

# Cash Holding in Companies Registered on the Jakarta Islamic Index: Analysis of Net Working Capital Factors, Levels of Leverage, and Levels of Profitability

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## Research article

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**Abstract:** Inaccuracy in determining the optimal cash holding level can cause the company's activities to be disrupted and even unable to run, holding too little cash will have a negative impact on the company, which can cause a company to go bankrupt, and vice versa, if the amount of cash is too much will cause unproductive cash because cash is idle fund. This study aims to analyze net working capital, level of leverage, and level of profitability of cash holdings. The population of this study is all companies listed on the Jakarta Islamic Index for the 2016-2021 period. The sample of this research is 15 companies taken by purposive sampling technique. The data analysis technique used in this study was panel data regression analysis using Eviews 10 software. The results showed that the net working capital variable had no effect on cash holdings. While the leverage level variable has a negative effect on cash holding and the profitability level variable has a positive effect on cash holding. Recommendations for companies listed on the Jakarta Islamic Index are expected to increase cash holdings, for future researchers it is better to add other variables that can be factors that affect the company's cash holdings.

**Keywords:** net working capital, level of leverage, level of profitability, cash holding.

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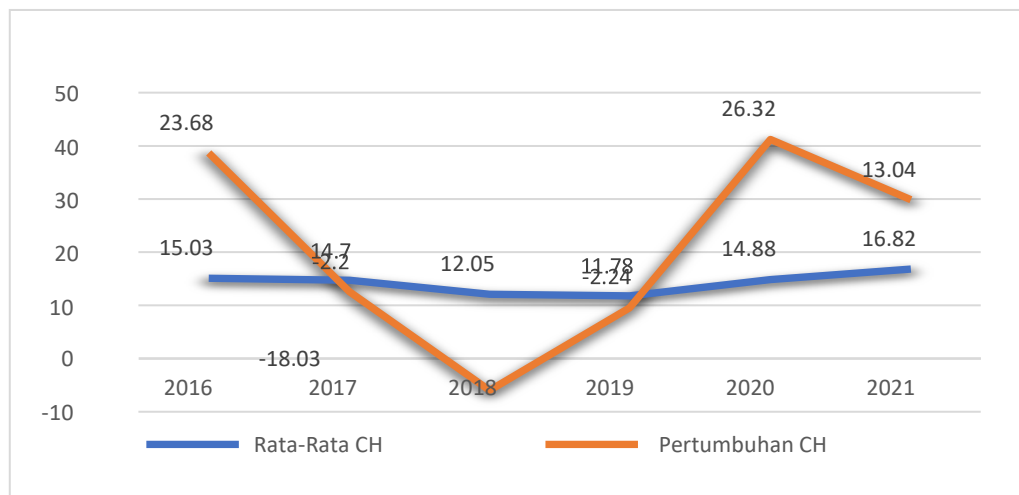
## 1. Introduction

Cash is the most liquid asset that functions as a driving force for the routine operations of a company. The existence of cash in a company is very important because without cash the company's activities cannot run, so the company must maintain the amount of cash to match the needs. Therefore, the increasing importance of managing (managing) the ideal amount of cash for companies has raised the attention of various groups, both executives, analysts, and investors, to the company's cash (cash holding) (William & Fauzi, 2013).

According to Gill and 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. Therefore, cash holding is seen as anything that is easily converted into cash or cash. Companies that have large amounts of cash will get various kinds of benefits such as benefits from trade discounts, maintaining the company's position in the credit rating, and to finance unexpected expenses (Huston, 2010).

The purpose of a company having cash holdings includes paying off debt, financing profitable investment opportunities and serving as a reserve in the event of an unknown

hazard. Cash holding is a ratio that compares the amount of cash and cash equivalents owned by a company to the total assets of the company as a whole. Ownership of cash (cash holding) for management has benefits, such as: (1) reducing the possibility of a financial crisis. This can be a safe deposit and can be used at any time against unexpected losses (2) reducing the cost of gathering financial resources (Novriyanti, 2014).



