International Journal of Application on Economics and Business (IJAEB)
Volume 3, Issue 3, 2025. ISSN: 2987-1972

PROFITCAPABILITY, NET WORKING CAPITAL, FIRM SIZE, AND LIQUIDITY FACTORS IN AFFECTING CASH HOLDING

Rini Tri Hastuti[1*], Ardiansyah[2], Ellen Valeria[3], Michelle Chang[4]

[1] Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia
Email: rinih@fe.untar.ac.id
[2] Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia
Email: ardiansyah@fe.untar.ac.id
[3] Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia
Email: ellen.125220214@stu.untar.ac.id
[4] Faculty of Economics and Business, Universitas Tarumanagara, Jakarta, Indonesia
Email: michelle.125220207@stu.untar.ac.id

*Corresponding Author

Submitted: 09-06-2025, Revised: 21-06-2025, Accepted: 18-07-2025

ABSTRACT:
Cash holding means cash in the corporate and/or there to be invested in physical assets and to be distributed to investors. Cash holding also plays a role in financing the corporate's opepercentagenal activities and to be on guard against urgent financing. The corporate must decide the right amount of cash held by the corporate. The amount of cash held by the corporate must not be excessive and must not be lacking either. If the cash held (cash holding) by the corporate is excessive, it will cause losses for the corporate because the cash held will not provide benefits to the corporate so that it can be called idle cash, conversely if the cash held (cash holding) is too little, it will reduce the corporate's capability to fulfill the corporate's short-term obligations when they fall due and in paying other urgent financing. There are several factors that influence cash holding, including profitcapability, net working capital, firm size, and liquidity. Many studyers have conducted tests in study using these factors. The outcomes of these studies vary. There is gap study from each of these studies, therefore this study was conducted to re-test the four instruments by considering the gap study from previous studies. This study aims to re-examine whether profitcapability, net working capital, firm size, and liquidity affect cash holding in producing companies in the 2020-2022 period. The sample was selected using the purposive sampling method and data that met the criteria. The data processing technique used multiple regression analysis assisted by the Eviews 12 program. The outcomes of this study indicate that profitcapability, net working capital, firm size have a meaningful influence on cash holding while liquidity does not have a meaningful influence on cash holding.

***Keywords*:** *Cash Holding, Profitcapability, Net Working Capital, Firm Size, Liquidity*

1. INTRODUCTION

Companies that have stable performance will affect the funds in the corporate, so it can be said that stable companies have a relatively good level of fund management. Basically, companies have financial managers who have the authority to prepare plans for allocating funds in a corporate. At this time, technological developments are very fast, everyone can access all the information they need very easily, so financial managers must have innovative plans to be able to manage fund allocations to survive and compete with other companies. The funds in a corporate must be managed influenceively and efficiently so that they can obtain max profit. With a good financial management system, this will have a good impact on the corporate, reducing the level of doubt from investors to invest their capital in a corporate and making it easier for companies to get cash injections from outside the corporate. It should also be remembered that the funds in a corporate are also used to finance the corporate's opepercentagenal activities, therefore the corporate must calculate and consider the funds held in cash. The purpose of funds held in the form of cash is to finance the opepercentagenal

activities of the corporate and to be on guard against urgent financing. The corporate must decide the right amount of cash held by the corporate. The amount of cash held by the corporate must not be excessive and must not be lacking either. If the cash held by the corporate is excessive, it will cause losses to the corporate because the cash held will not provide benefits to the corporate so it can be called idle cash, conversely if the cash held is too little, it will reduce the corporate's capability to fulfill the corporate's short-term obligations when they fall due and in paying other urgent financing.

Pecking Order Theory

Pecking Order Theory study emphasizes more on the discription of business practices but does not get much theoretical support and lacks empirical evidence. Pecking Order Theory provides an discription that there are three sources of financing, better known as the financing hierarchy. The purpose of the financing hierarchy is to minimize external financing due to the high cost of issuing new equity for the corporate.

Trade Off Theory

(Miller and Oor, 1966) Trade Off Theory provides an discription that optimal cash holdings can be decided by comparing the marginal level of benefit with the marginal level of benefit of the cash held. This Trade Off Theory can be useful for companies to calculate the risks and returns obtained from holding cash.

