intermittent. Routine expenses, for example, to pay employee salaries, buy raw materials, pay for electricity, water, and others. Then expenses such as paying dividends, buying fixed assets, and others are included in intermittent expenses. (Yanti & Wati, 2018). The policy that regulates cash management is called cash holding. According to Gill & Shah (2012) cash holding is defined as cash owned by the company or available for investment in the form of physical assets and for distribution to investors. Cash can be used immediately to support the smooth operation of the company.

Managers must determine the balance between holding too much and too little cash. In order for the company's activities to run properly, cash should be used for things that should be spent not to be spent on things that are not the purpose of using cash. Therefore, it is important to set the ideal amount of cash for the company. Determining the optimal limit of the company's cash holding is a financial consideration that needs to be considered by financial managers. thought by financial managers. When the company receives cash income, the manager will decide whether the cash is used for investment, distributing to shareholders or stored. There are quite a number of factors that affect cash holding policy, including profitability, leverage, net working capital and growth opportunity. Profitability ratio proxied by Return On Asset (ROA) is a return on assets which is a ratio to show how much the contribution of assets in creating net income. This ratio is used to measure how much net profit will be generated from each rupiah of funds embedded in total assets. The higher the return on assets, the higher the amount of net profit generated. Conversely, the lower the return on assets means the lower the net profit generated. According to research Angelia & Dwimulyani (2019) profitability has a positive influence on cash holding. These results are consistent with research Devina et al. (2021) and Wahyuni et al. (2017). However, this is contrary to research conducted by Yanti & Wati (2018) which concluded that profitability has a negative and significant effect on cash holding. These results are in line with research conducted by Wailan' An & Pandia (2021) and Christian & Fauziah (2017).

A variable other than profitability that affects cash holding policy is leverage. Low leverage indicates that the company in financing uses its own funds. A high level of leverage ratio makes the company have to pay debt installments along with interest. So that companies that have a high level of leverage will have a low level of cash holding. This statement is in line with a number of studies conducted by Yanti & Wati (2018), Kusumawati et al. (2020) and Wahyuni et al. (2017) which concluded that the relationship between leverage and cash holding is negative. However, this is contrary to research conducted by Simanjuntak & Wahyudi (2017) which states that leverage has no effect on cash holding.

The next variable that also affects cash holding is net working capital. Net working capital is the company's cash substance that can be converted into cash easily when needed. Research Simanjuntak & Wahyudi (2017) shows that net working capital has a negative influence on cash holding. But in contrast to research Devina et al. (2021) and Kusumawati et al. (2020) which shows that net working capital has a positive influence on cash holding.

Cash holding is also influenced by growth opportunity. Companies with increased growth opportunity will have increased profits so that cash holding will also increase. Sales growth is the change in sales

value every year. Sales growth is considered to increase profits and investment in a company. Sales growth affects the performance of a company. Sales growth needs to be maximized because the level of sales is considered the first indicator to be considered to assess company performance. Sales growth is considered to have the potential to affect the company's financial performance and structure. Sales growth is seen as the percentage increase in sales each year (Wailan' An & Pandia, 2021). Research conducted by Romadhoni et al., (2017) shows that growth opportunity has a positive influence on cash holding. shows that growth opportunity has a positive influence on cash holding. However, in contrast to research Alicia et al. (2020) growth opportunity has no effect on cash holding, while in the study of Wailan' An & Pandia, (2021) and Simanjuntak & Wahyudi (2017) growth opportunity has a negative influence on cash holding.

There is a phenomenon that is taken into consideration in this study, namely the existence of inconsistent findings or research gaps between previous studies. Based on the description above, there are inconsistencies in the results of previous studies regarding the factors that influence a company's cash holding. So that researchers want to conduct research with the aim of testing and further analyzing the Effect of Profitability, Leverage, Net Working Capital and Growth Opportunity on Company Cash Holding in Non-Cyclical Consumer Companies Listed on the Indonesia Stock Exchange for the 2019-2022 Period.