**Figure 1.** Average and growth of cash holding companies listed on the Jakarta Islamic Index in 2016-2021

The high or low value of cash holdings that occur in companies is thought to occur due to several factors including, 1) high levels of debt ( leverage ) so that companies are more concerned with payments on the side of their obligations to avoid bankruptcy that will occur, compared to saving existing funds in the company's cash, 2) the availability of capital owned by the company, the more capital owned by the company will have a good impact on cash holdings , this happens because the cash reserves owned by the company will be more diverse and not only depend on the availability of funds in cash holdings , and 3) the high profitability obtained, the high level of profitability obtained by the company will have a good impact on the value of the company's cash holdings .

The background to this research problem is the difference in research results regarding cash holding . In this study, the factors that will be taken into consideration or the independent variables of cash holdings are net working capital, level of leverage , and level of profitability. There have been quite a number of previous studies that have raised this theme, this is due to the need for companies to determine the amount of cash that must be owned by the company so that there are no excesses or shortages of cash. Although there have been many studies discussing this theme before, the authors chose this research as evidence of whether there were differences in circumstances between the previous research period and the research that will be carried out, namely with different periods of research objects and companies.

The results of research by Marfuah and Zuhlilmi (2014) show that the net working capital variable has a positive effect on cash holdings , while the research results by Prasetyanto (2014) show that net working capital has a negative effect on cash holdings . Meanwhile, Rahmawati's research results (2013) state that net working capital has no effect on cash holdings . Another factor that is thought to affect cash holdings is leverage .

The research results of Marfuah and Zuhlilmi (2014) state that leverage has a negative effect on cash holdings . This is in line with the results of research by Afrianto (2014) which states that leverage has a negative effect on cash holdings . But it is different from the results of Prasetyanto's research (2014) which shows that the leverage variable has no effect on cash

holdings.

The results of Wahyudi's research (2017) state that profitability has no effect and is not significant on cash holdings. The results of Kuswardono's research (2019) state that profitability has a positive and significant effect on cash holdings. The results of Susanto's research (2020) show that profitability has a significant effect on cash holdings .

Silalahi, et al (2021) stated that GDP has no effect on the dividend distribution policy. Likewise with research by Farida, et al (2021) which states that GDP does not affect the level of profit sharing in Islamic banks.

Based on some of the problems above, it can be seen that the results of previous studies regarding the factors that influence cash holdings are not consistent. The novelty of this research and previous research includes research subjects and research periods, namely companies listed on the Jakarta Islamic Index for the 2016-2021 period. Therefore, the researcher will re-test with the title "Cash holding in Companies Registered on the Jakarta Islamic Index: Factor Analysis of Net Working Capital, Levels of Leverage, and Levels of Profitability".

The research questions posed are: how about a picture cash holding , net working capital , level of leverage , and level of profitability in companies listed on the Jakarta Islamic Index in 2016-2021, the effect of net working capital on the cash holding of companies listed on the Jakarta Islamic Index in 2016-2021, the effect of leverage on cash holding companies registered on the Jakarta Islamic Index for 2016-2021, the effect of the level of profitability on the cash holding of companies listed on the Jakarta Islamic Index for 2016-2021.

So the purpose of this study is to obtain concepts, theories, and analyze the factors that influence the cash holdings of companies listed on the Jakarta Islamic Index (JII) in 2016-2021. In addition, this study also aims to analyze how the influence of net working capital , the level of leverage , and the level of profitability has on the cash holding of companies listed on the Jakarta Islamic Index (JII) in 2016-2021.

