

Net Working Capital and Growth Opportunity on Cash Holding

Maria Ulfa¹, Sunita Dasman², Muhamad Sapruwan³, Fransiskus Gea⁴, Ristyaningsih Ristyaningsih⁵, Marenda Kurniawati⁶

^{1,2,3,4,5,6}Universitas Pelita Bangsa.

Corresponding author: Maria Ulfa
Email: mariaulva0604@gmail.com

Abstract

The presence of cash in a company's balance sheet is an important component. Without cash, the company's activities can't run. This study aims to analyze and provide empirical evidence related to the effect of net working capital and growth opportunity on cash holding in automotive and component subsector companies listed on the Indonesia Stock Exchange in 2017-2021. This study uses secondary data with data analysis method using panel data regression analysis. The sample used in this study used a non-probability sampling technique with a saturated sampling technique method and obtained 12 samples. The results of this study indicate that net working capital has a significant effect on cash holding, while growth opportunity has no significant effect on cash holding.

Keywords: Cash Holding, Net Working Capital, Growth Opportunity, Cash.

Introduction

In the current era, science and technology are developing rapidly, which in turn has led to intense competition in the economic field. This then makes the company must be able to make effective production and make the profits earned to be maximized, as well as the welfare of investors in order to dominate in a superior economy widely and universally. Companies that are established have dreams, missions, and goals, where the organization is likely to get a lot of profit and also spend minimal costs. This is what will make a company continue to grow.

One of the assets of the company that has the most liquid nature compared to others is cash, which will be used to cover various company needs including operational needs, help to make company performance increase, and also help companies to be able to pay their various obligations when urgent circumstances occur. Cash is important and indispensable for companies in their operational processes. The things that can be done with cash are paying company debts, making investments in assets or other things. Based on this, cash must be a special concern for financial managers. This is because the company must be able to maintain its cash situation to continue to be balanced which will then be considered by several parties such as managers and investors who will also determine cash holding.

There are three motives for companies to hold cash (Cash Holding) according to John Maynard Keynes in research (Andika, 2017), one of which is the transaction motive, namely the motive to cover all the daily needs of the company to carry out business activities and pay corporate debts such as purchases, wages, taxes, and dividends arising from general business activities.

The cash holdings phenomenon is caused because there are still several manufacturing companies that manage cash less than ideal, so that when financial problems arise, company activities will be disrupted. For example, PT Bakrie Sumatera Plantations Tbk (UNSP) sold some of its subsidiary assets in 2013. PT Bakrie Sumatera Plantations Tbk divested its business assets because the company encountered financial difficulties and was unable to make up for its near-dead operational performance. On the other hand, PT Bakrie Sumatera Plantations Tbk also has a large debt and must be paid immediately.

The same thing happened to PT Indofood Sukses Makmur Tbk (INDF) which in 2015 sold two of its subsidiaries, China Minzhong Food Co., Ltd. (CMFC) and PT Nissin Mas. The company sold its two subsidiaries because the company lacked cash to pay debts and run the company's daily activities. PT Indofood Sukses Makmur Tbk (INDF) has received US\$5.4 million from the sale of Nissin Mas shares to support operating performance. At the same time, the proceeds from the transaction in Minzhong, China will be used to cover the company's obligations such as debt repayment.

The purpose of this study is to look at several variables that can affect cash holdings, namely the net working capital variable and the growth opportunity variable. These variables were chosen because there are still gaps and differences in findings. This study will use a sample of companies engaged in the automotive and component sub-sectors from 2017 - 2021. The Automotive and Component Sub-Industry Company is one of the sub-industry companies in various industrial sectors of the Indonesia Stock Exchange which offers automotive equipment type products such as spare parts for cars and motorbikes. The automotive industry has become a mainstay in the country's manufacturing industry, therefore researchers chose automotive and component companies as the object of their research.

Previous research has uncovered inconsistent findings regarding factors influencing cash holding in a company. Due to these research gaps, it is necessary to reexamine with different factors. For example, a study conducted by Alifia N and Solikhul H (2020) states that growth opportunity has a positive influence on cash holding. However, this differs from the findings of Farent P and Rini H (2020), stating that growth opportunity does not significantly affect cash holding. Nurhayati's research (2020) also explains the lack of significant influence between net working capital and cash flow, while the relationship between cash flow and cash holding is significant. This contradicts Senjaya's (2016) assertion of a partially positive influence between net working capital, growth opportunity, and cash holding.

