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- Penulis : Cahyadi Husadha, Agus Ismaya Hasanuddin, Lia Uzliawati, Nurhayati Soleha
- Korespondensi : Cahyadi Husadha (Universitas Sultan Ageng Tirtayasa, Serang, Indonesia; Universitas Bhayangkara Jakarta Raya, Bekasi, Indonesia)

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From : Cahyadi Husadha <[cahyadi.husadha@dsn.ubharajaya.ac.id](mailto:cahyadi.husadha@dsn.ubharajaya.ac.id)>, ismayaagus, uzliawati,  
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Sincerely,  
Cahyadi Husadha

# FINANCIAL PERFORMANCE, CORPORATE GOVERNANCE, AND POLITICAL CONNECTION FOR CORPORATE CASH HOLDING IN INDONESIA

Cahyadi Husadha<sup>1\*</sup>, Agus Ismaya Hasanuddin<sup>1</sup>, Lia Uzliawati<sup>1</sup>, Nurhayati Soleha<sup>1</sup>  
Universitas Sultan Ageng Tirtayasa, [7783220023@untirta.ac.id](mailto:7783220023@untirta.ac.id)<sup>1</sup>, Universitas Sultan Ageng Tirtayasa, [ismayaagus@gmail.com](mailto:ismayaagus@gmail.com)<sup>1</sup>, Universitas Sultan Ageng Tirtayasa, [uzliawati@untirta.ac.id](mailto:uzliawati@untirta.ac.id)<sup>1</sup>, Universitas Sultan Ageng Tirtayasa, [nurhayatisoleha@untirta.ac.id](mailto:nurhayatisoleha@untirta.ac.id)<sup>1</sup>, University Bhayangkara Jakarta Raya [cahyadi.husadha@dsn.ubharajaya.ac.id](mailto:cahyadi.husadha@dsn.ubharajaya.ac.id),\*

## Abstract

This study examines and analyzes the impact of financial performance and corporate governance on corporate cash ownership, with political connections being the mediating factor. Utilizing quantitative analysis, this study explores the relationship between the research variables. Collected 66 company data with final sample criteria of 462 samples. The research findings and discussions highlight several key points about financial performance, corporate governance, and political connections all having a substantial impact on cash holdings. In addition, the financial performance and governance of the company can affect political connections. Nevertheless, it is important to recognize that political connections do not mediate the relationship between financial performance, corporate governance, and cash holdings. Another significant finding is the proposal of a proportional audit committee, which can serve as an effective governance mechanism for better cash holdings management. A company's liquidity, combined with the effect of political connections on its debt and assets, is crucial in steering a company toward its goals. Financial Performance, Corporate Governance, and Political Connections need to be widely known by the public. So that the academic community, practitioners and regulators can always work together, to continue to strive to make a positive contribution in realizing the concept; A balanced "People, Planet, and Profit".

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

**JEL Code:** [G30, G34, M42, D72].

**Declaration of conflicting interests:** The Authors declare that there is no conflict of interest.

## 1. Introduction

Information about world business, comes from the CNBC Indonesia Editorial Team (2023) media, which states that; "Major banks worldwide, from the United States to Europe, are facing an unprecedented crisis as a result of the Covid-19 pandemic. The collapse of several banks is highlighted by economic instability in the aftermath of the pandemic, including rising benchmark interest rates and the decline of cryptocurrency assets." (CNBC Indonesia, 2023). Then, world news from the BBC News Indonesia Editorial Team (2023), informs that; "Indian billionaire Gautam Adani is out of the list of the 10 richest people in the world because of the problems that befell his company. The Adani group of companies has seven public companies operating in various sectors, including commodity trading, airports,

utilities, ports, and renewable energy (Mukharji, 2023).

PT Modern Internasional Tbk, through its subsidiary PT Modern Sevel Indonesia, ceased the operations of 7-Eleven (Sevel) outlets as of June 30, 2017. The closure was attributed to various factors, including high operational costs such as rent, infrastructure, and facility expenses, as noted by IDX Director of Corporate Valuation Samsul Hidayat in an interview with Merdeka Daily (Ningrum, 2018). Similarly, PT Sariwangi faced bankruptcy and defaulted on debts. PT Sariwangi Agricultural Estate Agency and PT Maskapai Perkebunan Indorub Sumber Wadung were declared bankrupt after amassing debts amounting to IDR 1.5 trillion, owed to several banks (Ramadhan *et al.*, 2022).

The phenomenon observed from the information

above suggests underlying financial performance issues, which stem from challenges in company management. This highlights the need to consider the influence of political connections on the

company's value and assets. An interesting cash holding trend, found in one of the company's annual reports listed below, further complements and enriches our research.

**Tabel 1.** Summary of the Financial Position Report of PT. Delta Djakarta Tbk in Millions of Rupiah

Code	Company Name	Date of Recording	Year	'Cash and Cash Equivalents'	Total-Assets	'Cash Holding Ratio'
DLTA	Delta Djakarta Tbk.	27 Februari 1984	2017	Rp.845.324	Rp. 1.340.843	0,63
			2018	Rp.963.342	Rp. 1.523.517	0,63
			2019	Rp.844.219	Rp. 1.425.984	0,59
			2020	Rp.112.000	Rp.14.199.935	0,01
			2021	Rp.194.341	Rp.23.413.770	0,01
			2022	Rp.748.591	Rp. 1.307.186	0,57
			2023	Rp.612.103	Rp. 1.208. 500	0,51

Source: <https://deltajkt.co.id/home>

The table indicates that Delta Djakarta Tbk Company had the highest cash and cash equivalents, along with the highest cash holding ratio, in 2018, while the lowest values were recorded in 2020. This indicates that when the company's total assets are limited, it is more likely to hold higher cash reserves, whereas, with higher total assets, the company holds less cash. This behavior appears to reflect a prudent approach to managing cash (Roy, 2018). Additionally, the company retains cash as part of its investment strategy to seize potential opportunities that may emerge. Most research on the company's cash holdings primarily emphasizes transaction motives and the company's prudence or vigilance in managing cash (Tawfik *et al.*, 2022). And then, Cash Holding needs to be tested more specifically with the four motives of the Keynesian theory (Schumpeter & Keynes, 1936), that; "Companies hold cash for four reasons: 1.) transaction motives; 2.) the motive of prudence; 3.) tax motives; and 4.) Agency motives, (Roy, 2018)".

Cash holding is a crucial aspect of corporate policy, as it is the most prevalent approach companies adopt to maintain liquidity (Almeida *et al.*, 2014). Cash reserves enable companies to manage unexpected fluctuations in cash flow, maintain daily operations, invest in long-term projects, and effectively mitigate risks (Acharya *et al.*, 2007). This represents a strategic approach to understanding

cash management policies. Holding cash can reduce the risk of financial distress, facilitate the implementation of investment strategies despite financial limitations, and lower the costs related to external financing or the liquidation of existing assets (Ajanthan & Kumara, 2017).

The focus on corporate cash holdings was first introduced by Baumol (1952), and later expanded upon by Miller & Orr (1966). Cash, as the most liquid asset, represents a company's capacity to fulfill its financial obligations promptly. However, companies must build cash reserves and manage cash flows effectively to maintain a favorable cash flow situation. The optimal cash level depends on the company's specific needs, enabling the business to survive and thrive (Gill and Shah, 2012; Ajanthan dan Kumara, 2017). Cash holding is defined as the ratio of cash and cash equivalents to operating expenses and monthly interest costs (Gul *et al.*, 2020).

The two key aspects of a company's performance are financial and non-financial factors (Seo and Lee, 2019, and Jayeola *et al.*, 2022). Financial performance continues to be a key focus for both regulators and managers, who aim to identify variables that can enhance performance (Ousama *et al.*, 2020).

High financial performance is a primary focus for managers, as it plays a crucial role in the company's

structure and development. However, this goal is often hindered by various factors, leading to lower performance levels. A company's financial performance serves as a key indicator of its current progress and potential for future growth (Kim *et al.*, 2021). There are various indicators used to assess financial performance, and the choice of the appropriate ratio depends on the characteristics of the subject being studied and the research objectives. In their study, Walsh *et al.*, (1987) used Return on Equity (ROE) and Return on Sales (ROS) as the primary ratios for measuring financial performance. Similarly, Waddock and Graves (1997) employed Return on Assets (ROA), ROE, and ROS, while Ruf *et al.*, (2001) focused on ROE, ROS, and sales growth (Kim *et al.*, 2021).

Corporate governance refers to a set of practices, procedures, and policies used to manage and oversee a company, with the aim of safeguarding the interests of shareholders and other stakeholders (Rostami & Rezaei, 2022; Krigman & Rivolta, 2019). The objective of corporate governance is to ensure that companies operate transparently, fairly, and responsibly (Al-Hadi & Habib, 2023; X. Wu & Li, 2015).