Cash Holding

Cash holding is one of the many ways a corporate manages cash. Cash is a corporate asset that can be easily converted into cash and can be used as a corporate's opepercentagenal costs. Gill and Shah (2012), "state that cash holding is cash provided to make investments in the form of fixed assets and distributed to investors". According to Ogundipe and Ajao (2012), "cash holding is cash owned by a corporate that can be quickly converted into cash".

Profitcapability

Profitcapability or what is widely known as corporate profit is the capability of a corporate to generate profits at a certain time level. The higher the level of profitcapability generated by the corporate, the better the capability of a corporate to generate profits. According to Erdian Saputri & Anon Kuswardono (2019), "profitcapability or corporate profit is a parameter that aims to show the corporate's capability to generate profits".

Net Working Capital

Net working capital is a net working capital which is a part of current assets that can be used as opepercentagenal expenses of products without disrupting short-term debt payments of a corporate. According to Djarwanto (2011) net working capital is an event where current assets are greater than short-term debt. Net working capital is an investment of short-term assets in the form of receivables, cash, inventory, securities, and other short-term assets.

Firm Size

Firm size or corporate size is a scale used to decide the size of a corporate such as revenue size, total capital, total assets, and sales volume. The bigger revenue, total capital, total assets, and sales volume, the better the condition of a corporate. Small companies tend to hold relatively higher amounts of cash, this is because small companies have more difficulty in accessing the capital market. This is in contrast to large companies not holding high amounts of cash to avoid investment shortages, therefore large companies have a lower cash holding rate compared to small companies. According to Riyanto (2010), corporate size or

firm size is a picture of the size of a corporate from the total assets owned by the corporate, the number of products sold, and average sales.

Liquidity

Liquidity is the capability of a corporate to pay off its obligations and pay long-term debts such as accounts payable, tax debts, etc. According to Van Horne and Wachowichz (2012), "liquidity is a percentage that has a function to measure the corporate's capability to meet short-term obligations. In more detail, liquidity is the availcapability of funds in the corporate that are useful for meeting all debts that will mature in the relevant year. Liquidity can decide whether a corporate's performance is good or not. If a corporate's liquidity has a high level, it can be concluded that the corporate has good performance, this applies vice versa if a corporate's liquidity has a low level, the corporate has poor performance.

The Influence of Profitcapability on Cash Holding

Profitcapability is a percentage that aims to assess a corporate's capability to make a profit. The amount of profit generated will affect a corporate's capability to provide cash holding. The greater the profit earned by the corporate, the better the corporate's capability to provide cash holding, conversely, the smaller the profit earned by the corporate, the worse the corporate's capability to provide cash holding. According to Yeboah and Agyei (2012) in Silaen and Prasetiono (2017), the greater the profit generated, the greater the cash holding level of the corporate. The amount of cash retained by the corporate can be a picture of the profit obtained by a corporate in a certain period.

The Influence of Net Working Capital on Cash Holding

According to Ogundipe et al (2012) net working capital is used as a proxy for current asset investment that can be used to replace cash, for example receivables. Bates et al (2009) stated that net working capital can be used as a substitute for cash in a corporate because net working capital has the ease of changing its form into cash when the corporate needs it. The corporate will have a high amount of cash if the cash flow owned by the corporate is also high. Companies that have high cash flow will tend to hold the cash they have. This is done with the aim that the cash that has been collected can be useful in the future as investment needs or can be used to finance unexpected costs.

The Influence of Firm Size on Cash Holding

Firm Size or corporate size is a picture of how small or large a corporate is that can be seen from the number of assets and the amount of sales. Corporate size or firm size is a factor that has a negative influence on the corporate if the corporate holds a large amount of cash. This is because the amount of cash held must be lower due to the economy of scale. According to the trade-off theory, there must be an inverse relationship between cash ownership and firm size. This is because rather than hoarding, large companies tend to invest the funds in different investments so that the corporate can increase its level in the future. The benefits obtained will be much greater than hoarding funds that do not provide benefits.

