

CHAPTER I

INTRODUCTION

1.1 Background

Financial reports are the most important facility for stakeholders or investors and internal investors companies that have an interest in the company, especially for communicate circumstances related to the firm financial condition. There are five types of reports in financial, namely Income Statement reports, reports on changes in equity, statement of financial position, cash flow, and notes to reports cash . This financial report will show the condition whether the company is in good health or not is also a consideration companies in making policies (Shabbir & Wisdom, 2020).

The factors contained in financial reports and used by external users as a reference in decision making and as a reference in determining company policies, one of which is cash and cash equivalent. This element is the company's most liquid asset and is often used to meet the company's operational needs. Empty cash flow in the company makes the company's operations ineffective.

According to Efrinal and Ernawati (2022) The most important thing that must be considered by the company is when the company wants to achieve profitability, the company must pay attention to increasing revenue and reducing its revenue expenses . Companies to get significant revenues must try and suppress the smallest expenses that companies get profits. The higher the income, the more taxes the company must pay.

Throughout the development of the economy and rapid business competition in this day and age, companies are required to develop in order to compete and maintain its business so as not to go bankrupt. In developing his business, Cash availability plays an important role for companies because cash is an asset The company is the most liquid so the company uses cash to finance it needs in operational activities in order to expand, invest, and also pay obligations. Therefore, companies must manage finances properly so that the amount of cash available in the company is in accordance with needs, neither a shortage nor an excess.

Cash serves as a readily available and unrestricted form of payment for supporting the company's overall operations. Being readily available implies that the company must ensure it has enough cash on hand to address unforeseen expenses. Additionally, being unrestricted means that the company has the freedom to utilize cash for necessary expenditures. Furthermore, cash represents the most easily convertible asset. Company liquidity is important information for readers (users) of financial reports for economic decision-making. (Audrey, 2023)

When the amount of cash held by the company is excessive, this can cause losses due to idle cash. The cash is only stored and not generate any income for the company. On the other hand, when a company keeps too little cash (cash holding), this can cause disruption the company's liquidity in paying unexpected costs such as short-term debt due date.

Cash reserves are central to corporate strategies, serving as the primary method for ensuring liquidity. They enable companies to swiftly adapt to unforeseen shifts in cash inflows, sustain daily functions, support long-term investments, and

mitigate risks. Given its value and strategic significance, cash is a cornerstone asset for firms, comprehending cash policy is a relevant To improve and deepen our understanding of how firm value is determined, as well as the decisions companies make regarding investments and financing, and to grasp the effects these decisions have on corporate profitability, risk, and overall economic growth. In this regard, three related facts have contributed to strengthen the importance of cash holdings in the corporate finance field. Cash holdings are assets in a business that are readily convertible into cash and cash equivalents (Da Cruz et al., 2019). Additionally, cash holdings can be used to support investment activities, acquire shares, provide dividends to shareholders, or fund the company's everyday operations (Alicia et al., 2020).

Cash holdings are cash that can be invested in physical assets and distributed to investors. Cash holding can also be used to buy shares, pay dividends to shareholders, finance investment activities or to finance any daily operational activities of the company (Alicia et al., 2020). Cash holding plays an important role in increasingly fierce competition in the business world because companies are required to be precise in managing company cash to determine the optimal amount of cash for the company's needs.

Generally, every financial manager must be able to maintain the cash balance in the company, namely not little and not much, but without disturbing the activities of the company itself (Agung & Hadinugroho, 2019)

Cash Holding relatively large amount of cash is an irrelevant action because to carry out investment projects companies can raise funds with low transaction costs from the money market or capital market. The financial manager must make

decisions on any cash that enters the company, the manager must decide whether to use the cash to distribute it as dividends to shareholders, buy back shares from the market or save the cash for future purposes.

Net Working Capital can show the company's ability to finance current liabilities with the current assets he owns. This shows that companies that have negative Net Working Capital reflect that the company's ability to finance its current debts is poor, so that liquidity is considered not good, and vice versa, if Net Working Capital the company is positive, it can be concluded that the company's liquidity is in good condition and does not experience liquidity problems, so it is Net Working Capital that can affect Cash Holding because one of the elements of current assets is cash, which is an element contained in Net Working Capital and Cash Holding (Darmawan and Nugroho., 2021).

This is the same as research conducted by Simanjutak & Wahyudi (2017), which shows that companies will save more cash if they have small or even minus working capital. This is because the company borrows externally to obtain capital. However, in contrast to research conducted by , Abbas et al. (2020), and Wulandari & Setiawan (2019), which show that there is a positive influence between net working capital and cash holding, this influence is significant. Different research was conducted by Arfan et al. (2017), which states that net working capital does not have a significant influence on the company's cash holding level.

The management of working capital significantly influences the cash reserves of companies. Efficient management of working capital serves as a substitute for maintaining high levels of cash, as highlighted by Shubita (2019). The amount of

cash held by a company varies depending on its size and level of activity. Larger companies typically require more cash to support their extensive operations, whereas smaller companies often require less cash due to their limited activities. Interestingly, despite their size, small companies frequently maintain higher cash reserves as a precaution against financial difficulties resulting from constraints, whereas large companies tend to maintain lower cash reserves, benefiting from economies of scale.