Corporate governance includes both internal and external mechanisms designed to align the interests of managers and shareholders, addressing conflicts that arise from the separation of ownership and control within organizations. Silveira (2002), emphasizes its importance in enhancing company performance and market value, provided these mechanisms align with market expectations. Key governance mechanisms include board composition, ownership and control structures, managerial compensation methods, protections for minority shareholders, and transparent information disclosure (Borges, 2022).

Political connection refers to the interaction between businesses and governments, including the influence of politics on policy-making, regulations, and decisions that impact the business environment (Chaney *et al.*, 2011), (Liang *et al.*, 2016). Political relations are one way to gain a competitive advantage that is likely to affect

investor confidence (Rochmah Ika *et al.*, 2021). Political connections can greatly influence how companies adopt, implement, and promote green values in their operations and business decisions (Kamarudin *et al.*, 2021). Companies with parent companies (PCs) and business group affiliates typically maintain higher liquidity and significantly larger cash reserves compared to their independent counterparts (Lin *et al.*, 2019; Saeed *et al.*, 2014; Tawfik *et al.*, 2022).

Politically connected companies are more likely to hold larger cash reserves for two main reasons: politicians often prioritize their political agendas over shareholder interests, and these connections can result in agency problems. Excessive cash holdings, in this context, harm shareholders, as inefficient cash allocation may prevent investments in profitable projects that could maximize shareholder wealth (Boubakri *et al.*, 2013; Abuhijleh & Zaid, 2023).

This is a quantitative study that focuses on the company's cash holdings, measuring the relationship between financial performance, corporate governance, and strong political connections. It aims to establish the best benchmark for managing cash holdings, serving as the primary motivator for effective cash management within the company. The data used in this study consists of the financial statements of companies in the consumer non-cyclical sector listed on the Indonesia Stock Exchange from 2017 to 2023. The final sample included 465 observations from the consumer non-cyclical sector on the Indonesia Stock Exchange, which were analyzed using Partial Least Squares Structural Equation Modeling (SMART PLS-SEM).

The structure of the research is as follows: Part 2 provides a comprehensive literature review and hypothesis development, Part 3 details the research methodology, Part 4 presents an in-depth discussion of the findings, and Part 5 concludes with the study's contributions, practical implications, and limitations.

## HYPOTHESES DEVELOPMENT

Agency theory serves as a key framework for

## 2. LITERATURE REVIEW AND

understanding corporate strategies, suggesting that organizations respond to institutional pressures by seeking to maintain legitimacy (Scott, 1995). This involves aligning organizational values with societal norms (Meyer & Rowan, 2011) and demonstrating a commitment to meeting the expectations of institutions and stakeholders (Aldrich and Fiol, 1994; Buysse and Verbeke, 2003; DiMaggio and Powell, 1983; Fan *et al.*, 2021).

There are several suspicions in organizational speculation, for example, about individual instincts that underline that a person to continue to attach importance to his own interests, often moves away from danger and has limited objectivity. In addition, it is assumed that business is always seen as a source of conflict of desire and information asymmetry between managers and shareholders. According to agency theory, managers can act opportunistic, resulting in moral hazards and other problems. The application of agency theory also focuses on resolving contract-related problems, such as conflicts of interest, which require the creation of compensation arrangements for managers to balance the needs of shareholders with the needs of managers (Sari and Pratiwi, 2023).

According to Eisenhardt & Eisenhardt (2018) there are three assumptions in agency theory of human nature: first, humans are generally more concerned with themselves (self-interest), secondly they have limited thinking power about perceptions of the future and finally, humans always avoid risks Uzliawati, et al. (2023). The third reason is human nature, as its reliability cannot always be guaranteed, and the information provided may sometimes not reflect the actual conditions. As a result, it can generally be said that information is asymmetric (Kalbuana et al. 2022; Taqi et al. 2021; Uzliawati et al. 2023; Supriatiningsih *et al.*, 2024).

This theory is basically used to align between goals principal with agent. However, in reality the goal between the principal and agents often clash. Mekling (1976) and Supriatiningsih *et al.*, (2024) further explained with this conflict of interest, it is possible for it to occur some actions that are intentional as opportunistic attitudes (opportunistic behavior) within the scope of management companies do like: a. The amount of

uncollectible accounts (bad debt) is reported in nominal terms bigger than it really is. b. The amount of sales results is reported with a modest increase significant. c. The emergence of the need for additional funds to the principal for support the implementation of ongoing projects. d. Preparation of multiple financial reports made as needed by 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. Companies may hold cash for speculative motives, aiming to capitalize on potential profitable investment opportunities in the future. Another reason for holding cash is the preventive-corporate motive, which involves maintaining cash reserves to manage emergencies (Trinh *et al.*, 2022).

The literature on cash holdings highlights the important role of corporate governance in influencing cash reserves and their value. However, there are still areas that require further exploration. Several studies indicate that the primary motive for holding cash in both domestic and international markets goes beyond the traditional reasons for maintaining high cash reserves. Factors such as management differences and shareholder interests—often referred to as agency motives—also significantly contribute to the tendency to maintain elevated cash levels (Akhtar *et al.*, 2018). It can be concluded that "growing businesses are able to generate more cash, leading to an increase in the level of cash holdings. Conversely, when a business faces a slowdown, the level of cash holdings tends to decrease" (da Cruz *et al.*, 2019).

Agency theory serves as a key framework for understanding corporate strategies, suggesting that organizations respond to institutional pressures by seeking to maintain legitimacy (Scott, 1995). This involves aligning their values with societal norms (Meyer & Rowan, 2011) and showing dedication to fulfilling the expectations of institutions and stakeholders (Mahrani, 2018). An analysis of the company's financial performance is carried out to

see how well the financial implementation rules have been implemented 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 managers' performance by using financial statement data to determine the extent to which managers are working for the owner's welfare. A company's efforts to evaluate the efficiency and effectiveness of a particular profit and cash position are referred to as financial performance measurement. (Utami *et al.*, 2022).

According to Silveira (2002), corporate governance is crucial for companies as it improves performance and market value when mechanisms align with the expectations of market participants. Key mechanisms include the composition of the board of directors, ownership and control structures, managerial compensation practices, protection of minority shareholders, and transparent information disclosure (Borges, 2022). The complexity and intertwined nature of global business activities, requires certain assurances to ensure that; "institutionalized mechanisms are in place to protect the personal interests of stakeholders and prevent opportunistic behavior of managers" (Kasbar *et al.*, 2023).

Corporate governance control at the enterprise level, particularly in relation to state-level investor protection, has a limited effect on cash ownership. Evidence from international studies suggests that companies with weaker shareholder protections tend to hold more cash, although the results are insignificant. Furthermore, managerial control over cash was found to have a negative impact (Akhtar *et al.*, 2018, and Dwaikat, 2023).

Political connections are a key institutional factor in many countries, playing a significant role in shaping the economic landscape and the functioning of capital markets (Wahab *et al.*, 2017). These connections improve operational efficiency and offer companies various economic benefits and competitive advantages (Boubakri *et al.*, 2013a, 2013b), Political connections are particularly beneficial in less developed markets, contributing

to operational efficiency and providing companies with various economic advantages (Bradley & Chen, 2011). Political connections are particularly beneficial in less developed markets, where corporate governance implementation is weak, as they contribute to operational efficiency and provide companies with various economic advantages (Bliss & Gul, 2012).

The influence of political connections in Asian countries continues to be a topic of significant interest, serving as a key area of ongoing research (Berkman & Galpoththage, 2016). Previous studies examining the role of political connections in organizations have a broad scope, exploring the relationship between political connections and various financial outcomes (Benjamin *et al.*, 2016; Ramachandran *et al.*, 2022).

## **2.1. Financial Performance Affects the Company's Cash Holding Level**

A study by Opler *et al.*, (1999) emphasizes the importance of cash reserves, providing evidence that maintaining additional cash helps companies better manage internal and external shocks caused by unstable economic conditions (Ozdemir *et al.*, 2023). The financial characteristics of a company are key factors that directly influence its cash holding levels. Opler *et al.*, (1999) found a positive correlation between cash holding rates, investment opportunities, and future cash flows, a finding supported by Tawfik *et al.*, 2022, and Ahmed & Tahir (2024). However, the relationship between a company's cash holdings and financial performance remains ambiguous. Some studies report a positive correlation between cash holdings and financial performance (Jabbouri & Almस्ताfa, 2021; Yun *et al.*, 2021), while others suggest that excessive cash holdings may ultimately harm performance (Banjade and Diltz, 2022). The contradictory effects of cash ownership enhance our understanding of its impact on financial performance. Additionally, several studies point out the drawbacks of holding liquid assets, such as increased asset wastage and higher workplace costs, which could negatively affect business performance (La Rocca and Cambrea, 2019; Ahmed & Tahir, 2024). Due to information asymmetry, external funding is typically more

expensive than internal funding, leading companies to favor higher cash reserves to finance investment projects. This implies that higher cash holdings might result in improved financial performance. The contradictory findings in the literature may stem from the interdependence between cash ownership and specific factors, leading to the development of the following hypothesis.

