Journal of Social Research

P-ISSN: 2827-9832
E-ISSN: 2828-335x
http://ijsr.internationaljournallabs.com/index.php/ijsr

# THE EFFECT OF CASH OWNERSHIP ON THE COMPANY'S PERFORMANCE IN THE FOOD AND BEVERAGE INDUSTRY LISTED ON THE INDONESIA STOCK EXCHANGE (IDX)

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## ABSTRACT

This study was conducted to determine the relationship between the company's cash ownership and company performance linearly. The sample used for this study is companies in the *food and beverage* sector listed on the Indonesia Stock Exchange (IDX) in the 2015-2019 period. There are 20 companies that are sampled in this study purposively. To determine the company's performance, a ratio of ROA and ROE is used for comparison. In this study using regression methods and individual tests (t-tests). The results of this study show that cash ownership does not have a significant relationship with company performance. For future research, it is recommended to add variables that can support ROA and ROE that are not contained in this study and use a larger sample of data.

***Keywords:*** *Cash Holdings, Corporate Performance, ROA, ROE*



## INTRODUCTION

Cash is a company asset that must be managed properly by the company (Astuti et al., 2022). Companies need cash for various needs such as: daily needs, pension payments, salaries, tax payments, dividends, and many others. Maintaining excessive cash reserves has both good and bad impacts (Uyar & Kuzey, 2014). Companies need cash reserves to prevent economic hardship and just in case (Kurniawan & Tanusdjaja, 2020). Companies that have high cash holdings can perform well, generate more profits and attract many investors (Kaltsum & Sebrina, 2019a).

Cash ownership can be measured by dividing cash or cash equivalents by total assets (Yun et al., 2021). There are 3 theories that explain cash ownership, namely trade-off theory, pecking order theory and free cash flow theory. Trade-off theory explains that cash is at its maximum when marginal costs equal marginal gains (Jinkar, 2013). Pecking order states that the company's cash is used as investment needs and free cash flow explains that managers use cash for project investments that are profitable for their own interests and not investors (Liputri & Susanto, 2020). Poor company performance will later prevent the company from using existing funds efficiently (Kaltsum & Sebrina, 2019b).

In previous research Alnori F (2020), Palazzo (2012), Fresard (2010) found that there is a positive relationship between cash ownership and company performance. However, research conducted by Wang (2002) and Raheman and Nasr (2007) found that the relationship between the two was negative. Previous studies have shown that not all companies deliver the same results.

Previous research focused on general company data contained on the Stock Exchange of each country. In this study, researchers are interested in taking one part of the industry to get

more narrowed results in one industry sector. The industry taken is the food and beverage (F&B) sector listed on the IDX.

Hartanto, A (2017) said that the food and beverage industry will be one of the mainstay sectors that will support manufacturing and economic growth in the future. With this, the government will continue to strive to maintain the availability of raw materials needed by F&B in order to compete globally.

With the entry of the industrial era 4.0, the F&B industry has increased in productivity by 10% - 15%. With increasingly advanced technology, it can reduce production costs so that the money can be allocated to other places. In Indonesia in the first quarter of 2020, the F&B sector provided a 36.4% gain in manufacturing GDP. Which resulted in the growth of this industrial sector by 3.9%. In addition, during the first semester of 2020, F&B has provided the largest foreign exchange reaching US $ 13.73 billion (Bella, Annisa, 2020).

## METHOD

### Sampling Method

The data used in this study are secondary data. Secondary data is data obtained through second hand. The data obtained is usually data derived from previous journals, books, or data available from an agency. The source of data in this study was obtained through the Indonesia Stock Exchange () website, namely on the BEI domain. Data in this company is all industrial companies in the Food and Beverage (F&B) sector contained in the IDX. Data used from 2017-2019. There are 27 companies in total.

The sample determination used is by the purposive sample method, namely sample selection with sampling techniques with certain considerations (Sugiyono, 2018). In this study, samples were taken on F&B on the IDX by eliminating companies that do not have complete data.

**Table 1**. Sampling Criteria

| No | Information | Sum |
|---|---|---|
| 1 | FNB companies listed on IDX | 27 |
| 2 | FNB companies whose data is incomplete | (7) |
| 3 | Companies that can be sampled | 20 |

### Identify Variable Measurements

In this study for dependent variables, namely the performance of the company will be assessed from Return on Assets (ROA) and Return on Equity (ROE), this is in accordance with previous research (Ajili and Bouri, 2018; Ho and Mohd-Raff, 2019).

