

GROWTH OPPORTUNITY, NET WORKING CAPITAL AND INVESTMENT OPPORTUNITY SET TO CASH HOLDING: WHOSALE TRADING COMPANY

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ABSTRACT

This study aims to determine the effect of growth opportunity, investment opportunity set, net working capital, and cash conversion cycle on cash holding in wholesale trading companies for the period 2020-2021. The sample in this study was obtained by using purposive sampling method. Based on the criteria that have been determined there are 36 companies that become the research sample. The data used in this study uses secondary data in the form of financial statements obtained from the IDX website. The data analysis technique used is hypothesis testing and multiple linear regression analysis. The results of the hypothesis test show that the growth opportunity variable and the net working capital variable have a significant effect on cash holding. Investment opportunity set has no significant effect on cash holding.

KEYWORDS: Growth Opportunity, Net Working Capital, Investment Opportunity Set, Cash Holding



Introduction

Cash is one of the current assets that is very liquid and the higher the amount of cash, the more liquid the cash in the company (Martini, 2012). Cash is used to pay off short-term liabilities and is also used to support the smooth operation of the company so that cash plays an important role in meeting the company's financial obligations in the short and long term.

Cash holding is an important asset in every company that gets the main attention of managers, investors, and financial analysts (Maya Sari & Ardian, 2019). Determining the maximum level of cash holding is very important for a company because cash holding that is too high will result in the company losing the opportunity to invest or get a return, while low cash holding can result in disruption of the company's operational activities and difficulties in paying off its debts.

In general, a company's financial crisis can occur due to the company's negligence in paying attention to its liquidity. Risk from liquidity can be minimized, one of which is by estimating the amount of cash holding through precise calculations so that the company can continue to meet the company's operational fund needs and can maintain liquidity. Many factors are thought to affect the amount of cash in a company, but this study only focuses on factors, namely growth opportunity, net working capital (working capital) and investment opportunity set (IOS). These factors are thought to determine the amount of funds needed by the company to pay its obligations and describe the company's ability to meet needs.

According to (Saputri & Kuswardono, 2019) growth opportunity has a goal, namely to measure the company's ability to maintain its position in economic growth and in the industry. Based on the results of research (Maxentia et al., 2022), (Abbas et al., 2020) and that growth opportunity affects cash holding. However, in studies (Maghfiroh et al., 2022) and (Alicia et al., 2020) that growth opportunity has no effect on cash holding.

Working capital can be interpreted as an investment invested in current assets or short-term assets such as cash, banks, securities, receivables, inventories. Another name for net working capital is net working capital or often associated with working capital. In the research of (Wulandari & Setiawan, 2019), (Juardi et al., 2021), (Najema & Asma, 2019), (Darmawan & Nugroho, 2021) that net working capital has a positive effect on cash holding but in research (Saputri & Kuswardono, 2019) net working capital has a negative effect on cash holding.

Investment opportunity set can affect the cash in the company. The investment opportunity set, which is often abbreviated as IOS, describes investment opportunities for a company, but it all depends on the company's choice of spending in the future. Research (Gunawan & Oktaviani, 2021), (Rosyidah & Santoso, 2018) that the investment opportunity set has an influence on cash holding.

Based on the differences in the results of previous studies, the researcher wants to re-examine the factors that affect cash in the company. This study aims to determine and analyze the

GROWTH OPPORTUNITY, NET WORKING CAPITAL AND INVESTMENT OPPORTUNITY SET TO CASH HOLDING: WHOSALE TRADING COMPANY]

variables of growth opportunity, net working capital, and investment opportunity set on cash holding in wholesale trading companies listed on the Indonesia Stock Exchange in 2020-2021.

Cash Holding

Cash Holding can be interpreted as cash held by a company in the form of cash stored in a safe place. Cash owned by the company has an important role to meet the company's operational needs and short-term savings if at any time the company needs cash.

