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Cash Holdings in Indonesia's Consumer Goods Sector

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Abstract

Purpose – This study aims to analyze the factors that influence cash holdings in non-cyclical consumer goods companies listed on the Indonesia Stock Exchange during the period 2020-2024.
Design/Methodology/Approach – This study uses quantitative methods with secondary data from the financial statements of 33 non-cyclical consumer goods companies listed on the Indonesia Stock Exchange during 2020-2024 (165 observations). The data were analyzed using panel regression with the Fixed Effect Model (FEM), selected based on the Chow and Hausman tests, using EViews 9.
Findings – The results show that cash flow, net working capital, Tobin's Q, and leverage have a significant positive effect on cash holdings. Meanwhile, firm size and capital expenditure have a significant negative effect on cash holdings. Profitability, financial performance, and book value have no significant effect.

Research limitations/Implications – The results of this study provide practical implications for financial managers and investors in optimizing cash management strategies to maintain liquidity and support corporate financial stability, which ultimately contributes to the growth and resilience of the manufacturing sector in the national economy.

Keywords: Cash Flow, Cash Holding, Firm Size, Leverage, Net Working Capital, Tobin's Q

Introduction

The manufacturing industry consists of various sectors, one of which is the consumer goods sector. Companies operating in this sector produce a variety of essential basic necessities that generally cannot be replaced. The consumer goods sector faces intense competition. This is due to the increasing number of new companies emerging, requiring each company to develop appropriate strategies, innovate continuously, and create new innovations to maintain their presence in the national and international markets. In this increasingly competitive environment, companies are required to focus on important factors in order to survive in a highly competitive market (Budiman et al., 2023). In an uncertain business environment, companies need to strengthen their internal financial management, particularly cash management, in order to maintain financial stability, operational continuity, and reduce dependence on external funding (Armelia, 2025). In facing these dynamics, companies in the consumer goods sector need to pay special attention to their cash reserve policies, as decisions regarding cash reserves exert a substantial influence on the seamless execution of organizational activities. Therefore, adequate cash availability is crucial to maintaining financial stability. Recent research shows that companies' cash storage policies are influenced by various external and internal factors, which require further study to understand the determining factors (Sriram & Riyazahmed, 2024). The strategic oversight of liquid assets is fundamental to guaranteeing the long-term viability of a firm's financial health and the availability of funds for short-term and emergency needs, where cash not only serves to maintain operational continuity but also supports the implementation of strategic investments (Aurelia & Leon, 2023).

Cash plays a crucial role in financial reporting owing to its status as the primary vehicle for immediate solvency, which facilitates the uninterrupted execution of corporate functions. Cash storage strategies are essential for maintaining financial stability, especially when companies face limited access to external funding sources (Sriram & Riyazahmed, 2024). Empirical evidence shows that high cash reserves contribute to improved company financial

performance. This is because the availability of cash allows companies to invest more optimally and capture growth opportunities without having to rely on expensive sources of financing (Yilmaz & Samour, 2024). In addition, institutional dynamics and global economic conditions also influence how companies set their cash storage policies, especially in developing countries. Factors such as information asymmetry, state ownership, and market uncertainty can encourage companies to hold larger amounts of cash as a precautionary measure and risk management strategy (Yu & Soh, 2022).

The accumulation of a firm's liquid reserves is typically contingent upon its prospective capacity to yield consistent cash inflows. In this sense, current liquidity levels often mirror the anticipated strength of future revenue streams. When cash flow from operating activities shows a positive value, the company obtains an internal source of liquidity that can be used to meet transaction needs (Elzbieta Bukalsa & Maziarczyk, 2023). Therefore, In response to market volatility, corporate entities often bolster their liquid holdings as a defensive buffer. This strategic accumulation of capital serves to insulate the organization from unpredictable macroeconomic fluctuations and potential funding gaps, working capital financing, and growth opportunities, so that investment needs are not entirely dependent on external sources of funds (Yilmaz & Samour, 2024).

Profitability serves as a core metric for evaluating an organization's earnings capacity over a specific duration. The magnitude of these returns is inherently tied to how efficiently the leadership orchestrates and deploys institutional assets to create value. Companies with high profits demonstrate strong profitability, which means the ability to maximize profits. Surplus earnings are frequently channeled into retained earnings, serving as a strategic mechanism to bolster the organization's liquid buffer. By withholding these gains, a firm can systematically strengthen its internal financing capacity (Ernawati, 2022). This finding aligns with the pecking order theory, which posits that firms prioritize internal liquidity accumulation to mitigate reliance on external capital markets and avoid the associated transactional costs of new debt (William & Ekadjaja, 2024).

