

**CASH HOLDINGS, OWNERSHIP STRUCTURE,  
CORPORATE GOVERNANCE AND FIRM VALUE**



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**Universiti Utara Malaysia**

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**CASH HOLDINGS, OWNERSHIP STRUCTURE, CORPORATE  
GOVERNANCE AND FIRM VALUE**

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## ABSTRAK

Kajian ini mengkaji hubungan antara pegangan tunai, pemilikan pengurusan, pemilikan keluarga, pemilikan kerajaan, saiz lembaga pengarah, komposisi lembaga pengarah dan prestasi syarikat dengan menggunakan syarikat perkilangan yang disenaraikan di Indonesia sebagai sampel dari tahun 2011 sehingga 2014. Model kesan tetap and model kesan rawak digunakan bagi menganalisis hubungan di antara pembolehubah-pembolehubah. Hasil kajian yang didapati telah menunjukkan bahawa pegangan tunai, pemilikan keluarga, dan pemilikan kerajaan mempunyai hubungan yang negatif dengan nilai syarikat tersebut. Pegangan tunai yang berlebihan adalah satu tanda yang menunjukkan bahawa sesebuah syarikat itu bertindak untuk menyimpan tunai dan tidak membayar dividen dan terdapat kemungkinan dimana tunai tersebut digunakan untuk faedah yang lain dan ia bukan merupakan di dalam lingkungan minat pemegang saham. Hubungan negatif yang ditunjukkan oleh pemilikan keluarga mungkin disebabkan syarikat tidak diuruskan secara professional. Untuk pemilikan kerajaan, hubungan yang negatif mungkin mencadangkan bahawa kerajaan berminat untuk memenuhi agenda sosial daripada memaksimumkan keuntungan. Hubungan yang positif ditunjukkan oleh saiz lembaga pengarah. Mempunyai jumlah lembaga pengarah yang tinggi akan meningkatkan prestasi syarikat. Kajian ini juga menunjukkan hubungan di antara pembolehubah-pembolehubah di papan pembangunan dan papan utama di dalam Bursa Efek Indonesia. Kesan yang lebih signifikan ditunjukkan oleh papan pembangunan berbanding papan utama.

Kata kunci: pegangan tunai, struktur pemilikan, tadbir urus korporat, nilai syarikat, Indonesia

## ABSTRACT

This study investigates the relationship between cash holdings, managerial ownership, family ownership, government ownership, board size, board composition and firm performance by taking Indonesian manufacturing publicly listed firms as the sample over the period from 2011 to 2014. Fixed effect model and random effect model are employed to analyse the relationship between those variables. The findings of this study reveal that cash holdings, family ownership, and government ownership are negatively correlated with firm value. The excess cash holdings are a sign that the firm tends to retain the cash rather than pay it via dividends and there is a possibility that the cash is employed for non-pecuniary benefits which is not analogous to the shareholders' interest. The negative relationship shown by family ownership might suggest that the firm is not being managed professionally. For government ownership, the negative relationship might indicate that the government is interested in fulfilling the social agenda rather than maximizing profit. The positive relationship is only exhibited by board size. Having a higher number of board members will increase the performance. This study also presents the relationship of variables among main board and development board in Indonesia Stock Exchange. A more significant impact is perceived by the development board firms rather than main board firms.

Keywords: cash holdings, ownership structure, corporate governance, firm value, Indonesia

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# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the Study

The value of the firm is one of the essential indicators that signify how well the company is doing its business. Firm value, literally, is an economic measure that reflects the market value of the company's whole business (Investopedia.com, 2015). To achieve higher market value, all activities of the firm have to take shareholders' interest into consideration which means the policies that are made by the company have to align with the shareholders' interest to prevent the plummet of the firm value (Ficici & Aybar, 2012). Regarding that case, the amount of cash holdings, ownership structure, and corporate governance issues might play a role in enhancing the firm value due to these variables are very related with the shareholders.

Several studies have shown that the escalation of cash holding has an influence over the firm value. Opler, Pinkowitz, Stulz, and Williamson (1999) claim that the maximum shareholder wealth could be achieved if the cash reserve is at a level that the marginal cost of cash reserve equals the marginal profit of those reserves. Implicitly, cash holdings can have either a poor or a strong impact on the firm value because it influences the liquidity of the firm. The benefit of keeping liquid assets as a reserve means that the firms can use these assets to finance the future project and hence, it can reduce the cost of capital whenever the firms want to raise funds to be invested in a new project. On the contrary, Jensen (1986) exhibits that the cash holdings can bring an agency cost because managers prefer to disgorge the excess

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