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EFFECT OF CASH HOLDING ON FIRM VALUE WITH OWNERSHIP STRUCTURE AS A MODERATING VARIABLE IN INDONESIA COMPANY

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Abstract: The purpose of this study is to investigate the relationship between cash holdings and firm value in non-financial companies in Indonesia. This study places managerial ownership as a moderating factor for cash holding and firm value. The results show that cash holding has an effect on firm value and managerial ownership is able to moderate the relationship between cash holding and firmvalue. Moderation test results show that of the managerial ownership variable can moderate the relationship of cash holding and firm value, but this moderation relationship weakens where the greater the managerial ownership is, the weaker the relationship of cash holding to the value of the company. These results indicate that managerial ownership that is too large is feared to result in not being able to optimize the company's cash management which then results in a decline in the value of the company.

Keywords: Managerial Ownership, Firm Value, Cash Holding

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The efficient allocation of a company's most important resources is most important for the company's growth, for maximizing shareholder wealth, and for maintaining the company's survival. Myers and Rajan (1998) has argued that liquid assets can be turned into a personal benefit at a lower cost than other assets.There are two main differences in views about the role of management in maximizing shareholder value in the literature that discusses the agency costs. Jensen and Murphy (1990) stated thatvarious hypotheses are aligned stating that good corporate governance and high managerial ownership has had a positive impact on the value of the company. Indications of high managerial ownership can be seen from the behavior of managers tends to divert resources from the company to maximize value because they bear some of the costs of their actions.

Agency costs are expected to be lower because the alignment of interests between managers and companies tends to increase the company's ability to increase external funding, which will reduce the Company's tendency to pile up cash. Ozkan and Ozkan (2004) have different hypotheses state that high managerial ownership has a negative effect on firm value, growth, and company performance. At the level of higher managerial ownership, external shareholders may find it difficult to oversee managerial actions because greater ownership will give managers direct control over the company, and in turn, will increase their ability to resist outside pressure.

There are several noted benefits of holding cash balances. First, as a precautionary motive, the company maintains liquidity to meet unexpected needs, so that the company will have held cash to protect itself against possible cash shortages, this is aimed to reduce cash flow uncertainty. Secondly for transactional motives, companies need liquidity to deal with conditions when when they have to finance expenses. In the end, the presence of cash can prevent a lack of investment costs. The existence of internal funds allows companies to carry out investment projects that benefit them without having to use external funds with high transaction costs. The existence of these benefits makes holding funds (cash holdings) valuable for shareholders. However, holding liquid assets such as cash implies an opportunity cost. Corporate liquidity can cause problems between managers and shareholders. Free cash flow can increase deviations by managers that is contradicting the interests of shareholders (Jensen, 1986). Thus, the holding of a company's optimal cash can be the result of a trade-off between the costs and benefits of owning liquid assets which is the optimal cash level. The company balances the benefits of cash holdings against the various costs of holding large cash reserves. The optimal cash level is located at the point where the marginal cost of cash is balanced by the marginal benefits.

The company's owner wants to limit the manager's access to free cash flow to prevent misuse of company resources by the manager (Jensen, 1986 and Stulz, 1990). Opler et al. (1999) and Mikkelson and Partch (2003) has shown that the owner does not need to worry about cash reserves at the manager's discretion.Another opinion from Dittmar and Mahrt-Smith (2007) which shows the latest evidence that shareholders prefer a small amount of cash from cash reserves. Harford (1999) stated that shareholders need to worry about managers' behavior to the accumulation of cash balances because companies that have higher cash balances are often tempted to make acquisitions, which can cause the company's value to decline. So, in the absence of a good supervisory system for managers, it may cause the possibility of inefficient company investment and may cause a negative effect on the value of the company. Harford et al. (2008) put forward a hypothesis from his observation that weak corporate governance is an indicator of high conflict of interest.