## **2. Literature Review**

### **2.1. Pecking Order Theory**

Myers and Majluf (1984) explain Pecking Order Theory is a level in the search for corporate funds which indicates that companies prefer to use internal funds to finance investments and implement them as growth opportunities. Pecking order theory states that managers prefer internal funding over external funding. If the company needs outside funding, managers tend to choose the safest securities, such as debt . This theory is based on the existence of asymmetric information, namely a situation where management has more information about the company than the owners of capital. This asymmetric information will affect the choice between internal or external users of funds and between the choice of adding new debt or by issuing new equity. According to (Jinkar, 2013), the pecking order theory suggests that there is an order of sources of funds in making corporate funding decisions. Based on this theory, when a company needs funds for investment financing purposes, the company should finance investment opportunities with internal funds first. If the need for investment cannot be obtained from internal funding, then the company will use an external approach from debt as a second source of funding, and equity as the last source of funding. This theory makes the company do not have optimal cash targets, so the company will tend to keep the remaining cash from the results of its operational activities.

## 2.2. Concept of Cash Holding

According to Gill and Shah (2012) cash holding is defined as cash in the company or available for investment in physical assets and for distribution to investors. Meanwhile, according to Ogundipe (2012) in (Putranto, 2017) cash holding is the amount of cash owned by the company and cash equivalents that can be easily converted into cash. From the above statement it can be concluded that cash holding is cash available or held in the company to be used to finance the company's operational needs, unexpected funding needs, and investments.

The company retains cash holdings for transaction motives, as a precaution against unexpected costs, and for speculative purposes. The transaction motive is intended to meet all the company's daily needs in carrying out its operational activities on a regular basis. According to this theory, companies hold cash to finance various company transactions. If the company can easily get funds from the capital market, cash holding is not needed but if not, then the company needs cash holding to finance transactions (Suherman, 2017). The precautionary motive is used by companies that view cash as a tool to prepare reserve funds due to unexpected cash flows experienced by companies, so they are expected to hold cash as a precautionary measure to protect against cash shortages in the future. Speculation motives are motives that are intended to take advantage of opportunities that exist cheaply when such opportunities exist, such as a sudden drop in raw material prices (Wachowicz, 2005). If the price of building materials falls, companies that hold large cash balances benefit in purchasing large quantities of raw materials. In this case the company will have the opportunity to buy with the cash it has, and sell it when the price rises (Kasmir, 2015).

## 2.3. Concept of Net Working Capital

Claims are the right of participants to get Ferreira and Vilela (2004) stated that net working capital is basically a substitute for cash. When needed, net working capital can be quickly liquidated for funding. As a result, companies with large net working capital tend to hold small amounts of cash. Companies with sufficient current assets may not have to use the capital market to raise funds when they experience cash shortages. Thus, companies with high net working capital will have low cash holdings. According to (Huston, 2010) net working capital is defined as current assets minus current liabilities, which is a measure of liquidity that is often used.

*H1: Net working capital effect on cash holdings*

## 2.4. Leverage Level Concept

Purnasiwi (2011) defines leverage as a tool to measure how much a company depends on creditors in financing company assets. Companies with high levels of leverage have a very high level of dependence on external loans to finance their assets, while companies that have a lower level of leverage indicate that the company's funding comes from its own capital.

In this study, the level of financial leverage is used which involves the use of funds obtained from debt or issuing preferred stock. The use of these funds incurs fixed costs, namely interest or dividends. Interest and preferred stock dividends are fixed financial costs that must be paid regardless of the company's profit level. In financing with debt, the interest rate used is a fixed interest rate. The debt used is generally long-term debt or in the form of bonds.

*H2: The level of leverage affects Cash Holding*

## 2.5. Profitability Level Concept

Kasmir (2015) states that profitability is a ratio to assess a company's ability to make a profit. This ratio also provides the level of management effectiveness of a company. This is indicated by the company's profit generated from sales or from investment. The use of this ratio shows the efficiency of a company. Effectiveness and efficiency can be seen from the profits generated from its business activities. The higher the value of the ratio, it can be said that the company has a good profitability ratio. Because financial performance is getting better, because the rate of return is getting bigger (Susanto ZE, 2020). There are three indicators that can be used to measure profitability performance, namely Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI).

