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The Effect of Leverage, Profitability, Information Asymmetry, Firm Size on Cash Holding and Firm Value of Manufacturing Firms Listed at Indonesian Stock Exchange

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ABSTRACT

This research is aimed to analyze the effect of leverage, profitability, information asymmetry, firm size, and cash holdings on firm's value. The population of this study comprises manufacturing firms listed in Indonesia Stock Exchange from 2012-2015. The data from a total of 56 firms were analyzed using path analysis. Results show leverage has negative influence on cash holdings, profitability has positive influence on cash holdings and firm's value. Cash holdings have negative influence on the firm's value. Cash holding mediate the relationship of information asymmetry and firm size on the Firm's Value.

Keywords: *Leverage, Profitability, Asymmetry Information, Firm Size, Firms Value, Cash Holdings*

INTRODUCTION

Basically, the main goal of a firm is to maximize the wealth and firm's value that means also to maximize the wealth of shareholders (Salvatore, 2005). This signifies the firm's value as the main goal of a firm that can reflect the well-being of its shareholders. Thus, managers must be able to generate positive signals on the increase of the firm's value. One way of improving the firm's value is by managing the capital structure. This is because capital structure will determine the best mix of capital that the firm used to fulfil the operational needs of the firm so that the firm doesn't have high cost of capital.

Optimal capital structure can increase the firm's value by cash holding. Cash holdings (available cash) is one of the current asset's instrument that can be used to fulfil the manager's needs without thinking about shareholder's needs, therefore it can aggravate the conflicts between managers and shareholders (Jensen, 1986). There are several capital structure's theories that are related to cash holdings, namely Trade-off Theory, Pecking Order Theory, and Signalling Theory.

Trade-off theory defines that a firm is using debt until maximal level, because it can give profits in tax savings. Therefore, the managers will consider using more debt. Debt is the first responsibility to be paid by the firm. If the profit is heavily used for paying debts, retained profits will decrease, and then cash holdings will decrease too. In addition, high debt will increase the risk of the firm and consequently will decrease firm's value.

Pecking Order theory asserts that the firm prefers to use internal funding by relying on profits. Therefore firm will increase its cash holdings. In addition, higher profitability can increase the firm's value because it is considered more favourable and promising.

The existence of information asymmetry can make the potential investors hesitate for giving their funds to the firm. Signalling theory shows that higher firm size is also perceived that the firm has higher asymmetry information. However, if the firm is "going public", it can avoid the occurrence of information asymmetry by providing financial statements periodically. Thus, greater information asymmetry in a firm can increase cash holdings but on the other side it would decrease the firm's value.

This paper is intended to analyse the effect of a number of the firm's attributes on its decision to hold cash and their association with the value of the firm. The objects of this research are the manufacturing firms listed on the Indonesia stock exchange for the period 2012-2015. The sample consists of 56 firms Results show support on some proposed hypotheses.

HYPOTHESES DEVELOPMENT

The Influence of Leverage on Cash Holdings

The firm's financing sources can be in terms of short-term financing or long term that will cause an effect known as leverage. Firm's leverage can be used to increase the level of expected profit (Gibson, 1990). Van Horne and Wachowicz (2012) assert that the use of leverage is intended to enhance the profitability of the firm.

The trade-off theory proposed by Myers (1977) asserts that firms tend to use debt at some level, because it can bring profits in tax savings. Therefore, managers will consider of using debt as source of financing. Debt must be paid. If the profits are mostly used for paying debt, then the firm's cash holdings will decline. In addition, higher debt will decrease the firm's value, because the risks borne by the firm will be higher. This is in accordance with the results of the research of Colquit et al. (1999), Opler (1999), Shah (2010), Wijaya et al (2010) and Peter and Ahmad (2016).

Based on the stated arguments, this study proposes the following hypothesis.