H<sub>1</sub> = Financial Performance affects Cash Holding.

## 2.2. Corporate Governance Affects Corporate Cash Holding

Previous literature presents mixed results regarding the relationship between cash ownership and board independence (BInd). Yammeesri and Herath (2010) suggest that the effectiveness of outside directors in enhancing a company's value and providing better oversight remains uncertain. The Cadbury Report (1992) from the United Kingdom emphasized the importance of outside directors, while Hussain and Shah (2017) argued that independent directors protect shareholder interests. The financial hierarchy theory (Opler *et al.*, 1999) suggests a positive relationship between cash ownership and board independence. However, Chen (2008), Kusnadi (2011), and Ozkan and Ozkan (2004) argue that this relationship is negative. In contrast, Harford *et al.*, (2008) found to significant relationship between cash ownership and board independence.

Why do companies hold cash reserves? The discussion on holding large cash reserves dates back to Keynes (1936), who identified the primary motive as reducing transaction costs, as companies do not need to liquidate assets when making payments (Blackford, 2019). Additionally, holding cash helps avoid underinvestment due to limited funds (Akhtar, 2018). Jensen (1986) argued that companies facing agency problems will accumulate cash when they lack valuable investment opportunities and management prefers not to distribute cash to shareholders. An important trade-off, highlighted by Jensen in the free cash flow hypothesis and Bates (1990) in his research on management control over financial policy, is ensuring that managers have sufficient capital to

invest in projects with a positive net present value, while limiting funds for projects with low cash inflows. However, without effective corporate governance mechanisms, it is difficult to persuade self-interested managers to avoid investing in low-return projects at the expense of cash returns to shareholders. Therefore, corporate governance is essential, as it serves as the primary mechanism through which shareholders can influence managerial behavior (Roy, 2018). The argument above leads to the hypothesis below.

H<sub>2</sub> = Corporate Governance has an effect on Cash Holding.

## 2.3. Financial Performance Affects Political Connection

The literature on the economic role of political connections is extensive, covering various aspects such as their impact on the quality of financial statements (Riahi-Belkaoui, 2004; Chaney *et al.*, 2011), the accuracy of financial analyst forecasts (Chen *et al.*, 2010), capital market valuation (Fisman, 2001; Chaney *et al.*, 2011; Parsley & Faccio, 2007; Huber & Kirchler, 2013), equity costs (Boubakri, Guedhami, *et al.*, 2012), the process of going public (Francis *et al.*, 2009), access to government contracts (Goldman *et al.*, 2013), subsidies (Wu & Cheng, 2011), corporate governance (Kang & Zhang, 2018; You & Du, 2012), diversification of activities (Di Giuli & Kostovetsky, 2014), diversification of activities (Li *et al.*, 2012), bankruptcy risk (D'Aveni, 1990; Du & Girma, 2010), obtaining bailouts from public authorities (Faccio, 2006; Blau *et al.*, 2013), taxation (Adhikari *et al.*, 2006; Richter *et al.*, 2009), fraud detection (Yu & Yu, 2011), and access to bank financing (Fakta, 2010; (Boubakri, Cosset, *et al.*, 2012; Houston *et al.*, 2014). In addition, more specific studies assess the operational performance of companies with political ties (Jackowicz *et al.*, 2014).

There are two competing perspectives regarding the role of political connections, suggesting that these connections may either enhance or diminish financial performance. According to Ozdemir *et al.*, (2023), political connections could have a balancing effect, either strengthening or weakening financial

outcomes, Su and Fung (2013) argue that fostering political connections helps companies increase sales and reduce operational and financing costs, which can positively impact company performance. A review of the literature indicates that politically connected companies tend to exhibit higher financial performance (Niessen & Ruenzi, 2010; W. Wu et al., 2012; Ding et al., 2014; Zhang et al., 2014; Li et al., 2016; Wang et al., 2019; dan Aldhamari *et al.*, 2020). This argument leads to the hypothesis below.

H<sub>3</sub> = Financial Performance has an effect on Political Connection.

#### **2.4. Corporate Governance Affects Political Connection.**

Companies with political connections tend to disclose less information because their privileged access to credit diminishes their exposure to capital market pressures. In contrast, companies without political ties, which rely on external capital, disclose more information to reduce their cost of capital. Consequently, empirical research indicates that companies with political connections provide lower-quality information compared to those without such ties (Chaney et al., 2011). Similarly, Al-Janadi et al., (2016), found that government ownership weakened the effectiveness of corporate governance in companies listed on the Saudi Arabian Stock Exchange (Al-Janadi et al., 2016). Shen et al., (2015), reported that companies with both strong corporate governance and political connections received worse loan terms compared to those with strong governance but no political ties (Shen et al., 2015). These findings suggest that corporate governance and political connections do not necessarily complement each other (Tessema, 2019).

According to Mohammed *et al.*, (2017), a stronger corporate governance structure, especially regarding board independence, is positively associated with accounting conservatism, while management ownership is negatively related to accounting conservatism. However, political connections negatively moderate the positive relationship between accounting conservatism and board independence. The study also finds that

political connections are positively correlated with a company's future performance (Mohammed *et al.*, 2017). Companies with political connections tend to disclose lower-quality information compared to those without political connections, and the presence of political ties diminishes the effectiveness of corporate governance.

H<sub>4</sub> = Corporate Governance affects Political Connection.

#### **2.5. Political Connection Affects Cash holding**

Political connections contribute to operational efficiency and provide companies with numerous economic benefits and advantages (Boubakri *et al.*, 2013a, 2013b), particularly in less developed markets (Chen *et al.*, 2011) where corporate governance implementation is often weak (Bliss & Gul, 2012a, 2012b). where corporate governance implementation is often weak. Hill et al. (2014), argue that political connections improve future cash flows and reduce the likelihood of adverse cash flow shocks (Hill *et al.*, 2014; Tawfik *et al.*, 2022).

Caprio et al., (2013), suggest that in developing countries with weaker property law protections, companies adapt their asset ownership structures to safeguard their assets from potential government seizure. Their study identified a negative relationship between corporate ownership of liquid assets and political corruption. However, opinions differ regarding the impact of political connections on corporate cash holdings. Some researchers argue that political connections negatively correlate with cash reserves (Lin, 2019). In developing countries, Al-Najjar (2013), found that politically connected companies hold less cash, relying on government support during financial crises (Al-Najjar, 2013; Lin, 2019). Kusnadi (2019), demonstrated no overall relationship between political connections and the value of cash holdings but noted that in emerging markets and countries with high corruption levels, political connections are negatively associated with cash ownership. (Kusnadi, 2019).

H<sub>5</sub> = Political Connection affects Cash Holding.

## 2.6. Financial Performance and Cash Holding Not Mediated by Political Connection

Based on agency theory, the more concentrated ownership, the principal has incentives to monitor agents so that agents act in accordance with the interests of owners, institutional ownership inhibits managers from acting opportunistically so that shareholder expectations are achieved (Hidayat *et al.*, 2022), dan (Supriatiningsih *et al.*, 2024). Higher cash holdings can lead to higher financial performance and vice versa (Ahmed & Tahir, 2024). Political connections improve future cash flows and help mitigate the risk of adverse cash flow shocks in the future (Hill *et al.*, 2014).

$H_6$  = Financial Performance and Cash Holding are not mediated by Political Connection.

## 2.7. Corporate Governance and Cash Holding Not Mediated by Political Connection

## Holding Not Mediated by Political Connection

Based on agency theory, the more concentrated ownership, the principal has incentives to monitor agents so that agents act in accordance with the interests of owners, institutional ownership inhibits managers from acting opportunistically so that shareholder expectations are achieved (Hidayat *et al.*, 2022). Corporate governance plays a crucial role as it is the primary mechanism through which shareholders influence managerial behavior (Roy, 2018). However, Kusnadi (2019) found that political connections were not related to the value of cash ownership across the entire sample (Kusnadi, 2019).

$H_7$  = Corporate Governance and Cash Holding are Not Mediated by Political Connection.

Based on some of the hypotheses that have been described above, the research model that we have compiled is contained in the figure below.