*H3: The level of profitability affects cash holding*

## 3. Research Method

The research method used in this research is quantitative with a causality descriptive research design. The population in this study are companies listed on the Jakarta Islamic Index. The sampling technique used is purposive sampling. There are 15 companies that have met the predetermined criteria.

Data collection techniques in this study using the method of literature and documentation. The library method is by examining books, journals, and other similar records. The documentation method is to collect the financial reports of companies listed on the Jakarta Islamic Index which can be obtained from the website of each company.

Data analysis technique used in this study is panel data regression analysis using Eviews 10 software tools and using dynamic financial analysis techniques with a Monte Carlo simulation approach, using Microsoft Excel software tools.

## 4. Results and Discussion

### 4.1. Overview of Cash Holdings

Based on the company's financial statements, the amount of cash holding in companies listed on the Jakarta Islamic Index has fluctuated from year to year, but with the Covid-19 pandemic that began entering Indonesia in March 2020, most companies have increased their existing cash reserves. they have in 2021.

There are 11 companies that have increased their cash in 2021, including PT Adaro Energy Tbk, which originally kept cash reserves of 18% in 2020 in 2021 to 24%. PT AKR Corporindo Tbk in 2020 keeps cash reserves of 8% in 2021 to 11%. PT Aneka Tambang Tbk in 2020 keeps cash reserves of 13% in 2021 to 15%. PT Astra International Tbk in 2020 keeps cash reserves of 14% in 2021 to 17%. PT Barito Pacific Tbk in 2020 keeps cash reserves of 15% in 2021 to 20%. PT Vale Indonesia in 2020 saves cash reserves of 17% in 2021 to 23%.

PT Kalbe Farma Tbk in 2020 saves cash reserves of 23% in 2021 to 24%. PT Perusahaan Gas Negara Tbk in 2020 keeps cash reserves of 16% in 2021 to 20%. PT Telekomunikasi Indonesia (Persero) Tbk in 2020 keeps cash reserves of 8% in 2021 to 14%. PT Chandra Asri Petrochemical Tbk in 2020 keeps cash reserves of 26% in 2021 to 32%. PT United Tractors Tbk in 2020 keeps cash reserves of 21% in 2021 to 30%.

The company that has the highest cash holding is PT Chandra Asri Petrochemical with total cash reserves of 32% in 2021. One of the factors for the company's high cash reserves is profit. at the end of 2021 it will reach US\$2.58 billion. This value increased by 42.8 % on an annual basis compared to 2020. The increase in profit and net income was due to increased



sales which were dominated by sales to the local market, which reached US\$ 2.00 billion, while sales to foreign markets amounted to US\$ 570. 08 million (Suryahadi A., 2022). With this increase, companies tend to keep more cash reserves compared to the previous year.

#### **4.2. Overview of Net Working Capital**

Based on the financial reports of each company, the amount of net working capital in companies listed on the Jakarta Islamic Index has fluctuated from year to year, but with the Covid-19 pandemic that started to enter Indonesia in March 2020, most companies increased their working capital. net they have in 2021 .

One of the factors of high net working capital is the company's income, where profits from the company's labor activities increase current assets. PT Astra International Tbk has the highest net working capital value in 2021 of 88%, revenue in 2021 will be Rp. 233.49 trillion, an increase of 33.38% from the previous year, only Rp. 175.05 trillion. This revenue comes from automatic sales in 2021 and 2020, including mining equipment, construction and energy, then agribusiness, infrastructure and logistics, property and financial services (Safitri, 2022). From the sales results, PT Astra International Tbk's net profit reached Rp. 20.20 trillion so that the company's net working capital will also increase in 2021.