H_1: Leverage has significant influence on cash holdings

The Influence of Profitability on Cash Holdings

Brigham and Houston (2010) state that "the probability is the net result of a large number of policies and decisions. The ratio examined thus far reveals some interesting thing about the wry the firm operates, but the profitability ratio shows the combined objects of liquidity, asset management, and debt management on operating mult ". The profitability of the firm is one of the basic assessments of the firm's condition.

Myers (1977) stated in the Pecking Order theory that profitable firm will better able to paying dividends, paying debt, and having cash. So, firm will be reluctant to use a large amount of debt. Instead, less advantageous' firm or who have a low level of profitability will continue to reduce the cash and using the debt as a source of their funding. These firms will be reluctant to issue equity, because of the high cost of publishing (Dittmar et al., 2003). This theory is supported by the research of Opler (1999), and Gruninger Drobetz (2007), Shah (2010), Selcuk (2015), Naseer and Naseem (2015), and Peter and Ahmad (2016).

Based on the arguments stated above, this study proposes the following hypothesis.

H_2: Profitability has significant influence on cash holdings

The Influence of Information asymmetry on Cash Holdings

Information asymmetry is due to one of party has better information about the firm than the other party(ies). This means that each party does not have the same information about the future prospect and risk of the firm. Signalling theory shows the difficulty of getting external fund caused by the existence of asymmetry information. It makes the lenders ask for higher return for their funds invested in the firm (Pettit and Singer, 1985).

Based on the results of the study by Pettit and Singer (1985), this study proposes the following hypothesis.

H_3: Information Asymmetry has significant influence on cash holdings

The Influence of Firm Size on Cash Holdings

Firm size is a measure of the value of equity, total sales, or total value of assets owned by the firm (Souissi and Khlif, 2012). Jiang et al. (2011) state that large firms will tend to diversify more than small firms. Therefore, the possibility of failure or bankruptcy of large firm will be smaller. According to signalling theory, larger firm size will give positive signals to investors, so it increases the firm's value. So, investor and lender strongly believe in the firm, and they will easily provide funding. However, the larger the firm size, the larger the possibility of occurrence of agency problems. The way to minimize agency problems is by minimize the cash holding. This is consistent with Colquitt et al. (1999), Drogbetz and Gruninger (2007), Chiang and Wang (2011), Gill and Shah (2012), Al-Najjar (2013) and Arata et al. (2015).

Based on the aforementioned arguments, this study proposes the following hypothesis.

H_4: Firm size has significant influence on cash holdings

The Influence of Leverage on Firm's Value

High debt is associated with negative signals to investors, because it shows that the firm can't fulfil the operational costs. So, firm is required to use some debt. Therefore, the increased level of the firm's debt can reduce the firm's value. This is consistent with the result of Peter and Ahmad (2016). Luo (2005), Naseer and Naseem (2015), and Selcuk (2015) state that higher debt will give positive signals, because it shows that the firms always do the best investment, so they need extra fund to do that. Its will increase the firm's value.

Based on the stated arguments, this study proposes the following hypothesis.

H_5: Leverage has significant influence on firm's value

The Influence of Profitability on Firm's Value

On of proxy to assess the firm is by looking at the firm's performance. Profitability is a proxy that shows the ability of firm performance to earn profits. Therefore, the higher the level of profitability the higher is the firm's value. This is consistent with Selcuk (2015), and Peter and Ahmad (2016). Thus, the following hypothesis is proposed.

H_6 : Profitability has significant influence on firm's value

The Influence of Information asymmetry on Firm's Value

Information asymmetry between managers and shareholders will give negative signals to investors, because investors will assume that the firm is experiencing agency problems and can't maintain the firm's performance. This makes the firm's value decreases (Pettit and Singer, 1985). This is supported by Clemons (2010) who shows that information gap between managers and investors can lower the firm's value.

Based on the stated arguments, this study proposes the following hypothesis.

