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FIRMS CHARACTERISTICS AND SPEED OF ADJUSTMENT TO THE TARGETED CASH HOLDING IN INDONESIA

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Abstract

This study examines the speed of adjustment of cash holdings and further examines the heterogeneity of the speed of adjustment of cash holdings. This study examines the effect of firm characteristics on the speed of adjustment to targeted cash. The characteristics of the companies tested in this study are deviations from targeted cash, company size, availability of internal funding sources, and access to external funding sources. Research examines the speed of adjustment to cash targets for Indonesian companies. The data used in this study is panel data of Indonesian firms for the 2011-2020 period, which will be analyzed using the regression method with e-views software. The results of this applied research are expected to provide recommendations for companies in cash management issues that have a trade-off between cash needs and cash as non-earning assets. The results of the analysis show that the targeted cash holding adjustment rate (CH-SOA) is higher for companies that have more cash than the targeted. Companies that have actual cash holdings greater than targeted will find it easier to adjust and require a shorter time to achieve the targeted cash holdings. This condition supports the argument that the difference in CH-SOA is caused by differences in adjustment costs. The results of the analysis show that the targeted cash holding adjustment rate (CH-SOA) is higher for companies that have more cash than the targeted. Companies that have actual cash holdings greater than targeted will find it easier to adjust and require a shorter time to achieve the targeted cash holdings. This condition supports the argument that the difference in CH-SOA is caused by differences in adjustment costs. The results of the analysis show that the targeted cash holding adjustment rate (CH-SOA) is higher for companies that have more cash than the targeted. Companies that have actual cash holdings greater than targeted will find it easier to adjust and require a shorter time to achieve the targeted cash holdings. This condition supports the argument that the difference in CH-SOA is caused by differences in adjustment costs.

Keywords: *Adjustment Speed, Cash Holding, Company Characteristics*

INTRODUCTION

The increase in the level of corporate cash holdings over the last decade has attracted a great deal of attention from the media, investors, and academic researchers. Al-Najjar's (2013) study on Brazil, Russia, India, China, UK US notes that the "cash-to-assets ratio" is at the level of 2%-10%. Given this, the topic of cash ownership management is becoming increasingly important, potentially deserving of equal attention. with capital structure management. The recent financial downturn and the liquidity crisis have further emphasized the importance of liquidity management and added another angle to the debate about the optimal level of corporate cash holdings. The level of corporate cash holdings and the factors that explain it have been the subject of recent research that is quite large (Orlova & Rao, 2018)(Mouline & Sadok, 2021a). Research on cash holdings addresses only one aspect of cash management. Understanding the dynamic aspects of holding cash is also important because it provides a more complete understanding of

cash management policies. In particular, answers to questions such as whether a company owns and operates with respect to target cash holdings, whether managers adjust cash holdings to those targets, and what factors influence the speed of such adjustments are all important aspects of cash holdings that are not well understood. Only a few papers focus on the dynamic aspects of cash ownership (Orlova & Rao, 2018). Our study contributes to this emerging literature. Understanding the dynamic aspects of holding cash is also important because it provides a more complete understanding of cash management policies. In particular, answers to questions such as whether a company owns and operates with respect to target cash holdings, whether managers adjust cash holdings to those targets, and what factors influence the speed of such adjustments are all important aspects of cash holdings that are not well understood. Our study contributes to this emerging literature. Understanding the dynamic aspects of holding cash is also important because it provides a more complete understanding of cash management policies. In particular, answers to questions such as whether a company owns and operates with respect to target cash holdings, whether managers adjust cash holdings to those targets, and what factors influence the speed of such adjustments are all important aspects of cash holdings that are not well understood. Only a few papers focus on the dynamic aspects of cash ownership (Orlova & Rao, 2018). Several studies examine cash holdings from the perspective of theories developed to explain the capital structure of firms, including the trade-off, agency, pecking order theory, and market timing theory. cash holdings. Within the theoretical trade-off framework, firm managers balance the costs and benefits of holding cash to determine optimal or targeted cash levels. Cash must be managed to maximize shareholder wealth.