The main purpose of this research is to investigate the relationship between cash and Firm value using the tobin'q ratio, based on agency costs and managerial ownership. The object of this research is Indonesian companies that are listed on the Indonesia stock exchange for several reasons. First, the corporate governance of Indonesian companies has increased with the existence of the assessmentindex of good corporate governance. Second, managerial ownership of Indonesian companies listed on the stock exchange's floor is very little in comparison to the current institutional ownership. In the past, managerial ownership in Indonesian companies has proportions that are balanced with the institutional ownership. With managerial ownership that is shrinking while on the other hand, dominant institutional ownership causes tighter control and supervision of managers in utilizing free cash flow. From the results of the explanation above about the relationship of cash ownership, ownership structure, and Firm value. This research is done by empirically testing the effect of cash ownership on Firm value by placing the ownership structure as a moderator to know whether this will strengthen or weaken the effect of cash ownership on Firm value.

LITERATURE REVIEW

In the trade-off theory, the benefits of holding cash hold the role as a safeguard to avoid situations where companies must go to the financial market to collect funds or liquidate existing assets to fund corporate growth opportunities. In addition, cash ownership reduces the possibility of financial difficulties and allows for investment to be done even when there are bindings of financial constraints. The reality that exists in its implementation is that companies have to face the selection of financing with securities with costs that can inflict financial loss because of high prices, so companies prefer internal funding than sensitive external financing information. If adverse cost selection becomes extreme, a company can be more profitable by not selling securities and even releasing investment. In such situations holding cash, balances will be useful for companies. Besides the adverse cost of selection, there are agency debt costs that arise when the interests of the shareholders deviate from the interests of the debt holders. The moral hazard problem is difficult and expensive for companies with high leverage to increase additional debt or negotiate existing debt contracts to prevent bankruptcy.

Jensen and Meckling (1976) argue that these companies have strong incentives to be involved in asset substitution, making debt more expensive in terms of the results needed and in terms of agreements attached to the debt. In addition, companies with high leverage are likely to suffer under investment problems, where existing shareholders have little incentive provided for additional equity capitaleven if the company benefits from an investment project because the cash flow from this investment to creditors disproportionately increases. Building cash balances is important because in both cases, agency debt costs are so high that companies cannot raise funds and release profits from investment projects.

Myers and Majluf (1984) explained that the company's cash holdings in asymmetric information in the pecking order theory namely high operating cash flow will be used by companies to fund profitable new projects, pay debts, collect cash, and pay dividends. When retained earnings are not enough to fund new investment, companies will use their cash holdings and then issue new debt, finally when their debt loan capacity is insufficient, the company issues securities. This can cause problems with a lack of investment because there is a possibility that companies choose not to issue securities and will lose opportunities for positive NPV projects (Myers, 1977). This situation can be avoided if companies save enough money generated internally to execute profitable investment opportunities (Myers and Majluf, 1984).

Opler et al. (1999) provide a picture of if a manager obtains two main benefits of cash ownership. First, managers save transaction costs that will happen to raise new funds from the capital market. Second, managers can use cash to fund investments if other funding sources are not available. Myers and Majluf (1984) stated that higher cash reserves can be injected into projects with positive NPV. Theoretically, the availability of cash enables managers to make investment decisions relatively faster which are then responded positively by shareholders, if the investment generates positive net present value. On the contrary, negative investment decisions are responded negatively by shareholders, if overinvestment occurs in negative net present value projects or the occurrence of moral hazard actions by managers. Because of fear of managerial takeover and overinvestment, Jensen (1986) shows that in the absence of growth opportunities, shareholders might want excess cash to be returned in the form of higher dividends, or managers must repurchase their shares with cash, which would reduce the level of free cash flow instead of being invested in investment projects causing wealth to decrease. When managerial roles become higher due to weak governance, investors will assume a reduced Firm value. The decline of corporate valuation in the eyes of investors is associated with the potential managerial takeover accompanied by a high level of ownership control (Kalcheva and Lins, 2007).

