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FINANCIAL PERFORMANCE, CORPORATE GOVERNANCE, AND POLITICAL CONNECTION FOR CORPORATE CASH HOLDING

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Abstract

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This study examines corporate cash holding through the lens of the four motives in Keynesian theory (Schumpeter & Keynes, 1936): 1) transactions, 2) caution, 3) taxes, and 4) agency, (Roy, 2018). It explores the influence of financial performance, corporate governance, and political connections on cash holding, with political connections serving as a mediating factor. The research employs quantitative methods grounded in the philosophy of positivism, focusing on a specific population of 105 companies, with a final sample of 735 observations. The findings suggest that audit committees, current ratios, quick ratios, and political connections play a role in improving cash holding. The study concludes that financial performance, corporate governance, and political connections significantly impact cash holding. While financial performance and governance influence the formation of political connections, political connections do not mediate the relationship between financial performance, corporate governance, and cash holding. This study highlights the importance of liquidity and the interaction between political, debt, and asset connections in achieving corporate objectives. The dynamics of financial performance, corporate governance, and political connections are crucial to public interest.

Keywords: Financial Performance, Corporate Governance, Corporate Cash Holding, Political Connection

Authors' individual contribution: Conceptualization — C.H., A.I.H., and L.U.; Methodology — L.U. and N.S.; Writing — Original Draft — C.H., A.I.H., L.U., and N.S.; Writing — Review & Editing — C.H. and N.S.; Supervision — A.I.H. and L.U.; Project Administration — C.H. and N.S.; Funding Acquisition — C.H. and A.I.H.

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1. INTRODUCTION

PT Badan Pertanahan Sariwangi and PT Maskapai Perkebunan Indorub Sumber Wadung were declared bankrupt and defaulted on their debts of IDR (Indonesian rupiah) 1.5 trillion to several banks (Ramadhan et al., 2022). Major banks in the world, from the United States to Europe, are facing crises due to the COVID-19 pandemic, including rising

benchmark interest rates and declining cryptocurrency assets (CNBC Indonesia, 2023). Indian billionaire Gautam Adani also experienced problems for his company in 2022. The Adani group of companies has seven public companies operating in various sectors, including commodity trading, airports, utilities, ports, and renewable energy (Mukharji, 2023).

Table A.1 in the Appendix shows that Delta Djakarta Tbk had the highest cash and cash

equivalents, and cash holding ratio in 2018, with the lowest in 2020. This suggests that companies with limited total assets tend to have higher cash reserves, while those with higher assets hold less cash. This behavior reflects a strategic approach to cash management and investment opportunities (Roy, 2018). Most research on corporate cash holding mainly emphasizes transaction motives and the company's prudence or vigilance in managing cash (Irwansyah et al., 2024; Sriram & Riyazahmed, 2024; Tawfik et al., 2022; Yadiati et al., 2024). And then, cash holding needs to be tested more specifically with the four motives of Keynesian theory (Schumpeter & Keynes, 1936), namely: "The company holds cash for four reasons: 1) transaction; 2) caution; 3) taxes; and 4) agency" (Roy, 2018, p. 95).

Referring to the Law No. 40 of 2007 concerning limited liability companies, Article 68 points 1.e and f, states that the company has assets and/or total business turnover with a total value of at least IDR 50,000,000,000.00 (fifty billion rupiah) or as required by laws and regulations. This is intended so that companies can store cash as liquid assets and ensure their financial flexibility. Looking back at Article 149, points 1.a and b, that the liquidator's obligations in settling the company's assets in the liquidation process include the implementation: a) recording and collection of the company's assets and debts; and b) announcements in newspapers and the State Gazette of the Republic of Indonesia regarding the plan to distribute wealth from liquidation. Corporate cash holding, this concept is very relevant in dealing with economic uncertainty, especially in developing countries.