The Influence of Liquidity on Cash Holding

Liquidity is the capability of a corporate to pay off its obligations. Basher (2014) states that when a corporate's liquidity increases, the liquid assets that can be used to replace the corporate's cash will also increase, so the corporate will reduce cash holdings by replacing them with liquid assets. The corporate's financial managers prefer not to hold cash, because holding cash does not provide benefits to a corporate. The cash in the corporate will be more

profitable if it is projected for investment activities that can have a good impact on the corporate.

Profitcapability is the profit obtained by a corporate in a certain period of time. The greater the profit obtained by the corporate, the better the corporate's capability to provide cash holding. The amount of cash held by the corporate, in addition to being used for the corporate's opepercentagenal needs and emergency funds, can also be used to describe the profit obtained at a certain time. H1: Profitcapability has a positive and meaningful influence on cash holding. Net working capital is an asset that can be used as a replacement asset for cash holding. This is because of the ease of changing the form of net working capital into cash and can be used immediately when the corporate needs funding. Net working capital can be said to be an investment in short-term assets in the form of receivables, securities, other short-term assets. H2: Net working capital has a positive and meaningful influence on cash holding. Firm size has an inverse correlation with cash holding. Large companies tend to invest rather than hoard large amounts of cash. This is inseparable from the many benefits obtained by the corporate when investing, especially in growth opportunities, compared to holding cash. Large companies are considered to be easier to enter the capital market and raise funds from external parties. H3: Firm size has a positive and meaningful influence on cash holding. Liquidity is a measure that shows a corporate's capability to pay off short-term debts and debts that will mature. If a corporate's liquidity is greater, then the more liquid assets can be used as a substitute for cash, so the corporate will hold less cash because it has been replaced by liquid assets. H4: Liquidity has a positive and meaningful influence on cash holding.

The framework of thinking in this study is as described below:

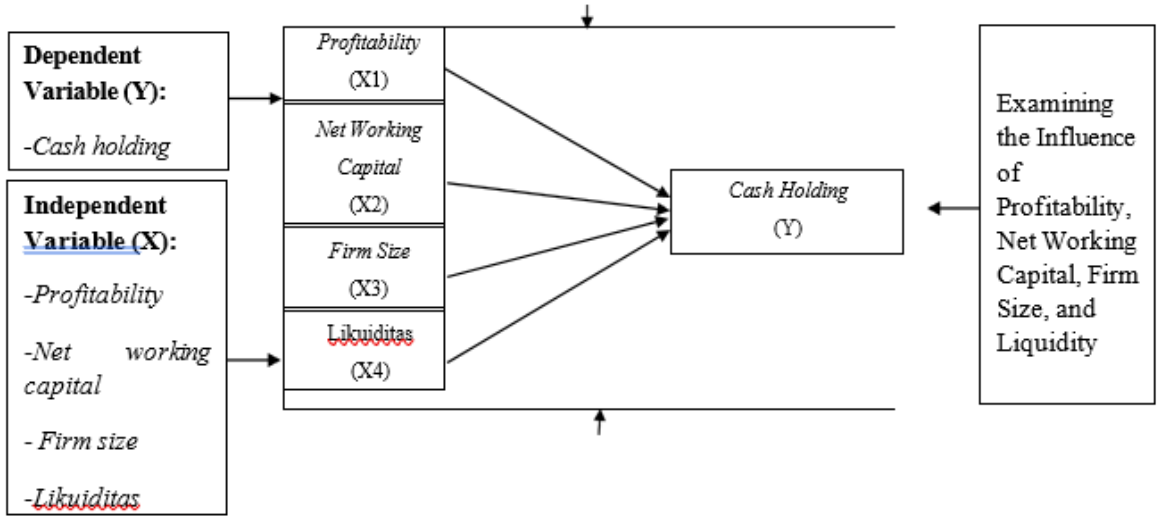

Figure 1. Framework

2. RESEARCH METHODS

In this study, the studyer used a purposive sampling method where sampling was carried out with specific criteria so that the samples obtained could be in accordance with the study objectives that could solve study problems and also provide more representative levels. The criteria used by the studyer in this study are as follows: 1. The selected corporate data are producing companies listed on the Indonesia Stock Exchange in the 2020-2022 period. 2. Producing companies use the rupiah currency in their annual financial reports during the

2020-2022 period. 3. Producing companies that present financial reports consecutively in 2020-2022. 4. Producing companies that did not IPO (Initial Public Offering) during 2020-2022. 5. Producing companies did not experience losses in the 2020-2022 period. 6. Producing companies present financial reports ending on December 31 in the 2020-2022 period.