H_7: Information asymmetry has significant influence on firm's value

The Influence of Firm Size on Firm's Value

Firm size can be seen by using several proxies, such as firm's performance, total capital, total asset, total equity, or stock price of the firm. Larger firm's size indicates everything about the firm is better. So, greater firm size means greater firm value too. This view is supported by Dalbor et al. (2007) and Selcuk (2015). But, Luo (2005) shows that the higher firm size, the more likely the firm is experiencing greater problems. Thus, the following hypothesis is proposed.

H_8: Information asymmetry has significant influence on cash holdings

The Influence of Cash Holdings on Firm's Value

Khan et al. (2012) state that the firm's value is reflected in the market value of its shares. Public firm has a goal to maximize the firm's value where it serves as a benchmark in the successes of the firm. The increase of firm value can make the wealth of shareholder increases. All financial decisions are concerned with investment and funding decisions. Cash holdings are included as on one of financial decisions. Isshaaq et al. (2009) and Wasiuzzaman (2014) state that the more cash holdings will increase the firm's value, because cash holdings can help firms in unpredictable conditions. Thus, the following hypothesis is proposed.

H_9: Cash holdings have significant influence on firm's value

The Influence of Leverage on Firm's Value by Cash Holdings

Each management decision is intended to keep the leverage ratio balance. It is consistent with the Packing Order Theory. Firm is more likely to use internal funding's rather than external funding's. So, the firm will issue the safest securities first, and then use more risky securities, likes stocks. Weston and Copeland (2008) suggest that higher leverage ratios lead to a decrease in the firm's value. This is because higher leverage of a firm will give negative signals to shareholders so it will decrease the firm's value. Thus, the following hypothesis is proposed.

H_{10}: Leverage has significant influence on firm's value by cash holdings

The Influence of Profitability on Firm's Value by Cash Holdings

Van Horne and Wachowicz (2012) state that profitability is a firm's ability to generate profit in the future and as an indicator of the successes of the firm's operation. Profitability ratio is very important indicator for investors, to measure the firm's ability to earn net profits related to dividends. Increased profitability in the firm means an increase in net profit of the firm concerned. Increasing net profit can be one indication that the firm's value also increases, because the increasing of net firm's profit means stock price increases. Thus, the following hypothesis is proposed.

H_{11}: Profitability has significant influence on firm's value by cash holdings

The Influence of Asymmetry Information on Firm's Value by Cash Holdings

Rahmani and Ghorbani (2015) show that agents and principal attempt to maximize their utility, so there is a reason to believe that agents will not always act in the best of the principals. Its cause agent has more information about the firm than the principal. If this happens continuously, it will lead to a larger agency problems and decline the firm's value. Thus, the following hypothesis is proposed.

H_{12}: Information asymmetry has significant influence on firm's value by cash holdings

The Influence of Firm Size on Firm's Value by Cash Holdings

Luo (2005) states that the increasing firm size can lower the firm's value, because in this case the firm size is valued from the total assets owned by the firm. So, the more assets firm has, the more manager chooses to spend his profits compared to dividend in order to lower the firm's value. Thus, the following hypothesis is proposed.

H_{13} : Firm size has significant influence on firm's value by cash holdings

Research Method

This research is a quantitative reaserch using secondary data obtained from Indonesia Stock Exchange (IDX). The population is 144 manufacturing firms listed on the IDX period 2012-2015. The sample consists of 56 firms determined using purposive sampling method with the following criteria.

1. Firms are not delisted during the period of analysis.

2. Firms have no negative retained earnings during the period of analysis.

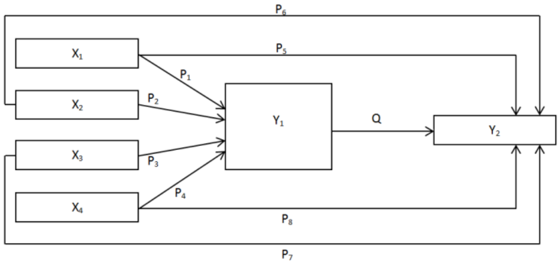

Figure1. *Path Analysis*

$$Y_1 = \alpha_1 + p1LEV_1 + p_2PROF_2 + p_3ASINF_3 + p_4SIZE_4 + e_1$$

$$Y_2 = \alpha_1 + p_5LEV_1 + p_6PROF_2 + p_7ASINF_3 + p_8SIZE_4 + qY_1 + e_2$$

Where LEV is leverage, PROF is profitability, ASINF is asymmetric of information, Size is the form size, Y_1 is cash holding, Y_2 is firm value.