There are two most important theories used in the previous literature to explain the company's cash holdings, namely the trade-off theory and the pecking order theory. In accordance with the trade-off theory, firms choose their best cash level by comparing the costs and benefits of holding cash; Managers want to maximize shareholder wealth, and they adjust cash ratios such that the marginal cost of holding cash equals the marginal benefit. On the other hand, the pecking order theory posits that there is no optimal level of corporate cash holdings, and cash serves only as a buffer between investment needs and retained earnings. In addition, this theory believes that financial hierarchies are followed by firms to reduce the cost of information asymmetry, for every new investment opportunity (Maheshwari & Rao, 2017)

As in the case of the study of capital structure, one way to test for the existence of an optimal (target) level of cash holdings is to see if, and how quickly, firms return to their target level of cash holdings over time (i.e., the rate of adjustment of cash holdings, cash holding speed of adjustment (CH-SOA)). The CH-SOA estimate of high cash holdings (closer to 1.0) would support the static version of the trade-off theory, which assumes an immediate adjustment to the target cash holdings, while predicting the cash holding speed of adjustment, CH-SOA, lower than 1.0, although significant, will support the dynamic version of the trade-off theory. The latter acknowledges that due to various market frictions and adjustment costs,

The study of the estimated speed of adjustment of cash holdings at the targeted rate/cash holding speed of adjustment CH-SOA refers to the study of capital structure. Several studies related to capital structure argue that companies adjust to target leverage only when non-adjustment costs exceed adjustment costs. In a dynamic perspective, the actual leverage at any one time may not equal the targeted leverage. This targeted leverage is specified and estimated (Yeh, n.d.) using the predicted debt ratio as optimal leverage or targeted leverage. Targeted leverage changes from time to time can occur due to changes in external factors. Targeted leverage depends on the characteristics of the company. Similar arguments could apply to target cash holdings. In the case of cash holdings, a significant source of adjustment costs can be transaction costs associated with having to raise capital or distribute cash to shareholders to bring cash holdings to a target level. Non-adjustment costs include an increased likelihood of

financial distress if the company is short on cash, or potential agency costs such as misuse of cash or suboptimal investment by management, if the company holds excess cash. Another cost of holding too much or too little cash is a decrease in investors' valuation of cash.

Based on previous evidence, the majority of companies adjust their cash levels against targets regularly. Adjustment speed varies with the different characteristics of the company. Availability of funds, as a whole, is one of the main factors that contribute to differences in CH-SOA across firms. Differences in adjustment costs as well as in non-adjustment costs among firms will lead to different CH-SOA. While the adjustment costs are difficult to measure or observe, it is reasonable for the CH-SOA to vary with several company and financial characteristics. The specific factors that we examine are as follows.

Investors' valuations are higher for companies that maintain liquidity (Flannery, 2011). The findings show that from an investor's perspective, there is an optimal value maximizing the level of cash a company should have, and deviations from this optimal level reduce the value of the company (Michael Faulkender, 2006).

Investigation of the speed of adjustment (CH-SOA) of cash holdings is still a growing area of research, especially as it applies to factors influencing SOA heterogeneity across firms. Recent studies of corporate cash holdings show that CH-SOA varies among different companies and changes over time. There is a reduction in the speed of adjustment (SOA) in cash holdings, especially for companies with cash deficits (Bates et al., 2018). The rate of adjustment of cash holdings is higher for private companies compared to public companies because of agency costs (Amy K. Dittmar, 2010). Adjustment rates are slow, and there is a large dispersion in adjustment rates across firms because of the consistency of adjustment costs.