Method

This research employs quantitative data, where the emphasis is on testing theories by measuring specified variables using numerical data, which will then be analyzed statistically. The method utilized is the linear regression analysis of panel data with a saturated sampling technique. The study is based on data compiled from official sources, including the Indonesia Stock Exchange (BEI) website and other sources.

The population for this study consists of companies operating in the automotive sub-sector that are listed on the Indonesia Stock Exchange (BEI) from 2017 to 2021, totaling 12 companies. Non-probability sampling will be used to determine the sample, a technique that does not assume that all population members have an equal chance of being selected as a sample member



(Wahyudin, 2015:118). The method employed is a saturated sampling technique, where all population members are included in the sample.

This study uses secondary data, specifically the annual reports and lists owned by the companies selected as the research objects from 2017 to 2021. This information can be obtained through the BEI website, www.idx.co.id, and the official websites of the respective companies.

Results And Discussion

Panel Data Regression Analysis

The results of the panel data regression testing above indicate that the best model to be used in this study is the fixed effect model to interpret the panel data regression in addressing this research.

Table 2 Panel Data Regression Results

Dependent Variable: Y Method: Panel Least Squares Date: 07/18/22 Time: 19:47 Sample: 2017 2021 Periods included: 5 Cross-sections included: 12 Total panel (balanced) observations: 60				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.896487	0.468724	-1.912612	0.0620
X1	0.473892	0.227575	2.082353	0.0429
X2	0.084046	0.101199	0.830505	0.4105
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.670540	Mean dependent var	0.086833	
Adjusted R-squared	0.577432	S.D. dependent var	0.078254	
S.E. of regression	0.050869	Akaike info criterion	-2.918154	
Sum squared resid	0.119033	Schwarz criterion	-2.429473	
Log likelihood	101.5446	Hannan-Quinn criter.	-2.727004	
F-statistic	7.201740	Durbin-Watson stat	2.026587	
Prob(F-statistic)	0.000000			

Source: Eviews V9 2022 Output

Based on the table, the regression model equation for panel data is obtained as follows:

$$CH = -0.896487 + 0.473892X1 + 0.084046 X2 + e$$

From the equation, it can be concluded that the coefficient value of the constant for cash holding (y) is 0.896487. This means that when both net working capital (x1) and growth opportunity (x2) are 0, the value of cash holding disclosure is 0.896487, assuming other variables remain constant.

The coefficient value of net working capital (X1) is 0.473892, indicating that for every 1% increase in net working capital, cash holding (Y) increases by 0.473892, assuming other variables remain constant. The coefficient value of growth opportunity (X2) is 0.084046, meaning that for every 1% increase in growth opportunity, cash holding (Y) increases by 0.084046, assuming other variables remain constant.

The Influence of Net Working Capital on Cash Holding

Based on this research, the t-value for testing hypothesis H1 is 2.082353 with a significance of 0.0429. The t-table value is 2.00172, and since the calculated t-value (2.082353) is greater than

the t-table value (2.00172) at a significance level of $0.0429 > 0.05$, it can be concluded that Net Working Capital has a positive and significant influence on Cash Holding. This aligns with the findings of Simanjuntak and Wahyudi (2017), stating that "net working capital can be used as a substitute for cash due to its ease of conversion into cash." Research by Borici and Kruja (2016) also suggests that "an increase in net working capital leads to a higher cash balance; therefore, highly liquid companies tend to have higher cash balances compared to less liquid companies." These results are consistent with the studies of Borici and Kruja (2016) and Simanjuntak and Wahyudi (2017), where net working capital has a positive influence on cash holding. This contradicts the findings of Ali, Ullah, and Ullah (2016), Guizani (2017), and Najema and Rusdayanti (2019), which suggest that net working capital has a negative impact on cash holding.

The Influence of Growth Opportunity on Cash Holding

Based on this research, the calculated t-value for testing hypothesis H2 is 0.830505 with a significance of 0.4105. The t-table value is 2.00173, and since the calculated t-value (0.830505) is less than the t-table value (2.00173) at a significance level of $0.4105 > 0.05$, it can be concluded that Growth Opportunity does not have a significant influence on Cash Holding. This finding contradicts the pecking order theory, which suggests that companies with high growth opportunities tend to have less cash and rely on external financing (Gill & Shah, 2012).