Research Results

Based on sampling criteria, the selected firm as the sample research as much as 56 firms. Table 1 shows the sample selection process of firms that according to the criteria of sampling.

Table1. *The Sample Selection Process Research*

No	Description	Total
1.	Manufacturing firms listed in BEI 2012-2015 period.	144
2.	Firm are delisted during 2012-2015	29
3.	Firm have negative retained earnings during 2012-2015	59
Firms sample selected		56

Table2. *Descriptive Statistic of Variables (N=224)*

Var	Min	Max	Average	Std Dev
DR	0,029	1,052	0,409	0,184
ROE	0,0006	3,006	0,206	0,308
BAS	-1,452	1,992	0,821	0,795
SIZE (Billion)	182	10.291.108	94.676	1.785.092
CH	0,002	0,615	0,128	0,131
NP	0,0003	1,773	0,299	0,238

Table 2. DR is debt ratio. ROE is return on equity. BAS is bid ask spread. SIZE is total assets. CH is cash holdings. NP is firm's value. Table 2 shows that the range of data generally does not spread except profitability, firm size, and cash holdings. Otherwise, leverage, asymmetry information, and firm's value don't have the wide distribution of the data because the standard deviations lower th an the average. The first equation tests the influence of leverage, profitability, asymmetry information, and firm size on cash holdings. The results of test can be seen in Table 3, whilst for equation 2, the results are depicted in Table 4.

Table3. *Result of First Equation Analysis (N=224)*

Variable	Unstandardized Coefficient	Standardized Coefficient	t	Sig (α=5%)	Hypothesis Test
Constant	0,253		4,219	0,000	
LEV	-0,420	-0,600	-8,251	0,000	Received
PROF	0,071	0,161	2,020	0,045	Received
ASINF	0,000	0,002	0,022	0,982	Rejected
SIZE	0,001	0,46	0,579	0,563	Rejected
Adj R^2	0,320				
F-hit	17,837				
Sig F-hit	0,000				

Table 3 shows that leverage has negative and significant influence and profitability has positive and significant influence on cash holdings. Asymmetry of information and firm size don't have significant influence on cash holdings ($p < 5\%$).

Table4. *Result of Second Equation Analysis (N=224)*

Variabel	Unstandardized Coefficient	Standardized Coefficient	t	Sig (α=5%)	Hypothesis Test
Constant	0,328		2,329	0,021	
LEV	0,015	0,012	0,115	0,909	Rejected
PROF	0,160	0,191	2,060	0,041	Received
ASINF	0,024	0,068	0,835	0,405	Rejected
SIZE	-0,003	-0,054	-0,586	0,559	Rejected
CH	-0,381	-0,200	-2,044	0,043	Received
Adj R^2	0,069				
F-hit	3,184				
Sig F-hit	0,009				

Table 4 shows that profitability has positive and significant influence and cash holdings have negative and significant influence on firm's value. Leverage, information asymmetry and firm size don't have significant influence on firm's value ($p < 5\%$).

The results of analysis on mediating effect is shown in Table 5.

Table 5 shows that information asymmetry and firm size have negative and significant influence on firm's value by cash holdings. Leverage and profitability don't have significant influence on firm's value by cash holdings ($p < 5\%$).