Research (Orlova & Rao, 2018) examines the measure of deviation from the target affecting CH-SOA. Second, this research also examines free cash flow (FCF) on CH-SOA. This study makes two contributions to the literature. First, this study provides evidence of a moderately high CH-SOA, but not close to 1.0, which is consistent with firms adjusting their cash toward targeted cash, thus supporting a version of the cash holdings trade-off theory. Both of these studies provide evidence of CH-SOA variability based on the company's financial characteristics. Thus, this study contributes to the growing literature on CH-SOA heterogeneity. This research demonstrated that systematic differences in CH-SOA among firms with different characteristics are consistent with the notion that firms adjust towards their CH target, but, as predicted by the dynamic version of the trade-off theory, adjustment is not instantaneous as the cost of adjustment affects the speed of adjustment. This.

The CH-SOA is relatively high at 0.54, implying that the average firms cover more than half of the deviations from the target in one year (Orlova & Rao, 2018). The results of the research show that the company with cash deficits has a slower CH-SOA compared to companies with excess cash, and firms that have larger excess cash adjust to targets more quickly. FCF greater flow leads to faster adjustment to the target. Companies with financial surpluses adjust more slowly than companies with financial deficits. Also, companies with larger sizes have slower CH-SOA. These results support the notion that adjustment costs as well as non-adjustment costs affect the speed at which firms adjust to their cash holding targets. Because the CH-SOA we documented is significant, but lower than 1.0, and varies with FIRM characteristics that proxy for various

market friction, we conclude that our Findings are consistent with a dynamic version of the trade-off theory of corporate cash holdings. The various findings of this study it show that CH SOA is influenced by company characteristics.

This research has several specificities. First, this research aims to identify deviations of cash-holding companies in Indonesia from the targeted level and to determine the speed of adjustment required to achieve the cash-holding target of companies in Indonesia, as well as the time needed to accomplish the targeted cash holding. Secondly, this study analyzes the determinants of the adjustment speed (CH SOA/Cash holding speed of adjustment) on optimal cash holding in companies in Indonesia.

LITERATURE REVIEW

Research on corporate cash holdings uses the theory originally developed for capital structure. The trade-off model is to determine whether there is an optimal cash balance or targeted cash. Opler et al. (1999) found that certain firm characteristics, such as size, net working capital, leverage, and dividend payout, were negatively related to the level of cash holdings, while cash flows, capital expenditures, industry volatility, and R&D had a positive relationship to cash holdings. This finding has been supported, among others, by (Amy K. Dittmar, 2010) using international datasets. The acquisition activity has a negative relationship with cash levels (Bates et al., 2018).

The agency theory framework was developed by Jensen and Meckling, 1976 and is applied to cash holdings. Managers prefer cash over external financing because external financing means that managers will be supervised by creditors. Managerial risk aversion is another motive that has been considered under the agency theory framework (Brigham, 2019).

The financing hierarchy explained in the pecking order theory shows that there is no optimal amount of cash; Companies will spend their cash reserves when faced with a financial deficit and increase their cash holdings with cash flow surpluses. The financial hierarchy theory is more applicable to mature corporate cash management behavior. Based on the dynamic trade-off theory of cash holding, the corporation is periodically adjusts to its target level. The target cash holding level is estimated. The cash holding target is determined by many factors (ur Rehman & Wang, 2015). Chinese enterprises are determined by enterprise and industry characteristics, and economic conditions.

Identification of Cash Holding Determinants

Testing the factors that determine cash holding based on a static model to estimate the cash holding target. The characteristics of the company determine the company's cash holdings. Characteristics of companies that determine cash holdings are:

Growth

Companies with higher investment opportunities are expected to have larger amounts of cash to reduce the probability of not making this investment. Companies with greater investment opportunities hold cash to reduce the cost of financial distress. Both of these arguments are consistent with the trade-off theory, and therefore, we expect a positive relationship between growth opportunities and cash holdings. The pecking order theory suggests that profitable investment opportunities increase the demand for raising cash, leading to a positive relationship between investment opportunities and holding cash.(Mouline & Sadok, 2021b).

