FOREIGN INSTITUTIONAL OWNERSHIP AND CASH HOLDINGS IN INDONESIA CAPITAL MARKET

Ramadhani Chandra
Annisaa Rahman *
Universitas Andalas, Jl. Limau Manis, Kecamatan Pauh, Padang, Indonesia
**annisaa.rahman@gmail.com*

A R T I C L E I N F O

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A B S T R A C T

Research Purpose. *The purpose of research is analyzing the effect of foreign institutional ownership on cash holding, based on precautionary motive.*
Research Method. *This research uses quantitative methods, with single independent variables (foreign institutional ownership). Cash holding (dependent variable) measured using the formula logaritma cash and cash equivalents. Population used in the study is all non-financial companies listed on the Indonesia Stock Exchange 2017-2019. The purposive sampling method used and obtained 1170 firm-year samples. Secondary data sourced from annual reports and financial statement and data analyzed using multiple linear regression analysis with variabel control (leverage).*
Research Result and Findings. *The results of this study indicate that the foreign institutional ownership has positive effect on cash holding.*

A B S T R A K

Tujuan Penelitian. *Tujuan penelitian adalah menganalisis efek kepemilikan institusional asing pada cash holding, berdasarkan precautionary motive.*
Metode Penelitian. *Penelitian ini menggunakan metode kuantitatif, dengan variabel independen tunggal (kepemilikan institusional asing). Cash holding (variabel dependen) diukur dengan menggunakan rumus logaritma dari total cash and equivalent cash. Variabel independen yang digunakan dalam penelitian ini adalah foreign institutional ownership. Populasi yang digunakan adalah seluruh perusahaan non keuangan yang terdaftar di Bursa Efek Indonesia tahun 2017-2019. Metode purposive sampling digunakan dan diperoleh sampel 1170 firm-year. Data sekunder bersumber dari laporan tahunan dan laporan keuangan serta data dianalisis menggunakan analisis regresi linear berganda dengan variabel control (leverage).*
Hasil dan Temuan Penelitian. *Hasil penelitian menunjukkan bahwa kepemilikan institusional asing berpengaruh positif signifikan terhadap cash holding.*

INTRODUCTION

The current condition of high economic uncertainty due to the pandemic is a problem for the company. These conditions changed the views of companies on the importance of maintaining their liquidity. Companies will try to minimize liquidity risk and tend to be more conservative when managing the company's cash holdings (Ridha et al., 2019). Previous result indicates that the average ratio of cash value to company assets is relatively high. Companies in the United States in 2006 recorded 23.2% (Bates et al., 2009) in countries that are members of the Economy and Monetary Union (EMU) at 14.08% (Bates et al., 2009) and in China from 1998-2009 at 16.9% (Alles et al., 2012). Companies have ratio of cash value for about 12% in Singapore and Malaysia during 1999-2000 (Kusnadi, 2011), while five other ASEAN countries (Indonesia, Malaysia, Singapore, the Philippines and Thailand) have ratio at 12% during 2001-2005 (Lee & Lee, 2009). In Southeast Asia, Indonesia is said to maintain a high cash ratio of 12.13%, although it is slightly lower than the average of other countries (Vietnam 12.54%, Malaysia 13.28%, Singapore 19.02%). Some literature argues that maintaining a high liquidity ratio is viewed as an irrelevant decision. It's because company can easily raise funds , in a perfect capital market for financing business projects at negligible transaction costs, shareholders' equity remains constant while liquid assets are reinvested (Guizani, 2017).

A survey conducted during the Covid-19 pandemic by the ILO (International Labor Organization) in April 2020 in the ILO SCORE Indonesia program of 571 companies, found that around 90 percent of the companies surveyed experienced financial problems. This condition of uncertainty is expected to affect the cash reserves held by the company. Although cash reserves will determine the company's long-term growth trajectory and give companies a competitive advantage for those who have sufficient reserves to cover any economic uncertainties that occur. However, several previous studies found that the global financial crisis was an exogenous shock to the company's liquidity policy because it resulted in severe external constraints (Tran, 2020; Tran et al., 2017), so it certainly because difficulties for companies to hold high cash.