2. Literature Review

The Grand Theory in this study uses this Trade off theory, assessing the optimal cash holding, namely by considering the costs incurred from holding the cash with the benefits that the company will get. (Kusumawati et al., 2020). Based on the assumptions of trade off theory, it can be used to support the prediction that the relationship between net working capital and cash holding is negative, because there are considerations regarding the benefits and costs or risks of holding a level of cash balance when net working capital is positive or negative. In addition, based on the implications of Myers (1984)(1984), corporate funding behavior is influenced by pecking order theory where companies prefer internal funding (retained earnings) because the use of retained earnings is cheaper and does not need to be disclosed in corporate information. Based on the assumptions of pecking order theory, it can be used to support the prediction that the relationship between leverage and cash holding is negative, the relationship between growth opportunity and cash holding is negative. Then it is different from profitability which has a positive relationship with cash holding, because the greater the company's ability to generate profits, the greater the amount of cash the company has.

Cash Holding

Cash is the most liquid asset, and is a current asset owned by the company. (Frasti, 2013). Therefore, the availability of the optimal amount of cash for the company can affect the profits earned by the company. If the amount of cash is too much, it will have an impact on the profit that the company can get for every missed investment opportunity. However, if the amount is too little, it will also affect the liquidity of the company. (Silaen & Prasetiono, 2017). With the availability of sufficient cash, the company does not have to sacrifice its investment opportunities to maintain its liquidity.

Profitability

Profitability, in this case measured by return on assets (ROA), is a corporate financial ratio to measure the company's ability to generate profits or profits at a certain level of revenue, assets and share capital. The ROA ratio can be used by companies to see how well a company is managing its assets to generate returns. The greater the company's ROA value, the more effectively the company utilizes its assets to generate net income, the greater the level of profit achieved. (Veronica, 2020).

Generally, investors or analysts often compare the ROA value of a company with the ROA of other similar companies, this will have an influence on investment decisions.

Based on Pecking Order Theory predicts a positive relationship between return on assets and cash holding. This is in line with research conducted by Christian & Fauziah (2017). There is a positive relationship between RoA and fund holding. Because companies with high return on assets will keep large amounts of cash. This reflects the high profitability of the company so that it can increase cash in the company. Previous research that states profitability has a positive effect on cash holding is research conducted by Devina et al. (2021), Angelia (2020) and Wahyuni et al. (2017). Based on the description above, the hypothesis can be formulated, as follows:

H1 : Profitability has a positive effect on Cash Holding

Leverage

Leverage is a ratio that compares the company's overall debt to assets or equity. Pecking order theory assumes that cash is reduced against debt, this means that the amount of cash held by the company is no longer large. When the need for investment exceeds the company's retained earnings, debt will increase. This indicates that the company's investment financing no longer uses internal funding, but by using external funding, namely debt. If in investment funding debt is considered a substitute for cash, then debt will increase and cash holdings will decrease. (Kusumawati et.al, 2020). Previous research that states leverage has a negative effect on cash holding is research conducted by Alicia et al. (2020), Simanjuntak & Wahyudi (2017), Kusumawati et al. (2020), Yanti & Wati (2018). Based on the description above, the hypothesis can be formulated, as follows:

H2 : Leverage has a Negative Effect on Cash Holding

Net Working Capital

Net working capital is the sum of current assets minus current debt. Net working capital refers to the notion of working capital according to the qualitative concept where net working capital is defined as the part of current assets that can actually be used to finance the company's operations without disturbing the company's liquidity. According to trade-off theory, there is a negative relationship between net working capital and cash holding. Net working capital is used as a proxy for investment in current assets that can be used as a substitute for cash.

Trade off theory states that holding cash can incur costs, namely the opportunity cost of invested capital. Based on this theory, net working capital has a negative effect on cash holding. This is because to reduce the opportunity cost arising from holding cash, net working capital is used as a substitute for cash. Companies that have potential cash substitutes such as receivables, inventories or securities have a lower amount of cash. Conversely, companies that experience a working capital deficit (negative net working capital) will tend to make cash reserves. (Simanjuntak & Wahyudi, 2017). Previous research that states net working capital has a negative effect on cash holding is research conducted by Astuti et al. (2020), Simanjuntak & Wahyudi (2017) and Christian & Fauziah (2017). Based on the description above, the hypothesis can be formulated, as follows:

H3 : Net Working Capital Negatively Affects Cash holding

Growth Opportunity

Growth opportunity is an investment opportunity that the company may get in the future. Based on pecking order theory, a high level of growth opportunity will encourage companies to hold large amounts of cash. This is because to finance its investment needs, the company will tend to choose cheaper and lower risk internal funding. Through these reasons, it can be said that companies with high investment opportunities will be encouraged to hold large amounts of cash. (Alicia et al., 2020).