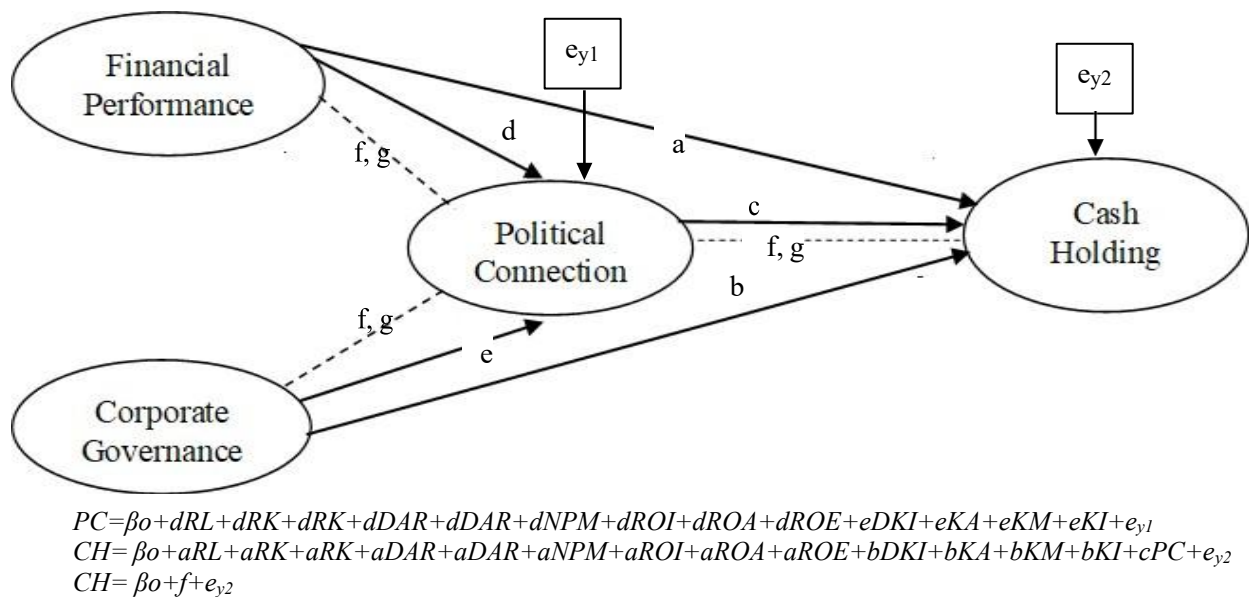


Figure 1. Research Framework

## 3. RESEARCH METHODOLOGY

### 3.1. Research Model

To analyze the impact of financial performance and corporate governance on the cash holdings of Consumer Non-Cyclical companies, with political

connections acting as a mediating factor, this study employs the following models:

Model 1:

$$ECashHolding_{i,t} = \beta_1 FinancialPerformance_{i,t} + \beta_2 CorporateGovernance_{i,t} + \beta_3 PoliticalCon$$

$$\text{PoliticalConnection}_{i,t} + \varepsilon_{i,t}$$

Model 2:

$$E\text{PoliticalConnection}_{i,t} = \beta_1 \text{FinancialPerformance}_{i,t} + \beta_2 \text{CorporateGovernance}_{i,t} + \varepsilon_{i,t}$$

Model 3:

$$E\text{CashHolding}_{i,t} = \beta_4 E_1 \text{PoliticalConnection}_{i,t} + \beta_5 E_2 \text{PoliticalConnection}_{i,t} + \varepsilon_{i,t}$$

This study employs the Partial Least Squares-Structural Equation Modeling (PLS-SEM) approach, which consists of two components: the outer model and the inner model. Confirmatory

Factor Analysis (CFA) is utilized to assess the relationships between reflective indicators and latent variables. The PLS-SEM method is chosen due to its ability to conduct detailed model analysis while overcoming the limitations of parametric assumptions when studying the relationships between latent variables (Effendi, 2017; Sunani *et al.*, 2024). Hypothesis testing within the model analysis is carried out using P-values and confidence intervals, as recommended by Kock (2016), and Burnkrant & Page (1982). The process of data analysis and structural equation modeling using SmartPLS involves the following steps (Husadha *et al.*, 2023):

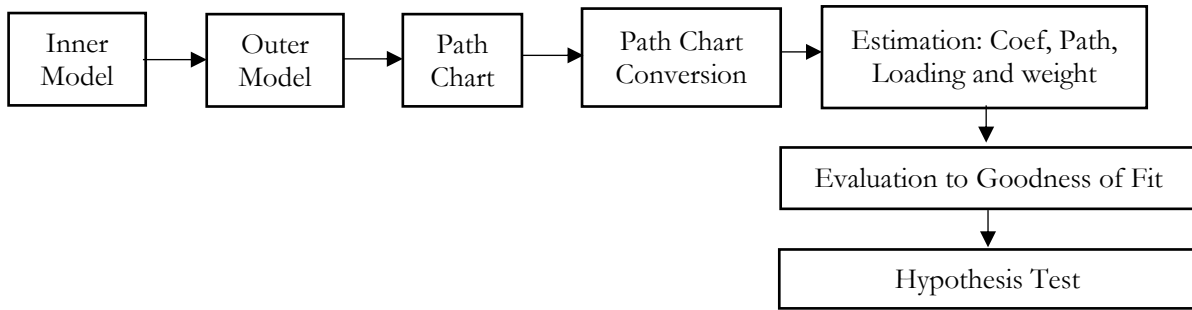


Figure. 2. SMARTPLS Stages (Husadha *et al.*, 2023)

### 3.2. Operational Definitions and Measurement of Variables

In this study, there are four variables used, namely exogenous variables, endogenous variables and intervening variables where exogenous variables,

namely: Financial Performance, Corporate Governance, the endogenous variable is Cash holding, and the intervening variable Political Connection. The following is a table of variables of our research:

**Table 2.** Operational Definitions and Measurement of Variables

Variable	Definition/Concept of Variables	Measurements/Indicators	Scale
Cash Holding (CH)	Cash is considered a liquid asset and is a key measure of a company's ability to meet its financial obligations on time. Therefore, maintaining optimal cash levels is essential for companies, as it plays a crucial role in ensuring business survival and growth (Gill and Shah, 2012; Ajanthan and Kumara, 2017).	Cash equivalents and cash to net assets. (Guha & Rahim, 2019), (Gul <i>et al.</i> , 2020), (Alnori, 2020), (Alnori & Bugshan, 2022), (Abuhijleh & Zaid, 2023), (Dwaikat, 2023), and (Ezeani <i>et al.</i> , 2023).	Ratio
Corporate Governance (CG)	Corporate governance refers to a system of internal and external mechanisms aimed at aligning the interests of managers and shareholders, thereby addressing agency conflicts stemming from the separation of ownership and control in modern organizations (Silveira, 2002). Among	1. Board Composition (BC) = $\Sigma$ board of commissioners or independent directors to total directors (Kato <i>et al.</i> , 2017), (Ajanthan & Kumara, 2017), (Roy, 2018), (Gul <i>et al.</i> , 2020), (Dwaikat, 2023).	Ratio

Variable	Definition/Concept of Variables	Measurements/Indicators	Scale
	these corporate governance mechanisms, five key ones include: 1.) the composition of the board of directors; 2.) ownership and control structures; 3.) manager's compensation modalities; 4.) protection of minority shareholders; and 5.) information disclosure (Borges, 2022).	2. Board of Committees (BoC) = $\Sigma$ dewan komite audit (Kato <i>et al.</i> , 2017), (Roy, 2018), (Gul <i>et al.</i> , 2020), (Dwaikat, 2023). 3. Institutional ownership = The amount of ownership of 5% or more is owned by institutions such as banks, insurance companies, or companies (Dwaikat, 2023).	
Financial Performance (FP)	According to IAI (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, 2018). Financial performance measurement refers to a company's efforts to assess the efficiency and effectiveness of its profit generation and cash positions (Utami <i>et al.</i> , 2022).	In the study, ROE and ROS are the two most widely used ratios to measure financial performance (Walsh <i>et al.</i> , 1987), Waddock and Graves (1997) used ROA, ROE, and ROS, while Ruf et al (2001) chose ROE, ROS, and sales growth (Kim <i>et al.</i> , 2021). (Walsh <i>et al.</i> , 1987), Waddock dan Graves (1997), Ruf et al (2001), (Kim <i>et al.</i> , 2021).	Ratio
Political Connection (PC)	Political connections contribute to operational efficiency and offer companies numerous economic benefits and advantages (Boubakri <i>et al.</i> , 2013a, 2013b), particularly in less developed markets (Chen <i>et al.</i> , 2011), where the implementation of corporate governance is often weak (Bliss & Gul, 2012a, 2012b). Amara and Khlif (2020) highlight that countries such as China, Malaysia, and Indonesia are typical examples of nations where this phenomenon is prevalent (Amara & Khlif, 2020).	PC is a dummy variable equal to 1 if the company is politically connected; 0 on the contrary. (Tawfik <i>et al.</i> , 2022), dan (Abuhijleh & Zaid, 2023), (Linh, 2023), (Ganguly <i>et al.</i> , 2023).	Ordinal

### 3.3. Sample

This study is a quantitative research that focuses on the cash holdings of companies and examines the extent to which financial performance and effective corporate governance mechanisms serve as the best benchmarks for managing cash holdings, with the main objective of optimizing cash management within the company. The data used in this study consists of financial statements from companies in the consumer non-cyclical sector listed on the Indonesia Stock Exchange for the period 2017-

2023.