The following are the opepercentagenal and measurement instruments in this study:

Table 1. Opepercentagenal and measurement instruments

Instrument	Size	Scale
Independent Instrument		
Profitcapability (ROA)	ROA = $\frac{Net\ Income}{Total\ Asset}$	Nominal
Networking Capital (NWC)	$NWC = (Current\ Assets - Current\ Liabilities)$	Percentage
Firm size	$Firm\ Size$ = Natural logarithm dari Total Asset	Percentage
Liquidity (CR)	$CR = \frac{Current\ Asset}{Current\ Liability}$	Percentage
Dependent Instrument		
Cash holding (CHD)	$CHD = \frac{Cash + Cash\ Equvalent}{Net\ Asset}$	Percentage

3. RESULTS AND DISCUSSIONS

Descriptive statistical tests provide an overview of the instruments used in the study. The descriptive statistical analysis used in this study is the average level (mean), max level, min level, and standard deviation. The outcomes of the descriptive statistical test are presented in table 2.

Table 2. Statistic Descriptive Test

	CHD	ROA	NWC	*Firm Size*	CR
Mean	0.151366	0.062532	0.258091	23.12865	3.967606
Maximum	1.014611	0.348851	2.652630	30.73454	206.8642
Minimum	9.91E-05	-0.132672	-0.712047	12.73140	0.454039
Std. Dev.	0.151186	0.064779	0.298697	5.499651	14.22755

The likelihood test is used to decide whether the data is better processed using the common influence or fixed influence model. The outcomes of the likelihood test are presented in table 3.

Table 3. Likelihood Test

Cross-section F	5.254851	(73,144)	0.0000
Cross-section Chi-square	288.274309	73	0.0000

Based on the outcomes of data processing using the likelihood test, it can be said that this study is better to use the fixed influence model than the common influence model because the cross-section probcapability F <0.05 where the cross-section probcapability outcome F obtained is 0.0000.

The Hausman test was conducted to decide whether the study is better using a fixed influence model or a random influence model. The outcomes of the Hausman test are presented in table 4.

Table 4. Hausman Test

Cross-section random	16.964002	4	0.0020

The probcapability level in the random cross section shows a figure of 0.0020 which has a lower level than the significance of 0.05. The conclusion of the outcomes obtained from the Hausman test is that H1 is accepted and the best model used by studyers is the fixed influence model.

The F test or ANOVA test is conducted to decide whether the independent instruments in this study, namely profitcapability, net working capital, firm size, and liquidity, affect the dependent instrument, namely cash holding, together. The outcomes of the F test are presented in table 5.

Table 5. F test

F-statistic	10.87705
Prob(F-statistic)	0.000000

Based on the outcomes obtained, it can be seen that the probcapability level of the F-statistic is 0.000000. This level is less than the significance level of 0.05, which means that the independent instruments of this study affect the dependent instrument together.

The t-test was conducted to decide whether the independent instruments in this study have a meaningful influence on the dependent instrument partially. The outcomes of the t-test are presented in table 6.

Table 6. t Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.347538	1.037458	4.190570	0.0000
X1	0.392068	0.190704	2.055897	0.0416
X2	0.130141	0.056227	2.314565	0.0221
X3	-0.184017	0.044489	-4.136266	0.0001
X4	0.000452	0.000447	1.012590	0.3130

The outcomes of the t-test above can show the influence of independent instruments on the dependent instrument.