The hypotheses are built using insider ownership interactions and cash. Different types of block holders have different types of monitoring (Dong and Ozkan, 2007). Almazan et al. (2005) reported that institutional investors, for example, banks, and institutional investor pressure, such as investment companies, have a different impact on managers. Anderson and Hamadi (2009) also argue that larger cash is largely driven by insider risk aversion. They report that the level of holding liquid assets (cash) is positively associated with ownership concentration. From this explanation, the hypotheses in this research are as follows:

H1: Cash holdingaffects Firm Value

H2: Managerial Ownership Moderates the Effect of Cash holding on Firm Value

METHOD

The population in this study are 299 companies in the non-financial sector from the year 2015-2017. The sample in this study uses companies that have managerial ownership shares during that period, there are 83 companies that have managerial ownership during the period 2015 - 2017.

Firm value is measured by tobin's q which is often used in literature reviews. Ratio as a comparison of asset market value with an estimated amount of money that must be issued to replace all such assets at this time. Tobin's Q ratio formula used in research refers to formulas that have been modified by Cheung and Pruit (1994). Although Tobin'sQ ratio includes many important aspects in company finance that reflects such as the relationship of managerial capital ownership with Firm value, the relationship of managerial performance with gaining profit bids, investment opportunities and reaction gains offered, funding, dividends, and compensation policies. Tobin's q formula that is used in this research as follows (Wolfe, 2003) is calculated where Tobin'sQ is the ratio of the addition of market value equity plus debt divided by total assets.

Cash holding is defined as cash on hand or that is available to be invested in physical assets and to be distributed to investors (Gill and Shah, 2012). Cash holding can be measured using the cash ratio and cash equivalents to total assets (Ogundipe et al., 2012). Cash holding is calculated as cash and cash ratio equivalent to total assets.

Managerial ownership is a shareholder who is an internal party in the managerial structure of a company that is active in the company's operational activities. Managerial ownership is measured by the percentage of total ownership of shares owned by the ceo and the managerial (joher et al., 2006). Managerial ownership is calculated as the ratio of the number of shares owned by the director to the total number of shares outstanding.

Quantitative analyze this research, the data analysis method used is by ordinary least square. Ordinary least square is used to see the effect of cash hold as the independent variable to firm value as the dependent variable, and also to see the effect of moderation variables as variables that weaken or strengthen the relationship of independent variables to dependent variables. The ordinary least square equation model in this study that was adapted from Ameer (2012) is as follows:

$$\text{Firm Value (Tobin'sQ)} = A + B_1\text{cash hold} + B_2\text{ managerial ownership} + B_3\text{cash hold . Managerial ownership} + E$$

The equation above shows firm value as the dependent variable with Tobins'Q proxy, as well as cash holding as the independent variable with cash ratio proxy, and managerial ownership as the moderation variable with the percentage of managerial share ownership proxy.

RESULTS

The variables used in this research are cash ownership as the independent variable and institutional value using Tobin'sQ proxy ratio, as well as managerial ownership and institutional ownership as moderation variables. The population selected consists of non-financial companies that are listed on the Indonesia stock exchange during the 2015 to 2016 period with a total population of 249 companies. The samples selected in this research are companies that have managerial ownership, with 83 companies that meet the criteria.

As shown by the table above, the cash ownership ratio has an average of 28.25% which means the companies as the sample in this study have a cash amount of 28.25% compared to their total assets with a minimum value of 1.2% and a maximum value of 89.12%. Managerial ownership has an average of 8.43% with the smallest managerial own-

Table 1 Descriptive Statistics Results

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Cash holding	249	.0121000	.8912000	.281507831	.2238083292
Managerial ownership	249	.0000001	.8944000	.084311129	.1602069709
Institution	249	.0000000	.9609000	.593284938	.2429479139
Firm Value (Tobins'Q)	249	.4619000	243.3016000	5.015156024	18.8720783317
Valid N (Listwise)	249				