This research was motivated to link financial performance, corporate governance, and political connections, with a company's cash holding for three reasons. First, a company's financial performance can be influenced by various factors, including cash holding policies (Ozdemir et al., 2023). Second, most previous empirical research, on corporate governance, has emphasized the motive for holding cash only in developed countries (Bates et al., 2006; Chen & Chuang, 2009; Harford et al., 2008; Kim et al., 1998; Opler et al., 1999; Ozkan & Ozkan, 2004; Pathan et al., 2007; Pinkowitz et al., 2006). As for research in developing countries, there is still very little research on the relationship between corporate governance and cash holding (Gul et al., 2020). For example, Sri Lanka is a legal country like any other developing country, where most companies are controlled by directorships, cross-shareholding, and interconnected pyramids (Ghani & Ashraf, 2005; Gul et al., 2020). The high concentration of cash holding creates a transfer of control and ownership rights leading to corporate governance problems in developing countries, especially resource acquisition (Johnson et al., 2000; La Porta et al., 1999, 2000). Third, about cash holding from a regional perspective by examining the impact of political connections on corporate cash holding in developing countries, is still very rarely researched (Tawfik et al., 2022). Meanwhile, the research of Abuhijleh and Zaid (2023) examines the impact of political connections as a moderation variable that strengthens the relationship between corporate governance and cash holding in developing countries.

This research contributes to science, it is hoped that it can expand the literature review of corporate cash holding using the smart partial least squares

(PLS) method, and develop a method of measuring corporate cash holding with cash constant log measurements and equivalents. As well as expanding the literature review on political connections.

This study examines the relationship between financial performance, corporate governance, and political connections in corporate cash holding. It aims to establish an optimal benchmark for managing cash holdings, using data from financial statements of non-consumer cycle companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2023. The analysis involved 735 observations and was conducted using smart PLS structural equation modeling (PLS-SEM).

The following research is structured as follows: Section 2 offers a comprehensive literature review and hypotheses development, Section 3 outlines the research methodology, Section 4 shows results, Section 5 presents a detailed discussion of the findings, and Section 6 concludes with the research's contributions, practical implications, and limitations.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

According to Eisenhardt (1989) there are three assumptions in agency theory about human nature: first, humans are generally more selfish (self-interest), secondly they have limited thinking power about future perceptions and lastly, humans always avoid risks. The third reason is human nature, since its reliability cannot always be guaranteed, and the information provided sometimes does not reflect the actual conditions. As a result, in general it can be said that information is asymmetrical (Kalbuana et al. 2022; Uzliawati et al., 2023; Supriatiningsih et al., 2024).

Jensen and Meckling (1976) and Supriatiningsih et al. (2024) further explained that with this conflict of interest, it is possible that some deliberate actions are opportunistic in the scope of company management, such as: a) bad debts are reported in nominal amounts greater than they actually are; b) sales results reported with a slight increase; c) the need for additional funds to the principal to support the implementation of the ongoing project; and d) preparation of financial statements made according to the needs of company management officials (Supriatiningsih et al., 2024).

Cash holding is cash used for transactions such as salary or wage payments, purchase of fixed assets, debt payments, dividend payments, and other transactions required by the company (Riadi & Pustaka, 2021). Cash holding is a key component of liquidity. The company keeps cash for speculative motives, aiming to take advantage of potential investment opportunities in the future. Another reason for preventive corporate motives, involves maintaining cash reserves to manage emergencies (Trinh et al., 2022).

It can be concluded that "growing businesses are able to generate more cash, which leads to an increase in cash ownership rates. Conversely, when businesses face a slowdown, cash holding rates tend to decline" (da Cruz et al., 2019, p. 78).

An analysis of the company's financial performance is carried out to see how well the financial implementation rules have been set and implemented. Evaluation of a company's financial

performance can be done with the help of financial statement data. Owners can measure, evaluate, and track manager performance by using financial statement data to determine the extent to which managers are working for the owner's well-being. A company's efforts to evaluate the efficiency and effectiveness of a particular profit and cash position are referred to as financial performance measurements. (Utami et al., 2022).

Corporate governance is vital for enhancing a company's performance and market value, particularly when aligned with market participants' expectations. Key governance mechanisms include board composition, ownership structures, managerial compensation, protection of minority shareholders, and transparent information disclosure (Borges Júnior, 2022). The complexity of global business necessitates institutional mechanisms to safeguard stakeholder interests and prevent opportunistic managerial behavior (Kasbar et al., 2023).

Corporate governance controls at the corporate level, especially in relation to state-level investor protection, have a limited effect on cash holding. Evidence from international studies shows that companies with weaker shareholder protections tend to have more cash, although the results are insignificant. Furthermore, managerial control over cash was found to have a negative impact (Akhtar et al., 2018; Dwaikat, 2023).