Cash holding is defined as cash on hand or readily available for investment in physical assets and distributed to investors (Gill & Shah, 2012). Cash holding is the company's main decision that provides liquidity for companies for their operational needs. Cash holdings refer to short-term investments that can be converted into funds with minimal risk. Cash holding also refers to funds (funds), deposits in banks or financial institutions, and foreign currency (Anabestani & Shourvarzi, 2014). Cash holding allows for optimal investment timing and to avoid underpricing problems in external funding (Cossin & Hricko, 2004). Cash is an important asset for the company and should be of great concern to the company in its management. Much literature has appeared to investigate the determinants of this cash (Selcuk & Yilmaz, 2017; Mawardi & Nurhalis, 2018).

According to Bates et al. (2009), there are four main motives for companies to hold cash, namely, First, the transaction motive, related to the company's need for a certain amount of cash balance needed to cover payments related to their daily business operations. Second, the precautionary motive, related to the company's intention to protect itself from uncertain future events. To protect against this uncertainty, companies create cash reserves to finance possible unexpected expenses in the future when the company's cash flow is poor. The third is the speculative motive in which companies deposit speculative money in their accounts to take advantage of profit-generating opportunities in the future, usually the result of price volatility. Fourth, the agency motive, Jensen (1986) explains that managers retain cash owned by companies and tend to delay paying dividends to shareholders first when companies have small investment opportunities. Often not in line with the goal of increasing shareholder wealth, managers tend to use existing cash for their own benefit.

This research will focus on cash holdings with the perspective of precautionary motive and agency motive. From a precautionary motive perspective, saving cash helps reduce corporate financing constraints and external risks when future uncertainties increase (Han & Qiu, 2007; Ang & Smedema, 2011), which in the long term is more likely to help avoid liquidity dilemmas (Bloom et al., 2007). Aebischer et al. (2016), show that over the past three decades, there has been an increase in corporate concerns regarding access to the capital market to obtain external funds, which makes precautionary motives the main consideration in future decisions about how much money one should have. From the perspective of agency motives, managers tend to save cash rather than distribute it to shareholders. Research by Amees et al. (2015) explained that cash storage creates the potential for misuse of company cash by managers who are selfish and pursue personal gain, which hinders the good corporate governance system.

Openness to financial information has brought important changes to the capital market architecture. Financial liberalization has made a major contribution in integrating markets of developing country capital with the global financial system, that mostly driven by foreign investors, to seek diversification opportunities in developing countries (Loncan, 2018) so that it is important to balance the company's cash balance. To see the impact on cash holdings, the focus of this research is on foreign institutional ownership in the context of the company's capital structure. Vo (2018) stated that high cash reserves driven by high foreign ownership because they adopt high cash holdings practice. Recently, during the global financial crisis, Tran (2020) found that due to external financial boundaries, companies consume more money than they collect. Therefore, there is a question whether foreign investors were effective in enforcing this practice during crisis periods?

This research contributes to knowledge foreign institutional ownership will affect corporate behavior, investigates whether and how foreign investors influence financing decisions through corporate cash holdings policies. The company's capital structure literature shows that companies with greater foreign institutional ownership can benefit in terms of active monitoring/supervision carried out and thereby reducing agency conflicts. When a company's growth prospects are poor, investors force managers to pay cash reserves and distribute them to shareholders. This governance mechanism is consistent with the surveillance hypothesis (Kuan et al., 2012; Belghitar & Khan, 2013).

Alternatively, foreign institutional ownership allows management to hold more cash reserves to fund corporate investment opportunities and support the unpredictable volatility of cash flows during downturns. you may be prompted to do so. The alternative is therefore subject to a precautionary motive of holding cash (Vo, 2018).

Foreign institutional ownership and cash holding have been studied by Khan et al. (2016) which shows that institutional ownership affects cash holdings and shows a positive direction, in which the higher the percentage of institutional ownership, the higher the company's cash holdings. In line with that, Phaiboonvessawat & Thanatawee (2020) show higher foreign institutional ownership are related with more cash holdings (positive relationship). These findings suggest that foreign institutional investors may encourage Thai firms' managers to reserve more cash, to hedge against the risk of unexpected cash flows and to increase investment opportunities that increase value with a precautionary motive. This finding inconsistent with Kuan et al. (2011) and Devi (2019) findings who found significantly negative effect of foreign institutional ownership on cash holdings, which increases foreign institutional ownership within the company, giving it a supervisory role. active cash holdings thereby reducing the tendency of companies to hold cash.