While the independent variable, namely cash holding, is calculated through cash owned by the company. While the control variable describes specific factors related to the performance of the company. Each measurement variable is as follows:

**Table 2.** Variable Operational Definition

| No | Variable Type | Variable Name | Symbol | Variable Operational Definition | Source |
|---|---|---|---|---|---|
| 1 | Dependent | Return on Assets | ROA | $\frac{\text{Net Income}}{\text{Total Assets}}$ | Al-Qudah. (2016) |
| | | Return on Equity | ROE | $\frac{\text{Net Income}}{\text{Total Equity}}$ | |
| 2 | Independent | Cash Ownership | Cash | $\frac{Cash\ and\ cash\ equival}{Total\ Assets}$ | Nguyen,Thanh, (2019) |
| | | Quadratic Money Ownership | $Cash^2$ | Square Result of Cash | |
| 3 | Control | Leverage | LEV | $\frac{\text{Debt (short + long)}}{\text{Total Assets}}$ | Alnori, Faisal. (2020) |
| | | Size | Size | Ln Total Assets | |
| | | Growth | Growth | $\%\frac{\text{Sales(t)}-\text{Sales (t}-1)}{\text{Sales(t}-1)}$ | |
| | | Tangibility | Pliers | $\frac{\text{Fixed Aset}}{\text{Total Aset}}$ | Nababan and Soesanto (2017) |
| | | Risk | Risk | $\frac{\text{EBIT}}{\text{Total Aset}}$ | |
| | | Dividend | DIV | $\frac{\text{Share profit per share}}{\text{Share price per share}}$ | Alnori, Faisal. (2020) |

**Research Model**

In this study the impact of cash ownership on company performance was analyzed using a linear regression model as follows:

$$ROA = \beta_0 + \beta_1 Cash + \beta_2 Lev + \beta_3 Size + \beta_4 Growth + \beta_5 Tang + \beta_6 Risk + \beta_7 DIV + \beta_8 Industry + \beta_9 time + \varepsilon_{it} \quad (1)$$

$$ROE = \beta_0 + \beta_1 Cash + \beta_2 Lev + \beta_3 Size + \beta_4 Growth + \beta_5 Tang + \beta_6 Risk + \beta_7 DIV + \beta_8 Industry + \beta_9 time + \varepsilon_{it} \quad (2)$$

Information:

ß: Coefficient of Independent Variable

ε: Represents the term error

## RESULTS AND DISCUSSION

### Data Analysis Test

**Table 3.** Descriptive Statistics

| | ROA | ROE | CASH | LEV | SIZE | GROWTH | PLIERS | RISK | DIV |
|---|---|---|---|---|---|---|---|---|---|
| Mean | 0.087278 | 0.110008 | 0.124363 | 0.394811 | 6.229550 | 0.448400 | 0.128200 | 4.915800 | 0.699900 |
| Median | 0.070000 | 0.110000 | 0.080000 | 0.420000 | 6.149050 | 0.485000 | 0.095000 | 0.080000 | 0.065000 |
| Maximum | 0.950000 | 1.190000 | 0.810000 | 0.950000 | 7.984700 | 1.000000 | 0.960000 | 240.8400 | 15.00000 |
| Minimum | -1.370000 | -2.230000 | -0.640000 | -0.150000 | 3.394734 | 0.040000 | -0.840000 | -0.370000 | -3.730000 |
| Std. Dev. | 0.270968 | 0.369346 | 0.179458 | 0.218821 | 0.773936 | 0.194654 | 0.277738 | 30.76932 | 2.249260 |
| Skewness | -1.133249 | -2.173542 | 0.779012 | 0.062365 | 0.009721 | -0.095310 | 0.139208 | 6.855186 | 4.459000 |
| Kurtosis | 12.07698 | 20.17057 | 8.203334 | 2.554122 | 4.252616 | 2.732476 | 6.256696 | 49.15311 | 26.41738 |
| Jarque-Bera | 364.7025 | 1307.190 | 122.9255 | 0.893187 | 6.539268 | 0.449604 | 44.51494 | 9658.683 | 2616.269 |
| Probability | 0.000000 | 0.000000 | 0.000000 | 0.639804 | 0.038020 | 0.798674 | 0.000000 | 0.000000 | 0.000000 |
| Sum | 8.727781 | 11.00080 | 12.43630 | 39.48113 | 622.9550 | 44.84000 | 12.82000 | 491.5800 | 69.99000 |
| Sum Sq. Dev. | 7.268962 | 13.50522 | 3.188322 | 4.740393 | 59.29871 | 3.751144 | 7.636676 | 93728.37 | 500.8579 |
| Observations | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Cross sections | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |

**Table 4.** Chow Test Results

| Dependent | Chi-square | Prob | Decision |
|---|---|---|---|
| ROA | 62.786354 | 0.0000 | Rejected $H_0$, Fixed Effect selected |
| ROE | 69.986969 | 0.0000 | Rejected $H_0$, Fixed Effect selected |

Based on the table of chow test results, the overall results of the model show that the probability value of the Chi-square cross section is 0.0000 < 0.05, then the decision obtained, namely H 0 is rejected so that the model used is Fixed effect. If the selected model is a model of Fixed effect, then further testing is needed using hausman test to test whether to use a fixed effect or random effect model.