Financial performance is a major factor influencing a company's cash policy. Companies with healthy financial conditions are generally better able to maintain cash reserves at ideal levels, enabling them to cope with economic uncertainty, support smooth operations, and finance profitable investments. Research by Husadha et al. (2025) evidence indicates that firms exhibiting robust financial health typically prioritize the accumulation of substantial liquid assets. This trend reflects a dual strategy: establishing a defensive shield against volatility while simultaneously ensuring the agility required to capitalize on emerging investment opportunities. The data in

research by Ramadan & Leon (2023) reveals an inverse relationship between financial gearing and liquidity, suggesting that as debt obligations mount, companies are pressured to deplete their liquid reserves. This trend implies that capital which might otherwise be held as cash is instead diverted toward servicing outstanding liabilities because a larger portion of cash is allocated to debt principal and interest payments rather than being retained as reserves. These results suggest that an escalating debt burden effectively constricts the discretionary power of leadership regarding liquidity. As liabilities grow, the room for maneuver in managing cash flexibility becomes increasingly narrow, forcing management to prioritize debt servicing over liquid asset optimization.

Firm size shows an inconsistent relationship with cash holdings. Research by Mariska et al. (2025) found that large companies tend to hold larger amounts of cash because extensive operational activities require higher cash reserves. An assessment by William & Ekadjaja (2024) shows different results, stating that large companies actually hold less cash because they enhanced connectivity to capital markets and diverse external funding channels provides these firms with greater financial leeway.

Consequently, a notable inverse relationship exists between net working capital and cash retention; as firms optimize their current assets, the perceived necessity for holding idle cash diminishes significantly. The higher the liquidity of a company's current assets, the less need there is to hold large cash reserves. Companies can utilize current assets such as accounts receivable and inventories to meet short-term obligations, so that cash reserves do not need to be increased excessively (Ibrahim et al., 2025).

Within the framework of corporate finance, Tobin's Q serves as a vital market-driven metric to gauge a firm's prospective growth potential. It reflects the market's assessment of future investment prospects, distinguishing companies that possess competitive advantages in their respective sectors. as it describes the ratio between market value and book value. Theoretically, companies with high Tobin's Q values are considered to be allocating cash for expansion and profitable investments. However, empirical findings on companies in India show that Tobin's Q has no significant effect on cash reserves. A company's decision to hold more cash is more influenced by internal factors, such as cash flow, leverage, net working capital, and capital expenditure, than by market value as represented by Tobin's Q (Sriram & Riyazahmed, 2024).

Research by Akhtar (2025) shows that capital expenditures have a negative effect on cash holdings. When companies increase capital expenditures for expansion or fixed asset purchases, most of their cash funds will be allocated to finance these investments, resulting in lower cash holdings. This finding confirms that companies are more likely to use cash to support long-term growth rather

than holding it as unproductive excess reserves.

This study adds a new variable, namely book value, to cash holdings. Book value reflects the fundamental strength of a company, thereby influencing cash holding decisions. Phan & Thi (2025) found that book value is a favorable correlation between the variable and the accumulation of liquid assets; however, this relationship fails to exert any meaningful influence over the organization's long-term liabilities. However, previous findings still show mixed results, with some studies confirming book value as a financial signal that encourages companies to hold more cash, while other studies assess that this factor is not always dominant, especially in developing markets. This condition indicates that book value can be an important factor in maintaining optimal cash reserves to deal with financial uncertainty.

Although many studies have examined the determinants of cash holdings, empirical findings remain inconsistent, particularly in developing markets such as Indonesia. Several studies report that variables such as profitability, firm size, and market value have significant effects on cash holdings, while other studies find insignificant or even opposite results. This inconsistency indicates the existence of a research gap that requires further investigation.

In addition, based on preliminary observations of financial statements of consumer goods manufacturing companies listed on the Indonesia Stock Exchange during the period 2020–2024, it can be observed that the level of cash holdings tends to fluctuate significantly between firms and across periods. Some companies hold excessively high levels of cash, which may indicate inefficiency in asset utilization, while others hold relatively low levels of cash, potentially increasing liquidity risk. This condition highlights the importance of examining the determinants of cash holdings specifically within the Indonesian consumer goods sector.

This research investigates how a diverse set of financial determinants including operational metrics (cash flow, profitability, and net working capital), market-based indicators (Tobin's Q and book value), and structural factors (leverage, firm size, and capital spending) impact the cash retention strategies of Indonesian consumer goods manufacturers. The goal is to provide deeper insights into the drivers of liquidity policy and the maintenance of institutional financial equilibrium.