## 4. RESULT

There are two measurement methods used in this study, namely: Outer Model and Inner Model. The Outer Model consists of: 1.) Validation Test (convergence validity and crime validity); 2.) Reliability test (composite reliability). The stages are: 1.) Loading Factor and validity of discrimination, the results show Convergent Validity with a loading factor value must be above 0.70. Meanwhile, the Average Variance Extracted

(AVE) must also be above 0.5. If the value is greater, it is declared valid; and 2.) *There* are two types of reliability tests: *the composite reliability* test and *the Cronbach alpha* test. If the result is greater than 0.7, the result is considered reliable (Muhtarom *et al.*, 2022).

#### 4.1. Descriptive Analysis.

The researcher entered secondary data information from the company's financial statements, then sorted into an MS Excel file. See the following table.

**Table 4.** Delimiter Indicators.

Indicators	No.	Missing	Mean	Median	Min	Max	Standard Deviation	Excess Kurtosis	Skewness
RL	1.000	0.000	213.394	142.000	0.000	2.259.000	232.325	19.827	3.635
RK	2.000	0.000	0.626	0.000	0.000	18.000	1.687	41.137	5.679
RC	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
ROI1	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	-62.853.000	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
DKI	11.000	0.000	42.004	40.000	0.000	100.000	13.153	4.686	1.601
ΣKA	12.000	0.000	3.002	3.000	0.000	5.000	0.587	10.350	-0.839
KA	13.000	0.000	65.639	67.000	0.000	100.000	10.512	17.671	-3.105
KM	14.000	0.000	4.868	0.000	0.000	92.000	14.147	16.618	3.874
KI	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

Notes: **RL** is Current Ratio; **RK** is Cash Ratio; **RC** is Quick Ratio; **DAR** is debt to Activity Ratio; **DAR** is debt to Equity Ratio; **NPM** is Net Profit Margin; **ROA** is Return on Asset; **ROI** is Return on Investment; **ROA** is Return on Equity; **DKI** is Independent Board of Commissioners; **KA** is Audit Committee; **KM** is Managerial Ownership; **KM** is Institutional Ownership; **PC** is Politasl 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, examining the relationship between each indicator and its latent variables to assess the validity and reliability of a data set. This process involves four stages: Convergent Validity Test, Discriminant Test, Composite Reliability, and Average Variance Extracted.

Discriminant validity can also be calculated by comparing the values of AVE, Cronbach Alpha, and Composite Reliability. The AVE value of a

variable is required to be  $> 0.5$ , then it is stated that the discriminant validity has been achieved. Cronbach Alpha values can also be used to improve reliability tests with composite reliability. If a variable has a cronbach alpha value  $> 0.7$  then it is considered reliable or meets the cronbach alpha. Composite Reliability is also the part used to test the reliability value of indicators on a variable. A variable can be declared to meet composite reliability if it has a composite reliability value  $> 0.7$ . The following are the values of AVE, Cronbach Alpha, and composite reliability of each variable used in this study.

**Table 5.** AVE, Cronbach Alpha, and Composite Reliability

<i>Variable</i>	<i>Average Variance Extracted (AVE)</i>	<i>Cronbach's Alpha</i>	<i>Composie Reability</i>
Financial Performance	0.984	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

### 4.3. Inner Model

This inner test is carried out to predict the correlation between latent variables. Testing can be done by doing calculate bootstrapping. The results of the bootstrapping calculation for Path Coefficients were carried out according to the

number of observations of our research of 462 samples. T-Statistic and P-Values values were used to test the hypothesis in this study. If the P-Values are less than 0.05 then the research hypothesis can be considered accepted. The inner model of this study, and the results are as follows.

**Table 6.** Direct Influence

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Hasil
FP -> Cash Holding	0,419	0,423	0,062	6,803	<b>0,000</b>	Accepted
CG -> Cash Holding	0,215	0,215	0,066	3,248	<b>0,001</b>	Accepted
PC -> Cash Holding	0,092	0,092	0,044	2,105	<b>0,036</b>	Accepted
FP -> Political Connection	-0,134	-0,135	0,033	4,108	<b>0,000</b>	Accepted
CG -> Political Connection	0,149	0,151	0,036	4,132	<b>0,000</b>	Accepted

## 5. DISCUSSION

From the test of the first hypothesis, model 1 (a: 0.419,  $\rho = 0.000^{**} < 0.05$ ,  $0 \notin CI$ ), it is known that the P-value represents the influence of financial performance, on cash holding is  $0.000 < 0.05$  which means the hypothesis is accepted. This research is in line with research (Jabbouri and Almustafa, 2021; Yun *et al.*, 2020).

The second hypothesis, model 1 (b: 0.215,  $\rho = 0.000^{**} < 0.01$ ,  $0 \notin CI$ ), it is known that the P-value representing the influence of corporate governance on cash holding is  $0.001 < 0.05$  which means the hypothesis is accepted. This research is in line with research (Kato *et al.*, 2017), (Ajanthan & Kumara, 2017), (Roy, 2018) (Gul *et al.*, 2020), and (Dwaikat, 2023).

The fifth hypothesis, model 1 (c: 0.215,  $\rho = 0.000^{**} < 0.36$ ,  $0 \notin CI$ ), it is known that the P-value representing the political connection to cash holding is  $0.036 < 0.05$  which means the hypothesis is accepted. This research is in line with research (Berkman & Galpothage, 2016), and (Benjamin *et al.*, 2016).

The third and fourth hypotheses, model 2 (d: -0.134, and e: 0.149,  $\rho = 0.036^{**} < 0.05$ ,  $0 \notin CI$ ), it is known that the P-value represents the influence of corporate governance, and financial performance on political connection is  $0.000 < 0.05$  which means that both hypotheses are accepted. This research is in line with research (Mohammed *et al.*, 2017), (Tessema, 2019), (Boubakri *et al.*, 2013a, 2013b), (Hill *et al.*, 2014), and (Tawfik *et al.*, 2022).

**Table 7. Indirect Influence**

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Hasil
FP -> Political Connection -> CH	-0,012	-0,012	0,007	1,888	<b>0,060</b>	Rejected
CG -> Political Connection -> CH	0,014	0,014	0,008	1,819	<b>0,070</b>	Rejected

In the results of the sixth hypothesis test, model 3 (f: 0.014,  $\rho = 0.070^{**} < 0.05$ ,  $0 \notin CI$ ), and it is known through specific indirect effects, that the P-Value value that forms the influence of Financial Performance through Political Connection on Cash Holding is  $0.060 > 0.05$  which means that the sixth hypothesis is rejected. The results of the seventh hypothesis test, model 3 (g: -0.012,  $\rho = 0.070^{**} < 0.05$ ,  $0 \notin CI$ ), and it is known through specific 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 the seventh hypothesis 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 to cash holding.

## 6. CONCLUSION

The results of our research provide an understanding that; Financial performance, the implementation of Corporate Governance, and Political Connection can affect cash holding. In addition, financial performance and the implementation of Corporate Governance can affect Political Connection. However, the role of political connections as a mediator does not have an impact on financial performance or the implementation of corporate governance in relation to cash holdings. The next finding is the proposal of the audit committee's proportional proposition, which can be a control of the governance mechanism for good cash holding management. The level of liquidity in financial performance, along with the role of political connections in relation to a company's debt and assets, plays a significant role in helping the company achieve its objectives. For future research, it is recommended to include the number of neighboring countries, as this could provide additional insights and context to the study, potentially influencing the results and offering a

broader perspective, with corporate governance proxies in the form of CEO duality, number of board meetings, audit quality and stakeholders. "Meanwhile, 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 contribute additional insights for further research. Additionally, financial performance proxies could include other ratios beyond liquidity and solvency."