**Table 5.** Hausman Test Results

| Dependent | Chi-square | Prob | Decision |
|---|---|---|---|
| ROA | 11.600499 | 0.1699 | Accepted $H_0$, Random Effect selected |
| ROE | 16.856008 | 0.0316 | Rejected $H_0$, Fixed Effect selected |

Based on the table of hausman test results, the results of model 1 show that the probability cross-section Statistic value is 0.1699 > 0.05, then the decision that can be obtained is H 0 accepted so the model used is a Random effect model. Based on the table of hausman test results, the results of model 2 show that the probability cross-section Statistic value is 0.0316 < 0.05, then the decision that can be obtained is H 0 rejected so the model used is the Fixed effect model.

**Table 6.** LM Test Results

| Dependent | Chi-square | Prob | Decision |
|---|---|---|---|
| ROA | 10.57203 | 0.0011 | Rejected $H_0$, Random Effect selected |

Based on the LM test results table, the results show that the probability value of the Statistical cross-section is 0.0011 < 0.05, then the decision that can be obtained is H 0 rejected so the model used is the Random effect model.

**Table 7.** F Test Results

| Dependent | F-Statistic | Prob | Decision |
|---|---|---|---|
| ROA | 2.318746 | 0.033526 | Rejected $H_0$ |
| ROE | 15.73009 | 0.000000 | Rejected $H_0$ |

Based on the test results, it can be seen that the F-statistic probability in model 1 produces a value of 0.033526 < 0.05. Thus the results of the analysis in this study show that together the independent variables are Cash, $Cash^2$, Lev, Size, Growth, Tangibility, Risk and dividends on Return on Assets so the regression model is feasible to be used in this study.

Based on the test results, it can be seen that the F-statistic probability in model 2 produces values of 0.000000 < 0.05. Thus the results of the analysis in this study show that together the independent variables are Cash, $Cash^2$, Lev, Size, Growth, Tangibility, Risk and dividends on Return on Equity so the regression model is feasible to be used in this study.

**Table 7.** The goodness of Fit Test Results

| Dependent | $R^2$ | Adjusted $R^2$ |
|---|---|---|
| ROA | 0.137849 | 0.062056 |
| ROE | 0.855047 | 0.800689 |

Based on the results of the goodness of fit test on model 1, an adjusted r-square value of 0.062056 was obtained. This means that independent variables namely Cash, $Cash^2$, Lev, Size, Growth, Tangibility, Risk, and dividends are able to explain the variation of Return on Assets by 6.2056% and the remaining 93.7944% explains that Return on Assets can be influenced by other factors that are not contained in this model. So there is a weak relationship between Cash, $Cash^2$, Lev, Size, Growth, Tangibility, Risk and dividends to Return on Assets.

Based on the results of the goodness of fit test in model 2, an adjusted r-square value of 0.800689 was obtained. This means that independent variables namely Cash, $Cash^2$, Lev, Size, Growth, Tangibility, Risk and dividends are able to explain the variation of Return on Equity by 80.0689% and the remaining 19.9311% explains that Return on Equity can be influenced by other factors that are not contained in this model. So there is a very strong relationship between Cash, $Cash^2$, Lev, Size, Growth, Tangibility, Risk and dividends to Return on Equity.

**Discussion of Research Results**

**$H_1$ = There is a significant positive relationship between cash ownership and the performance of the company**

**Table 8.** Regression t Test Results

| Variable Independent | Dependent Variables ROA | | |
|---|---|---|---|
| | **Coefficient** | **Probability** | **Conclusion** |
| Constant | 0.010079 | - | - |
| CASH | -0.110970 | 0.5691 | Insignificant |
| CASH2 | -0.099645 | 0.7417 | Insignificant |
| LEV | -0.315589 | 0.0195 | Significant Negative |
| SIZE | 0.035941 | 0.4394 | Insignificant |
| GROWTH | -0.064667 | 0.7125 | Insignificant |
| PLIERS | 0.259045 | 0.0088 | Significant Positive |
| RISK | -0.000215 | 0.7825 | Insignificant |
| DIV | -0.009633 | 0.3583 | Insignificant |