Political connections are an important institutional factor in many countries, significantly influencing the economic environment and capital market operations (Wahab et al., 2017). Political connections are especially beneficial in less developed markets, where the implementation of corporate governance is weak, as it contributes to operational efficiency and provides various economic benefits to companies (Bliss & Gul, 2012).

Previous studies on the role of political connections in organizations have explored a variety of topics, including the relationship between political connections and various financial outcomes (Berkman & Galpothage, 2016; Benjamin et al., 2016; Ramachandran et al., 2022).

2.1. Financial performance affects corporate cash holding

A study by Opler et al. (1999) highlighted the important role of cash reserves, showing that maintaining additional cash allows companies to better navigate internal and external shocks caused by economic instability (Ozdemir et al., 2023). The financial characteristics of a company significantly affect its cash holding level. Opler et al. (1999) identified a positive correlation between cash holding, investment opportunities, and future cash flows, a finding corroborated by Tawfik et al. (2022) and Ahmed and Tahir (2024). However, the relationship between cash holding and financial performance is still inconclusive. Several studies report a positive correlation and show that higher cash reserves support financial performance (Jabbouri & Almustafa, 2021; Yun et al., 2021). Excessive cash holding can negatively impact financial performance, leading to inefficiencies. The contradictory effects of cash holding increase understanding of its impact on financial performance. Several studies have shown the drawbacks of holding liquid assets, such as asset wastage and higher workplace costs, negatively

impact business performance (Ahmed & Tahir, 2024). Due to information asymmetry, external funding has become more expensive than internal funding, prompting companies to prioritize higher cash reserves to finance investment projects. This means that larger cash holding has the potential to lead to improved financial performance. Conflicting results in the literature lead to the formulation of the following hypothesis:

H1: Financial performance affects cash holding.

2.2. Corporate governance affects corporate cash holding

Previous literature shows mixed results on the relationship between cash holding and board independence. While Hussain and Shah (2017) found a positive link between cash holdings and board independence, other studies suggest a negative relationship. Without effective corporate governance, it becomes challenging to prevent managers from investing in low-return projects at the expense of shareholder cash returns. Therefore, corporate governance is a crucial mechanism for shareholders to influence managerial decisions (Roy, 2018). This leads to the following hypothesis:

H2: Corporate governance has an effect on cash holding.

2.3. Financial performance affects political connection

The literature on the economic role of political connections covers various topics, including their impact on financial statement quality, the accuracy of analysts' forecasts, and capital market valuations. Other areas of focus include the cost of equity, going public, access to government contracts and subsidies, corporate governance (Kang & Zhang, 2018), and activity diversification (Di Gulì & Kostovetsky, 2014). Political connections have also been linked to bankruptcy risk, government bailouts, taxation, fraud detection, and access to bank financing. Additionally, some studies examine the operational performance of companies with political ties (Jackowicz et al., 2014).

There are two competing views on the role of political connections, suggesting they can either improve or harm financial performance. According to Ozdemir et al. (2023), political connections may have a balancing effect, potentially enhancing or weakening financial outcomes. These connections enable companies to boost sales and reduce operational and financing costs, which can positively affect financial performance. A review of the literature shows that politically connected companies often demonstrate higher financial performance (Aldhamari et al., 2020). This leads to the formulation of the following hypothesis:

H3: Financial performance has an effect on political connections.

2.4. Corporate governance affects political connection

Companies with political connections tend to be less transparent in their disclosures, as their privileged access to credit reduces their dependence on capital markets and the pressure to disclose information. In contrast, companies without political ties, which rely on external capital, generally disclose more to

reduce their cost of capital. Empirical research shows that politically connected companies often provide lower-quality information than those without such connections (Chaney et al., 2011). Similarly, Al-Janadi et al. (2016) found that government ownership weakens corporate governance effectiveness in companies listed on the Saudi Arabian Stock Exchange. Shen et al. (2015) reported that companies with strong governance and political connections received less favorable loan terms than those with strong governance but no political ties. These findings suggest that corporate governance and political connections may not always complement each other (Tessema, 2019).