According to Keynes in (Horne & Wachowicz, 2012) 3 motives for maintaining cash (cash or deposits in banks):

1. Transaction motive
Because cash inflows are not the same as cash outflows, it is necessary to have cash for business transactions such as: paying labor wages, taxes, dividends, and procurement of supplies.
2. Precautionary motive
Uncertainty about future cash flows and the company's ability to borrow to increase the need for funds.
3. Speculative motives
The need for cash to earn profits due to changes in the price of securities. If the interest rate falls, cash can be invested in securities, the company will profit by decreasing interest rates and increasing the price of securities.

There are three kinds of formulas used to calculate cash holding.

1. The formula for calculating the cash holding carried out by (Lin et al., 2021).
Cash Holding = $\frac{\text{cash} + \text{cash equivalents}}{\text{total assets}}$ 1
2. The formula for calculating the cash holding carried out by (Maxentia et al., 2022)
Cash Holding = $\frac{\text{cash} + \text{cash equivalents}}{\text{total assets}} \times 100\%$ 2
3. The formula for calculating the cash holding carried out by (Hengsaputri & Bangun, 2020)
Cash Holding = $\frac{\text{cash} + \text{cash equivalents}}{\text{total assets} - \text{cash and cash equivalents}}$ 3

but in this study to calculate the amount of cash holding a company refers to the formula used by (Lin et al., 2021).

Growth Opportunity

Growth opportunity is a ratio to measure how big the company's ability to maintain its position in operations and in global economic development (Alicia et al., 2020). Growth opportunity is highly expected by a company because it can provide benefits for many internal and external parties of the company. Growth opportunity can be seen from the increase in total assets owned by the company. The greater the expected assets, the greater the resulting operational results. An increase in assets followed by an increase in operating results will further increase the confidence of outsiders in the company. If the trust from outsiders increases, the

GROWTH OPPORTUNITY, NET WORKING CAPITAL AND INVESTMENT OPPORTUNITY SET TO CASH HOLDING: WHOSALE TRADING COMPANY]

company's efforts to increase debt become easier, resulting in a larger proportion of debt than its own capital.

The formula used to calculate growth opportunity in this study is based on measurements made by (Abbas et al., 2020):

$$GO = \frac{\text{Total Assets Year } i - \text{Total Assets Year } i - 1}{\text{Total Assets Year } i} \dots\dots\dots 4$$

Net Working Capital

Net working capital is part of current assets that can be used to finance the company's operational costs without disturbing the company's liquidity. Therefore, working capital must be used ideally in order to meet the need for working capital in the sense that it can meet the company's operational needs (Sari & Hastuti, 2020).

Another name for net working capital is net working capital or often referred to as working capital. Working capital is the excess of current assets over short-term debt. The components of current assets include cash and cash equivalents, receivables, inventories, and other current assets. Net working capital is essentially a substitute for cash. As a result, companies with large net working capital tend to hold little cash.

In this study, the formula used to calculate net working capital is based on measurements made by (Darmawan & Nugroho, 2021):

$$NWC = \frac{\text{Current Assets} - \text{Current Liability}}{\text{Total Assets}} \dots\dots\dots 5$$

Investment Opportunity Set

Investment opportunity set is an investment decision that combines the assets owned and the choice to make investments in the future. A high level of investment opportunity set will create demand for a high supply of cash, but companies that have a large investment opportunity set will have higher costs if the company goes bankrupt (Monica & Suhendah, 2020). The greater the investment opportunity of a company, the smaller the level of dividend payments. Because increasing the company's growth will require relatively large funds.

According to Kallapur and Trombley in (Hartono, 2017) investment opportunity sets are divided into several types, that is:

1. Price based proxy

This price-based IOS proxy is a profitable proxy for the company and the best for the company's performance because it describes the company's past performance and prospects in the future. The price proxy is based on differences in assets and the company's market value, therefore the price-based proxy on IOS is highly dependent on stock prices. IOS based on the price will be in the form of a ratio as a measure of the assets owned and on the value of the company. Which are price-based IOS proxies include:

- a. Market to book value of equity
- b. Market to book value of asset

GROWTH OPPORTUNITY, NET WORKING CAPITAL AND INVESTMENT OPPORTUNITY SET TO CASH HOLDING: WHOSALE TRADING COMPANY]