1. Cash Holdings (CASH) has a probability value of 0.5691 > 0.05 (alpha 5) which shows an insignificant effect. The results of this study concluded that there was no significant influence between Cash Holdings and Return on Assets.
2. Cash Holdings Squared ($CASH^2$) has a probability value of 0.7417 < 0.05 (alpha 5 which shows a significant effect. The results of this study concluded that there was no significant influence between Cash Holdings Squared and Return on Assets.
3. Leverage (LEV) has a probability value of 0.0195 < 0.05 (alpha 5 which shows a significant effect. The magnitude of the coefficient is -0.315589. The results of this study conclude that there is a negative and significant influence between Leverage on Return on Assets.
4. SIZE (SIZE) has a probability value of 0.4394 > 0.05 (alpha 5 which shows a significant effect. The results of this study concluded that there was no significant influence between SIZE and Return on Assets.
5. Growth (GROWTH) has a probability value of 0.7125 > 0.05 (alpha 5 which shows an insignificant influence. The results of this study concluded that there was no significant influence between Growth and Return on Assets.

6. Tangibility (TANG) has a probability value of 0.0088 < 0.05 (alpha 5 which shows a significant effect. The magnitude of the coefficient is 0.259045. The results of this study concluded that there was a positive and significant influence between Tangiblitiy on Return on Assets.
7. RISK (RISK) has a probability value of 0.7825 > 0.05 (alpha 5 which indicates an insignificant effect. The results of this study concluded that there is no significant influence between Risk and Return on Assets.
8. Dividend (DIV) has a probability value of 0.3583 > 0.05 (alpha 5 which shows an insignificant effect. The results of this study concluded that there was no significant effect between Dividends and Return on Assets

**Table 9.** Regression t Test Results

| **Variable Independent** | **Dependent Variables** | | |
|---|---|---|---|
| | **ROE** | | |
| | **Coefficient** | **Probability** | **Conclusion** |
| Constant | 1.166456 | - | - |
| CASH | 0.020272 | 0.7895 | Insignificant |
| CASH2 | 0.130481 | 0.3665 | Insignificant |
| LEV | -0.227207 | 0.0007 | Significant Negative |
| SIZE | -0.155491 | 0.0311 | Significant Negative |
| GROWTH | 0.021753 | 0.7005 | Insignificant |
| PLIERS | -0.090041 | 0.0002 | Significant Negative |
| RISK | -0.000313 | 0.2516 | Insignificant |
| DIV | -0.004957 | 0.0129 | Significant Negative |

1. Cash Holdings (CASH) has a probability value of 0.7895 > 0.05 (alpha 5) which shows an insignificant effect. The results of this study concluded that there was no significant influence between Cash Holdings and Return on Equity.
2. Cash Holdings Squared ($CASH^2$) has a probability value of 0.3665 < 0.05 (alpha 5 which shows a significant effect. The results of this study concluded that there was no significant effect between Cash Holdings Squared and Return on Equity.
3. Leverage (LEV) has a probability value of 0.0007 < 0.05 (alpha 5 which shows a significant effect. The magnitude of the coefficient is -0.227207. The results of this study conclude that there is a negative and significant influence between Leverage and Return on Equity.
4. SIZE (SIZE) has a probability value of 0.0311 < 0.05 (alpha 5 which shows a significant effect. The magnitude of the coefficient is -0.155491. The results of this study concluded that there was a negative and significant influence between Size and Return on Equity.

5. Growth (GROWTH) has a probability value of 0.7005 > 0.05 (alpha 5 which indicates an insignificant effect. The results of this study concluded that there was no significant influence between Growth and Return on Equity.
6. Tangibility (TANG) has a probability value of 0.0002 < 0.05 (alpha 5 which shows a significant effect. The magnitude of the coefficient is -0.090041. The results of this study concluded that there was a negative and significant influence between Tangibility on Return on Equity.
7. RISK (RISK) has a probability value of 0.2516 > 0.05 (alpha 5 which shows an insignificant effect. The results of this study concluded that there was no significant effect between Risk and Return on Equity.
8. Dividend (DIV) has a probability value of 0.0129 < 0.05 (alpha 5 which shows a significant effect. The magnitude of the coefficient is -0.004957. The results of this study conclude that there is a negative and significant influence between Dividends and Return on Equity.

## CONCLUSION

Based on research that has been conducted using the regression t-test, it can be concluded that both by looking at the relationship between the ratio of ROA and ROE there is still no significant relationship between cash ownership and company performance. For the control variable in its implications on ROA, the LEV variable is negatively significant with ROA and TANG is positively significant with ROA. The implication with the ROE variable is that the LEV, Size, TANG and DIV variables are negatively significant with the ROE variable. While other variables do not show any significance.

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