#### **4.3. Overview of Leverage Levels**

Based on the company's financial statements, the total level of leverage in companies listed on the Jakarta Islamic Index has fluctuated from year to year but tends to be higher than the number each year. Of the 15 companies sampled in this study, there were nine companies that exceeded the Debt to Equity Ratio (DER) industry standard, where the standard was 80%. Among them, PT AKR Corporindo in 2016 had a leverage rate of 0.96 or 96%, in 2017 it decreased to 0.86 or 86%, in 2018 it increased to 1.01 or 101%, in 2019 it increased to 1, 12 or 112%, in 2020 it will decrease to 0.77 or 77%, in 2021 it will increase to 1.08 or 108%. the company that has the highest level of leverage is PT Unilever Indonesia Tbk with an average of 2.79 or 279%, in 2016 the leverage level was 2.56 or 256% while in 2021 it increased to 3.41 or 341%. This figure is far above the DER industry standard. PT Unilever Indonesia obtained a loan facility with a ceiling of Rp. 3 trillion from its Swiss-headquartered affiliate since May 2017, the loan facility is valid from 15 June 2017 to 14 June 2022. Withdrawals from the loan facility are flexible as long as the tenor is still valid. The debt withdrawals can be made repeatedly, the tenor of each withdrawal also varies, a minimum of one month and a maximum of one year. The Director of PT Unilever Indonesia said that UNVR did not disburse the loan immediately after the application process was approved. This is because the debt is a standby loan. Because of the standby loan, UNVR disbursed the loan when needed (Forddanta, 2018).

#### **4.4. General Description Profitability Level**

Based on the company's financial statements, the total level of leverage in companies listed on The profitability of companies listed on the Jakarta Islamic Index has fluctuated from year to year, but with the Covid-19 pandemic that began entering Indonesia in March 2020, most companies experienced a decline in their level of profitability, including PT Adaro Energy. Tbk in 2019 has a total profitability of 11% in 2020 decreased to 4%. PT Astra International Tbk in 2019 had a profitability of 14% in 2021 decreased to 10%. PT Japfa Comfeed Indonesia Tbk in 2019 had a profitability of 16% in 2020 decreased to 11%. PT Kalbe Farma Tbk in 2019 had a profitability of 13% in 2020 decreased to 12%. PT Unilever Indonesia has the highest level of

profitability of other companies listed on the Jakarta Islamic Index , which is 1.63 % in 2018. Despite government policies with restrictions on people's mobility in 2020, PT Unilever Indonesia is still able to maintain its performance, net profit in in 2020 reached Rp. 4.4 trillion (Prasetyo, 2021). The advice to always wash your hands during the Covid 19 pandemic has had a good effect on PT Unilever Indonesia because most of the company's products are consumption manufacturers, ranging from food ingredients, floor cleaners, bathroom cleaners, bath soap, hand sanitizer, hand washing soap, shampoo, and others.

#### 4.5. Data Analysis Test Results

This test was carried out using the panel data regression analysis method . The software used to perform data analysis is Eviews version 10. Following are the results of the stages of analysis using the panel data regression analysis method.

##### 4.5.1. Model Selection

The **Chow test** is used to determine whether the panel data regression technique with the fixed effect model is better than the common effect model. If the Cross-Section F probability value is greater than 0.05, it means that the correct model is the fixed effect model. However, if the probability value is less than 0.05, it means that the correct model is the fixed effect model. Here's a chow test using Eviews 10:

**Table 1.** Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effect Test	Statistics	df	Prob.
Cross-section F	0.367340	(14,57)	0.9789
Chi-square cross-sections	6.478724	14	0.9529

*Source: Research data*

The results of the Chow test show that the probability value of cross-section F and chi- square is less than 0.05 . Therefore, a good model to use in this study is the common effect model.

**Hausman test.** After conducting the Chow test and the selected model is the common effect model , the next step is the Hausman test, to determine which fixed effect model or random effect model is more appropriate to use in this regression. If the probability value for Cross-Section Random is more than 0.05 , it means that the right model is a random effect model . However, if the probability value is less than 0.05 , it means that the fixed effect model is better than the random effect model. The following is the hausman test using Eviews 10:

**Table 2.** Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-sections	0.993067	3	0.8029

*Source: Research data*

The results of the Hausman test show that the random cross-section probability value is 1.0000, which is greater than 0.05, so it can be concluded that the appropriate model for this panel data regression is a random effect model.