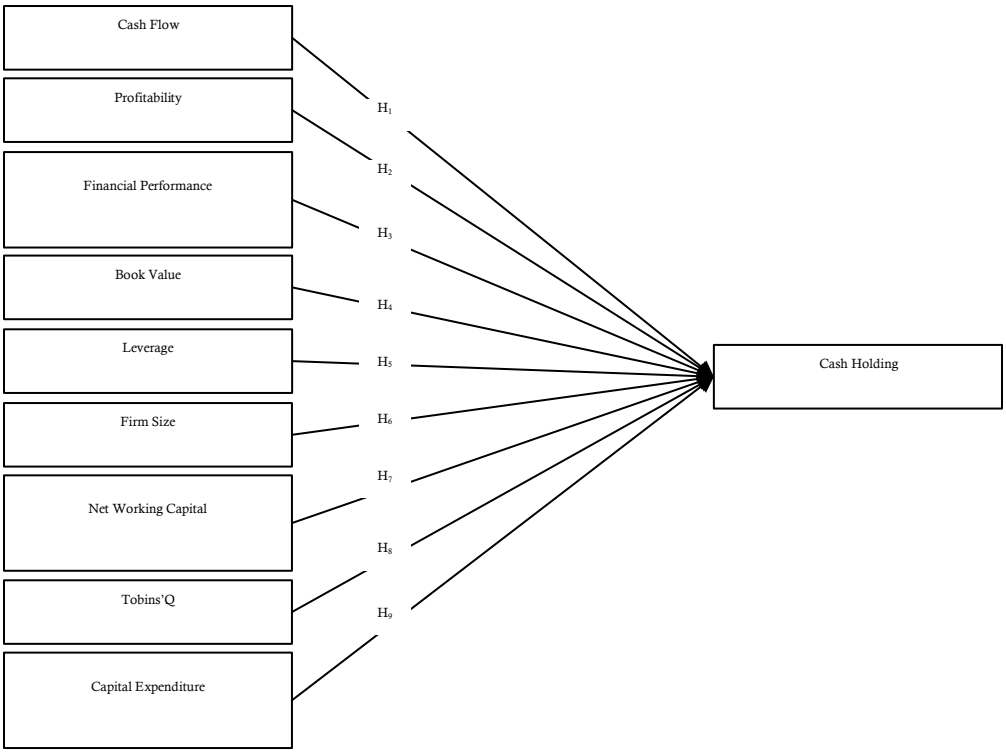

Figure 1
Conceptual Framework

Literature Review & Hypothesis

Literature Review

Cash Holding

According to Ariana et al. (2018), in a corporate context, cash holdings represent the pool of liquid assets and short-term equivalents at a firm's disposal. These resources are characterized by their instant availability, allowing for immediate deployment or rapid conversion into currency to meet pressing financial demands and are held for transaction, precautionary, or speculative purposes. In practice, cash holdings also serve as liquidity reserves to support operational continuity and investment decisions, particularly under conditions of financial uncertainty (Armelia, 2025). Regarded as the pinnacle of liquidity, cash serves as a primary barometer for an organization's capacity to fulfill immediate liabilities. To quantify this position, researchers typically utilize the cash-to-total-assets ratio, which provides a proportional view of liquid reserves relative to the firm's entire asset base (Batuman et al., 2022). On a global scale, the phenomenon of increased corporate cash holdings has shown a significant upward trend over the past decade (Powell, 2018).

Cash Flow

According to Ariana et al. (2018), cash flow illustrates the cyclical movement of funds into and out of an organization, primarily driven by its core business functions. The resulting net figure representing the surplus or deficit between inflows and outflows serves as a definitive gauge of a firm's internal capacity to maintain liquidity throughout a specific fiscal window. The measurement of cash flow is typically operationalized through the EBIT-to-total-assets ratio. This metric is utilized to evaluate a firm's operational effectiveness in transforming its asset base into liquid inflows, providing a clear picture of its internal cash-generating capacity (Batuman et al., 2022). Companies with positive operating cash flow usually have the ability to meet internal funding needs without relying on external financing, thereby maintaining the stability of their financial condition.

Financial Performance

Financial performance serves as a comprehensive benchmark for an entity's success in optimizing its bottom-line returns, orchestrating its asset base, and balancing its long-term financing mix. As noted by Fernanda et al. (2024), robust fiscal results demonstrate an organization's mastery in resource orchestration, which simultaneously serves to bolster external trust regarding the firm's long-term economic resilience. A high level of financial performance is usually followed by an increase in cash flow, which gives the company the flexibility to maintain cash as a liquidity reserve. This is in line with the findings of Wulandari et al. (2022), which explain that profitability, leverage, and liquidity influence a company's financial decisions, including its cash holding policy, because more profitable companies tend to have a higher capacity to hold cash without sacrificing investment or dividend payments.

Profitability

The metric of profitability quantifies an entity's effectiveness in deriving earnings from its primary commercial functions. Organizations characterized by superior profit margins typically possess formidable internal liquidity, as their successful operations consistently translate into a steady influx of capital robust profitability enhances a firm's market appeal, making it a more compelling prospect for potential shareholders (Steven Sean & Vidyarto Nugroho, 2022). Under the lens of agency theory, superior organizational performance serves as a beacon for stakeholder scrutiny, prompting creditors and investors to evaluate the firm's efficiency in deriving returns from its commercial and investment portfolios. Maintaining an idealized liquidity position further bolsters this dynamic by providing the necessary capital to drive incremental earnings growth (Hidayat & Oktafiana, 2022). Empirical evidence corroborates that profitability acts as a primary driver of liquidity, exerting a positive and statistically meaningful impact on cash retention. This implies that as an enterprise's earnings potential

expands, it naturally accrues a more substantial reserve of liquid assets to support its operational scale.