Previous research that states growth opportunity has a positive effect on cash holding is research conducted by Astuti et al. (2020), Alicia et al. (2020) and Wailan' An & Pandia (2021). Based on this research, it can be concluded that growth opportunity has a positive effect on cash holding.

H4 : Growth Opportunity has a positive effect on Cash holding

3. Method, Data, and Analysis

This type of research uses a type of causal research, namely research that aims to see the relationship between variables in both relationship and influence. (Sugiyono, 2018). This study was conducted to examine the effect of profitability, leverage, net working capital, and growth opportunity on cash holding. The population in this study were consumer non-cyclicals companies listed on the Indonesia Stock Exchange in 2019-2022, totaling 113 companies. The sample taken in this study is to use a 4-year period with the criteria of Consumer Non-Cyclicals which presents complete data related to the variables used in the study during the 2019-2022 period. The data analysis techniques used in this study include normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test which are included in the classical assumption test. Further testing is the goodness of fit test, multiple linear regression and hypothesis testing.

4. Result and Discussion

This study uses multiple linear regression analysis as an analysis technique. The normality test shows that there are no deviations from abnormal symptoms. Other classic assumption tests used are heteroscedasticity, multicollinearity, and autocorrelation tests which show that there are no deviations in the classic assumption symptoms. The results of the model fit test obtained the conclusion that the model is suitable, this indicates that the multiple linear regression model is suitable for analyzing the effect of profitability, leverage, net working capital and growth opportunity on cash holding. The results of multiple linear regression analysis are described as in table 1 below.

Table 1. Multiple Regression Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1	(Constant)	.071	.010		6.837	.000
	ROA	.003	.001	.198	3.683	.000
	DER	-.581	.000	-.009	-1.576	.116
	NWC	.177	.020	.511	8.772	.000
	GROWTH	.003	.005	.030	.573	.567

Source: data processed, 2023

Based on the results of multiple linear regression test analysis, it is known that the first hypothesis testing in this study was conducted to determine whether there is an effect of ROA on Cash Holding. The test results show that the regression coefficient value is 0.003 with a significance level of 0.000. Based on the results of hypothesis testing, the significance value is smaller than $\alpha = 0.05$, it can be concluded that there is a positive effect of Profitability on Cash Holding, accepted.

Testing the second hypothesis in this study was conducted to determine whether there is an effect of DER on Cash Holding. The test results show a regression coefficient value of -0.581 with a significance level of 0.116. Based on the results of hypothesis testing, the significance value is greater

than $\alpha = 0.05$, it can be concluded that which states that there is a negative effect of Leverage on Cash Holding, is rejected.

Testing the third hypothesis in this study was conducted to determine whether there is an effect of Net Working Capital on Cash Holding. The test results show a regression coefficient value of 0.177 with a significance level of 0.000. Based on the results of hypothesis testing, the significance value is smaller than $\alpha = 0.05$, it can be concluded that which states that there is a negative effect of Net Working Capital on Cash Holding, is rejected.

The fourth hypothesis testing in this study was conducted to determine whether there is an effect of Growth Opportunity on Cash Holding. The test results show a regression coefficient value of 0.003 with a significance level of 0.567. Based on the results of hypothesis testing, the significance value is smaller than $\alpha = 0.05$, it can be concluded that which states that there is a positive effect of Growth Opportunity on Cash Holding, is rejected.

DISCUSSION

Effect of Profitability on Cash Holding

Based on the results showed that Profitability (ROA) has a positive effect on Cash Holding. This is indicated by the coefficient value for the effect of Profitability (ROA) on Cash Holding of 0.003 which is positive. And the significance value is 0.000 which is less than 0.05, so there is a significant effect of the independent variable on the dependent variable. So that Hypothesis 1 is accepted which states that profitability (ROA) has a positive effect on cash holding.

Profitability is the ability of a company to obtain profits resulting from the use of resources owned by the company. Based on pecking order theory, funding decisions follow a hierarchy which prioritizes internal funding sources over external funding sources, so it can be said that companies are required to be able to generate high profitability. The higher the level of profitability of a company, the higher the company's ability to generate profits. The greater the ability of a company to make a profit, the greater the amount of cash the company has. Large cash holdings allow companies to use internal funding as a source of financing (Devina et al., 2021). (Devina et al., 2021).

The results of this study are in line with previous research which states that profitability has a positive effect on cash holding, namely research conducted by Devina et al. (2021), Angelia (2020) and Wahyuni et al. (2017). While the results of research Yanti & Wati (2018) shows that profitability has a negative and significant effect on cash holding.