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## 2. Bukti Konfirmasi Review dan Hasil Review Pertama (20 Feb 2025)

### **Reviewer's report\_Journal of Governance and Regulation**

Date : Thursday, 20 Feb 2025, 17.26  
From : Olha Lytvynenko <olha.lytvynenko@virtusinterpress.org>  
To : Cahyadi Husadha <cahyadi.husadha@dsn.ubharajaya.ac.id>, ismayaagus, uzliawati, nurhayatisoleha  
Subjek : Reviewer's report\_Journal of Governance and Regulation

Dear Cahyadi Husadha,  
please find the reviewers' reports and the editorial note attached below. The paper "FINANCIAL PERFORMANCE, CORPORATE GOVERNANCE, AND POLITICAL CONNECTION FOR CORPORATE CASH HOLDING IN INDONESIA" requires certain adjustments before it can be accepted.

Please be so kind as to address the comments provided by the reviewers and the editorial team and to send your revised manuscript by March 6.

Please mark the introduced changes in the manuscript (with some colour, if possible) or please provide a table/a letter to the reviewer that includes information how the reviewer's comments were addressed.

In the attachment, you may also find the detailed instruction regarding CRediT-taxonomy.

If you have any questions, please let me know.  
Please kindly confirm the receipt of this email.

Kind regards,  
Olha

### **Editorial Note**

- 1) The length of the paper should amount to no more than 8,000 words.
- 2) The editorial team of the journal suggests to use the following title of the article: “*FINANCIAL PERFORMANCE, CORPORATE GOVERNANCE, AND POLITICAL CONNECTION FOR CORPORATE CASH HOLDINGS*” in order to increase the readability of your paper and the citation rate.
- 3) It is preferable that the „Abstract” contains 1-2 in-text citations of the sources mentioned in the list of references that the research is based on or that the research contributes to.
- 4) In the Introduction, is it recommended to indicate literature gap(s), research aim(s) and question(s), the theoretical/conceptual framework applied, relevance and significance of the study, research methodology used, main findings/contributions, and the paper’s structure.
- 5) It’s not recommended to include tables and figures in the “Introduction” section, so, if possible, please place the table and its explanation in some further section of the paper.
- 6) As for the section “Literature Review”, it is important to add a few more references of the recent years (2020-2024) in order to make the paper more citable.
- 7) “Research Methodology” section should also contain description of alternative methods that would be suitable for conducting the research.
- 8) We recommend specifying more deeply why this paper is important for future research (section “Conclusion”) and whether there are some limitations of the research. In general, please, provide more detailed conclusions and implications of the results, because currently they are quite short.
- 9) The editorial team of the journal highly recommends adding the following sources to your list of references as they will enhance the relevance of your work, as all sources are the newest in terms of the date of their publication:
  - Irwansyah, Pribadi, M. I., Roy, A., Yanti, D., Yudaruddin, Y. A., & Yudaruddin, R. (2024). COVID-19 pandemic and cash holding in consumer goods sector: International evidence. *Risk Governance and Control: Financial Markets & Institutions*, 14(1), 138–149. <https://doi.org/10.22495/rgcv14i1p10>
  - Sriram, M., & Riyazahmed, K. (2024). Corporate cash holdings and global crisis: Evidence from India. *Corporate Ownership & Control*, 21(4), 49–59. <https://doi.org/10.22495/cocv21i4art5>
  - Yadiati, W., Meiryani, Reyhan, Purnomo, A., Persada, S. F., Sudrajat, J., Siauwijaya, R., & Inasius, F. (2024). Evaluation of the implementation of an accounting information system for sales, cash receiving, and payroll on an internal control system. *Corporate Law & Governance Review*, 6(1), 27–37. <https://doi.org/10.22495/clgrv6i1p3>

You may cite them in the Introduction as follows:

*Most research on the company’s cash holdings primarily 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).*

- 10) Please reduce the list of references up to 50-60 sources as the current list of references seems to be a bit redundant and it shifts the focus away from the main idea and research questions of the article.
- 11) Please make sure that all the references cited in the paper are included in the reference list and all the sources in the reference list are properly cited in the paper.
- 12) The paper requires English proofreading (language and typos) so that your paper may be read and cited by a wide audience of readers throughout the world.  
If you want the team of Virtus Interpress to do English proofreading of your paper, you may order this service at a moderate fee (90 EURO). We’ll do this work professionally, qualitatively and within a short period of time (up to one week).
- 13) In order to facilitate the transparency of the authors’ contribution, since June 2019 Virtus Interpress approves a decision about the [Contributor Role Taxonomy](#) (CRediT). Doing so, we ask our authors to use this taxonomy when providing an Author Contributions section for research papers. The detailed instruction could be found in the file (CRediT-taxonomy) attached.
- 14) It is recommended including Acknowledgements that recognise the importance of contributions made by other researchers to the paper submitted (that have not been included in the paper authorship) or organisations (universities, grants numbers, etc.) which provided funds for conducting the research (if any).

### Reviewer's Report

<b>Journal:</b>	Journal of Governance and Regulation		
<b>Title of the paper:</b>	FINANCIAL PERFORMANCE, CORPORATE GOVERNANCE, AND POLITICAL CONNECTION FOR CORPORATE CASH HOLDING IN INDONESIA		
<b>Date of the Review completion:</b>	17 February 2025		
<b>Please choose options that can characterize the paper:</b>			
<b>Originality and importance of the paper to the field of research:</b>	Adequate		
<b>The structure of the paper:</b>	Is easy to follow and understand		
<b>Please tick relevant for the abstract</b>	The abstract provides an accurate summary of the manuscript (including aim, methods, key results and relevance of the study)	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
	The abstract contains unnecessary information (please explain)	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
	Is the abstract of appropriate size? (150-200 words)	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
<b>Please tick relevant for the introduction</b>	Does the introduction identify the purpose of the paper or hypothesis and set the paper within the broader research perspective?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
	The introduction puts the rest of the paper into perspective (explains paper's structure)	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
<b>Methods used in the paper:</b>	Suit the aim of the research		
	Does the methodology part allow replicating or reproducing results (to check them or to perform a similar study)?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
	If empirical study: is the sample size large enough and was selected in an appropriate way (leave blank if not acceptable)?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
<b>Results and discussion:</b>	Are the interpretations provided by the author(s) supported by the findings obtained in the study?		
Are there any <b>figures or tables</b> that have to be corrected / deleted?	No, everything is fine		
	Are the figures and/or tables clear and you can understand their essence?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
<b>Conclusions:</b>	Explain main findings of the paper and are formulated correctly		
	Conclusions are supported by the findings, analysis and interpretations of the author(s)	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
	Does the conclusion section repeat the abstract of the paper?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
<b>References</b>	Are all references in the list used in the paper?		
	Are the number, relevance and "age" of the citations appropriate?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
<b>Language of the paper:</b>	Is adequate (small mistakes)		
<b>Length of the paper:</b>	Is appropriate		
<b>What is your main verdict?</b>	Accept paper with the changes that should be made by the author/authors		
<b>Field for the comments of the reviewer:</b>			
<p>The article is well structured and easy to read. The organization and division into sections are good. The purpose of the research is clearly identified. The literature analysis is adequate and includes both remote and more recent contributions. The methodology is well illustrated and the derivation of the hypotheses tested in the paper is consistent with the supporting literature. The authors are recommended to include additional information concerning the construction of the sample; in this regard only the number of 66 companies is indicated in the abstract but more precise indications regarding their identification are absent in the other parts of the paper. For instance, was the criterion imposed that in order to be part of the sample, companies</p> <p>had to have data availability for the entire period under observation (2017-2023)? Furthermore, did companies have to remain listed for the entire period under observation (2017-2023) to be included in the sample? The results are in line with the study. The conclusions themselves are supported by the results. There are stylistic and grammatical errors that the authors are advised to remove.</p>			

### Reviewer's Report

<b>Journal:</b>	Journal of Governance and Regulation		
<b>Title of the paper:</b>	<b>Financial performance, corporate governance, and political connection for corporate cash holding in Indonesia</b>		
<b>Date of the Review completion:</b>	20 February 2025		
<b>Please choose options that can characterize the paper:</b>			
<b>Originality and importance of the paper to the field of research:</b>	Medium		
<b>The structure of the paper:</b>	Is easy to follow and understand		
<b>Please tick relevant for the abstract</b>	The abstract provides an accurate summary of the manuscript (including aim, methods, key results and relevance of the study)	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
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<b>Methods used in the paper:</b>	Suit the aim of the research		
	Does the methodology part allow replicating or reproducing results (to check them or to perform a similar study)?	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
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Are there any <b>figures or tables</b> that have to be corrected / deleted?	No, everything is fine		
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<b>Conclusions:</b>	Do not reveal main findings of the paper		
	Conclusions are supported by the findings, analysis and interpretations of the author(s)	<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
	Does the conclusion section repeat the abstract of the paper?	<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
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<p>1. I appreciate the great work done to dive deep into the existing literature related to the topic of the research. But in some cases, even basic knowledge about some concepts is included, which I would recommend removing. Also, in some parts of the text there is unnecessary information included, which seems to be added only to make the material longer. Especially in the Introduction section, I would recommend to revise and remove some general information that is not directly connected with the topic of the research.</p> <p>2. There are also some minor language errors that need to be corrected, so I recommend revising the material to improve it.</p>			
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Term	Definition
<b>Conceptualization</b>	Ideas; formulation or evolution of overarching research goals and aims
<b>Methodology</b>	Development or design of methodology; creation of models
<b>Software</b>	Programming, software development; designing computer programs; implementation of the computer code and supporting algorithms; testing of existing code components
<b>Validation</b>	Verification, whether as a part of the activity or separate, of the overall replication/ reproducibility of results/experiments and other research outputs
<b>Formal Analysis</b>	Application of statistical, mathematical, computational, or other formal techniques to analyze or synthesize study data
<b>Investigation</b>	Conducting a research and investigation process, specifically performing the experiments, or data/evidence collection
<b>Resources</b>	Provision of study materials, reagents, materials, patients, laboratory samples, animals, instrumentation, computing resources, or other analysis tools
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<b>Funding Acquisition</b>	Acquisition of the financial support for the project leading to this publication.