Some contributions are expected to be made by this research. This research provides additional empirical evidence on how foreign ownership influences the company's cash holdings policy, particularly in emerging markets. This research can be considered in providing empirical conclusions on the research of (Nguyen Thi et al., 2021) who conducted research in other developing countries, namely Vietnam and Phaiboonvessawat & Thanatawee (2020) in Thailand. In the theoretical aspect, this study enriches the study of accounting research in the capital market. In the practical aspect, this research is expected to provide benefits for companies in managing cash holdings so they can maximize profits because cash holdings is one of the company's strategies in the financial sector.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Literature Rwview

Agency Theory

Jensen's research (1986) explains that agency problems are caused by management wanting to benefit themselves and causing losses to shareholder wealth (Wang, 2010). The agency theory existence is based on the principal (shareholder) and the agent (board member) relations, which arises as a result of the separation of ownership and control of a business entity, so that the shareholder appoints a member of the board to ensure an atmosphere of discipline, timely arrangement of strategic plans and achievable, and effective control of the management team, thus ensuring the company's performance will lead to the maximization of shareholder value (Anabestani & Shourvarzi, 2014). For this reason, it is important to ensure good governance of the company's cash by investing it into profitable ventures.

Cash Holdings

Cash holdings play an important role in company policy. In fact, holding cash is the most common thing for companies to ensure liquidity. Cash holdings are the company's main decision to provide liquidity for companies for their operational needs. Cash holdings are cash on hand or readily available for investment in physical assets and for distribution to investors (Gill & Shah, 2012). Cash holdings refer to short-term investments that can be converted into funds with minimal risk. Cash holdings also refer to funds (funds), deposits in banks or financial institutions, and foreign currencies (Anabestani & Shourvarzi, 2014). Cash holding allows optimal investment time and to avoid underpricing problems in external funding (Cossin & Hricko, 2004) as well as to cover sudden company needs that may occur in the future.

Cash holdings are closely related to the company's financing options. Cash holdings can be used to make profitable investment opportunities (Ferreira & Vilela, 2004), such as reducing the cost of external financing, to pay debts during economic difficulties (Acharya et al., 2007) and are a source of funding during financial distress (Campello et al., 2011). Cash holding is also related to risk management strategies. As a risk management media, cash can reduce the volatility of cash flows or reducing financial risks that can affect the company's prospective earnings (Acharya et al., 2007). Cash holdings provide companies with financial independence, enabling management to manage profitable opportunities with limited external interference (Boubaker et al., 2015).

Foreign Institutional Ownership

Foreign institutional ownership is the proportion of company share ownership owned by individuals, legal entities, the government and their parts with foreign status through direct purchases from companies or through the Indonesia Stock Exchange. Foreign institutional ownership of companies is a party that will pay great attention to improving corporate governance.

According to the corporate governance literature, large shareholders such as institutional investors are likely to prefer to invest in companies with good corporate governance, and these institutional investors have inherited corporate governance and actively more likely to exercise oversight and discipline, and as a result shareholder interests are more aligned and protected in companies with good governance practices.

On the other hand, the growing literature has brought a positive perspective. Research (Loncan, 2018) explains that foreign institutions actually bring many beneficial effects to the companies they invest in, such as encourage long-term value creation by increasing capital allocation through investment and innovation or improving corporate governance and monitoring.

Cash Holdings Motive

Economic and financial literature identifies four motives for companies to maintain cash. According to Bates et al. (2009) are as follows:

1. The Transaction Motive
   The transaction cost motive arises from the need for companies to have a certain amount of cash balance needed to cover payments related to their daily business operations. This motive also explains that the main advantage of cash holdings is that companies can reduce transaction costs. By using cash holdings in conducting transactions, companies can reduce external financing and avoid liquidating assets.
2. The Precautionary Motive
   The precautionary motive relates to the company's intention to protect itself from uncertain future events. To protect against uncertainty, companies create cash reserves to finance possible unexpected expenses when the company's cash flow is poor. The precautionary motive implies that firms save cash to better cope with hazardous situations, and avoid cash shortages for investment because external funding is more expensive than using internal funding (Opler et al., 1999).
3. The Speculation Motive
   The speculative motivation for companies to invest speculative funds in accounts to take advantage of future profit opportunities is usually the result of price fluctuations. Furthermore, speculative cash balances offer firms the opportunity to acquire assets at attractive prices at any time..
4. The Agency Motive
   This motive explains that the company's cash is influenced by agency motives. Jensen (1986), explained that when a company has small investment opportunities, managers will try to maintain their cash and tend to delay paying dividends to shareholders. Instead of increasing the welfare of shareholders, these managers tend to use cash holdings for their own benefit.