- c. Tobin's q
- d. Earning to price
- e. Return on equity

2. Investment based proxy

Investment-based IOS proxies are proxies that believe in the idea that a high level of investment activity is positively related to the IOS value of a company. Companies with high IOS will also have the same high level of investment. Which is an investment-based IOS, that is:

- a. Rasio capital expenditure to book value of asset
- b. Rasio capital expenditure to market value of asset
- c. Investment to net sales ratio

3. Variant-based IOS proxy

This variance-based IOS proxy is based on the idea that options will be more valuable as the variability of returns is based on asset enhancement. Which is a variant based IOS proxy, that is:

- a. Variance of total return
- b. Market model Beta

In research (Gunawan & Oktaviani, 2021) the investment opportunity set is measured by sales growth, which is the ratio used to measure how much the company's ability to maintain its position in the industry and economy is.

$$\text{Sales Growth} = \frac{\text{Net sales } t - \text{net sales } t-1}{\text{Net sales } t-1} \dots\dots\dots 6$$

In this study, to measure the value of the investment opportunity set, it refers to the formula used by (Gunawan & Oktaviani, 2021).

The Effect of Growth Opportunities on Cash Holding

Companies with high growth opportunities use liquid assets such as cash as insurance policies to reduce the possibility of financial distress and to take good investment opportunities first when external financing is expensive. Companies with high growth opportunities will save large amounts of cash to finance company investments. Research conducted by (Aspasia & Arfianto, 2021) shows that growth opportunity has an influence on cash holding. Likewise with research (Tanjung et al., 2021) which shows that cash holding has an influence on cash holding.

H1 : Growth opportunity affects cash holding

Effect of Net Working Capital on Cash Holding

The company's working capital must be at a minimum because companies with high net working capital will not store large amounts of cash. Companies with sufficient current assets should not use the capital market if they need cash and companies with high net working capital will have low cash holdings. The results of the study (Setyaningrum & Setiawati, 2021)

GROWTH OPPORTUNITY, NET WORKING CAPITAL AND INVESTMENT OPPORTUNITY SET TO CASH HOLDING: WHOSALE TRADING COMPANY]

show that net working capital has a positive effect on cash holding. The results of the study (Juardi et al., 2021) also show that net working capital has an effect on cash holding.

H2 : Net working capital affects cash holding

Effect of Investment Opportunity Set on Cash Holding

Companies with a high level of investment opportunity set will store high amounts of cash because if the company does not have large amounts of cash, the company will lose profitable investment opportunities. The results of the study (Gunawan & Oktaviani, 2021) show that the investment opportunity set has an effect on cash holding and the results of the study (Abbas et al., 2020) also show that the investment opportunity set has an effect on cash holding.

H3 : Investment opportunity set has an effect on cash holding

Method

This study uses quantitative research methods with secondary data sources in the form of financial statements of wholesale (wholesale) trading companies for 2 years for the 2020-2021 period on the Indonesia Stock Exchange (IDX). The population in this study was 48 companies. The sampling technique used purposive sampling technique. The sample criteria used in this study are as follows:

Purposive Sampling Criteria	Number of Companies
Wholesale trading company listed on the Indonesia Stock Exchange (IDX) during 2020-2021.	48
Companies that do not publish annual financial reports consistently during 2019-2021.	(4)
Companies that publish annual financial reports consistently during 2019-2021.	44
Do not have complete financial data to measure research variables.	(4)
Have complete financial data to measure research variables	40
Do not use rupiah currency	(4)
Using rupiah currency	36
Total sample (n x research period) (36 x 2 years)	72

From the population contained with predetermined criteria, 36 samples were obtained so that the number of sample data was 72.

