

CHAPTER I

INTRODUCTION

1.1 Background

The global economic crisis that occurred in 2008 began with the United States economic crisis which then spread to countries around the world, including Indonesia. In general, the financial crisis was caused by the failure of companies to maintain their liquidity. This incident changed the view of companies on the importance of maintaining liquidity. One of the efforts to minimize liquidity risk and maintain liquidity is to manage the level of cash owned by the company. Cash is an essential asset to hold by firms regardless of the business that they operate. Although cash is often termed as a non-earning asset, cash is perhaps the most critical and liquid current asset. In the context of this study, cash holding here is defined as cash in hand or cash that is ready and available for physical asset investments and to distribute to investors.

Cash has a very important role for the company, especially in financing the operational activities of a company. Companies that have high level of cash will get various benefits such as profits from trade discounts, maintaining the company's position in the credit rating, and to finance unexpected cash needs (Brigham and Houston, 2001). The company can save on conversion costs to cash impacting if cash is needed in large and sudden amounts, the company can fulfill it. The presence of a high level of cash holdings in the company can illustrate that the company has a

high level of liquidity so that it is considered capable of paying off its obligations or the company has a relatively small risk of not being able to pay off its debts. However, if the company continuously hold high level of cash they can also gain losses. One of the losses obtained is the loss of the company's opportunity to earn a profit. The amount of cash holding that could be turned into profit is used to increase its operating activities. Therefore, a financial manager must have good cash management in an effort to maintain a balance in the amount of cash available.

Related to how important it is for company to maintain cash balance, there are several cases of firm bankruptcy in Indonesia that are mainly the result of poor management and lack of maintaining a cash balance. On March 14, 2013, the company Pania Filament Inti Tbk had to experience force delisting due to debts and deteriorating company performance. PT Surabaya Agung Industri Pulp and Paper Tbk was officially delisted from the IDX on October 31, 2013 because it had been declared bankrupt. Previously the company faced a debt repayment obligation (PKPU) with a trading company in Singapore, where the disputed nominal amounted to 415,035 dollars. Next is the Davomas Abadi company which defaulted on its bonds so that it had to be forcefully delisted on January 21, 2015. The delay in submitting financial reports from 2011 to 2014, the content of financial statements that were not fair, and unable to pay fines on the stock exchange were other triggers for Davomas must be out of stock. The next case occurred in PT Unitex Tbk, where the company had to be delisted on December 7, 2015 because it experienced operational losses in the last few years which made the company's equity negative and unable to pay dividends to shareholders. Plastic and packaging company Dwi

Aneka Jaya Kemasindo Tbk also had to be delisted because it was previously declared bankrupt by the Central Jakarta Commercial Court on November 23, 2017. The amount of debt that reached 913.3 billion in several banks and declining company assets made the company unable to survive on the IDX. The phenomenon of bankruptcy in the Indonesian business world does not only occur in public companies. The legendary private company Jamu Nyonya Meneer, for example. In August 2017, the company, which has been around for almost a century, was declared bankrupt by the Semarang District Court for not being able to fulfill its obligation to pay a debt of Rp 257 billion. PT Nyonya Meneer experienced a long operational crisis that led to disputes over power struggles between families from 1984 to 2000.

Back to cash holding phenomena, companies around the world have considerably increased their cash holdings over the past two decades. A report by Deloitte states that “The top 1000 non-financial companies globally are holding \$2.8 trillion in cash”. The sum of cash holdings by all US firms alone is estimated by Forbes to be \$5 trillion. From the 1990s to 2000s, the cash holdings of US firms more than doubled to about 13% of firms total assets, amounting to 10% of annual US GDP (Dittmar and Mahrt-Smith, 2007). In addition, Bates et al (2009) report cash holdings increasing by 0.46% per year in the 1980–2006 period. Large corporate cash holdings are not confined to the US. In Asia market, a study conducted by Lee and Song (2010), shows that after the Asian financial crisis, companies in Asia have increased their average cash holdings and decreased their leverage. Japanese firms

hold \$2.1 trillion in cash, which accounts for 44% of their GDP. Similar figures for Korean firms are \$440 billion and 34%, respectively (Chen et al, 2012).

Meanwhile, cash holding phenomena in Indonesia, explained by Musa et al (2020) found that there are several companies listed on the Indonesia Stock Exchange (IDX) for the years 2012-2016, have cash holding that varies widely, ranging from 0.2% of total assets to 70.1% of total assets. In addition, the percentage of cash holding in each company per year during 2012-2016 varies.

In order to understand the cash holding phenomena, firstly we have to understand why company hold a certain amount of cash. Company holds a certain amount of cash and other liquid asset balance for various motives such as transactional, speculative, and precautionary (Isshaq et al, 2009). Transactional motive means that firms hold a certain amount of cash which will be used for daily operations to make frequent payments or transactions to pay for goods or services. Precautionary motive means that firm hold cash for safety reasons. Holding cash can be used in reserve for unforeseen fluctuations. Speculation motive views firms hold cash balance to take advantages of any bargain purchases that may arise (Besley & Brigham, 2005).