The **Lagrange Multiplier (LM)** test is used to determine which model is better between the random effect model and the common effect model. If the probability value is greater than 0.05, it means that the correct model is the common effect model. However, if the probability value is less than 0.05, it means that the random effect model is appropriate. Following are the results of the LM test using Eviews 10:

**Table 3.** LM Test Results

Lagrange Multiplier Tests for Random Effects

Null hypotheses: No effects

Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	3.299065 (0.0693)	1.436378 (0.2307)	4.735443 <b>(0.2950)</b>
Honda	- 1.816333 (0.9653)	1.198490 (0.1154)	- 0.436881 (0.6689)
King-Wu	- 1.816333 (0.9653)	1.198490 (0.1154)	0.200741 (0.4205)
Standardized Honda	- 1.739032 (0.9590)	1.939324 (0.0262)	- 3.937636 (1.0000)
Standardized King-Wu	- 1.739032 (0.9590)	1.939324 (0.0262)	- 2.758409 (0.9971)
Gourieroux, et al.	--	--	1.436378 (0.2373)

Source: Research data

Based on table 4, it can be seen that the Breusch- Pagan (BP) probability value is 0.0000, which is less than 0.05, which means that the best model to use is the common effect model.

#### 4.5.2. Classic assumption test

**Multicollinearity Test.** If the correlation relationship between the independent variables exceeds 0.80, it can be concluded that the variable is affected by multicollinearity (Sulistiyono & Sulistiyowati, 2018).

**Table 4.** Multicollinearity Test Results

	X1_NWC	X2_DER	X3_ROE
X1_NWC	1.000000	-0.292885	0.093774
X2_DER	-0.292885	1.000000	-0.173730
X3_ROE	0.093774	-0.173730	1.000000

Source: Research data



Based on the results of the multicollinearity test in the table above, all variables have a low coefficient, which is below 0.80, which indicates that this study is not affected by multicollinearity.

**Heteroscedasticity Test.** The method used in this heteroscedasticity test is the Park test method. If the significance value is greater than the value of 0.05, it can be concluded that there is no heteroscedasticity in this study (Sulistiyono & Sulistiyowati, 2018).

Table 5. Heteroscedasticity Test Results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.002148	0.000364	5.907007	0.0000
X1_NWC	0.000873	0.002816	0.310103	0.7576
X2_DER	0.000881	0.001610	0.547061	0.5865
X3_ROE	0.007802	0.004424	1.763571	0.0833

Source: Research data

Based on the results of the heteroscedasticity test in the table above, it can be seen that the probability value of each variable is greater than 0.05. This shows that there is no heteroscedasticity in this study.

#### 4.5.3. Hypothesis testing

**Panel Data Regression Analysis.** The best estimation method used in this study is the common effect model (CEM). Following are the results of multiple linear regression analysis:

Table 6. Common Effect Test Results

Variables	Coefficient	std. Error	t-Statistics	Prob.
C	0.002880	0.005567	0.517240	0.6071
X1_NWC	-0.049956	0.056955	-0.877115	0.3857
X2_DER	-0.067485	0.014104	-2.083766	0.0037
X3_ROE	0.067965	0.020766	3.272889	0.0022
AR(1)	-0.386486	0.163902	-2.358028	0.0220

Sumber: Data hasil penelitian

Based on table 26, the multiple linear regression model is obtained as follows:

$$CH = 0.002880 - 0.049956NWC - 0.067485DER + 0.067965 + \varepsilon$$

Based on the results of the regression equation obtained on the model, the following conclusions are obtained:

- Constant ( $\beta_0$ ) of 0.002880 which shows that if the net working capital, level of leverage, and level of profitability are assumed to be zero, then cash holding will increase by 0.002880.
- The regression coefficient ( $\beta_1$ ) of the net working capital variable is -0.049 which means that if the net working capital variable increases by 1 percent, it will cause a decrease in the cash holding variable by 0.049 percent.
- Coefficient ( $\beta_2$ ) of the leverage level variable is -0.067 which means that if the leverage level variable increases by 1 percent, it will cause a decrease in the cash holding variable by 0.067 percent.