Company Size

Larger companies are better diversified and have lower financial distress. These factors show a negative relationship between firm size and cash holdings. On the other hand, the pecking order theory predicts a positive relationship between firm size and firm cash holding because large firms usually perform better than small firms and for that reason, they should have extra cash. Size has a significant positive effect on cash holding(Mouline & Sadok, 2021b).

Leverage

According to the trade-off theory, highly leveraged firms are more likely to face financial difficulties and go bankrupt, and therefore they are expected to have more cash to reduce this possibility. The pecking order theory suggests that when investment is greater than retained earnings, companies will get external financing, debt levels will grow and share ownership will decrease. On the other hand, the maturity of debt affects the level of cash holdings because the use of more short-term debt forces companies to renew it regularly; it puts pressure on companies to hold higher amounts of cash in the event of a payback. Leverage is expected to have a significant negative effect on cash holdings (Mouline & Sadok, 2021b).

Profitability

Profitability can have a positive and negative relationship with cash holdings. Based on the trade-off theory, there is a negative correlation between cash holding and profitability, because profitable companies have enough cash flow, and companies will use cash to invest in other assets to avoid underinvestment problems. On the other hand, the pecking order theory expects a positive relationship between profitability and cash holdings because cash is the result of financing and investing activities. The results of the analysis show that Profitability has a positive and significant influence on cash holding (Nikolov & Whited, 2014).

Asset Tangibility

Companies that own fixed assets can be used as collateral, so higher borrowing reduces the need to hold cash, which means increased capital expenditure reduces cash holdings. Companies with more tangible assets are expected to have less liquid assets because tangible assets can be sold in case of a cash shortage, and can be used as collateral when issuing debt. Thus, we assume a negative relationship between cash holdings and tangible assets. The analysis says that tangible assets have a positive relationship, but are not significant with cash holdings (Gider & Westheide, 2016).

Speed of Adjustment to Optimal Cash Holding

Based on the cash dynamic trade-off theory, the optimal cash level is not the same between companies or from time to time. Companies constantly need to adjust their cash levels to achieve a cash level that balances the benefits and costs of liquidity in any given scenario and at any point in time (Chang et al., 2016).

While cash holding is viewed as a target adjustment model, a company's cash holding is periodically adjusted to the target level or optimal level. In this sense, companies are not always at their optimal level, they may carry high cash balances or low cash balances. Companies with cash holdings that are higher than the optimal level tend to have different financial characteristics from companies that have optimal levels or insufficient cash holdings. Companies may hold large amounts of cash when seeking financial flexibility to avoid the need to raise outside capital. Of course, they also run the risk of over-accumulating cash. Such companies sacrifice their financial flexibility by not raising enough cash due to high agency fees. Adjustment of the target ratio of both types of companies will be faster or slower depending on the opportunity cost (Lozano & Duran, 2016).

Research Model:

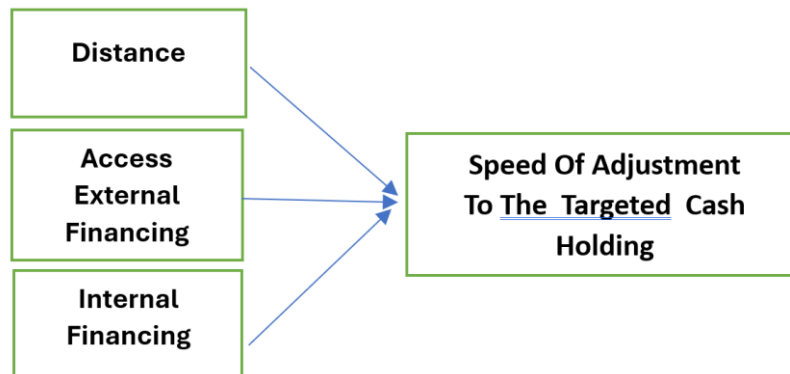


Figure 1: Research Model

RESEARCH METHODS

This study uses panel data with a dynamic model. The company's cash holdings may deviate from the target, which is due to cost adjustments. Panel regression analysis was performed to determine the main factors influencing cash holdings. these variables are Growth, Firm Size, Leverage, Profitability, Dividends, and Tangible Assets. The formula is $CH^*_{i,t} = f(\text{Growth, Size, Lev, Prof, Tang})$. The company's adjustment to the target level of cash cannot be achieved immediately because of the associated adjustment costs. The adjustment speed equation is (ur Rehman & Wang, 2015) as well as identification of factors that determine the speed of adjustment of cash holdings at the targeted level (CH-SOA):