Book Value

Book value reflects a company's recorded value (assets minus liabilities) and is an important benchmark in showing how strong its asset structure is from an accounting perspective. A high book value is often seen as a sign that a company has a strong financial foundation to hold cash as a liquidity buffer or capital reserve. Research by Siauwijaya & Putri (2024) into the Indonesian property and real estate industry reveals that valuation benchmarks, specifically the market-to-book ratio, play a decisive role in shaping liquidity reserves. This impact is particularly pronounced when differentiating between firms with aggressive cash accumulation strategies and those maintaining leaner liquid positions (Chireka & Moloi, 2024). Under agency theory, solid performance invites stakeholder scrutiny, where maintaining ideal liquidity levels acts as a catalyst for further earnings growth follows an inverted-U pattern, whereby company value increases as cash increases up to an optimal limit, and after that limit, additional cash actually decreases company value.

Capital Expenditures

Capital expenditure is an activity carried out by a company with the aim of acquiring fixed assets, improving the efficiency of existing assets, expanding production capacity, and extending the economic life of assets that require large amounts of funds (Chandra & Susanti, 2024). Capital expenditure occurs when a company spends funds to invest in fixed assets. In the investment planning process, companies use cash to finance the procurement or improvement of assets, so companies with high levels of capital expenditure tend to spend large amounts of cash to meet these investment needs (Syanti Dewi, 2019). Substantial capital expenditures typically lead to a reduction in liquid reserves, as funds are redirected toward long-term asset investments, because asset purchases reduce available cash. Research by Margaretha & Dewi (2020) also shows that capital expenditure has a negative effect on cash holdings.

Firm Size

Firm size is operationalized through the natural log of total assets, providing a normalized scale to represent the overall magnitude of a company's resources (Batuman et al., 2022). Larger companies have a greater need for large amounts of cash. According to Naumoski & Bucevska (2022), the most relevant explanation for these research results is based on pecking order theory, considering that large companies have entered a mature stage where cash is obtained from income that is greater than investment needs. Firm size reflects the scale and financial strength of a company, where large companies are generally perceived as more stable, thereby increasing investor and creditor confidence in investment and financing decisions (Kalsum, 2025).

Leverage

Leverage characterizes the strategic utilization of borrowed capital to sustain a firm's growth initiatives and manage its daily functional expenditures. According to Saragih and Sembiring (2019), leverage is a ratio and is usually applied by entities in evaluating business performance that covers all short-term and long-term debts (Martin, 2020). Companies with high leverage are heavily dependent on external loans, while low leverage indicates that more funding comes from their own capital. The use of debt can increase investment capacity, but it also increases financial risk due to interest expenses and debt repayment obligations. Batuman et al. (2022) states that leverage is closely related to cash management because highly leveraged companies must maintain liquidity to meet their short-term obligations.

Net Working Capital

Net working capital represents the segment of liquid assets designated for maintaining a firm's short-term functional obligations and daily business processes particularly in meeting short-term obligations such as debt payments and operational costs (Liadi, 2018). Net working capital serves as an alternative to cash holdings because it can be easily converted into cash when needed (Martin, 2020). According to Batuman et al. (2022), net working capital is measured by subtracting cash from current assets and reducing current liabilities, then dividing the result by total assets after deducting cash. Wulandari et al. (2022) also explains that net working capital is essentially a substitute for cash, as it can be immediately liquidated to meet funding needs when necessary.

Tobin's Q

Tobin's Q describes the extent to which the market assesses the value of a company compared to the value of its assets, making it an important indicator in assessing investment potential and company financial policy. Companies with high Tobin's Q values generally have greater growth prospects and tend to hold more cash to fund investments without relying on external sources. Research by Chireka & Moloi (2024) underscores the interdependency between a firm's cash position and its operational success, revealing a critical correlation between liquidity and corporate growth value as measured by Tobin's Q is non-linear, meaning that an increase in cash can raise company value up to a certain point, but after passing that optimal point, company value actually decreases. In addition, Theissen et al. (2023) asserts that companies with high Tobin's Q values obtain marginal returns from retained cash, indicating that the market gives a positive assessment of cash retention policies in companies with high growth opportunities.