<u>*Hypotheses Developments*</u>

Precautionary Motive Hypotheses

Han & Qiu (2007) investigated the financial determinants of cash holdings of US listed companies from 1977 to 2002 and findings revealed that companies were forced to hold more cash reserves to protect against greater risk/volatile future cash flows from a precautionary motive perspective. The precautionary motive is more relevant for financially distressed firms than for non-distressed firms. Companies anticipating future difficulties in raising funds for investment and operations tend to maintain high cash holdings as a safeguard. From a precautionary motive perspective, saving cash helps reduce corporate financing constraints and external risks when future uncertainties increase (Han & Qiu, 2007; Ang & Smedema, 2011), which in the long term is more likely to help avoid liquidity dilemmas (Bloom et al., 2007). In addition, Lins et al. (2010) also expanded the literature on cash holdings of public and private companies in 29 countries. This finding indicates that firms are holding more cash to hedge future cash flow risks, consistent with a precautionary motive for holding cash.

Song & Lee's research (2012) investigates the cash holdings motives of companies from eight countries in East Asia including Indonesia and the results show that companies have larger cash holdings to reduce cash flow volatility in post-crisis times. This finding is consistent with a precautionary motive. Aebischer et al. (2016), show that over the last three decades, there has been increasing concern about access to capital markets to obtain external funds which makes precautionary motives the main consideration in future decisions about how much money one should have.

Agency Motive Hypotheses

Cash holdings with an agency motive perspective have been widely studied (Jensen, 1986; Opler et al., 1999; Pinkowitz et al., 2006). The agency motive for strong corporate cash holdings stems from problems brought up by the agency theory literature, such as information asymmetry and different interests between management and stakeholders. In a study by Opler et al. (1999) explained that in the perspective of agency motives, companies that are more concerned with managerial authority tend to hold more liquid assets than needed to maximize shareholder wealth and this managerial authority can trigger agency costs. Agency problems raise differences in the level of cash holdings that will be generated. It is not easy to measure agency problems in companies. Most studies rely on proxy measures of agency issues, such as the level of shareholder protection and corporate governance measures.

The agency motif states that high rewards and governance mechanisms, such as investor protection, better law enforcement, and strong capital markets, will discourage managers from holding excessive amounts of cash. The incentives for agencies aim to encourage disciplined management behavior related to the efficient use of funds and to align the interests of management and shareholders to enhance shareholder value

Relationship of Foreign Institutional Ownership and Cash Holdings

This relationship will be viewed from two different perspectives, namely the perspective of precautionary motives and agency motives. In a precautionary motive perspective, companies tend to save more cash to anticipate unstable future cash flows and access to expensive capital markets (Bates et al., 2009). Foreign institutional ownership can encourage managers to keep more cash holdings to finance corporate, to reduce investment opportunities, maintain unexpected cash flow volatility during downturns, and avoid high external costs. This therefore depends on the precautionary motive of holding cash (Vo , 2018).

Research on foreign institutional ownership and cash holdings has been widely studied (Phaiboonvessawat & Thanatawee, 2020; Loncan, 2018; Vo, 2018; Azinfar & Shiraseb, Z., 2016; Kusnadi et al., 2015; Belghitar & Khan, 2013; Lee & Lee, 2009) and empirical evidence that proves. In line with the precautionary motive, Vo's research (2018) found that foreign investors encouraged corporate managers in Vietnam's stock market to hold more cash reserves to reduce capital friction from expensive external sources. Furthermore, the research of Phaiboonvessawat & Thanatawee (2020) also found a positive and significant relationship between foreign institutional ownership and cash holdings which shows that the greater the percentage of foreign ownership, the higher the cash holdings of companies in Thailand. These findings suggest that foreign institutional investors in Thai firms can encourage managers to hold more cash reserves to hedge against the risk of unexpected cash flows and to increase investment opportunities that enhance value.