$CH^*_{i,t} = f(\text{Growth, Company Size, Leverage, Profitability, and Tangibility}) \dots\dots\dots(1)$

$CH_{i,t} - CH_{i,t-1} = \beta (CH^*_{i,t} - CH_{i,t-1})$ or $CH_{i,t} = (1 - \beta)CH_{i,t-1} + \beta CH^*_{i,t} \dots\dots\dots(2)$

$\delta = f(\text{distance, access external financing, internal financing}) \dots\dots\dots(3)$

As previously stated, companies must hold cash for different reasons, but on the other hand, holding cash has consequences. pointed out three benefits of cash holdings: reducing the likelihood of financial hardship; enabling implementation of investment policies when financial constraints are met; and minimizing the costs of external fundraising or asset liquidation (ur Rehman & Wang, 2015) argued that three motives drive the demand for money. These motives are transactional motives, precautionary motives, and speculative motives. Estimation of optimal cash storage using panel regression analysis has been carried out to estimate optimal cash storage, which is determined by the main factors affecting cash holdings. These variables are Growth, Firm Size, Leverage, Profitability, Dividends, and Tangible Assets. The formula is $CH^*_{i,t} = f(\text{Growth, Company Size, Leverage, Profitability, and Tangibility})$. The company's adjustment to the target level of cash cannot be achieved immediately because of the associated adjustment costs. The equation $CH_{i,t} - CH_{i,t-1} = \delta (CH^*_{i,t} - CH_{i,t-1})$ implies the following relationship between current cash holdings and cash holdings at time t-1. So if δ (CH-SOA) takes values from 0 to 1. If $\delta = 0$ it means cash, $CH_t = CH_{t-1}$, this means that the company wants to stay with the same level of cash due to high adjustment costs to reach the target level of company cash holdings. But if $\delta = 1$, then $CH_t = CH^*_{i,t}$, which means that in such a case the company will choose to reach its

cash target level soon. If δ is more than one then there is an over adjustment, where the adjustment exceeds the target.

Data used in this research is panel data of Indonesian Firms of Non Financial Industry for the 2011-2020 period, which will be analyzed using the regression method with e-views software. This research will compare with other countries in selected countries in Southeast Asia.

Table 1. Variable Measurement Adjustment Speed To Targeted Cash Holding / Speed Of Adjustment and Influencing Variables

Cash Holding	:	$Ch_{it} = \text{Cash}_{it}/TA$
$CH^*_{i,t}$ (Targeted Cash Holding)	:	$f(\text{Growth, Leverage, Profitability, and Tangibility})$
Growth	:	$(\text{Sales} - \text{Sales}_{t-1})/\text{Sales}_{t-1}$
Leverage	:	$\text{Total Debt}_{it}/\text{Total Assets}_{it}$
Profitability	:	$\text{Earning After Tax}_{it}/\text{Total Assets}_{it}$
Tangibility	:	$\text{Total Fixed Assets}_{it}/\text{Total Assets}_{it}$
Speed of Adjustment: At targeted cash holding/cash holding, Speed of Adjustment = CH-SOA	:	$(\delta) = (1 - \beta)$
Distance (DIST) The Difference Between Targeted And Observed Leverage	:	$CH^*_{i,t} - CH_{i,t}$
Access to External Capital	:	$\text{Total Debt}_{it}/\text{Total Assets}_{it}$
Availability of Internal Funding Sources	:	$\text{Retained Earnings}_{it}/\text{Total Assets}_{it}$
Time needed to reach Optimal CH	:	$(1/CH - SOA) \times 1 \text{ year}$

RESULTS AND DISCUSSION

Descriptive statistics

Table 1. shows a summary of statistical data from the sample used in this study, namely, company data in Indonesia for the period 2011-2020.