- d) Coefficient ( $\beta_3$ ) of the profitability level variable is 0.067 which means that if the profitability level variable increases by 1 percent, it will cause an increase in the cash holding variable by 0.067 percent.

#### 4.5.4. Determination Coefficient Test ( $R^2$ )

The coefficient of determination describes how much the variation in the independent variables can explain the variation in the dependent variable, and the rest is explained by variations in other variables outside the model (Sitorus & Yuliana, 2018).

**Table 7.** Regression Coefficient Results

R-squared	0.318942
Adjusted R-squared	0.269411

Source: Research data

R-squared is 0.318942 . this shows that 32% of the dependent variable, namely cash holding, can be explained by the independent variables, namely net working capital, level of leverage, and level of profitability. While the remaining 68% is explained by other variables outside the model that are not in this study.

#### 4.5.5. Partial Test ( $t$ test)

The  $t$  test is used to determine whether the independent variables in the regression partially affect the dependent variable. Testing the  $t$  test is done by comparing the calculated  $t$  value with  $t$  table, and the probability value with a predetermined error rate, which is 0.05. The  $t$  table value is obtained from the  $t$  distribution and  $\alpha = 0.05$ , obtaining the degree of freedom (df). With the formula  $(df) = n - k = 75 - 2 = 73$ , it is obtained with a  $t$  table value of 1.993. The  $t$  table value will be compared with the calculated  $t$  value to determine the decision to accept  $H_0$  or reject  $H_0$ . The following describes the results of the  $t$  test using Eviews 10, as follows :

**Table 8.** Test Results  $t$

Variables	coefficient	std. Error	t- Statistics	Prob.	Test results	Decision
X1_NWC	-0.049956	0.056955	-0.877115	0.3857	Notsignificant	Accept $H_0$
X2_DER	-0.067485	0.014104	-2.083766	0.0037	Significant	Rejects $H_0$
X3_ROE	0.067965	0.020766	3.272889	0.0022	Significant	Rejects $H_0$

Source: Research data

Based on the results of the  $t$  test, the following results are obtained:

- In table 9, it can be seen that the calculated  $t$  value is -0.877115, which is smaller than the  $t$  table, which is -1.993, which means accepting  $H_0$  and rejecting  $H_1$  . The probability level is 0.3857, greater than  $\alpha = 0.05$ , therefore, it can be concluded that the net working capital variable has no effect on cash holding in companies listed on the Jakarta Islamic index.
- Based on table 9, the calculated  $t$  value of - 2.083766 is greater than the  $t$  table value of - 1.993, which means that  $H_1$  is accepted and  $H_0$  is rejected . The probability value obtained is 0.0037 which is less than  $\alpha = 0.05$  , so it can be concluded that the level of leverage has a significant negative effect on cash holding in companies listed on the Jakarta Islamic Index.
- Based on table 9, the calculated  $t$  value of 3.272889 is greater than the  $t$  table value of 1.993, which means accepting  $H_1$  and rejecting  $H_0$ . The probability value obtained is 0.020766

which is less than  $\alpha = 0.05$  , so it can be concluded that the level of profitability has a significant positive effect on cash holding in companies listed on the Jakarta Islamic Index.

#### **4.6. Discussion**

##### **4.6.1. *The Effect of Net Working Capital on Cash Holding in Companies Registered on the Jakarta Islamic Index***

Based on the results of research that has been done using EvIEWS 10, it shows that the net working capital variable has a significance value of  $0.3857 > 0.05$  . This indicates that the net working capital variable has no effect on cash holdings , so H1 is rejected. The results that are contrary to the first hypothesis proposed are probably because cash is part of net working capital so that when a company has no capital or a negative net working capital value, the company will still keep cash reserves to maintain liquidity, current assets other than cash cannot be substitutes for cash. cash at any time. In some special conditions (for example during the Covid 19 pandemic ), current assets cannot be converted into cash easily. Therefore, company managers usually make cash reserves to maintain liquidity. This is very important because in the event of an economic shock , cash and current assets can save the company from the threat of bankruptcy (Jinkar, 2013).

