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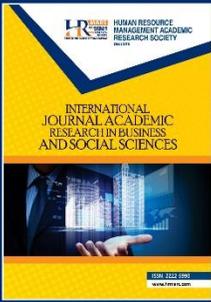
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The Effect of Financial Leverage and Capital Expenditure to Cash Holding of Manufacturing Company Listed in Indonesia Stock Exchange

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Abstract

This study aims to examine the effect of financial leverage and capital expenditure on cash holding of manufacturing companies listed on the Indonesia Stock Exchange from 2011 to 2015. In addition, this study also aims to test the extent to which the influence of financial leverage and capital expenditure on cash holding. Type of study used in this research is hypothesis testing. Samples that are selected using purposive sampling are 105 observations (105 company-years). In accordance with objectives of the study, data are analyzed using standardized multiple regression. The results show that financial leverage has a positive effect on cash holding about 14.1%, while capital expenditures has no affect on cash holding.

Keywords: *Capital Expenditure, Financial Leverage, Cash Holding.*

Introduction

Company is an organization that aims to gain optimal profit and increase its value. Increased value can be achieved if a company is able to achieve expected profit to deliver prosperity for all elements within the company. Main factor that must be considered by management in running a company or entity is company's financial structure.

Corporate finance is strongly influenced by availability of cash in financing its operations. Substantial amount of cash can provide various benefits for the company, for instance to finance unexpected expense. However, according to Marfuah and Zulhilmi (2014), in addition to the profits gained through holding substantial number of cash, holding cash also has negative side such as loss opportunity to obtain profits because cash is idle fund that it does not generate income if stored, and can also decrease due to taxation effects.

Afza and Adnan (2007) stated that companies should have accurate financial management to determine amount of balance cash (cash holding). Companies hold cash when

their management desire to maximize cash holding by arranging the cash in thus marginal benefits of cash holding equal to marginal costs of corporate spending (Wenyao, 2007). Cash holding is the amount of cash held for speculation purpose, deposited in bank, and purchased as foreign currency or securities (Gilarso, 2008: 227). Cash holding in a company is intended to make investment, distribute it to investors as dividends and behold it in the company. Cash is also held for strategic purposes thus company can deploy funds quickly to compete earlier (Baskin, 1987). Determinant factor of cash-holding has been focus of several studies (Opler et al., 1999; Wenyao, 2007; Guney, Ozkan, and Ozkan, 2007; and Shah, 2011; Jinkar, 2013, Arfan, et al., 2017). These determinants can range from marginal cost of trade-offs to benefit of cash holding for corporate governance.

There are many factors affecting cash holding. However, this study considers to factors namely financial leverage (Opler et al., 1999; Schwetzler and Reimund, 2004; Ozkan and Neslihan, 2004, Couderc, 2005, Saddour, 2006; Ginglinger and Khauola, 2007; Guney et al., 2007; Arfan et al, 2017) and capital expenditure (Kusnadi, 2003; Saddour, 2006; Bates, Kahlee, and Stulz, 2009; Ogundipe, Ogundipe, and Ajao, 2012; Arfan et al, 2017). Financial leverage is a ratio that compares total debt with total asset of companies. If financial leverage is considered as company's ability to issue debt, then financial leverage's effect on cash holding is negative. However, if high financial leverage is considered as a cause of potential bankruptcy occurring due to high agency problem of the debt, influence of financial leverage to cash holding is positive (Wenyao, 2007). The findings of Opler et al. (1999); Schwetzler and Reimund (2004), Ginglinger and Khauola (2007), Ginglinger and Khauola (2007) and Guney et al. (2007) showed that financial leverage positively affects cash holding. However, study results of Ozkan and Neslihan (2004), Couderc (2005), and Saddour (2006) showed that the effect of financial leverage on cash holding is negative. This is because debt can be used to finance a variety of corporate investments. The finding of Arfan et al., (2017) also revealed that financial leverage negatively affects cash holding.