*Reproduced from [Brand et al. \(2015\)](#), *Learned Publishing* 28(2).*

### **Sample Author Contributions**

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The above info should be written in the footnote linked to the name of the corresponding author of the paper at the title page of the paper.

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thank you again for the provided revised version of the paper and your work.  
Still, the paper requires a few more corrections before it may be accepted, namely:

- 1) The abstract is too short, the appropriate length would be 150-200 words. In order to enhance the readability of the manuscript, please provide in the section «Abstract» a more detailed description of the research problem, purpose of the research, methodology used, main findings of the paper, conclusion, relevance of the paper.
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- 3) In some tables, the source is not added below the table. Even though it may include information processed or create by the author, it must be added.
- 4) The conclusions section does not analyse the main findings of this research compared to the findings of the previous research made by other authors. Please extend the discussion of the results based on the results of previous studies.
- 5) We recommend specifying more deeply some limitations of the research (section “Conclusion”).
- 6) In order to facilitate the transparency of the authors’ contribution, since June 2019 Virtus Interpress approves a decision about the Contributor Role Taxonomy (CRediT). Doing so, we ask our authors to use this taxonomy when providing an Author Contributions section for research papers. The detailed instruction could be found in the file (CRediT-taxonomy) attached.

Please provide your final revised manuscript by April 8.

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Greetings.

Dear Mr. and Mrs., journal managers.

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Thank you.

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

Cahyadi Husadha\*, Agus Ismaya Hasanuddin\*\*, Lia Uzliawati\*\*, Nurhayati Soleha\*\*

\* Corresponding author, Universitas Bhayangkara Jakarta Raya, Bekasi, Indonesia; Universitas Sultan Ageng Tirtayasa, Serang, Indonesia  
Contact details: Universitas Sultan Ageng Tirtayasa, Jalan Raya Jakarta KM. 4, Pakupatan, Serang, Banten 42124, Indonesia  
\*\* Universitas Sultan Ageng Tirtayasa, Serang, Indonesia



## Abstract

**How to cite this paper:** Husadha C., Hasanuddin, A.I., Uzliawati, L., & Soleha, N. (2025). Financial performance, corporate governance, and political connection for corporate cash holding. *Journal of Governance & Regulation*. (.), --. <https://doi.org/10.22495/jgrv>

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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., L.U., and A.I.H.; 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.

**Declaration of conflicting interests:** The Authors declare that there is no conflict of interest.

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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).



### Commented [ch1]:

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2.Agus Ismaya Hasanuddin = <https://orcid.org/0000-0002-9389-6330>  
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Table A.1 in the Appendix shows that Delta Jakarta 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.388). 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 (BPK RI, 2007). 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 (Cheema, 2003) (Ghani & Junaid, 2005) Ghani & Junaid, 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 and Eisenhardt (2018) 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 Uzliawati et al., 2023; Supriatningsih et al., 2024). Jensen & Meckling (1976), Mekling (1976) and Supriatningsih 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 (Supriatningsih 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, page). 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

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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 (Kashar 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 & Galpotherage, 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 & Almस्ताfa, 2021; Yun et al., 2021). Excessive cash holding can negatively impact financial performance, leading to inefficiencies (Banjade & Diltz, 2022). 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 (La Rocca & Cambrea,

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2019; 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 (Binid). 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 Giuli & 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

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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). Kusunadi (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 (Kusunadi, 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.*

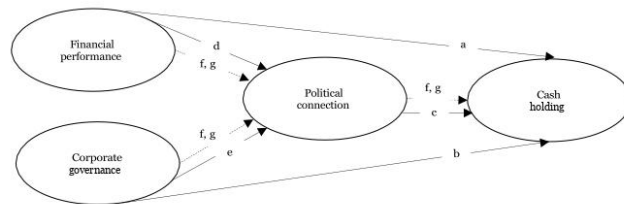
2.7. Corporate governance and corporate cash holding do not mediate political connection

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, Kusunadi (2019) found that political connections were not related to the value of cash holding across the sample (Kusunadi, 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



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

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

### 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

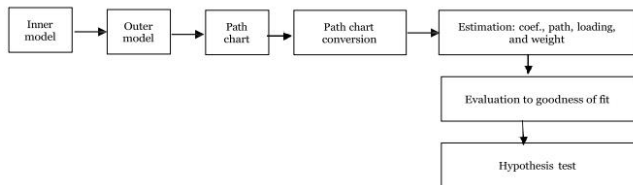
#### 3.1. Research model

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](http://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 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:

parametric assumptions when examining relationships between latent variables (Effendi, 2017; Sunani et al., 2024). Hypotheses testing in model analysis is carried out using p-values and confidence intervals, as recommended by Kock (2016), and Burnkrant and Page (1982). The smart PLS data analysis process involves the following steps (Husadha et al., 2023):

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:

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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 (Gill & Shah, 2012; 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:  $\text{Cash holding} = \frac{\text{cash and cash equivalents}}{\text{total fixed assets}}$  $\ln \text{ constant cash holding} = \text{constant natural cash and cash equivalent}$	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 (Silveira, 2002). 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; Nurika et al., 2020; Gul et al., 2020; Parthasarathy et al., 2020; Dwaikat, 2023; Kristanto et al., 2023).  $DAI = \frac{\Sigma \text{ independent board of commissioners}}{\Sigma \text{ board of commissioners}}$ $KA1 = \Sigma \text{ dewan audit committee}$ $KA2 = \frac{\Sigma \text{ independent audit committee}}{\Sigma \text{ audit committee}}$ $KMP = \frac{\Sigma \text{ shares owned by management}}{\Sigma \text{ outstanding shares}}$ $KPI = \frac{\Sigma \text{ shares owned by institutions}}{\Sigma \text{ outstanding shares}}$	Ratio
Financial performance	According to IAI, (2007) IAI (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 (Maharani & 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 (Wahh & Dewar, 1987) (Luhman et al., 1989). 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 (Bouabekri et al., 2013), especially in emerging markets (Chen et al., 2011), where corporate governance practices may be underdeveloped (Bis & Gul, 2012a, 2012b). Amara and Khif (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., 2020; 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.

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Table 2. Delimiter indicators

Indicators	No.	Missing	Mean	Median	Min	Max	Std. dev	Excess kurtosis	Skewness
RL	1.000	0.000	213.394	142.000	0.000	2.259.000	232.325	19.827	3.635
RK	2.000	0.000	0.626	0.000	0.000	18.000	1.687	41.437	5.679
RC	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	13.064.000	2.498.000	460.219	57.395	5.196
NPM	6.000	0.000	38.136	4.000	-24.000	10.299.000	485.156	434.863	20.586
ROA	7.000	0.000	8.922	5.000	-58.000	433.000	31.027	135.825	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
ROE	9.000	0.000	2.049.186	49.000	-62.853.000	507.203.000	27.567.924	261.774	13.305
ROF	10.000	0.000	427.193	236.000	321.000	24.960.000	1.338.909	237.157	14.455
DKI	11.000	0.000	42.004	40.000	0.000	100.000	13.153	4.686	1.601
KA	12.000	0.000	3.002	3.000	0.000	5.000	0.587	10.350	-0.839
IA	13.000	0.000	65.639	67.000	0.000	100.000	10.512	17.671	-3.105
KM	14.000	0.000	4.868	0.000	0.000	92.000	14.147	16.618	3.874
II	15.000	0.000	38.985	61.000	0.000	100.000	26.137	-0.528	-0.513
PC	16.000	0.000	0.379	0.000	0.000	1.000	0.485	-1.550	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: RL is current ratio; RK is cash ratio; RC 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; DKI is independent board of commissioners; KA is audit committee; KM is managerial ownership; II 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	0.984	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	-0.133	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,  $\beta = 0.000^{***} < 0.05$ ,  $0.8$  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 Almustafa (2021) and Yun et al. (2021). As for  $H_2$ , Model 1 (b: 0.215,  $\beta = 0.000^{***} < 0.01$ ,  $0.8$  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  $H_3$ , Model 1 (c: 0.215,  $\beta = 0.000^{***} < 0.36$ ,  $0.8$  CI), it is known that the p-value representing the political connection to cash holding is  $0.036 < 0.05$  which means that  $H_3$  is accepted. This

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research is in line with research of Berkman and Galporthage (2016) and Benjamin et al. (2016). As for  $H_3$  and  $H_4$ , Model 2 (d: -0.134, and e: 0.149,  $\rho = 0.036^{**} < 0.05$ ,  $0 \notin CI$ ), 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  $H_3$  and  $H_4$  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).