The co-efficient level of the profitcapability instrument is 0.392068 indicating a positive number, while the probcapability level of the profitcapability instrument is 0.0416 below 0.05. The conclusion that can be drawn is that profitcapability has a meaningful influence and has a positive direction towards cash holding. The co-efficient level of the net working capital instrument is 0.130141 indicating a positive number, while the probcapability level of the net working capital instrument is 0.0221 below 0.05. The conclusion that can be drawn is that net working capital has a meaningful influence and has a positive direction towards cash holding. The co-efficient level of the firm size instrument is -0.184017 indicating a negative number, while the probcapability level of the firm size instrument is 0.0001 below 0.05. The conclusion that can be drawn is that firm size has a meaningful influence and has a negative

direction towards cash holding. The co-efficient level of the liquidity instrument is 0.000452, indicating a negative number, while the probcapability level of the liquidity instrument is 0.3130, which is below 0.05. The conclusion that can be drawn is that liquidity has a meaningful influence and has a positive direction on cash holding.

The outcomes of the hypothesis testing in the first study, profitcapability has a meaningful influence and has a positive direction on cash holding, accepted. This is directly proportional to the study conducted where profitcapability obtained the outcomes of the regression coefficient level on profitcapability at the level of 0.392068 and the significance level of 0.0416. A meaningful level of 5% or 0.05 proves that profitcapability has a meaningful influence and has a positive direction on cash holding. These outcomes explain that the more profit the corporate obtains, the more cash the corporate will hold. The higher the cash held by the corporate indicates that the corporate has a relatively good profitcapability percentage because it can meet the corporate's opepercentagenal costs and other unexpected costs, and minimize the risk of default on debt. This study obtained the same conclusion as the study conducted by Erdian Saputri and Anon Kuswardono (2019) which stated that profitcapability has a positive and meaningful influence on cash holding.

The outcomes of the hypothesis testing in the second study net working capital has a meaningful influence and has a positive direction on cash holding, accepted. This is directly proportional to the study conducted where net working capital obtained the outcomes of the regression coefficient level on net working capital at the level of 0.130141 and the significance level of 0.0221. A meaningful level of 5% or 0.05 proves that net working capital has a meaningful influence and has a positive direction on cash holding. These outcomes explain that net working capital can be used as a substitute for cash and cash and the ease of converting net working capital into cash when the corporate needs it. The corporate will have a high amount of cash if the cash flow owned by the corporate is also high. Companies that have high cash flow will be more inclined to hold the cash they have. This is done with the aim that the cash that has been collected can be useful in the future as investment needs or can be used to finance unexpected costs.

The outcomes obtained from this study are the same as the outcomes of the study conducted by Dirvi Surya Abbas, Ary Eksandy, and Mulyadi (2020) which stated that net working capital has a meaningful positive influence on cash holding. The outcomes of the hypothesis test in the third study, firm size has a meaningful influence and has a positive direction on cash holding, rejected. This is in contrast to the study conducted where firm size obtained the outcomes of the regression coefficient level on firm size at the level of -0.184017 and the significance level was 0.0001. A meaningful level of 5% or 0.05 proves that firm size has a meaningful influence and has a negative direction on cash holding. These outcomes explain that every corporate activity in generating profits definitely requires funds, so that in order to meet all costs for these activities, the corporate will still decide high cash holding to avoid the corporate's cash deficit.

The outcomes of this study are supported by Putri (2021) who stated that firm size has no influence on cash holding. The outcomes of the hypothesis test in the fourth study, liquidity has a meaningful influence and has a positive direction on cash holding, accepted. This is directly proportional to the study conducted where liquidity obtained the outcomes of the regression coefficient level on liquidity at the level of 0.000452 and the significance level of 0.3130. A meaningful level of 5% or 0.05 proves that liquidity has a meaningful influence and has a positive direction on cash holding. This explains that the corporate can meet

opepercentagenal needs only with liquid assets, because these assets are easily converted into cash held by the corporate with the aim of paying for all kinds of corporate needs. The outcomes of this study are inversely proportional to the study conducted by Zefayan Elnathan L (2020) which states that the liquidity instrument has a meaningful influence on cash holding.