According to Mohammed et al. (2017), a stronger corporate governance structure, particularly in terms of board independence, is positively associated with accounting conservatism, while management ownership is negatively associated with it. However, political connections negatively moderate the positive relationship between accounting conservatism and board independence. The study also found that political connections are positively correlated with a company's future performance. Companies with political ties tend to disclose lower-quality information compared to those without such connections, and the presence of political connections reduces the effectiveness of corporate governance.

H4: Corporate governance affects political connection.

2.5. Political connection affects corporate cash holding

Political connections enhance operational efficiency and provide various economic benefits to companies (Boubakri et al., 2013), particularly in less developed markets (Chen et al., 2011), where corporate governance is often weak (Bliss & Gul, 2012). Hill et al. (2014) argue that political connections can increase future cash flows and reduce the likelihood of adverse cash flow shocks, offering companies financial stability and a cushion against financial challenges (Hill et al., 2014; Tawfik et al., 2022).

Caprio et al. (2013) suggest that in developing countries with weaker property legal protections, companies often adjust their asset ownership structures to safeguard assets from potential government foreclosure. Their study found a negative relationship between corporate ownership of liquid assets and political corruption. However,

opinions on the impact of political connections on cash holdings vary. Some researchers argue that political connections are negatively correlated with cash reserves (Lin et al., 2019). In developing countries, Al-Najjar (2013) found that politically connected companies tend to have less cash, relying on government support during financial crises (Al-Najjar, 2013; Lin et al., 2019). Kusnadi (2019) notes that there is no overall relationship between political connections and cash holding, but in emerging markets and countries with high corruption, political connections are negatively associated with cash holdings (Kusnadi, 2019).

H5: Political connections affect cash holding.

2.6. Financial performance and corporate cash holding do not mediate political connection

Based on agency theory, the more concentrated ownership, the principal has an incentive to monitor the agent so that the agent acts in accordance with the owner's interests, institutional ownership inhibits managers from acting opportunistically so that shareholder expectations are achieved (Hidayat et al., 2022; Supriatiningsih et al., 2024). Higher cash holding can lead to higher financial performance and vice versa (Ahmed & Tahir, 2024). Political connections can increase cash flow in the future and help reduce the risk of adverse cash flow shocks in the future (Hill et al., 2014).

H6: Financial performance and cash holding do not mediate political connection.

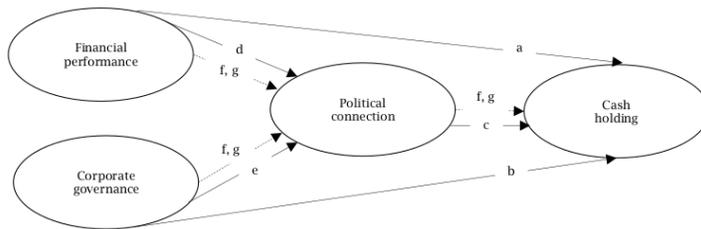
2.7. Corporate governance and corporate cash holding do not mediate political connection

Based on agency theory, the more concentrated ownership, the principal has an incentive to monitor the agent so that the agent acts in accordance with the owner's interests, institutional ownership inhibits managers from acting opportunistically so that shareholder expectations are met (Hidayat et al., 2022). Corporate governance plays an important role as a key mechanism by which shareholders can influence managerial behavior (Roy, 2018). However, Kusnadi (2019) found that political connections were not related to the value of cash holding across the sample (Kusnadi, 2019).

H7: Corporate governance and cash holding do not mediate political connection.

Our research model is compiled in the figure below.

Figure 1. Research framework



$$PC = \beta_0 + dRL + dRK + dDK + dDAR + dNPM + dROI + dROA + dROE + eDKI + eKA + eKM + eKI + e_{y1} \quad (1)$$

$$CH = \beta_0 + aRL + aRK + aDK + aDAR + aNPM + aROI + aROA + aROE + bDKI + bKA + bKM + bKI + cPC + e_{y2} \quad (2)$$

3. RESEARCH METHODOLOGY

The research method is a part of the methodology that describes the techniques of data collection and analysis. This type is quantitative research based on the philosophy of positivism, which is used to research a specific population or sample. Quantitative research views that reality can be clarified, measured, and has a causal relationship, and uses instruments to collect data and analyze data statistically. Data were used to analyze the relationship between variables expressed by numbers and types of correlation research. Correlation research aims to find out the relationship and influence between two or more variables. This research is included in associative research that aims to be able to determine the influence between variables (Husadha et al., 2025).