This study also uses the dividend payout ratio to determine the company's cash holding policy. According to Meiganda and Tutik (2022), the dividend payout ratio (DPR) illustrates the permissible income distribution to shareholders of a corporation. A high DPR value shows that much of the profit earned by the company is paid for dividends rather than used as retained earnings for operational activities. Companies that pay dividends to shareholders can create a reserve fund so that dividend payment needs are met, so the company must hold cash. Therefore, a high DPR value will likely lead to a low cash holding value for the company.

Meiganda and Tutik (2022) studies show a relationship between cash holdings and dividend payout ratio that is favorable. Because if the value of the DPR is high, there will be a lot of profit received by the company which is paid out as dividends to shareholders. The company distributes profits as dividends to maintain smooth dividend payments and maintain company liquidity. In addition, the company must hold its cash so that this need is met. Companies with high DPR values generally have low cash holding values.

Furthermore, this study also uses leverage, one of the determining factors for cash holding policy. Nurwani (2021) defines leverage as the company's ability

to the extent to which the company's assets are financed by debt. Leverage shows that the assets owned by the company come from purchases on credit which affect the company's cash holding. Leverage is also a company's financial ratio by comparing the total debt with the company's total assets. Reveal that companies with a high level of leverage have a very high dependence on external loans to finance their assets, while companies with a low level of leverage indicate that the company's funding comes from their own capital. explains that leverage is one of the factors that can affect a company's cash holding. Leverage is defined as a tool for measuring the size of a company that depends on creditors to fund the company's assets. Using leverage is easier to use when compared to cash holding ownership because it uses interest as a tax deduction.

Research from Audrey (2023) discusses the negative relationship between cash holdings and leverage. Leverage is a substitute for cash holding used by companies so if the level of leverage is high, the company has a low level of cash holding. Therefore if the level of leverage is low, then the company has a high level of cash holding.

Research from Ali et al. (2016) explains that companies that have minimal cash holding on their balance sheets and excessive levels of debt. Because it must pay obligations that have not been paid in full in the past, high levels of leverage have low cash holdings. According to this explanation, the relationship between leverage and cash holdings is negative.

This study uses companies in the energy sector as research objects, because in previous studies generally used manufacturing companies as research objects. In addition, cash holding is considered an asset within the company to be used as an

investment and will be distributed to investors (Shabbir et al., 2016). The problem that often occurs in companies is that companies are not optimal in managing cash, so that company activities are disrupted (Astuti et al., 2019). Incorrect calculations and estimates of cash outflows will have a negative impact on the company, as in the case of Bangun Olahsarana Sukses which has been declared bankrupt.

Bangun Olahsarana Sukses is a company operating in the energy sector, namely coal, which is located in East Kalimantan. The Build Business Success Company is not a company under the auspices of a BUMN. It has been established since 2010 and experienced bankruptcy in 2022 (saham di 'Daftar Hitam' BEI, Ada BOSS yang Dulu Jadi Primadona - CNBC.Com, 2024). It has been operating for 12 years. Based on the news conveyed by CNBC, this company went bankrupt because it was unable to manage its own money, so it had a lot of debt and then went bankrupt.

1.2 Research Problem

The research problem is formulated as :

1. Does net working capital have a significant influence on cash holdings?
2. Does the dividend payout ratio have a significant influence on the cash holdings?
3. Does leverage have a significant influence with the cash holdings?

1.3 Research Purpose

Based on the background and formulation of the problem above, the objectives expected in this study are as follows:

1. To analyze and determine the significant influence of net working capital on cash holdings.

2. To analyze and determine the significant influence of dividend payout ratio on cash holdings.
3. To analyze and determine the significant influence of leverage on cash holdings.

1.4 Research Benefit

This research is expected to provide benefits for related parties, namely as follows:

1. Theoretical Benefits

It is hoped that the results of this research can be used as reference material and consideration for future researchers who will conduct studies on the influence of net working capital, dividend payout ratio, and leverage on cash holdings.

2. Practical Benefits

It is hoped that the results of this research will provide information and an overview for companies regarding the factors that are important to consider in determining the level of cash holdings. So, the company can optimize the profits that it will generate.

3. Academic Benefits

For academics, it is hoped that this research will provide views, insights and empirical test results as well as become a reference to complete the development of further research regarding cash holding.

1.5 Writing System

Writing systematics of this thesis consists of five chapters. Chapter one is an introduction. It contains a description of the background of the problem that underlies the importance of conducting research, problem formulation, research objectives, benefits of research, and writing systematics. Chapter two describes a theoretical basis that describes the meaning, types and basic principles, review of previous research, hypothesis development and a framework of thought. Chapter three explains about research methodology, which consists of a description of the scope of the research, sample determination methods, operational definitions and variable measurements, as well as the data analysis methods used. Chapter four explains research results and discussion. This chapter contains descriptions of research objects, data analysis, and interpretation of results. Chapter five is conclusion, which describes the conclusions, limitations, and suggestions.