Hyphotesis

The Effect of Cash Flow on Cash Holdings

According to research by Sriram & Riyazahmed (2024), robust operational cash flows facilitate the

accumulation of liquid reserves, establishing a favorable impact on a firm's overall cash position. Similar results were also found in research by Batuman et al. (2022), which found that cash flow contributes positively to a company's cash holdings. Research by Naumoski & Bucevska (2022) suggests that firms generating surplus cash flow are more inclined to build substantial liquid reserves. Drawing from these insights, the subsequent hypothesis has been formulated:
H1: Cash flow has a positive and significant effect on cash holding**.**

The Effect of Profitability on Cash Holding

Research by Nak et al. (2025) found that profitability contributes positively to cash holding levels because companies with high profits tend to retain more cash to support funding flexibility. Based on research by Yilmaz (2024), the analysis demonstrates that profitability lacks a statistically meaningful impact on liquid reserves, suggesting that earnings levels do not dictate how much cash a firm retains. Meanwhile, research by Al Barak (2025) reaffirms that profitability remains an important determinant of cash holding policy, especially in manufacturing companies in Saudi Arabia that hold cash as protection against risks and investment opportunities. Based on this research, the following hypothesis was developed:
H2: Profitability has a positive and significant effect on cash holdings.

The Effect of Financial Performance on Cash Holdings

According to research by Yilmaz & Samour (2024), there is a favorable nexus between fiscal success and liquidity retention, where improvements in financial results align with an expansion of cash reserves. Research conducted by Nguyen et al. (2024) provides evidence of a concave relationship between liquidity and firm value. While adequate reserves enhance market valuation, an overabundance of cash often triggers operational inefficiencies that diminish overall corporate worth. Meanwhile, research conducted by Wildiany et al. (2022) confirms that cash reserves are significantly bolstered by superior financial performance. Drawing upon these findings, we have formulated the following hypothesis:
H3: Financial performance has a positive and significant effect on cash holdings.

The Effect of Book Value on Cash Holdings

Research conducted by Phan & Thi (2025) proves that book value has a positive and significant effect on cash holdings. Research by Cindy & Wati Keristin (2025) states that the market-to-book ratio is an important factor in cash holding policy because companies with high valuations prefer to hold cash to support their growth strategies. Meanwhile, research by Magerakis et al. (2020) demonstrates that valuation premiums, expressed through the market-to-book ratio, considerably strengthen liquidity

reserves. Consequently, this study proposes the following hypothesis:
H4: Book value has a positive and significant effect on cash holdings.

The Effect of Leverage on Cash Holdings

Research conducted by Sriram & Riyazahmed (2024) indicates that higher debt levels often necessitate larger liquidity cushions, creating a positive correlation between leverage and cash retention. Based on the results of research by Al Barak (2025), the analysis confirms that leverage serves as a significant determinant of liquidity, demonstrating a positive correlation where increased debt levels correspond with higher cash retention. However, research by Batuman et al. (2022) demonstrates that leverage exerts an inverse influence on liquid reserves, suggesting that debt acts as a substitute for cash. Consequently, this study formulates the following hypothesis:
H5: Leverage has a positive and significant effect on cash holdings.

The Effect of Firm Size on Cash Holdings

Research conducted by Sriram & Riyazahmed (2024) demonstrates a neutrality between organizational scale and liquidity, suggesting that firm size lacks a statistically meaningful impact on cash retention. This indicates that an enterprise's total assets do not serve as a reliable predictor of its liquid reserves. Based on research by Al Barak (2025), the analysis validates that corporate scale serves as a decisive determinant of liquidity, demonstrating that firm size exerts a statistically meaningful influence on cash retention. Based on research by Yilmaz (2024), empirical evidence demonstrates that corporate magnitude exerts an inverse influence on liquidity, suggesting that larger entities manage with leaner cash reserves. In light of these findings, the following hypothesis has been established:
H6: Firm size has a negative and significant effect on cash holdings.

The Effect of Net Working Capital on Cash Holdings

Research conducted by Al Barak (2025) proves that net working capital has a negative and significant effect on cash holdings. Research by Sriram & Riyazahmed (2024) confirms that net working capital has a negative impact on cash holdings because components such as current assets such as accounts receivable and inventory can serve as a substitute for cash. Research by Batuman et al. (2022) also confirms that net working capital has a negative impact on cash holdings. Based on this research, the following hypothesis was developed:
H7: Net Working Capital has negative and significant effect on cash holdings.

The Effect of Tobin's Q on Cash Holdings

Research by Sriram & Riyazahmed (2024) proves that Tobin's Q has no significant effect on cash holdings. Meanwhile, research by Yilmaz & Samour (2024) confirms that Tobin's Q consistently has a positive effect on cash holdings. According to research by Tan & Aksoy-Hazır (2022), empirical findings indicate that

Tobin's Q exerts an inverse and statistically meaningful influence on liquid reserves. Drawing upon the premise that market valuation shapes corporate liquidity strategies, the subsequent hypothesis has been formulated:
H8: Tobin's Q has a positive and significant effect on cash holdings.