Model 1

$$ECashHolding_{i,t} = \beta_1 FinancialPerformance_{i,t} + \beta_2 CorporateGovernance_{i,t} + \beta_3 PoliticalConnection_{i,t} + \epsilon_{i,t} \quad (3)$$

Model 2

$$EPoliticalConnection_{i,t} = \beta_1 FinancialPerformance_{i,t} + \beta_2 CorporateGovernance_{i,t} + \epsilon_{i,t} \quad (4)$$

Model 3

$$ECashHolding_{i,t} = \beta_4 E_1 PoliticalConnection_{i,t} + \beta_5 E_2 PoliticalConnection_{i,t} + \epsilon_{i,t} \quad (5)$$

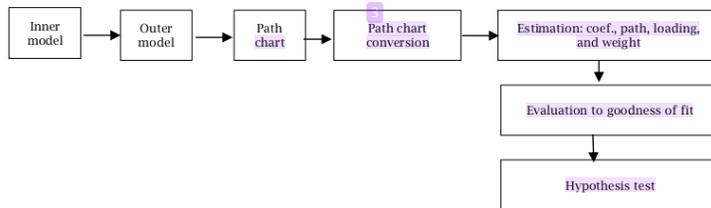
This study employs the PLS-SEM approach, which includes two components: the outer model and the inner model. Confirmatory factor analysis is used to evaluate the relationship between reflective indicators and latent variables. The PLS-SEM method was selected for its ability to provide detailed model analysis while overcoming the limitations of

3.1. Research model

The data analysis in this study uses quantitative data and secondary data. The information comes from the company's annual report which has been reviewed and published on the company's website or the IDX at the link: www.idx.co.id. The sample of this study consists of 125 non-cyclical consumer companies listed on the IDX, 105 companies have complete, public, consistent, and audited annual and financial and financial reports. The final sample that has complete data in 2017-2023 amounted to 735 samples.

To analyze the impact of financial performance and corporate governance on the cash holding of consumer non-cyclical companies, with political connections as a mediating factor, this study used the following models:

Figure 2. Smart PLS stages



Source: Husadha et al. (2023).

3.2. Operational definitions and variable measurements

The variables of this study are exogenous variables, endogenous variables, and intervening variables.

Exogenous variables consist of financial performance and corporate governance. The endogenous variable is cash holding, and the intervening variable is political connection. The following is a table of our research variables:

Table 1. Operational definitions and variable measurements

Variable	Concept of variables	Measurements	Scale
Cash holding	Cash is a highly liquid asset and a key indicator of a company's ability to meet its financial obligations on time. Maintaining appropriate cash levels is vital for businesses, as it helps them manage short-term financial needs, navigate economic challenges, and seize growth opportunities. Adequate cash reserves are crucial for reducing financial risks, ensuring business continuity, and promoting long-term growth (Ajanthan & Kumara, 2017).	The measurement of the variables of corporate cash holding in this study uses the measurement of (Kusnadi, 2019; Dwaikat, 2023; Ezeani et al., 2023; Abuhijleh & Zaid, 2023). In this study, the researcher developed a cash holding measurement with a ratio scale using the log natural constant formula: $\text{Cash holding} = \frac{\text{cash and cash equivalents}}{\text{total fixed assets}}$ $\ln \text{ constanta cash holding} = \text{constant natural cash and cash equivalent}$	Ratio
Corporate governance	Corporate governance refers to a system of internal and external mechanisms aimed at aligning the interests of managers and shareholders, addressing agency conflicts that arise from the separation of ownership and control in modern organizations. Key corporate governance mechanisms include: 1) the composition of the board of directors; 2) ownership and control structures; 3) managerial compensation practices; 4) protection of minority shareholders; 5) information disclosure (Borges Júnior, 2022).	Corporate governance measurement in this study uses (Kato et al., 2017; Ajanthan & Kumara, 2017; Roy, 2018; Gul et al., 2020; Dwaikat, 2023). $IBoC = \frac{\Sigma \text{ independent board of commissioners}}{\Sigma \text{ board of commissioners}}$ $AC1 = \Sigma \text{ audit committee}$ $AC2 = \frac{\Sigma \text{ independent audit committee}}{\Sigma \text{ audit committee}}$ $MO = \frac{\Sigma \text{ shares owned by management}}{\Sigma \text{ outstanding shares}}$ $IO = \frac{\Sigma \text{ shares owned by institutions}}{\Sigma \text{ outstanding shares}}$	Ratio
Financial performance	According to Institute of Indonesia Chartered Accountants (2007), financial performance is defined as a company's ability to manage and control its resources effectively. This can be evaluated through the analysis of financial statements using financial ratios, which are classified into four types: liquidity ratio, profitability ratio, solvency ratio, and activity ratio (Mahrani & Soewarno, 2018). Financial performance measurement refers to a company's efforts to assess the efficiency and effectiveness of its profit generation and cash positions (Utami et al., 2022).	In the study, return on equity (ROE) and return on sales (ROS) are the two most widely used ratios to measure financial performance (Walsh & Dewar 1987). Waddock and Graves (1997) used return on assets (ROA), ROE, and ROS, while Ruf et al. (2001) chose ROE, ROS, and sales growth (Kim et al., 2021).	Ratio
Political connection	Political connections enhance operational efficiency and provide companies with a range of economic benefits and advantages (Boubakri et al., 2013), especially in emerging markets (Chen et al., 2011), where corporate governance practices may be underdeveloped (Bliss & Gul, 2012a, 2012b). Amara and Khlif (2020) note that countries like China, Malaysia, and Indonesia are prime examples where political connections have a significant impact.	The measurement of political connection variables in this study uses the measurement of (Kusnadi, 2019; Tawfik et al., 2022; Abuhijleh & Zaid, 2023; Linh, 2023; Ganguly et al., 2023). $\text{Political connection} = \text{Dummy}$ (equal to 1 if the company is politically connected and 0 vice versa).	Ordinal

Source: Authors' elaboration.

4. RESULT

This study uses two measurement methods: outer model and inner model. The outer model involves the following tests: 1) validation test (convergence validity and discrimination validity); 2) reliability test (composite reliability). The stages are: 1) loading factor and discrimination validity, where the results show convergent validity if the value of the loading factor is more than 0.70, and the average variance extracted (AVE) is more than 0.5, which is

considered valid; 2) the reliability test consists of a composite reliability test and a Cronbach's alpha test, which is considered reliable if the result is greater than 0.7 (Muhtarom et al., 2022).

4.1. Descriptive analysis

The researcher enters secondary data information from the company's financial statements, then sorts them into an MS Excel file. The results are presented in the table below.

Table 2. Delimiter indicators

Indicators	No.	Missing	Mean	Median	Min	Max	Std. dev	Excess kurtosis	Skewness
CuR	1.000	0.000	213.394	142.000	0.000	2.259.000	232.325	19.827	3.635
CaR	2.000	0.000	0.626	0.000	0.000	18.000	1.687	41.137	5.679
QR	3.000	0.000	143.054	82.000	-62.000	1.769.000	189.889	22.073	3.985
DAR	4.000	0.000	53.004	51.000	0.000	290.000	32.861	17.187	3.133
DER	5.000	0.000	180.712	95.000	-3.064.000	5.498.000	460.219	57.395	5.196
NPM	6.000	0.000	38.136	4.000	-244.000	10.299.000	485.156	434.863	20.586
ROA	7.000	0.000	8.922	5.000	-58.000	433.000	31.027	135.625	10.606
ROI	8.000	0.000	-66.062.154	811.000	-14.063.036	1.112.836	891.457.673	201.263	-13.862
ROI2	9.000	0.000	2.049.186	49.000	-63.853.000	507.205.000	27.567.924	261.774	15.305
ROE	10.000	0.000	427.193	206.000	-321.000	24.960.000	1.358.909	237.157	14.055
IBoC	11.000	0.000	42.004	40.000	0.000	100.000	13.153	-4.686	1.601
EAC	12.000	0.000	3.002	3.000	0.000	5.000	0.587	10.350	-0.839
AC	13.000	0.000	65.639	67.000	0.000	100.000	10.512	17.671	-3.105
MO	14.000	0.000	4.868	0.000	0.000	92.000	14.147	16.618	3.874
IO	15.000	0.000	58.985	61.000	0.000	100.000	26.137	-0.558	-0.513
PC	16.000	0.000	0.379	0.000	0.000	1.000	0.485	-1.756	0.501
CH	17.000	0.000	10.364	6.000	0.000	102.000	12.596	12.392	2.805
LnCH	18.000	0.000	1.208.926	1.249.000	0.000	1.720.000	245.671	2.970	-1.078

Source: Authors' elaboration.