Discussion

The Influence Leverage on Cash Holdings

The result shows that leverage has positive and significant influence on cash holdings. This result is in accordance with hypothesis and accordance with Trade-off Theory (Myers, 1977) which states that large debt will provide profits for the firm, because the interest is a tax shield. So that is why firm will prefer to use debt than internal funding. Higher debt will reduce the amount of available cash. The result is also consistent with Colquit *et al*. (1999), Opler (1999), Shah (2010), Wijaya *et al*. (2010) and Peter and Ahmad (2016) who state that the firm will increase by using debt, because its can be profitable in tax savings.

Each firm always has different level of leverage and cash holdings. High leverage is more risky than lower leverage. Brigham and Houston (2010) state that the term leverage commonly used to describe the ability of firms to use their needs or interest. Thus, the main purpose of a firm using leverage is to increase its profits (Van Horne and Wachowicz, 2012). However, the profit received should be immediately for the cost of debt.

Table5. *Result of Second Equation Analysis by Mediating Variable (N=224)*

Variabel	Unstandardized Coefficient	Standardized Coefficient	t	Sig (α=5%)	Hypothesis Test
Constant	0,331		13,180	0,000	
LEV	0,376	0,051	0,471	0,638	Rejected
PROF	-0,272	-0,042	-0,468	0,640	Rejected
ASINF	-0,231	0,226	2,006	0,046	Received
SIZE	-0,027	-0,321	-2,683	0,008	Received
Adj R^2	0,023				
F-hit	2,183				
Sig F-hit	0,072				

The Influence Profitability on Cash Holdings

The result shows that profitability has positive and significant influence on cash holdings. This result is in accordance with hypothesis and accordance with Pecking Order Theory (Myers, 1977) which states that firm with high profitability will reduce its debt, because firm tend to use internal tagging. In the preference scenario of labeling sources, the firm prefers to use internal sources derived from retained earnings resulting from the operations of the firm. Therefore, an increase in a firm profitability can increase the amount of cash holdings. In addition to being used as an internal funding, cash holdings are also used to guard against the uncertainty of future firm economic conditions. The results are also consistent with Opler (1999), Drobetz and Gruninger (2007), Shah (2010), Selcuk (2015), and Peter and Ahmad (2016).

The results are not consistent with research conducted by Al-Najjar (2013) which states that is the increasing profitability of the firm, the creditor will be easier to give the labeling of the firm, because creditors assume that the firm has a low risk of default. Thus, the firm will have no difficulty in obtaining external funding, so the firm does not need to have excessive cash. Therefore, the firm's cash holdings will tend to decrease.

The Influence Asymmetry Information on Cash Holdings

The result shows that information asymmetry doesn't have significant influence on cash holdings. Myers and Manjluf (1984) state that information asymmetry can lead the market and investors to be not believe in firm's information. It makes the cot of external funding to be expensive, because the market, investor, and creditors ask for a higher rate of return on them investment. Therefore, the firm will have difficulty in obtaining external funding, so the firm must store a larger amount of cash holdings for internal firm designation.

Information asymmetry that occurs within a firm may lead to possible agency issues between managers and investors. The agency theory implies the existence of asymmetric information that occurs between the agent (manager) and principal (owner). If both parties are people who seek to maximize their utility, then there is a strong reason to believe that managers do not always act best for the owners of the firm, so that asymmetric information can cause agency problems within a firm (Jansen and Meckling, 1976).

The Influence Firm Size on Cash Holdings

The result shows that firm size doesn't have significant influence on cash holdings. This result is not in accordance with hypothesis and not accordance with the statement of Brigham and Houston (2010) state that firm size is the average of total assets a year until the next few years. The larger firm size needs more fund to fulfill all its activities. Therefore, the larger firm size will make cash holding also increases. In addition, the results are also inconsistent with Opler (1999), Luo (2005), Shah (2010), and Ghahsareh *et al*. (2015) state that larger firm size will have a high level of profitability, so the firm does not require much debt in marking its firm. The firm will tend to hold cash holdings to mark the firm's operations.