Table 2. Descriptive Statistics

Indonesia	N	Minimum	Maximum	Means	std. Deviation
SOA	1498	-95.5080347000	46.0178923700	.427983334498	8.74715227497
INTERNAL	1498	-.9702226260	.9811177470	.144229882275	.306748602133
EXTERNAL	1498	.0002947880	.9913261890	.468320342844	.214415418152
DISTANCE	1498	-15.7589667900	.5807508640	-.010609781094	.412150546724
Valid N (listwise)	1498				

Indonesian firms show that the speed of adjustment to the targeted cash holding is less than one, that have meaning that the speed of cash holding adjustment has not reached the optimal level, and the time needed to reach optimal cash holding is more than 2 (two) years. Company equity can come from internal and external financing. The availability of external equity comes from investors who invest in the company. The availability of internal funding sources from the retained earnings in Indonesia averages 14%. Meanwhile, the use of external debt funding sources in Indonesia shows less than 50% of total assets. This situation shows that companies in Indonesian firms use sources of equity funds in the form of retained earnings and shares exceeding

50%. These companies can fulfill their total obligations if the company is asked to pay their total debts.

Distance is a variable to check whether there is a deviation from the targeted actual cash holding. Equation (1) is used to estimate the targeted holdings. To estimate targeted cash holdings based on company characteristics, namely growth, company size, leverage, profitability, and tangibility. If the company's actual cash holdings exceed the target level, then the company has excess cash and a negative deviation occurs, and vice versa if the company has actual cash less than the target, then there is a positive deviation. Deviations between actual cash holdings and targeted cash holdings on average show positive deviations. The speed of adjustment to targeted cash holding (CH-SOA) is higher for companies that have more cash than targeted. Companies that have actual cash holdings greater than targeted will find it easier to adjust and require a shorter time to achieve the targeted cash holdings. This condition supports the argument that the difference in CH-SOA is caused by differences in adjustment costs (Orlova & Rao, 2018).

The Determinants of Speed of Adjustment to Optimal Cash Holding (CH-SOA)

The results of hypothesis testing to analyze the factors that determine CH-SOA. This test uses equations (3). The results of the analysis can be seen in Table 3.

Table 3. Determinants of CH-SOA in Indonesia

Variables	coefficient	std. Error	t-Statistics	Prob.	VIF	R2
C	4.052376	1.435643	2.822690	0.0048		0.263446
DISTANCE	-0.221354	0.284992	-0.776703	0.4375	1.0004	
EXTERNAL	-6.894448	2.692187	-2.560910	0.0106	1.1689	
INTERNAL	-2.759002	2.828308	-0.975496	0.3295	1.1693	

The Effect of Distance on the Speed of Adjustment to Optimal Cash Holding (SOA CH)

It could be argued that the adjustment costs are greater (lower) below (above) the targeted cash level. When financing is expensive and external financing is expensive implies that companies below the target will be slower to adjust to the target than companies over the target. One could also argue that non-adjustment costs increase with the size of the deviation. For companies above their target cash level, being further away from the target increases the opportunity cost that results from holding excess cash. In contrast, for cash-strapped companies, moving further from the target raises liquidity concerns, as low levels of liquidity can lead to bankruptcy in extreme circumstances.