The research data analysis technique uses the T test to test the hypothesis and multiple regression analysis with the formula:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 e \dots\dots\dots 7$$

Result and Discussion

Hypothesis testing shows that the growth opportunity variable has an effect on cash holding because the value of t count is 4.393 > t table 1.994 with a significance level of 0.000 <0.05. The results of the t-test further indicate that the net working capital variable has an effect on

GROWTH OPPORTUNITY, NET WORKING CAPITAL AND INVESTMENT OPPORTUNITY SET TO CASH HOLDING: WHOSALE TRADING COMPANY]

cash holding with a t-count value of 4.393 > t-table 1.994 with a significance value of 0.000. The next variable is the investment opportunity set, the t value is 1.112 < t table 1.994 and the significance value is 0.270 > 0.05, which means that the investment opportunity set variable has no effect on cash holding.

This study shows that growth opportunity has a significant positive effect on cash holding. This shows that companies with higher growth opportunities will increase their cash holdings because the higher the growth opportunities, the higher the opportunities to get bigger profits, thus encouraging companies to hold larger amounts of cash and companies will prefer to use internal funds rather than externally to meet investment needs. The results of this study are in line with research conducted by (Alicia et al., 2020) and (Sari & Hastuti, 2020) which showed a positive influence between growth opportunity and cash holding.

Based on the analysis results show that net working capital has a significant positive effect on cash holding. This shows that the company must as much as possible manage its current assets productively because the excess of current assets over current liabilities shows the amount of net working capital that can be used by the company as cash for precautionary motives or transactions. The results of this study support previous research conducted by (Marfuah & Zuhilmi, 2015) which states that net working capital has a positive effect on cash holding. The results of this study are in accordance with research conducted by (Setyaningrum & Setiawati, 2021) and (Abbas et al., 2020) which show that net working capital has an effect on cash holding.

Based on the test results show that the investment opportunity set has no effect on cash holding. This shows that the company's assets are greater than the company's liabilities. When the investment opportunity set is high, companies tend to hold large amounts of cash as a precautionary measure to avoid company bankruptcy, and companies with low investment opportunity sets tend to hold large amounts of cash to invest in investment projects. This is supported by research conducted by (Monica & Suhendah, 2020) and (Maghfiroh et al., 2022) which show that the investment opportunity set has no effect on cash holding.

The results of the multiple regression equation in this study are:

Cash holding = 0,110 + 0,034 GO + 0,0107 NWC + 0,010 IOS + e.....8

From the results of the multiple regression equation, there is a constant value that has a positive value of 0.110. This shows that if all the independent variables, this is growth opportunity, net working capital and investment opportunity set, are 0 percent or unchanged, the cash holding value is 0.110. The growth opportunity variable has a positive value of 0.034 which indicates a positive influence between the growth opportunity and cash holding variables. This means that if the growth opportunity variable increases by 1%, the cash holding will increase by 0.034 with other variables considered constant. The net working capital variable obtained a positive value of 0.0107. This shows that if the net working capital increases by 1%, the cash holding will increase by 0.0107. The value of the investment

GROWTH OPPORTUNITY, NET WORKING CAPITAL AND INVESTMENT OPPORTUNITY SET TO CASH HOLDING: WHOSALE TRADING COMPANY]

opportunity set variable has a positive value of 0.010, which means that if the investment opportunity set variable increases by 1%, the cash holding will increase by 0.010. Besides, the results of the data processing show that the Adjusted R² result is 0.234 or 23.4%. This means that the ability of the independent variable (cash holding) is explained by 23.4% by the variables of growth opportunity, net working capital, and investment opportunity set, while the rest is influenced by other variables not included in this model.

Conclusion

Based on the analysis and discussion in this study, it can be concluded that the growth opportunity variable has a positive and significant effect on cash holding. Companies that have a good growth rate will increase their cash holdings because cash funds can increase inventory or as a precaution in the future. The net working capital variable has a positive and significant effect on cash holding. When cash holding increases, net working capital will also increase because cash is part of net working capital, so it is necessary to maintain the continuity of the company's operational activities without waiting for sales receipts. The investment opportunity set variable has no significant effect on cash holding.

For further research, it is recommended to add the number of variables, expand the object of research and extend the number of periods to expand the research so that the condition of the company's cash holding can be described clearly in the long term.

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GROWTH OPPORTUNITY, NET WORKING CAPITAL AND INVESTMENT OPPORTUNITY SET TO CASH HOLDING: WHOSALE TRADING COMPANY]

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