Net working capital is the difference between current assets and current liabilities , cash is part of current assets which is also used to calculate cash holdings so if net working capital increases, cash holdings will also increase. If a company has a negative net working capital value, it means that the company is experiencing liquidity difficulties, because the value of its current liabilities is greater than the company's current assets (Susanti, 2020). The higher the net working capital of a company, the more assets that can be easily converted into cash, this causes companies to tend to hold less cash because cash needs can be substituted by net working capital.

##### **4.6.2. *Leverage Level Influence Against Cash Holding in Companies Registered on the Jakarta Islamic Index***

Based on the regression testing that has been done, the results of the research on the level of leverage on cash holding have a significance value of  $0.0037 < 0.05$  . This indicates that the leverage level variable has a negative effect on the cash holding of companies listed on the Jakarta Islamic Index . So it can be stated that the second hypothesis can be accepted. This shows that the greater the level of leverage , the lower the company's cash holdings will affect , where according to the pecking order theory that the company's cash will decrease in relation to 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 is no longer using internal funds , but using external funding, namely debt.

The use of debt as a source of company capital does not always have a negative connotation because by using debt the company's tax burden can also be minimized and there is also the possibility for the company to make a profit, but the use of debt must be controlled, because if the use of debt is greater than the company's ability to pay debts This will have a negative impact on the company (Kuswardono, 2019).

##### **4.6.3. *Effect of Profitability Levels Against Cash Holding in Companies Registered on the Jakarta Islamic Index***

Based on the regression testing that has been done, the results of the research on the level of

profitability of cash holdings have a significance value of  $0.020766 < 0.05$ . This indicates that the variable level of profitability has a positive effect on the cash holding of companies listed on the Jakarta Islamic Index. So it can be stated that the third hypothesis can be accepted. This shows that the greater the level of company profitability, it will affect the increase in the company's cash holding. This significant influence is in line with the pecking order theory which shows that more profitable companies tend to rely more on internal financing sources. Therefore, profitable companies tend to have more cash holdings as a source of internal funding, and will be less dependent on external funding.

Return on equity is a proxy for the level of company profitability, which is the company's ability to generate profits in a certain period. Investors will invest shares in the company to get returns, the higher the company's ability to earn profits, the greater the return expected by investors so as to make the company's value better. The financial manager has the responsibility of obtaining the capital needed to store inventory and for the overall profitability of the company (Huston, 2010).

## 5. Conclusions

Based on research that has been conducted, the average cash holding development of the 15 companies listed on the Jakarta Islamic Index for the 2016-2021 samples used in this study tends to decrease. This can be interpreted that the company saves more in the form of assets compared to cash. Furthermore, the net working capital of the 15 companies listed on the Jakarta Islamic Index during 2016-2021 tends to be good at managing net working capital but there are still two companies that are still below the minimum net working capital standard of 6.5 %. Then the leverage level of the 15 companies listed on the Jakarta Islamic Index during 2016-2021 experienced fluctuating growth and there were nine companies that exceeded the DER standard of 80%. This shows that the company is still not good at managing the portion of debt with the capital owned by the company. The level of profitability as measured using the return on equity (ROE) of 15 companies listed on the Jakarta Islamic Index during 2016-2021 fluctuated and there were 14 companies that were still below the industry standard of 40%. This shows that there are still many companies that have not optimally managed their capital to generate profits.

This research is expected to be a reference material for further studies. In addition, investors who are going to invest, especially in Islamic stock instruments, must pay attention to aspects that affect profits in the company, one of which is cash holding owned by the company. If the company's cash holding is stable, then the company is able to carry out its operational activities, it means that the company can survive in a state of economic shock. so that investors can get returns in the form of dividends.

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