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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  $H_6$  test, Model 3 (f: 0.014,  $\rho = 0.070^{**} < 0.05$ ,  $0 \notin CI$ ), 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 the  $H_6$  is rejected. As for the results of the  $H_7$  test, Model 3 (g: -0.012,  $\rho = 0.070^{**} < 0.05$ ,  $0 \notin CI$ ), 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  $H_7$  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

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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 and 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

Code	Company name	Date of recording	Year	CCE	Total assets	CH ratio
DELTA	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 1,425,684	0.59
			2020	IDR 112,000	IDR 14,199,935	0.01
			2021	IDR 494,341	IDR 23,443,770	0.01
			2022	IDR 748,591	IDR 1,307,186	0.57
			2023	IDR 612,103	IDR 1,208,500	0.51

Source: <https://deltagjkt.co.id/home>

Commented [ch37]: CCE stands for cash and cash equivalent.

Commented [ch38]: CH ratio is a Cash Holding ratio

user  
2025-07-10  
10:51:02

-----

Please explain the abbreviation CCE

user  
2025-07-10  
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-----

Please explain the abbreviation CH

## 9. **Bukti Konfirmasi Artikel Published Online (29 Agu 2025)**

**Your paper has been published\_ Journal of Governance and Regulation**

Date : Friday, 29 Agu 2025, 20.52  
From : Olha Lytvynenko <olha.lytvynenko@virtusinterpress.org>  
To : Cahyadi Husadha <cahyadi.husadha@dsn.ubharajaya.ac.id>, ismayaagus, uzliawati,  
nurhayatisoleha  
Subjek : Your paper has been published\_ Journal of Governance and Regulation

Dear Cahyadi Husadha,

thank you for publishing your paper with “Virtus Interpress”. My congratulations!

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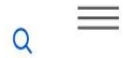
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We are delighted that a successful collaboration has been established and we are looking forward to new scientific cooperation.

Best regards,  
Olha

# 10. Bukti Scopus, dan Scimago



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Years currently covered by Scopus: from 2019 to 2026

Publisher: Virtus Interpress

ISSN: 2220-9352 E-ISSN: 2306-6784

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SJR 2025

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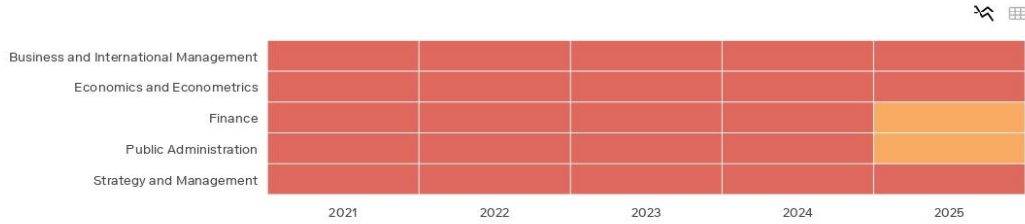
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#### Scope

The major aim of the journal is the publishing of the papers in the field of governance and regulation issues with prior securing the high standard of quality of the papers through managing the peer and blind reviewing of the papers and further dissemination of research results to make it beneficial both for the reading audience and the reputation of the authors of the papers.

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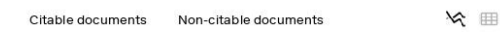
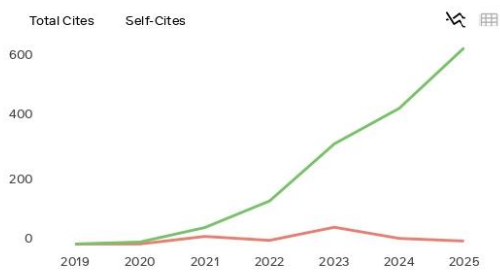
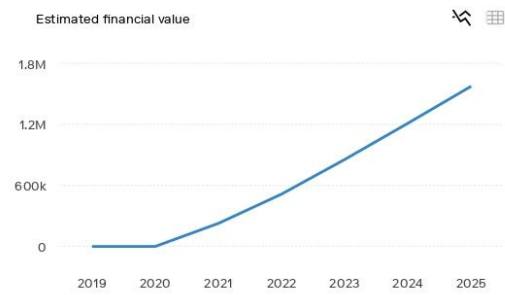
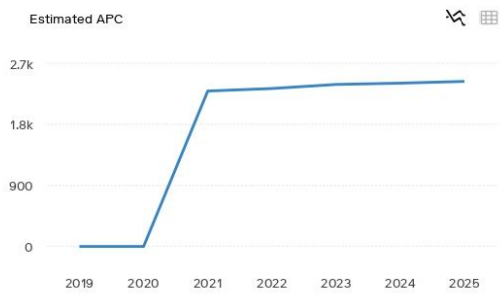
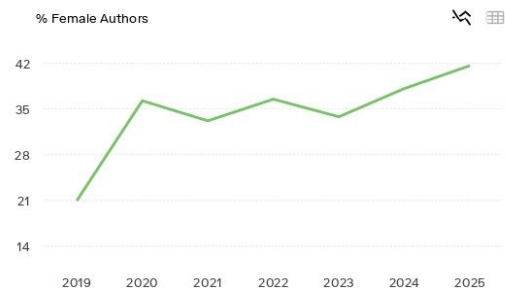
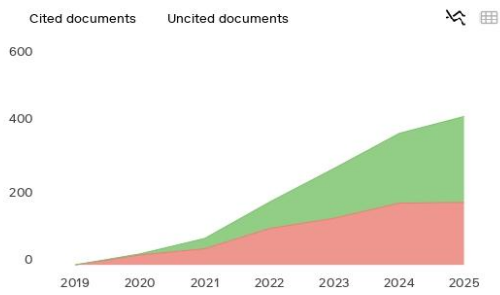
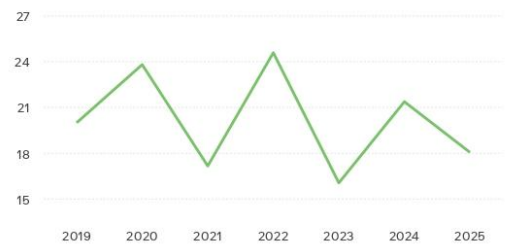
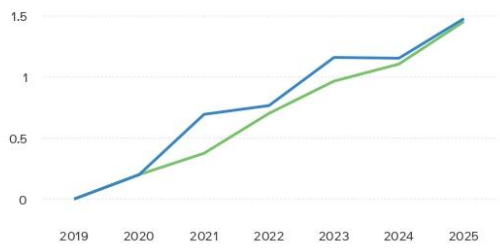
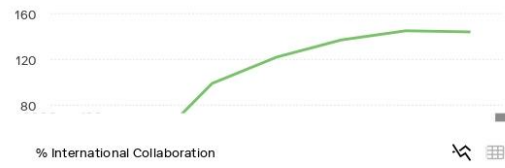
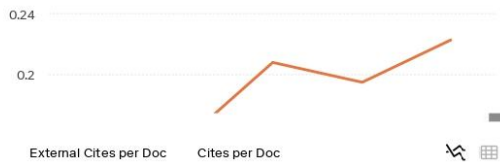
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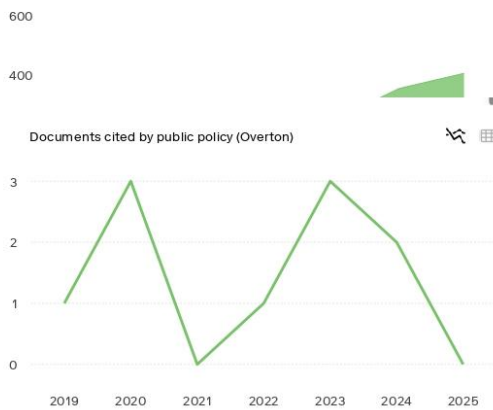
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Best Regards.

reply

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