Corporate cash holdings and Firm Value: Evidence from Greek Panel Data

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Abstract

The purpose of the current study is to examine whether cash holdings is related to corporate governance, firm size and ownership structure.

Empirical studies about the determinants of corporate cash holdings have occupied a central place in corporate finance literature. Cash holding is defined as cash in hand or readily available for investment in physical assets and to distribute to investors. Cash holding is therefore viewed as cash or cash equivalent that can be easily converted into cash. In this context, cash holding will include cash in hand and bank, short time investment in money market instrument such as treasury bills. Owing to the significance of cash and its importance in working capital management, different approaches are being used to determine factors that influence it. Holding cash is at a cost, which is the opportunity cost of the capital invested in liquid assets. The potential profit forgone on holding large cash balance is an opportunity cost to the firm. The costs of cash holding are of two categories: cost of excessive cash holding such as opportunity cost of interest foregone, costs of purchasing power among others and cost of inadequate cash holding including cost of corporate image, loss of cash discount on purchases and loss of business opportunities.

Cash holdings are largest in the firms with no managerial ownership and lowest in the firms in which ownership and management fully coincide. However, low leverage seems to increase the need for cash holdings even in the firms in which ownership and management fully coincide. We also find weaker evidence on a nonlinear effect on cash holdings at intermediate levels of managerial stock holdings.

We classify institutional investors into short-term and long-term based on their portfolio turnover and show that the positive relation between institutional ownership and firm cash holdings is mainly driven by short-term institutional investors. However, the relation between long-term institutional ownership and cash holdings is negative and less robust. The effect of both types of institutional ownership on cash holdings is amplified for growth firms compared to mature firms. Overall, our findings are consistent with the precautionary motive for holding cash but do not support the notion that institutional ownership mitigates the agency costs associated with cash holdings.

Keywords: cash holding, ownership, financial leverage, financial crisis, quoted firms, unbalanced panel data.

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