Source: Processed Data, 2017

ership value of 0.000001% and the biggest managerial ownership value of 89.44%. Institutional ownership has an average of 59.32% with the smallest institutional ownership value of 0% and the biggest is 96.09%. Firm values measured by Tobin's Q proxy have an average value of 5 times with the smallest value of 0.46 times and the biggest value is 243 times.This research usesa regression analysis tool to prove the role of ownership structure as the moderating variable between the cash ownership variable to the firm value variable. This research uses the following substructure test equation:

Firm Value (Tobins'Q) = Á + B1cashhold + B2 managerial ownership + B3 Cash hold. Managerial ownership + E

The Table below is a summary of the testresults of the substructuretestfrom the equation, it is summarized as follows:

The results of regression analysis shows cash holding (x) is significantly influential to the firm value (y) as shown with p-value significance level less

Table 2 Summary of Regression and Moderation Test Results in Cash holding, Managerial Ownership, and Firm value

Relationship	Standard Coefficient Beta	T Value	P. Value	Explanation
Cash Hold – Firm value(Tobin'sQ)	.177	2.773	.041*	Significant
Managerial Ownership – Firm value (Tobin'sQ)	.214	1.977	.050*	Significant
Cash Hold.Managerial Ownership – Firm Value(Tobins'Q)	-.101	-.622	.535	
Moderation Test Results				
R Square Without Z	.163	R Square With Z	.191	
T Table = 1.97642				
alpha = 5 % = 0.05				

Source: Processed Data, 2017

than 0.05 supported with a t value of 2.675 that is greater than the t table of 1.97642 which supports the hypothesis regarding cash ownership has a significant positive effect on Firm value. The moderation test results in the regressionare shown by looking at the results of r square value before involving the managerial ownership variable (z) and after involving the managerial ownership variable (z). From the results of r square, it is shown that there is an increase in the value of r square from the previous 0.163 to 0.191 after testing the moderation. This shows that the managerial ownership variable is moderating the relationship of cash holding and firm value, but this moderation relationship weakens, therefore the greater the managerial ownership, the weaker the relationship of cash ownership to the firm value will be. This is evidenced by the beta coefficient value of variable cash ownership (x) and managerial ownership (z) that is signed negative.

The result of multiple regression analysis shows that cash holding has a significant effect on Firm value. This indicates greater cash holding will impact firm value by increasing it to be better. The amount of ideal cash holding is still viewed as an interesting topic in the research. According to Modigliani and Miller where there are no optimal cash levels and companies can raise funds at any time when they are able to find internal funding sources to suffice their daily operations and to fund projects with positive net present value. In this situation, the company is not expected to hold cash because cash ownership does not create wealth for shareholders.

Trade-off theory and pecking order theory attempt to explain different company motives in holding cash. Based on the trade-off theory, the advantage of holding money has its role as a security buffer to avoid situations where companies must go to the financial market to collect funds or liquidate existing assets to fund opportunities in order to continue to grow. In addition, cash ownership reduces the possibility of financial difficulties and makes it possible to invest even when there are some urgent financial constraints. In situations like this holding, cash becomes useful for companies.

The pecking order theory explains ownership of corporate cash in asymmetrical information (Myers and Majluf, 1984). It is described that when operating cash flow is high, companies will use it to fund new projects that are profitable, pay debts, pay dividends, and finally to collect cash. If the retained earnings are inadequate to finance new investments, the company will first utilize its shares and then issue new debt. When the company is unable to pay its loans, the new company will issue securities. However, this can generate problems with a lack of investment because there is a possibility that companies choose not to issue securities and will miss opportunities for positive NPV Projects (Myers, 1977). This situation can be avoided if the company maintains cash that is generated internally to cover profitable investment opportunities (Myers and Majluf, 1984).