In the perspective of agency motives, foreign institutional ownership can provide an effective oversight function for companies to maximize firm and shareholder value. Foreign institutional ownership can reduce agency problems and low funding from external parties, thus influencing the company's cash holdings policy. The entry of foreign institutional ownership increases shareholder discipline towards managers, because shareholders will use sophisticated technology to supervise managers. By increasing oversight, foreign institutional ownership makes it more expensive for management to take over, thereby reducing management incentives to save cash holdings for management opportunistic reasons (Loncan, 2018).

In line with agency motives, research conducted by Loncan (2018) found a significant negative relationship between foreign institutional ownership and company cash holdings which shows that the greater the percentage of foreign institutional ownership, the smaller the company's cash holdings. This finding explains that foreign institutional ownership reduces agency costs and reduces external financial costs thereby reducing the tendency of companies to save cash. In line with these findings, research conducted in Indonesia by Devi (2019) also found that foreign institutional ownership has a significant negative effect on cash holdings. Therefore, based on previous empirical studies in the perspective of precautionary motives and agency motives, a hypothesis can be developed as follows:

Hypotheses: Foreign institutional ownership has significant effect on cash holdings.

RESEARCH METHOD

This research is a quantitative associative study and is used to find out how foreign institutional ownership influences cash holdings.

Research Population and Sample Selection

This study conducted research with a population of all companies listed on the Indonesia Stock Exchange. The sample selection method was carried out by purposive sampling, namely by providing certain criteria for determining the research sample. The criteria for the companies used as samples in this study are as follows:

1. Companies that publish annual and financial reports consistently in 2017-2019.
2. Companies that disclose complete information for the variables studied.

Based on those criterias, sample selection for this study has amounted 1170 firm years.

Table 1. Sampling Result

Criteria	Amount
Companies listed on the Indonesia Stock Exchange in 2017-2019, except for the financial sector	1482
Incomplete company annual and financial reports and companies that disclose incomplete information for the variables examined.	(312)
Total Sample	1170

Data and Source of Data

The type of data used in this study is secondary data derived from annual reports and financial reports of companies listed on the Indonesia Stock Exchange for the 2017-2019. This secondary data can be accessed on the official IDX website (www.idx.co.id) and KSEI (www.ksei.co.id).

Measurement of Variable

Regression analysis is used to predict how much there is a change in variable Y if there is a one-unit change in variable X. This study uses multiple regression analysis to examine the effect of foreign institutional ownership on cash holdings.

The formula for multiple regression analysis in this study is as follows:

$CH = \alpha + \beta_1 FIO_{it} + \beta_2 LEV + e_{it}$ ………………..(1)

Where:
CH : Cash Holdings
α : Constanta
β_{12} : Regression Coefficient X_{12}
FIO : Foreign Institutional Ownership
LEV : Leverage
E : Error

Foreign institutional ownership as in as dependent variable in this study uses measurements of the percentage of foreign share ownership (including Financial Institutions, Banks, Insurance Companies, Pension Funds, Mutual Funds) and the percentage of foreign ownership can be seen in the annual report or using measurements using the formula (Nguyen Thi et al., 2021):

$$FOREIGN = \frac{\textit{Share owned by foreigners}}{\textit{Outstanding shares}} \times 100\% \quad .....(2)$$

Cash holding as dependent variable refers to funds (funds), deposits in banks or financial institutions, and foreign currency (Anabestani & Shourvarzi, 2014), which allows for optimal investment time and to avoid underpricing problems in external funding (Cossin & Hricko, 2004). Cash holdings can be measured using the natural logarithm as follows (Xu et al., 2016):

$$CASH = \text{Log(Cash and cash equivalent)} \quad ...... (3)$$

Leverage selected as control variable to how much the company's assets are financed by debt (Nguyen Thi et al., 2021).

$$\text{Leverage: } \frac{\textit{Total Liablity}}{\textit{Total Asset}} \quad .... (4)$$

RESULT AND DISCUSSION

Result

Descriptive Statistic

The aim of this analysis is to provide the general picture of the variables as shown in Table 2.