The variable growth opportunity does not significantly affect cash holding because the funding comes from the difference in revenue growth experienced by the researched companies and the growth opportunity used by the company from sources other than corporate funds. This result is consistent with the research of Dirvi, Ari Eksandi, and Mulyadi (2020), which states that growth opportunity does not have a significant influence on cash holding. However, this contradicts the research of Rendi Gunawan (2016), which suggests that growth opportunity has a significant influence on cash holding.

The Influence of Net Working Capital and Growth Opportunity on Cash Holding

Based on the conducted tests, the obtained values are F-statistic of 47.201740 and a probability value of 0.000000. The calculated F-statistic value of 4.160806 is greater than the F-table value of 3.16 at a significance level of $0.000000 < 0.05$. This indicates that the independent variables (net working capital, growth opportunity) collectively have a significant effect on the dependent variable (cash holding). Therefore, the hypothesis that Net Working Capital and Growth Opportunity simultaneously influence cash holding is accepted. This suggests that both net working capital and growth opportunity will result in an increase in cash holding, and vice versa.

Conclusions

Based on the results of the research and discussion above, the results of the research on the influence of net working capital and growth opportunity on cash holding can be concluded that net working capital partially has a positive and significant influence on cash holding. Growth opportunity partially has a positive and insignificant impact on cash holding. Net working capital and growth opportunities simultaneously have a significant influence on cash holding.



Growth: Journal Management and Business
Volume 01 No 01 December 2023
E ISSN : 3031-7959
<https://lenteranusa.id/>



References

- Andika, S. (2017). Analisis Pengaruh Cash Conversion Cycle, Leverage, Net Working Capital dan Growth Opportunity terhadap Cash Holding. *Jurnal Ekonomi Manajemen Dan Akuntansi*, 4(1), 1479–1493.
- Endah Ayu Wulandari, & Setiawan, M. A. (2019). Pengaruh Growth Opportunity, Net Working Capital, Cash Conversion Cycle dan Devidend Payout Terhadap Cash Holding Pada Perusahaan Real Estate. *JURNAL EKSPLORASI AKUNTANSI*, 1(3), 1259–1274.
- Gunawan, R. (2016). Pengaruh Growth Oppoetunity, Net Working Capital dan Cash Flow Terhadap Cash Holding pada Perusahaan di BEI 2011-2014. *Jurnal Akuntansi Dan Ekonomika*, 2(1).
- Hengsaputri, J. A., & Bangun, N. (2020). Pengaruh Growth Opportunity, Net Working Capital dan Capital. *Jurnal Akuntansi Dan Ekonomika*, 2, 1343–1352.
- L, Z. E., & Susanto, L. (2020). Pengaruh Leverage, Firm size, Likuiditas dan Profitabilitas Terhadap Cash Holding. *Jurnal Multiparadigma Akuntansi Tarumanagara*, 2(1), 40–49.
- Oktafiana, A. N., & Hidayat, S. (2020). Pengaruh Growth Opportunity , Leverage , Firm Size dan Profitabilitas Terhadap Cash Holding (Studi Pada Perusahaan Sektor Barang dan Konsumsi yang Terdaftar di Bursa Efek Indonesia Tahun 2017-2020). *Jurnal Rekognisi Akuntansi*, 6, 1–15.
- Prasetya, E. (2021). The Effect of Company Size , Leverage and Tax Avoidance on Cash Holding in Manufacturing Companies on the Indonesia Stock Exchange in 2018 - *Jurnal Akuntansi Bisnis Eka Prasetya*. *Jurnal Akuntansi Bisnis Eka Prasetya*, 7(2), 90–107.
- Reza, M. K., Yuliniar, & Simarmata, P. (2020). DETERMINAN CASH HOLDING PADA PERUSAHAAN PROPERTY AND REAL ESTATE TERDAFTAR DI BEI. *Prosiding Biema*, 2(1), 1059–1076.
- Sangadah, K., & Kartawidjaja, J. (2020). Pengaruh Growth Opportunity, Net Working Capital, Dan cash Conversion Cycle terhadap Cash Holding Pada Perusahaan Sub Sektor Komponen dan Otomotif di BEI. In *Orphanet Journal of Rare Diseases* (Vol. 21, Issue 1).
- Sari, M., & Zoraya, I. (2021). Analisis Faktor-Faktor Yang Memengaruhi Cash Holding Pada Perusahaan Industri Sektor Barang Konsumsi Yang Terdaftar Di Bursa Efek Indonesia Tahun 2009-2018. *Managament Insight: Jurnal Ilmiah Manajemen ISSN*, 16(1), 61–80. <https://doi.org/10.33369/insight.16.1.61-80>