An asset is a form of firm's investment whose form may be in the form of property or services owned by the enterprise concerned. The property must be clearly stated, measured in units of space and sorted by the amount of time or speed it turns back into cash. The assets are divided into two, namely current assets and fixed assets. Cash holdings are the firm's current assets. Firms with large amounts of cash can be rated badly by investors and creditors, because a lot of cash is idle in the firm and is not used for profitable investments, otherwise the turnover of the firm is also considered low. So many firms are more likely to store their wealth in the form of other assets compared to the firm's cash.

The Influence Leverage on Firm's Value

The result shows that leverage doesn't have significant influence on firm's value. The results are not accordance with hypothesis and not accordance with Signaling theory, which states that firms with high levels of debt will give a negative signal to investors, because the firm is considered unable to fulfill the needs of marking and operating costs. High levels of debt can also increase the risk of the firm, so it can lower the value of the firm. The results of this study are also inconsistent with the research of Luo (2005) and Selcuk (2015) that support the theory of Signaling.

Leverage is a term used to describe a firm's ability to increase the income level for a firm (Brigham and Houston, 2010). Higher leverage can increase the uncertainty of returns that will be obtained by the firm. However, at the same time leverage can also increase the return earned. This is related to the saying that high risk, high return. Otherwise, value of the firm is the perception of investors to the firm. Firm's value reflects the price investors are willing to pay for the firm. Thus, investors will judge the firm with the best of all aspects of the firm. However, every investor has a different tendency. There are three types of investors: risk averse, risk seeker, and risk neutral. Risk averse investors don't like risk, and tend to avoid risky investments. Risk averse investors prefer to bonds than stocks, especially government bonds. If risk averse investors choose to invest in stock, they will also choose firms that tend not to have volatility and have a low return. Conversely, risk seeker investors will do the opposite, provided that the return earned is higher. Among them are neutral investors who do not avoid risk but also do not like risk. Therefore, the level of leverage cannot affect the value of the firm, because the value of the firm will depend on the investors view in assessing the firm.

The Influence Profitability on Firm's Value

The results show that profitability has positive and significant influence on the firm's value. This result is accordance with hypothesis and accordance with Trade-off Theory which states that the firm has a specific order of preference in the use of funds. Graham *et al.* (2004) states that there is a constant dividend policy in the preferential scenario, the firm will set a constant dividend, unaffected by the size of the profit and loss experienced by the firm. Thus, the increasing profitability will increase the dividend distributed, so the investors will give more value to the firm.

Profitability has a very important role to maintain continuity of the firm in the long term, because the profitability shows prospects of the firm. If the manager is able to manage the firm well, then the cost incurred by the firm will be smaller, so the profit generated becomes greater. The size of earned profit by firms that will affect the firm's value (Kasmir, 2010). In addition, firms with higher profitability have the ability to pay higher dividends, avoid the risk of defaulting debt obligations, and can have sufficient cash availability for the needs of the firm. Conversely, a less profitable or low profit firm will continue to reduce its cash and use debt for its marking source. The firm will be reluctant to issue equity, because of the high cost of issuance and may cause the firm's value to decline. Therefore, the decline in profitability will lower the value of the firm.

The Influence Information asymmetry on Firm's Value

The results show that information asymmetry doesn't have significant influence on firm's value. This result is not accordance with hypothesis and accordance with Signaling Theory which states the existence information asymmetry between managers and owners of the firm can cause agency problem. Agency issues can give a negative signal for the firm, because the firm is considered not able to work professionally. So, that information asymmetry can decline the firm's value. In addition, the results of the study are also inconsistent with research by Pettit and Singer (1985), which states that asymmetric information can give negative signals to investors. Thus, investors will assume that the firm is experiencing agency problems and the future of the firm cannot be justified. Therefore, when there is information asymmetry on a firm, can decline the value of the firm.

The results of the research descriptions show that most sample firms tend to have asymmetric information between managers and their owners. However, all sample firms are firms that are already go public and are required to routinely deliver firm financial statements to the public each period, so that information asymmetry can't influence the firm's value. Firms go public is a firm that has decided to sell its shares to the public and ready to be assessed by the public openly (Fahmi, 2011). Firms go public have the ease in raising capital in the future, because the disclosure of financial information owned. In addition, the market value of go public firms is well known.