Effect of Leverage on Cash Holding

Based on the results showed that Leverage (DER) has a negative effect on Cash Holding. This is indicated by the regression coefficient value for the effect of Leverage (DER) of -0.581 which is negative. And the significance value is 0.116 which is greater than 0.05, so there is no significant effect of the independent variable on the dependent variable. So that Hypothesis 2 is rejected which states that leverage has a negative effect on cash holding.

The results of this study cannot accept the negative effect of leverage on cash holding. In accordance with the pecking order theory, cash is reduced in the presence of debt. High leverage can mean that the company has a high dependence on external loans in financing its assets. This shows that debt can be a substitution effect for cash in financing investment when the company has the ease of obtaining external funding, so that the company no longer holds a large amount of cash. (Yanti & Wati, 2018). This indicates that the company's investment financing no longer uses internal funding, but by using external funding, namely debt. If in investment funding debt is considered a substitute for cash, then debt will increase and cash holdings will decrease.

The results of this study are in line with previous research which states that leverage has a negative effect on cash holding, namely research conducted by Alicia et al. (2020), Simanjuntak & Wahyudi (2017), Kusumawati et al. (2020), Yanti & Wati (2018). While the research results Simanjuntak & Wahyudi (2017) which states that leverage has a positive effect on cash holding.

Effect of Net Working Capital on Cash Holding

Based on the results showed that net working capital has a positive effect on cash holding. This is indicated by the coefficient value for the effect of net working capital of 0.177 which is positive. And the significance value is 0.000 which is smaller than 0.05, so there is a significant effect of the independent variable on the dependent variable. So that Hypothesis 3 is rejected which states that net working capital has a negative effect on cash holding.

The results of this study cannot accept the negative effect of net working capital on cash holding. The absence of influence between net working capital on cash holding indicates that to smoothly pay obligations and maintain liquidity, companies still make cash reserves. On the other hand, the results of the calculation of net working capital in the sample show that most companies experience a working capital deficit. In addition, current assets other than cash cannot be a substitute for cash in certain circumstances, for example in times of crisis current assets other than cash cannot be converted into cash easily.

The results of this study are in line with previous research which states that net working capital has a positive effect on cash holding, namely research conducted by Devina et al. (2021) and Kusumawati et al. (2020). While the research results Astuti et al. (2020), Simanjuntak & Wahyudi (2017) and Christian & Fauziah (2017) show a negative effect on cash holding.

Effect of Growth Opportunity on Cash Holding

Based on the results showed that growth opportunity has a positive effect on cash holding. This is indicated by the regression coefficient value for the effect of growth opportunity (GROWTH) of 0.003 which is positive. And the significance value is 0.567 which is greater than 0.05, so there is no significant effect of the independent variable on the dependent variable. So that Hypothesis 4 is rejected which states that growth opportunity has a positive effect on cash holding.

The results of this study do not accept the positive effect of leverage on cash holding. Based on pecking order theory, companies will tend to choose cheaper and lower risk internal funding to finance investment needs. Companies with a high level of growth opportunity will not miss the investment opportunities they have, so companies will be encouraged to hold larger amounts of cash in order to finance profitable investment opportunities. (Alicia et al, 2020).

The results of this study are not in line with research conducted by Marfuah and Zulhilmi (2014), Astuti et al. (2020), Alicia et al. (2020) and Wailan' An & Pandia (2021) which states that there is a positive influence between growth opportunity and company cash holding. While in line with research research Wailan' An & Pandia, (2021) and Simanjuntak & Wahyudi (2017) Growth Opportunity has a negative influence on cash holding.

5. Conclusion and Suggestion

This study discusses the analysis of the effect of profitability, leverage, net working capital and growth opportunity on cash holding with a population of companies incorporated in non-cyclical consumer companies listed on the Indonesia Stock Exchange for the period 2019 - 2022. Of the four hypotheses proposed, it can be concluded that which states that there is a positive effect of Profitability on Cash Holding, is accepted. Meanwhile, what states that there is a negative effect of Leverage on Cash Holding is rejected. Then that which states there is a negative effect of Net Working

Capital on Cash Holding, is rejected and that which states there is a positive effect of Growth Opportunity on Cash Holding, is rejected.

Based on the results of research conducted by the author by obtaining the results of profitability has a positive effect on cash holding. So it is hoped that the company can use this variable as a benchmark in making cash holding decisions in the company.

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