In addition, capital expenditure is also expected to be one factor affecting cash holding. Capital expenditure is a cost that benefitting within one accounting period (generally one calendar year). Capital expenditure is an expense that increases capacity or efficiency of an asset or extends useful life (Horngren et al., 2006: 467). Capital expenditure is also expected to be an important factor in determining cash holding policies. Researches' results of Kusnadi (2003), Ogundipe, Ogundipe, and Ajao (2012) show that capital expenditure has a positive effect on cash holding. However, researches' results of Bates, Kahlee, and Stulz (2009), Kim et al. (2011) and Arfan, et al. (2017) demonstrated that capital expenditures negatively affect cash holding.

Composition of this article will be divided into several sections. The next section will discuss theoretical framework and hypothesis, then following section will discuss research methods. The next another section will discuss results of the study, and the last is conclusions, limitations, and suggestions section.

Theoretical Framework

Influence of Financial Leverage on Cash Holding

Financial leverage is one factor that determines cash holding of a company. According to Brigham and Houston (2009, P. 425), financial leverage is number of securities that use profits or returns as company's capital structure. Financial leverage reflects amount of debt used as

company's capital structure (Block and Hirt 2000, P.122). Relationship between leverage and cash holding can be positive or negative relationship. If a financial leverage is a cash substitution that used to invest then relationship between financial leverage and cash holding is negative. However, along with large amount of leverage, company will accumulate large sums of cash to reduce risk of financial difficulties and bankruptcy thus relationship between leverage and cash holding can be positive. Based on research of Wenyao (2007), managers who want to improve shareholder's welfare, must design cash holding of company appropriately. If high financial leverage is considered as a potential bankruptcy due to high agency problem, impact of financial leverage to cash holding is positive.

Researches' results of Opler et al. (1999), Ginglinger and Khauola (2007), and Guney et al. (2007) found a positive relationship between leverage and cash holding companies. Researches' result of Ozkan and Neslihan (2004), Couderc (2005), Saddour (2006) and Arfan et al., (2017) stated that financial leverage negatively affects cash holding.

Hypothesis 1: Financial leverage affects cash holding

Effect of Expenditure on Cash Holding

In running a company, one activity that must be done to maintain company's sustainability is to invest in fixed assets. Costs of acquiring fixed assets, improving operational efficiency and productive capacity of fixed assets, and extending usage of fixed assets called capital expenditures. Capital expenditures are also expected to be an important factor for companies in determining cash holding policy. Research's result of Kusnadi (2003) showed that capital expenditure has positive influence on cash holding. While a company has plan to make a huge investment, the company will save cash to maintain continuity of work or investment realization. High capital expenditure will require high cash holding. Ogundipe, Ogundipe, and Ajao (2012) also found that capital expenditure has a positive effect on cash holding policy. The condition can be described as high capital expenditure, cash holding will also be high or vice versa. This is because when a company invests in fixed assets, the company tends to withhold its cash. Furthermore, when a company does not spend capital expenditure, the cash held will also be low. On the other hand, results of Bates, Kahlee, and Stulz (2009), Kim et al. (2011) and Arfan, et al. (2017), showed that capital expenditures negatively affect cash holding.

Hypothesis 2: Capital expenditures affect cash holding

Research Methods

This study aims to examine effect of financial leverage and capital expenditure on cash holding. Intervention rate of researcher is minimum. Unit of analysis used is level analysis unit of the organization (company) that is manufacturing companies listed on the Indonesia Stock Exchange.

Population in this study are a manufacturing company listed on the Indonesia Stock Exchange from 2011 to 2015. Sampling of this study uses purposive sampling method with the following criteria:

(1) Company listed on the Stock Exchange at least one year prior to observation period of 2011 - 2015. (2) Manufacturing company which has positive equity value and financial reports in rupiah. Based on the criteria, number of samples in this study are 105 observations (105 company-years).