4. CONCLUSIONS AND SUGGESTIONS

Based on the study conducted and the conclusions that have been made, this study has several limitations in its completion, namely: 1. The sample of companies used for the study is limited to producing sector companies listed on the Indonesia Stock Exchange (IDX). 2. The outcomes of the study conducted only use the period 2020-2022. due to the limited study time, namely 2020-2022. 3. The study uses data from 74 companies. Because in sampling there are samples that do not match the established criteria. 4. The instruments used in this study only use 4 independent instruments, namely profitcapability, net working capital, firm size, and liquidity. The outcomes of this study are expected to be a picture and can help for further study. In overcoming the limitations of this study, there are several suggestions, namely: Further study can add other corporate sectors besides producing companies so that study is not limited to producing companies to produce more accurate outcomes. The period used in further study can be extended for more than three years to produce more accurate study in determining cash holdings and influencing factors. Further study can use other independent instruments or add other independent instruments that affect cash holding to obtain diverse information.

REFERENCES

Basher Rubel, M. R., & Kee, D. M. H. (2014). Quality Of Work Life And Employee Performance: Antecedent And Outcome Of Job Satisfaction In Partial Least Square (PLS). World Applied Sciences Journal, 31(4), 456–467.

Bates, Thomas W. et al. 2009. Why Do U.S. Firms Hold So Much More Cash Than They Used To. The Journal Of Finance. Vol. LXIV, No. 5.
https://doi.org/10.1111/j.1540-6261.2009.01492.x

Djarwanto. 2011. Pokok-Pokok Analisis Laporan Keuangan. Edisi Kedua. BPFE. Yogyakarta

Dirvi Surya Abbas, dkk. (2020). Pengaruh Growth Opportunity, Net Working Capital, Cash Conversion Cycle, Investment Opportunity Set Dan Leverage Terhadap Cash Holding (KorporasiMakanan dan Minuman Yang Terdaftar Di Bursa Efek Indonesia Tahun 2014-2018) Vol. 6, No.1, 1858-2702.

Elnathan L., Zefanya & Susanto, L. (2020). Pengaruh leverage, firm size, likuiditas, dan profitabilitas terhadap cash holding. Jurnal Paradigma Akuntansi, 2(1), 40-49.

Erdian Saputri & Anon Kuswardono. (2019). Pengaruh Profitabilitas, Leverage, Firm Size, Dan Growth Opportunity Terhadap Cash Holding Korporasi(Studi Kasus KorporasiManufaktur yang Terdaftar Pada Bursa Efek Indonesia Periode Tahun 2013-2017) Vol. 2, No 2, 91-104.

Gill, A., & Shah, C. (2012). Determinants Of Corporate Cash Holdings: Evidence From Canada. International Journal Of Economics And Finance, 4(1), 70 -79.
DOI:10.5539/ijef.v4n1p70

Ogundipe, S. E., et al. (2012). The determinants of corporate cash holdings in nigeria: evidence from general method of moments (gmm). World Academy of Sciende, Engineering and Technology, 61, 978-984.

Ogundipe, Lawrencia Olatunde, Ogundipe, Sunday Emmanuel dan Ajao, Samuel Kahinde ,(2012). Cash Holdings and Firm Characteristics: Evidence from Nigeria Emerging Market. Journal of Business, Economics & Finance, vol.1 Issue.2.

Putri, R. A. A., & Suhendah, R. (2021). Pengaruh Firm Size, Leverage, Profitcapability, Dan Net Working Capital Terhadap Cash Holding. Jurnal Paradigma Akuntansi, 3(3), 1158-1166.

Riyanto B., (2010). Dasar-Dasar Pembelanjaan Perusahaan, Edisi Keempat. Yogyakarta: BPFE.

Silaen, R., & Prasetiono. (2017). Analisis Faktor-Faktor yang Mempengaruhi Tingkat Cash Holding pada Bank Umum yang Terdaftar di Bursa Efek Indonesia Tahun 2011-2015. Diponegoro Journal of Management, 6(3), 1 -11.

Van, Horne, James C. & John M. Wachowicz, John M. (2012) Fundamental of Financial Management: Prinsip-prinsip Manajemen Keuangan. Jakarta: Salemba Empat.