Refers to the concept of capital structure. *Distance* is the difference between the targeted and observed leverage at the beginning of the period (Heshmati, 2002), which measures the distance with the deviation from the targeted leverage to the observed leverage in the previous period, with the formulation $(L^*_{i,t} - L_{i,t-1})$. (Cook & Tang, 2010) measure the distance with the deviation from the target leverage with the observation leverage in the same period as the formulation $(L^*_{i,t} - L_{i,t})$. In this study, it refers to the measurements used by (Cook & Tang, 2010) namely with the formulation $(L^*_{i,t} - L_{i,t})$. More formally, our first two hypotheses with respect to the size and variance of cash flows can be stated as follows. The results showed that the variable distance in Indonesia was not significantly affected by distance.

Effect of Access to External Capital on CH-SOA.

When funding is external, differences in external funding costs could potentially lead to differences in adjustment speed (Faulkender et al., 2012). On the one hand, if the funding costs external lower externally for some firms, then one can expect that, other conditions being equal, those firms will adjust their targeted cash holdings more quickly than firms with more expensive

external funding. However, non-adjustment costs will be higher for companies that have limited access to external funding. In companies that do not easily get external funding, when available, Deviation from the CH target will have a difficult impact on the company. Therefore, for companies that have limitations, namely not easy to get external funding, the CH-SOA will be higher than for companies that do not have limitations.

The results of research in Indonesia show a negative effect on CH-SOA, which means that companies with limited access to external funding will adjust to a larger CH-SOA targeted cash. Companies are considered to be limited in their ability to raise external funding, making it very dangerous for these companies to deviate from targets, leading to an increase in the speed at which companies try to match their cash holdings to targets. This supports the notion that adjustment costs and non-adjustment costs are important determinants of CH-SOA. The results of this study support the research (Orlova & Rao, 2018). In this previous study, the limitations of using size measurements. small companies are companies with limitations, while large companies are companies without limitations. **Companies with access to external funding will have a positive effect on CH-SOA**

Effect of Availability of Internal Funding Resources

The higher the availability of internal funding, proxied as retained earnings with total assets. Higher availability of internal funding sources reduces adjustment costs by providing an opportunity to adjust cash against targets without raising costly external funding sources. This leads to a higher CH-SOA. On the other hand, when a company has internal sources of funds, excess cash can be used to cover financial deficits, leading to a higher CH-SOA. Companies try to distribute their internal funds between adjusting capital structure and cash holdings towards their respective targets (Faulkender et al., 2012). With the availability of internal funding sources, the speed of adjustment is smaller. Companies with internal funding sources are not always used to increase cash, but can be used to pay off debts in advance or can be invested in other assets, so that it can not have an impact on increasing the speed of targeted cash adjustments. This condition is in accordance with the results of the study (Faulkender et al., 2012). Companies that have internal sources of funds document that they use their free cash flow to adjust their leverage against targets. In Indonesia, the results are not significant, which means that companies with the availability of internal funds do not always have a direct impact on the speed of adjustment to the targeted cash (CH-SOA). Companies with ownership of internal funding sources can be used to finance investments in cash and other than cash, or can also be used to pay debts.

CONCLUSIONS

This study highlights the heterogeneity of the velocity of adjustment of cash holdings (CH-SOA). Given that the previous literature on CH-SOA was very limited and offered conflicting results, we used several cash-holding target proxies and a recently developed methodology to examine differences in CH-SOA in Indonesia. Based on the research results, the overall CH-SOA is relatively high, 0.40. It implies that, on average, companies in Indonesia need more than 2 years to reach the targeted cash holding. CH-SOA is slower than firms with excess cash, and firms with more excess cash adjust to targets more quickly. The company's adjustment speed is greater at the targeted rate when the deviation from actual cash and targeted cash is small. Companies with access to external funding will have a positive effect on CH-SOA. Companies with the availability of internal funding sources can have an impact on increasing CH-SOA, and can reduce CH-SOA because the availability of internal funding sources is not only used to increase cash holdings. The overall CH-SOA is high enough to justify the existence of a cash holding target. This study only included three independent variables and could only explain CH-

SOA 26%, and 74% CH-SOA was impacted by the other variables that were not analyzed in this research. Further research is necessary to identify other variables that affect CH-SOA.

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