Several studies have been conducted to study determinants of corporate cash holding. Bagh et al. (2021) and Aftab et al. (2018) in their study found that leverage and dividends payout have significant impact toward corporate cash holding. Another study by Al-Najjar (2013) and Kwan & Lau (2020) found that liquidity and firm size have significant impact as well. Profitability is also found to effect corporate cash holding by study conducted by Mugableh (2021) and Ali et al.

(2021). Many study also found that growth opportunity have impact, but with vary result. Maheshwari & Rao (2017) states that growth opportunity have significant positive impact on corporate cash holding, on other hand, Mumtaz et al. (2020) found growth opportunity have significant negative impact on corporate cash holding. Various variable used and many results shows by previous studies, this topic is interesting to be study deeply to find the right determinant of corporate cash holding.

This study is conducted on companies in the properties and real estate sector because they tend to be vulnerable to liquidity crises because companies tend to store assets in the form of non-current assets such as land and buildings. When companies need sudden funds that cannot be met by their cash balances, they will find it difficult to meet the lack of funds because land and buildings are classified as non-current assets. Therefore, determining the optimal cash holding company in the properties and real estate sector is needed. Each company provides cash holding to finance the company's daily operational activities, as well as companies in the properties and real estate sector.

This study refers to the previous one by Al-Najjar (2013) as the basis for selecting variables because it is necessary to focus on the information contained therein. The similarity between this study and Al-Najjar (2013) is in the research variables both dependent and independent. The difference can be seen in the study period, one additional independent variable, and the analysis method. The previous research used the research period from 2002-2008, while this study used the 2017-2020 pe riod. In previous research, the variable are leverage, dividends, profitability,

liquidity and size of the firm. While in this study, included one additional growth opportunity as independent variable. Based on this background, this study aims to examine the effect of leverage, profitability, liquidity, size and growth opportunity on cash holding in properties and real estate companies listed on the Indonesia Stock Exchange.

The next sections of this paper follow this order: the second part is a theoretical framework and a hypothesis that provides a brief explanation of the concept of cash holding, the relationship between cash holding and its influencing factors and the hypotheses; the third part is a research method that explains the methods used in this research such as sampling, data collection methods, analysis methods, etc; the fourth part is the research result that explains the findings of this research; and finally the fifth part is the conclusions and limitations of the study and suggestions for further research.

1.2 Problem Formulation

Based on the background of the problems described above, the problem formulations to be examined are

1. Does leverage determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange?
2. Does profitability determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange?
3. Does liquidity determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange?

4. Does firm size determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange?
5. Does growth opportunity determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange?

1.3 Research Objective

The objective of the research is

1. To investigate whether leverage determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange
2. To investigate whether profitability determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange
3. To investigate whether liquidity determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange
4. To investigate whether firm size determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange
5. To investigate whether growth opportunity determines cash holding of properties and real estate companies listed on the Indonesia Stock Exchange

1.4 Research Benefits

The benefits expected by researchers in conducting this study are:

1. For researchers, it is hoped that later this research can be used as an additional insight for the wider community, especially for companies throughout Indonesia.
2. For companies in the properties and real estate sectors that are the object of this research, it is hoped that by knowing the results of the analysis of financial variables that affect the company's cash holding, it can later become the basis, input or even decisions for companies in viewing and managing the company's cash holding for the better.
3. For investors, by looking at the results of this research, it is hoped that later it will be able to assist them in making decisions whether or not to invest in properties and real estate companies in the future.
4. For the academic field, it is hoped that later this research can increase knowledge about the effect, how to manage, and make the best and right decisions about a company's cash holding.

1.5 Writing Systematic

This research consists of five chapters. First, Chapter 1 is an introduction that will describe background, problem formulation, research objectives, research benefits for several parties and explanation of writing systematics. Second, Chapter 2 is a literature reviews that explains the theory used to approach the problem to be studied. Then also completed with studies that have been done previously by other

researchers. In addition, theoretical studies also contain theoretical frameworks and hypotheses formulated to conduct research.

Third, Chapter 3: Research Methodology, this section describes the methods used in research by providing an explanation of the variables in the study, population and sample, data collection sources and methods, and data analysis techniques.

Fourth, Chapter 4: Research Results and Discussion This chapter will discuss the description of the research object, data analysis, interpretation of the results and arguments for the results obtained in accordance with the techniques used. And the last, Chapter 5: Closing that contains an explanation of the conclusions, limitations of the study, and suggestions from this study for interested parties.