The Effect of Capital Expenditure on Cash Holdings

Evidence from Sriram & Riyazahmed (2024) along with Phan & Thi (2025), consistently indicates that capital expenditure (CAPEX) serves to deplete liquid reserves. This inverse relationship is further validated by Yilmaz (2024) whose findings confirm that substantial investment in fixed assets exerts a statistically significant downward pressure on cash retention. Consequently, the following hypothesis has been established:
H9: Capital expenditure has a negative and significant effects on cash holding

Research Method

This study uses a quantitative method with a panel data plan regression approach to analyze the effect of cash flow, profitability, financial performance, book value, leverage, firm size, net working capital, Tobin's Q, and capital expenditure on cash holdings. The data used is secondary data in the form of financial reports of consumer goods manufacturing companies listed on the Indonesia Stock Exchange. The sample selection was conducted using purposive sampling techniques because this study requires samples that meet specific criteria relevant to the research objectives, such as companies that consistently publish complete financial statements during the 2020-2024 period. Therefore, purposive sampling ensures the selected samples provide valid and reliable data for analysis. The sample criteria are presented in Table 1.

Table 1
Sampling Criteria

Description	Number
Manufacturing companies in the consumer goods sector listed on the IDX for the period 2020-2024	99
Manufacturing companies in the consumer goods sector with incomplete data in this study	(66)
Manufacturing companies in the consumer goods sector that are suitable as samples	33
Total data used for research (33 Company × 5 years)	165

The measurement of variables in this study is shown in the table below:

Table 2
Variables Measurement

Variable	Measurement
CH	Cash and Cash Equivalent / Total Assets
CF	Operating Profit / Total Assets
ROA	Net Profit / Total Assets
EPS	(Net income – Preferred Dividends) / Weighted Average Shares Outstanding
BV	Total Equity / Total Assets
LV	Total Liabilities / Total Assets
FZ	$Ln\,(Total\ Assets)$
NWC	(Current Asset – Current Liabilities) / Total Assets
TQ	(Equity Market Value + Book Value of Debt) / Book Value of Total Assets
CAPEX	Capital Expenditure / Total Assets

Data processing is facilitated through Eviews-9, employing multiple linear regression analysis to assess how a combination of independent and control factors influences the dependent variable.

The Chow test was conducted to evaluate whether a common effect model or a fixed effect approach provides a more statistically robust fit for the panel data analyzed in this study.

Upon the Chow test favoring the fixed effect model (FEM), a subsequent Hausman test was performed. This second diagnostic stage was essential to distinguish whether the FEM or the REM offered the most statistically valid representation of the data.

The adjusted R^2 value is analyzed within the coefficient of determination test to assess the degree of explanatory power the independent variables exert over the dependent variable. This metric provides a refined measure of how well the model's predictors account for variations in the outcome.

The F-statistic is utilized to assess the simultaneous significance of the model, determining if at least one predictor within the group exert a statistically meaningful influence on the dependent variable.

The t-test, often referred to as a partial significance test, is employed to ascertain whether each predictor, when considered in isolation, exerts a statistically meaningful influence on the dependent variable.

Results and Discussion

Statistic Descriptive Analysis

Table 3
Descriptive Statistics

	Mean	Maximum	Minimum	Std. Dev.
Cash Holding (CH)	0.136233	1.382190	-0.14728	0.167409
Cash Flow (CF)	0.086283	0.500400	-0.43750	0.135274
Profitability (ROA)	0.073210	0.600000	-0.45896	0.117828
Financial Performance (EPS)	192.9696	3945.612	-662.6984	507.7607
Book Value (BV)	0.919320	47.50913	0.064910	3.672309
Leverage (LEV)	0.420695	4.716630	0.014480	0.420417
Firm Size (SIZE)	28.61893	32.93787	24.60427	1.893023
Net Working Capital (NWC)	0.282553	1.896970	-0.57988	0.291748
Tobin's Q (Q)	2.143199	14.41439	0.359210	1.990156
Capital Expenditures (CAPEX)	0.035170	0.192020	0.000240	0.034376

Descriptive analytics for the 165 data points reveal a mean Cash Holding (CH) of 0.1362, with values fluctuating between a peak of 1.3822 and a low of –0.1473. A standard deviation of 0.1674, which marginally exceeds the average, suggests a notable degree of dispersion or heterogeneity in liquidity levels across the sampled firms. This condition reflects differences in firms' liquidity management strategies and internal financial conditions, which are consistent with trade-off theory and pecking order theory, suggesting that firms determine optimal cash levels based on risk considerations, financing costs, and the availability of internal funds.

The Cash Flow (CF) metric averages 0.0863, with individual data points spanning a broad spectrum from a minimum of –0.4375 to a maximum of 0.5004. The standard deviation of 0.1353, which exceeds the mean, highlights substantial volatility in cash flow performance among the firms within the sample.

This variation indicates differences in firms ability to generate internal liquidity from operating activities, where according to pecking order theory, firms with stronger internal cash flows tend to retain more cash and reduce reliance on external financing.

Furthermore, profitability as measured by ROA reflects a mean of 0.0732, with observations ranging from a deficit of –0.4590 to a peak of 0.6000. The recorded standard deviation of 0.1178, which surpasses the average, underscores the divergent profitability profiles among the firms in this study. This condition reflects differences in firms efficiency in utilizing assets to generate profits, which is consistent with prior empirical studies reporting mixed results on the relationship between profitability and cash holding, indicating that profitability is not

always the primary determinant of cash holding decisions.