The Firm Size Information on Firm's Value

The result shows that firm size doesn't have significant influence on the firm's value. The results aren't accordance with research hypothesis and not in accordance with research Luo (2005), which states that larger firm size will likely experience increasingly large and increasingly complex problems, which can lower the value of the firm. This inconsistency is related to the proxy size of the firm used. This study uses natural logarithmic proxies of total assets to show firm size. Total assets are firm's assets that can be used for the firm's operational activities. It must be known the asset consists of any instrument, because if the inventory is too large then it can be said the turnover of the firm is small, or if the larger receivable can be said the firm's bills are not running smoothly.

Brigham and Houston (2010) show that one of the proxies that can be used to know the value of a firm is to know the market value of the firm's stock. The market value of the stock is heavily influenced by investment opportunities, which will give a positive signal about future firm growth. In this study, firm size is proxied using total assets. Firms with larger total assets do not guarantee that the firm has a large firm's value as well, because the firm's assets are divided into various types.

The Influence Cash Holdings on Firm's Value

The result shows that cash holdings have negative and significant influence on firm's value. The result is accordance with hypothesis and accordance with Luo research (2005) which states that the available cash can be opportunities to be misused by firm managers to fulfill their needs within the firm, such as buying air conditioners, cars and many things that are useless and unnecessary to the firm. This will affect the occurrence of agency issues between managers and shareholders, so it can also impact on the firm's value. Thus, cash holdings can lower the firm's value.

This research uses go public manufacturing firm as research sample. These firms of course have access to markets, investors and creditors more easily than non-public firms. Thus, the sample firm will gain easier market confidence, so the sample firm has no difficulty marking from external and internal. This makes the cash availability of the firm unnecessary.

The Influence Leverage on Firm's Value Mediated by Cash Holdings

The results shows that leverage don't have significant influence on firm's value mediated by cash holdings. The result is not accordance with hypothesis and inconsistent with Weston and Copeland (1992). The higher leverage of an enterprise can provide higher risk and require the firm to fulfill its debt, thereby reducing the retained earnings and cash holdings. Small amounts of cash will have difficulty in case of unwanted conditions and the firm needs cash. Especially when the firm has large amounts of leverage, due to increased leverage in line with the increased risk to be borne by the firm. Thus, lower cash holdings due to increased leverage can lower the value of the firm.

Firms use leverage to improve the firm's ability to make a profit. Therefore, firm can also be interpreted as a lever, but to leverage the financial burden within the firm. Leverage describes a firm's ability to use its fixed assets to increase the return rate for its shareholders. The increased leverage will increase the uncertainty of the return received, as the risk is also increased. The value of a firm is an investor's perspective in assessing a firm. Therefore, leverage and its effect on cash holdings can't affect the firm's value, as risk averse investors, risk seeker investors, and neutral investors will have their own thinking in assessing the firm.

The Influence Profitability on Firm's Value Mediated by Cash Holdings

The results show that profitability doesn't have significant influence on firm's value mediated by cash holdings. The result is not accordance with hypothesis and inconsistent with the results of research Horne and Wachowicz (2012), which states that profitability is the firm's ability to generate profit in the future and is an indicator of the success of the firm's operations.

Profitability ratio is a very important indicator for investors, to measure the firm's ability to earn net profits related to dividends. Thus, increased profitability in the firm can be interpreted to increase the net profit of the firm concerned. Increased net income can be one indication that the firm can mark its operations by using internal funding, so that the firm will save cash with a larger amount.

Profitability doesn't have significant influence on cash holdings and firm's value directly. However, profitability has no significant effect on firm's value by cash holdings. This shows that cash holdings cannot explain the relationship between profitability and firm's value, because profitability is a firm's ability to earn profits in relation to sales, total assets, and own capital. The allocation of profits by the firm is prioritized to fulfill firm debt obligations and to pay dividends to shareholders. Then, the rest of the profits will be saved in the form of cash holdings or to invest. Therefore, the amount of uncertain cash holdings depends on the amount to be paid first.