The results of this research are trying to provide a picture of evidence that cash ownership affects Firm value in Indonesia. These results are consistent with previous studies Opler et al. (1999) and Drobetz and Gruninger (2007) which illustrate that companies have cash ratio targets that they adjust periodically. Descriptive statistics show that the average company holds cash that amounts to 28.25% of its total assets and there are companies that have a maximum cash ratio of 89.12%. This proves that a large cash ratio is used as a motive for security and for funding corporate projects. This study provides additional evidence that when a company reaches an optimal level of cash ownership, it makes investors assess them more positively. However, different interests of stakeholders will have different risk preferences, and each company has a proportion of the amount of cash holding and stakeholders' interests, therefore the optimal level of cash holding is not yet known for certain. Optimal cash holding will incur costs such as transaction costs, financial costs, and opportunity costs for investing in projects with a negative net present value that will continue to encourage investors to assess the company negatively if abused by managers.

Moderation test results show that managerial ownership can moderate cash ownership against firm value. This is evidenced by the r square value that has increased when including the managerial ownership variable. This moderation relationship strengthens the cash holding variable against firmvalue when managerial ownership decreases. This is demonstrated by the negative slope of the coefficient value of managerial ownership. This means that managerial ownership will strengthen the relationship of cash holding and corporate value if the amount of managerial ownership decreases.

High managerial ownership has a negative effect on company performance, company growth, and company valuation (Ameer, 2012). At a higher level of managerial ownership, outside shareholders may find it difficult to monitor manager's actions because greater ownership provides power for managers to directly control the company and enhance their ability to resist pressure from outside parties. Anderson and Hamadi (2009) argued that larger cash holding was largely motivated by risk aversion to insiders. Anderson and Hamadi (2009) reports the level of storage of liquid assets, especially cash, is positively associated with managerial ownership. The specific focus of this research is basically about the relationship of cash, Firm value, managerial ownership, and the interaction of cash and ownership that explains the impact of managerial ownership on Firm value. From the impact of this research on company cash holding, theoretically, additional cash added to firms will cause its market value to be higher than companies that have less cash added.

Theoretically, this research must observe that managers in various groups of managerial ownership levels, specific Companies in Indonesia, will have tendencies to reduce cash ownership and spend higher cash on capital development projects to increase future cash flow for self-interest, according to agency theory. These companies should rely more on new equities by issuing new shares to fund new projects and to have a low dividend payout ratio. These kinds of companies will face financial obstacles and may accumulate larger reserved funds for investments which ultimately gives a bad impression in the eyes of investors. Investors will see this as a negative act that will lower Firm value. Another thing of concern is that cash ownership is quite high because companies in Indonesia do not yet have strong fundamentals in managing their debt policies so it will be risky if they hold cash in small amounts.

CONCLUSION

This study is based on the idea that if there are benefits and costs associated with too little cash or holding too much, then there is an optimal cash rate where marginal costs are offset by marginal benefits, according to the ideas of Qurat-Ul-Ann Azmat(2014). To analyze the relationship between holding cash and the value of the first company and the relationship with managerial intervention, this research Uses a simple method with ordinary least square with moderation. The findings that show the relationship between the portion of managerial ownership that is greater in cash hold will reduce the value of the company.

The separation of control and ownership between managers and shareholders in public companies in Indonesia can play an important role in determining the level of compensation payments to company managers as well as control in the collection and use of cash. Cash holdings in companies are important because these are the most important liquid assets. Managers have an important role in managing cash in the company. Managerial ownership strengthens the relationship of cash holding and firm value but occurs if the proportion of managerial ownership is decreasing. This is because if managerial ownership is too large it will reduce the monitoring function of the company's external parties in conducting supervision especially in the role of managers in investing in projects that produce negative net present value. In the Indonesian context, managerial ownership is still quite large because the board of directors is usually the Founders of a company that is still in the first generation. Suggestions for further research is to discover how much managerial ownership is considered ideal.

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