Analysis Method

In accordance with purpose of research, to test the influence of independent variables on dependent variable, then analysis method used in this study is standardized multiple regression method that formulated as follows:

$$Y = \rho_{yx1} X_1 + \rho_{yx2} X_2 + \rho_{y\epsilon} \epsilon \dots\dots\dots (1)$$

Research Result and Discussion

Results of Hypothesis Testing

Result of data processing to test hypothesis uses SPSS as presented in Table 1 and Table 2 .

Table 1. Summary Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.396 ^a	.157	.140	.27189875

Based on Table 1, it can be seen that coefficient of determination (R^2) is 0.157. This shows that only 15.7 % of Y can be explained by both X_1 and X_2 . The remaining of 84.3 % is determined by other variables that are not tested in this research model. The results of partial hypothesis testing can be seen in Table 2.

Table 2. Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	-.058	.060	
FL	.405	.107	.376
PM	.048	.113	.043

Amount of residue coefficient (ϵ_1) is $\epsilon_1 = \sqrt{1 - R^2} = \sqrt{1 - 0.157} = \sqrt{0.843} = 0.918$. Based on Table 2, researchers receive the equation model:

$$Y = 0.376 X_1 + 0.043 X_2 + 0.918 \epsilon_1 .$$

Effect of Leverage on Cash Holding of Manufacturing Listed Companies in Indonesia

Results of the first hypothesis testing show that financial leverage affects cash holding of manufacturing companies in Indonesia about 0.376 coefficient value. Magnitude of this effect is 14.1% and with positive direction. This means that influence of financial leverage on cash holding of manufacturing companies in Indonesia has a moderate effect. High/low financial leverage is influenced by high/low cash holding. High financial leverage indicates ease of access to capital markets, so the companies can withstand large amount of cash. This means that level of financial

leverage owned by company will increase amount of cashholding. High level of financial leverage can lead to higher cash holding conducted by management.

Results of this research supports research of Opler *et al.*, (1999); Schwetzler and Reimund (2004), Ginglinger and Khauola (2007), and Guney *et al.* (2007) which states that financial leverage positively affecting cash holding of a company. However, results of this study are inconsistent with researches' results of the Ozkan and Neslihan (2004), Couderc (2005), Saddour (2006), and Arfan *et al.* (2017) indicating that financial leverage negatively affects cash holding.

Effect of Capital Expenditure on Cash Holding on Indonesia Manufacturing Companies

Result of second hypothesis test shows that capital expenditure has no effect on cash holding. This means that high/low capital expenditure does not affect cash holding. In this case, capital expenditure has no effect on cash holding, considering there are many other variables that can affect cash holding. The condition can happen when a company invests in fixed assets or does not engage in capital expenditures, thus it does not affect amount of cash holding. Results of this study are inconsistent with research conducted by Bates *et al.* (2009) which showed that a high capital expenditure of a company will decrease cash holding. Results of this study are also inconsistent with results of research applied by Arfan *et al.*, (2017) and Kim *et al.*, (2011) which stated that capital expenditure and cash holding are negatively related.

Conclusions and Suggestions

This research has limitation, including limited previous researches about effect of financial leverage on cash holding and firm value. Based on the results of this study, it can be concluded that financial leverage positively affects cash holding about 14.1%. This means that cash holding is influenced by high/low financial leverage. The higher amount of financial leverage, the easier access to capital market. Therefore, company can withstand huge number of cash. This means that level of financial leverage owned by company will increase amount of cash holding. Its influence is 14.1% including moderate influence (Bungin, 2011). On the other hand, capital expenditure does not affect cash holding of the companies. This means that when a company invests in fixed assets or does not engage in capital expenditures, it does not affect amount of cash holding.

This research offers several suggestion to future research as the following :

1. To introduce previous studies specifically study of financial leverage's effect on firm value.
2. To add other variables strongly considered can affect firm value for example regulation, providing mechanism of goods and services human resources, organization commitment, and other internal factors.
3. To conduct more qualitative research, in order to obtain more information factors affecting firm value.
4. To include all companies of Indonesia Stock Exchange or include food and beverages, finance, mining companies. Therefore, result of future researches will be more representative and conclusions will have more wider coverage.

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