Note: CuR is current ratio; CaR is cash ratio; QR is quick ratio; DAR is debt to activity ratio; DER is debt to equity ratio; NPM is net profit margin; ROA is return on asset; ROI is return on investment; ROE is return on equity; IBoC is independent board of commissioners; AC is audit committee; MO is managerial ownership; IO is institutional ownership; PC is political connection; CH is cash holding; LnCH is log natural CH.

4.2. Outer model

The outer model test is the initial stage of measurement model analysis, evaluating the relationship between indicators and latent variables to assess data validity and reliability. It involves four stages: 1) convergent validity test, 2) discriminant test, 3) composite reliability, and 4) AVE. Discriminant validity is assessed by

comparing AVE, Cronbach's alpha, and composite reliability values. If a variable's AVE is > 0.5, discriminant validity is considered achieved. A Cronbach's alpha > 0.7 indicates reliability, and composite reliability > 0.7 shows indicator reliability. The study provides the AVE, Cronbach's alpha, and composite reliability values for each variable used.

Table 3. AVE, Cronbach's alpha, and composite reliability

Variable	AVE	Cronbach's alpha	Composite reliability
Financial performance	0.384	0.984	0.992
Corporate governance	1.000	1.000	1.000
Political connection	1.000	1.000	1.000
Cash holding	0.708	0.792	0.829

Source: Authors' elaboration.

4.3. Inner model

Inner model tests were conducted to predict the correlations between latent variables, and the testing was performed through bootstrapping. The bootstrapping calculations for the path

coefficient were based on the number of observations in this study, which included 735 samples. T-statistic values and p-values were used to test the hypotheses. If the p-value is less than 0.05, the research hypothesis is considered acceptable. The results are as follows.

Table 4. Direct influence

Variable	Original sample	Sample mean	Standard deviation	T-statistics	p-values	Result
FP → CH	0.419	0.423	0.062	6.803	0.000	Accepted
CG → CH	0.215	0.215	0.066	3.248	0.001	Accepted
PC → CH	0.092	0.092	0.044	2.105	0.036	Accepted
FP → PC	-0.134	-0.135	0.033	4.108	0.000	Accepted
CG → PC	0.149	0.151	0.036	4.132	0.000	Accepted

Source: Authors' elaboration.

5. DISCUSSION

From the H_1 test, Model 1 (a: 0.419, $p = 0.000 < 0.05$, $0 \neq$ confidence interval (CI)), it is known that the p-value represents the influence of financial performance, on cash holding is $0.000 < 0.05$, which means that H_1 is accepted. This research is in line with research of Jabbouri and Alm Mustafa (2021) and Yun et al. (2021).

As for H_2 , Model 1 (b: 0.215, $p = 0.000 < 0.01$, $0 \neq$ CI), it is known that the p-value representing

the influence of corporate governance on cash holding is $0.001 < 0.05$ which means that H_2 is accepted. This research is in line with research of Kato and Skinner (2017), Ajanthan and Kumara (2017), Roy (2018), Gul et al. (2020) and Dwaikat (2023).

Regarding H_5 , Model 1 (c: 0.215, $p = 0.000 < 0.36$, $0 \neq$ CI), it is known that the p-value representing the political connection to cash holding is $0.036 < 0.05$ which means that H_5 is accepted. This research is in line with research of Berkman and Galpotherge (2016) and Benjamin et al. (2016).

As for *H3* and *H4*, Model 2 (d: -0.134, and e: 0.149, $p = 0.036 < 0.05$, $0 \neq CI$), it is known that the *p*-value represents the influence of *corporate governance*, and that *financial performance on political connection* is $0.000 < 0.05$ which means that

both hypotheses *H3* and *H4* are accepted. This research is in line with research of Mohammed et al. (2017), Tessema (2019), Boubakri et al. (2013), Hill et al. (2014), and Tawfik et al. (2022).