Assessed through Earnings per Share (EPS), the financial performance metric yields a mean of 192.9696. The data exhibits a vast range, from a low of –662.6984 to a high of 3,945.612. A standard deviation of 507.7607 which substantially outweighs the average underscores the stark contrasts in earnings capabilities among the surveyed firms. These differences indicate variations in firms' overall financial conditions, where companies with stronger financial performance generally have greater flexibility to maintain cash reserves as a precautionary measure against uncertainty.

The Book Value (BV) metric averages 0.9193, yet exhibits a broad range of values from a minimum of 0.0649 to a peak of 47.5091. The recorded standard deviation of 3.6723 which significantly outpaces the mean highlights a high degree of cross-sectional variance in the net worth profiles of the sampled firms. This variation reflects differences in firms' equity structures and accounting-based asset strength, which prior studies describe as a financial signal that may influence cash holding policies, although its impact is not always dominant.

The leverage (LEV) ratio across the sample averages 0.4207, ranging from a low of 0.0145 to a high of 4.7166. Notably, the standard deviation of 0.4204 is nearly identical to the mean, suggesting that the debt-to-asset levels among the surveyed companies are relatively uniform. This suggests that most firms apply similar debt policies, where leverage is closely related to cash management decisions as firms must maintain sufficient liquidity to meet their debt repayment obligations.

The Firm Size (SIZE) metric averages 28.6189, with values contained within a range of 24.6043 to 32.9379. A standard deviation of 1.8930 which is notably low relative to the mean suggests that the companies in the sample possess consistent scales of operation, reflecting a homogeneous size distribution. This indicates that differences in cash holding behavior are less likely driven by firm size disparities and are more influenced by other internal financial characteristics examined in this study.

The Net Working Capital (NWC) variable averages 0.2826, with observations spanning from a low of 0.5799 to a high of 1.8970. Given that the standard deviation (0.2917) aligns closely with the mean, it suggests a relatively uniform distribution of working capital positions among the firms within the study. The presence of negative minimum values suggests that some firms experience liquidity constraints, and consistent with prior studies, net working capital may act as a substitute for cash because other current assets can be readily converted into liquidity when needed.

The Tobin's Q (Q) ratio across the sample averages 2.1432, with observations ranging from a minimum of 0.3592 to a peak of 14.4144. With a standard deviation of 1.9902 which approximates the mean the data suggests that market-to-replacement cost valuations among these firms are

relatively uniform. This condition reflects differences in firms' growth opportunities, where companies with higher growth prospects tend to retain more cash to finance future investments without relying on external funding.

Lastly, Capital Expenditure (CAPEX) metrics yield a mean of 0.0352, with individual observations spanning from a minimum of 0.0002 to a peak of 0.1920. A standard deviation of 0.0344, which is marginally lower than the average, suggests that the investment intensity among the sampled firms is relatively uniform. This finding is consistent with prior studies suggesting that capital expenditures represent the use of cash for long-term investment purposes, which tends to reduce the level of cash retained by firms.

Regression Test (Model Selection)

Chow Test

Table 4
Chow Test

Cross Section Chi-square	d.f.	Prob.
224.926608	32	0.0000

Source: Processed Data

Based on the Chow test results detailed in Table 4, the cross-sectional chi-square yielded a p-value of 0.0000. Since this value is well below the 0.05 alpha level, the null hypothesis is rejected, confirming that the FEM is more statistically appropriate than the common effect alternative.

Hausman Test

Table 5
Hausman Test

Cross Section Chi-square	d.f.	Prob.
224.926608	32	0.0000

Source: Processed Data

As evidenced by the Hausman test in Table 5, the p-value (0.0111 < 0.05) justifies the rejection of the null hypothesis in favor of Ha. This statistical evidence indicates that individual effects are correlated with the regressors, necessitating the use of the FEM over the REM.

Adjusted R^2 Test

Table 6
Adj.R^2 Test

R^2	Adjusted R^2
0.885966	0.847955

Source: Processed Data

The Adjusted R-squared value of 0.847955 shown in Table 3 indicates that approximately 84.80% of the fluctuations in cash holding can be attributed to the combined influence of the independent and control variables. This suggests that factors such as cash flow, profitability, and net working capital provide a strong explanatory power, while only 15.20% of the variance is influenced by external factors excluded from this specific regression.

F-Test

Table7
F-Test

F-statistic	Prob(F statistic)
42.30903	0.000000

Source: Processed Data

Based on the data in Table 7, the p-value of F is 0.000000 < 0.05, which means that Ho is rejected, proving that at least one independent variable has a significant effect on the dependent variable.