Investors will be more focused on assessing the level of profitability compared to the level of a firm's cash holdings, because when profitability increases can be interpreted that the ability of firms to generate profits will also increase. Thus, the firm will not be difficult to make dividend payments, debt, and support the life of the firm. However, when cash holdings increase, there are some investors who will think too much money is idle and not beneficial for investment, and there are investors who feel more trustworthy and secure with cash holdings in high amounts in a firm. Therefore, cash holdings cannot explain the relationship between profitability and firm's value.

The Influence Information Asymmetry Mediated on Firm's Value by Cash Holdings

The results shows that information asymmetry have negative and significant influence on firm's value mediated by cash holdings. The result is accordance with hypothesis and agency theory which states that information asymmetry is the information gap between managers and shareholders. This is because managers understand more about the firm than the investors/shareholder. This can lead to agency issues between managers and shareholders, resulting in impairment of the firm's value.

Asymmetric information doesn't have significant influence on cash holding and firm's value. Information asymmetry has significant influence on firm's value mediated by cash holdings. This is because the information asymmetry is related to cash holdings. Information asymmetry that occurs can be a source of agency problems in a firm. Different access to get information can make managers make transactions that only give benefit themselves without thinking of other shareholders. Abundant cash holdings can also be an opportunity for agency problems, when managers do not use the cash as they should. For example, managers tend to use the cash to shop for luxury goods that can be used for them rather than to pay dividends or make other investments. Thus, cash holdings can trigger an aura of asymmetric information that can eventually lead to agency problems that may affect the firm's performance, so indirectly, the existence of asymmetric information affects the declining value of the firm.

The Influence Firm Size on Firm's Value by Cash Holdings

The result shows that firm size have negative and significant influence on firm's value mediated by cash holdings. The result is consistent with Luo (2005), which states that the increasing firm size firms can lower the firm's value, because in this case the firm size is valued from the total assets owned by the firm. So, the more assets may indicate that the manager prefers to spend his profits compared to dividend in order to lower the firm's value.

Firm size does not have significant influence on cash holdings and firm's value directly. However, firm size has significant influence on firm's value mediated by cash holdings. Firm size can be expressed in total assets, total sales, and market capitalization. The greater the total assets, total sales, and market capitalization can lead to the larger size of the firm. The greater the asset, the more capital invested.

Cash is the most liquid asset, so it makes cash has the lowest profit rate when compared to investments in other assets. Therefore, if the amount of cash is too much, will affect the firm's profits on any missed investment opportunities. However, if the amount of cash is too little will also affect the firm's liquidity. Large firms have easy capital market access, making it easy to get investment tags, so large firms tend to have less cash. Thus, the larger the firm will have less cash because it will be used for a more profitable investment, thus increasing the value of the firm.

CONCLUSION

Based on the results of hypothesis testing and analysis, some conclusions are advanced. The results showed that leverage has a negative and significant influence, and profitability has a positive and significant influence on cash holdings. Information asymmetry and firm size information don't have significant influence on cash holdings. The results show that profitability has a positive and significant influence, and cash holdings have a negative and significant influence on firm's value. Leverage, information asymmetry and firm size don't have significant influence on firm's value. The results show that information asymmetry and firm size have a negative and significant influence on firm's value mediated by cash holdings. Leverage and profitability don't have significant influence on firm's value mediated by cash holdings.

SUGGESTION

Based on the results of hypothesis testing, analysis and limitations, suggestions that can be given are as follows. This study uses natural logarithms of total assets to proximate firm size. The results show that by using the proxy there is a range or a relatively large range between firms, thus making it difficult to be interpreted. Researchers are further advised to use other proxies, such as the value of stock market capitalization, sales, or the amount of profit.

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