Table 5. Indirect influence

Variable	Original sample	Sample mean	Standard deviation	T-statistics	p-values	Result
FP → PC → CH	-0.012	-0.012	0.007	1.888	0.060	Rejected
CG → PC → CH	0.014	0.014	0.008	1.819	0.070	Rejected

Source: Authors' elaboration.

In the results of the *H6* test, Model 3 (f: 0.014, $p = 0.070 < 0.05$, $0 \neq CI$), it is known through certain indirect effects, that the *p*-value that forms the influence of *financial performance* through *political connection on cash holding* is $0.060 > 0.05$ which means that *H6* is rejected. As for the results of the *H7* test, Model 3 (g: -0.012, $p = 0.070 < 0.05$, $0 \neq CI$), it is known through certain indirect effects, that while the *p*-value that forms the influence of *corporate governance* through *political connection on cash holding* is $0.070 > 0.05$ which means that *H7* is rejected. The results of this study provide a new empirical contribution to the mediating role of the relationship between corporate governance through political connection and cash holding.

6. CONCLUSION

The results of this study provide contributions and implications, both theoretical, practical, as well as government and policy authorities. Expanding the literature on corporate cash holding with new measurements. Made a significant contribution to science by developing methods for measuring corporate cash holding and developing the measurement of cash constant logs and cash equivalents. This approach not only enriches the literature by providing analytical tools, but also opens up opportunities for further research to re-explore related to corporate cash holding. Financial performance, corporate governance, and political connection can affect cash holding. Offers a new mediation variable named the political connection variable. Financial performance and corporate governance can affect political connection.

This research highlights the importance of financial performance and good governance to be able to develop the company through political connection, which can increase investor confidence and strengthen corporate cash holding. Management can use the results of this research to:

- improve governance practices;
- improve the company's governance process to be more transparent and accountable
- identify risks: investors can identify companies with higher potential risks due to

political issues and adjust their investment portfolios to minimize those risks;

- assess management trust and transparency: investors can consider political decisions as an indicator of potential management problems and use them to assess the trust and transparency of the company's management;

- comply with the Financial Services Authority of Indonesia (*Otoritas Jasa Keuangan, OJK*) regulations: ensure that OJK regulations and limited liability company laws can be guidelines related to the company's governance, the board of commissioners and audit committees, as well as its political connection.

The limitations of this research include: data on companies limited to one sector and preferably manufacturing/Association of Southeast Asian Nations; information on legislation and financial services authorities is needed in strengthening theories for research. The research model shows that variables such as financial performance, corporate governance, political connections, and corporate cash holding have an adjusted R-squared value of only 3.4%, indicating that this model is only able to explain a small part of the variation in corporate cash holding.

In the meantime, there is an opportunity to explore political proxies related to connections, based on the number of board members who meet the criteria for political ties, which could provide additional insights for further research. In addition, financial performance proxies can include other ratios beyond liquidity and solvency. Future research could use a more proactive approach to collect data, conduct direct surveys or increase the number of countries, or compare developed and developing countries to obtain more complete and in-depth information. The use of secondary data from external sources, such as industry reports or case studies, can be an alternative to supplementing limited data. Consider/expand the scope of the variables studied. variables such as tax, corporate social responsibility, management performance, and fraud, to be able to provide a deeper understanding of the factors affecting corporate cash holding.

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APPENDIX

Table A.1. Summary of the company's financial position statement in millions of rupiah

<i>Code</i>	<i>Company name</i>	<i>Date of recording</i>	<i>Year</i>	<i>Cash and cash equivalents</i>	<i>Total assets</i>	<i>Cash holding ratio</i>
DLTA	Delta Djakarta Tbk	27.02.1984	2017	IDR 845,324	IDR 1,340,843	0.63
			2018	IDR 963,342	IDR 1,523,517	0.63
			2019	IDR 844,219	IDR 1,425,984	0.59
			2020	IDR 112,000	IDR 14,199,935	0.01
			2021	IDR 194,341	IDR 23,413,770	0.01
			2022	IDR 748,591	IDR 1,307,186	0.57
			2023	IDR 612,103	IDR 1,208,500	0.51

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