Table 2. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Cash Holding	1170	8.22	13.50	11.210006	0.95
Foreign Instutional Ownership	1170	0.0001	0.99	0.215870	0.25
Leverage	1170	0.0064	90.99	0.61	2.75
Valid N (listwise)	1170				

a. Cash Holding
Cash holding as the dependent variable in this research has a minimum value of 8.21630 which is owned by PT Panasia Indo Resources Tbk (HDTX) in 2019. The maximum value is 14.14403 owned by PT Astra Internasional Tbk (ASII) in 2017. The average cash holding variable is 11.4985326 and the standard deviation value is 0.99687137.

b. Foreign Institutional Ownership
Foreign Institutional Ownership (FIO) as an independent variable in this study has a minimum value of 0.00010 which is owned by PT Tira Austenite Tbk (TIRA) for three consecutive years, which means that TIRA has an FIO of 0.01%, at least so it has no effect on policy company cash holdings. The maximum value of 0.99850 is owned by PT Bentoel Internasional Investama Tbk (RMBA), which means that RMBA means 99.85% foreign institutional ownership, the highest so that foreign ownership has policy control regarding the company's cash holdings. The average foreign institutional ownership variable value is 0.2158700, where the average foreign institutional ownership invests 21.58% in non-financial companies listed on the IDX and a standard deviation value of 0.25096070.

c. Leverage
Leverage as a control variable in this study has a minimum value of 0.00636 which is owned by PT Tanah Laut Tbk (INDX) in 2018. The maximum value is 90.98973 owned by PT Global Teleshop Tbk (GLOB) in 2017, which means. The average leverage variable value is 0.6143766 and the standard deviation value is 2.75556419.

Table 3. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.206	2	14.103	15.744	0.000
	Residual	1045.359	1167	0.896		
	Total	1073.564	1169			

Based on the table 3, it shows that the regression model in this study has a significance of 0.000 which is smaller. From 0.05. The calculated F value is 15.744 and the table F value for research with a sample size above 1000 is 2.61. This shows the calculated F value of 15.744 > table F value of 2.61. So it can be concluded that there is influence of the dependent variable cash holdings with independent variables consisting of foreign institutional ownership (X1) and leverage control variable (X2).

Determination Coefficient Test

This coefficient is useful for explaining the magnitude of the influence of the independent variable to describe the dependent variable. The results of testing the coefficients of this study are in the following table 4:

Table 4. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate	Durbin-Watson
1	0.162	0.026	0.025	0.9464491	1.944

Based on the table 4, there are results from testing the coefficient of determination yielding a number of 0.577, which means that it can be concluded that the ability of the independent variable to explain the dependent variable, namely cash holdings, is 57.7% while the other 42.3% is explained by variables outside the study.

t- Test

This test was conducted with the aim of knowing the effect of each independent variable on the dependent variable of the study. The results of this test show the results of testing the research hypothesis.

Table 5. Result

Variable	Coefficient	t-value	Sig.
Constanta	0.037	300.176	0.000
FIO	0.110	4.736	0.000
LEV	0.110	-3.000	0.003

Discussion

Based on the table 5, it can be concluded the results. The constant value of cash holdings is -2.481. This shows that if the value of the independent variables consisting of foreign institutional ownership (X1) and the leverage control variable (X2) is 0 or constant, then cash holding will be worth or increase by 0.037. The significance value of the foreign institutional ownership variable (FIO) is 0.000 which is greater than 0.05 and the t value is 4,736. This shows that foreign institutional ownership has a significant effect on cash holdings with a positive relationship. The significance value of the leverage variable (LEV) as the control variable is 0.003 which is smaller than 0.05 and the t value is -3,000. This shows that leverage has a significant negative effect on cash holding.

These findings indicate that foreign institutional ownership of publicly listed companies in Indonesia has proven to influence the company's policy of having high cash reserves. Even though it was during a pandemic, when the issue of company financial difficulties was spread everywhere, the evidence found in this research shows that the impact of institutional ownership leads to incentives for companies to keep higher cash reserves.

Theoretical analysis of these findings leads to the precautionary motive theory, which states that companies will save or have high cash reserves because they want to protect value from unexpected cash flows, to reduce capital friction from high external funding sources and to increase investment opportunities.

CONCLUSIONS

It can be concluded that foreign institutional ownership has a significant effect on cash holdings with a positive relationship. Foreign institutional ownership in public companies in Indonesia is proven to be able to influence company policies in increasing or retaining more cash on hand to protect against the risk of unexpected cash flows.

Based on theoretical analysis, this finding supports the precautionary motive. The precautionary motive relates to the company's intention to protect itself from uncertain future events. To protect against uncertainty, companies create cash reserves to finance possible unexpected expenses when the company's cash flow is poor. The precautionary motive implies that the company is saving cash to deal with hazardous situations.

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