T-Test

Table 8
T-Test

Variable	Coeffiesien	Prob.	Conclusion
CF	0.208653	0.0015	Positive Significant
ROA	-0.137425	0.0554	No Significant
EPS	0,0000107	0.3189	No Significant
BV	0.000367	0.4069	No Significant
LEV	0.063303	0.0028	Positive Significant
SIZE	-0.074032	0.0010	Negative Significant
NWC	0.342657	0.0000	Positive Significant
Q	0.011763	0.0324	Positive Significant
CAPEX	-0.567388	0.0055	Negative Significant

Source: Processed Data

Based on the results of the t-test (partial test), it can be concluded that not all independent variables have a significant effect on Cash Holding. The Cash Flow (CF) variable has a positive and significant effect on Cash Holding, as indicated by a probability value of 0.0015 < 0.05. This result shows that higher cash flow leads to higher cash holdings. Therefore, H1 is accepted.

The Profitability (ROA) variable has a negative coefficient and is not statistically significant, with a probability value of 0.0554 > 0.05. This indicates that profitability does not have a significant effect on Cash Holding. Thus, H2 is rejected.

The Financial Performance (EPS) variable does not have a significant effect on Cash Holding, as shown by a probability value of 0.3189 > 0.05. This indicates that financial performance is not a key determinant of cash holding decisions. Therefore, H3 is rejected.

The Book Value (BV) variable has a positive coefficient but is not statistically significant, with a probability value of 0.4069 > 0.05. This indicates that book value does not significantly affect Cash Holding. Thus, H4 is rejected.

The Leverage (LEV) variable has a positive and significant effect on Cash Holding, with a probability value of 0.0028 < 0.05. However, the direction of the coefficient does not align.

The Firm Size (SIZE) variable has a negative and significant effect on Cash Holding, as indicated by a probability value of 0.0010 < 0.05. Since the direction of the coefficient is not consistent with the initial hypothesis, H6 is rejected.

The Net Working Capital (NWC) variable has a positive and significant effect on Cash Holding, with a probability value of 0.0000 < 0.05. This result indicates that firms with higher net working capital tend to

retain more cash. Therefore, H7 is accepted.

The Tobin's Q (Q) variable has a positive and significant effect on Cash Holding, as indicated by a probability value of 0.0324 < 0.05. This suggests that firms with higher growth opportunities tend to hold more cash to support future operational and investment activities. Thus, H8 is accepted.

The Capital Expenditure (CAPEX) variable has a negative and significant effect on Cash Holding, with a probability value of 0.0055 < 0.05. This indicates that an increase in capital expenditure reduces cash holding as cash is used to finance investment activities. Since the direction of the effect is consistent with the proposed hypothesis, H9 is accepted.

Regression Model

Consistent with the methodologies established in prior research, the panel data regression framework is formulated as follows:

$$CH_{it} = 2.115887 + 0.208653CF_{it} - 0.137425PROF_{it} + 0.0000107FP_{it} + 0.000367BV_{it} + 0.063303LV_{it} - 0{,}74032SIZE_{it} + 0.342657NWC_{it} + 0.011763TQ_{it} - 0.0567388CAPEX_{it}$$

Conclusion and Recommendation

Conclusion

This study shows that cash holding policies in Indonesian consumer goods manufacturing companies are significantly influenced by several internal factors and company growth opportunities. Cash flow, net working capital, leverage, and Tobin's Q variables have been proven to have a significant effect on cash holding, confirming that internal liquidity conditions, funding structure, and growth expectations are the main considerations for companies in determining the level of cash to be held. In addition, capital expenditures and firm size also have a significant negative effect, indicating that larger companies with high investment activities tend to use cash for operational and investment purposes rather than holding it as reserves.

On the contrary, profitability, financial performance, and book value failed to demonstrate a statistically significant impact on cash holdings. This lack of correlation suggests that a firm's capacity for profit generation, its market earnings, and its net asset value do not serve as primary drivers for cash accumulation strategies, market-based financial performance, and accounting value are not necessarily the main basis for cash holding decisions. Overall, the results of this study confirm that cash holding decisions are driven more by liquidity needs and growth strategies than by profitability indicators alone. However, this study is limited to consumer goods companies listed on the Indonesia stock Exchange with a specific observation period determined by data availability. This limitation was established from the outset as part of the research design; therefore, the findings cannot be generalized to other industrial sectors or different observation periods.

Recommendation

Based on the results of the study, company management is advised to focus its cash management policies more on strengthening operational cash flow and optimizing net working capital so that liquidity levels can be maintained without creating unproductive cash surpluses. Companies also need to balance capital expenditure decisions with cash holding policies so that investment activities do not reduce short-term financial flexibility. For investors and analysts, consequently, these findings suggest that stakeholders should prioritize liquidity dynamics and expansion potential when evaluating a firm, rather than focusing exclusively on bottom-line profitability metrics.

It is suggested that future research expands the industry coverage and observation period while introducing new dimensions like governance and macroeconomic factors. Such expansions are vital to capture a broader spectrum of cash management determinants and to strengthen the overall applicability of the empirical results.

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