

Firm Level Determinants of Cash Holding: Empirical Evidence from Indonesia

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Abstract

South Asian countries, mainly Indonesia, Malaysia, Thailand, and Philippines were able to withstand the global financial crisis 2007-08 well, since they were better prepared for this shock after their experience with Asian currency crisis. Post Asian crisis, these countries have focused on strengthening their external balances and enhancing banking regulations. At the firm level, they have built up cash holdings by decreasing investments. Present paper investigates the firm level determinants of cash holdings by Indonesian firms using cross section data. Sample has been constructed from Thomson Reuters Eikon database considering 483 Indonesian companies listed on Indonesia stock exchange for the most recent year ending March 2018. Sample includes several non-financial manufacturing, and service sector companies. Using multiple regression analysis, study finds strong evidence that firms with robust cash flows hold more cash. It also establishes that Indonesian firms holding greater noncash liquid assets have moderate cash holdings. Study confirms that firms necessitating to deploy higher capital expenditures tend to hold lesser cash. Also, firms facing challenges to raise external capital due to higher cost of capital tend to accumulate more cash to use it as internal equity. Contrary to the findings of the similar studies conducted in the context of developed markets, sample of Indonesian firms does not provide strong evidence that firms with better growth opportunities hold more cash. Also, leverage and firm size impacts cash holding negatively in the absence of time varying endogeneity of cash holding, but these variables turn statistically insignificant on adding lag variable of cash holding. Study confirms that cash holding for Indonesian firm is highly correlated over time.

Key Words: Cash Holdings, Indonesia, Leverage, Net Working Capital.

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