

Investigating Internal and External Factors at the Level of Cash Holding

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ABSTRACT

How to use internal funds is an important decision in conflict between shareholders and managers. In the company's economic growth, as cash reserves increase, managers decide whether to distribute cash between shareholders, spend on domestic expenditures, apply for or continue to study abroad. This research examines the internal and external factors at the level of cash. Field data collection will be used to collect the data needed for this research. The information gathering tool is through reference to documents (financial information of companies accepted in Tehran Stock Exchange). The statistical population of this research is the companies accepted in the Tehran Stock Exchange during 1391-1395. In this study, the data were sorted and sorted in Excel spreadsheet and finally analyzed using SPSS version 19 and version 9 software. The results showed that there is a significant relationship between board size and cash assets. There is also a significant relationship between the independence of the board of directors and cash holding.

KEYWORDS

Cash holding, board size, board of directors, Tehran Stock Exchange

INTRODUCTION

Economic institutions generally hold part of their assets as cash reserves and determine how much of an asset should be held in cash, and make important decisions that the entity manages. Research has shown that corporate executives hold a percentage of their total assets in cash. (Azkan and Azakan, 2004). In addition to the conflict of interests between shareholders and holders of bonds, the conflict of interests between shareholders and management can also be related to keeping the company's cash. Managers' interests can not be fully consistent with the

interests of shareholders, and managers tend to increase company size. (Ventures and Granger, 2007)

The benefits and financial and non-financial benefits of managers to large firms are higher than that of small firms. Therefore, the goal of management can be to maximize the value of the company and the growth of the company. Researchers have argued that the problem of information asymmetry is more severe for companies whose values are determined by growth opportunities. If a company has an opportunity to invest with a net present value, it may have to drop some of these investments due to a cash deficit. Therefore, companies that are facing such opportunities are struggling to hold more cash out of these opportunities. Accordingly, managers are motivated to increase the cash flow of their controlled resources and to benefit from the decision-making power of the company. Having cash available makes it difficult for managers to provide foreign financing and provide information about the details of investment projects. However, executives may invest in investments that have a negative impact on the shareholders' wealth.

So far, many studies have looked at the motives and factors affecting the level of corporate cash holdings, and various factors such as accounts receivable, inventories, cash flows, net working capital, current and long-term debt, net profit, dividend, company growth opportunities And the size of companies as factors affecting the level of holding cash holdings. (Foroughi& hamkaran., 1395)

On the other hand, corporate governance focuses on the mechanisms and dynamics of facilitators and critical constituents of organizations through monitoring. Corporate governance, in its broader sense, seeks to strike a balance between socio-economic goals and group-based personal goals. The corporate governance framework not only leads to the optimal allocation of resources but also requires the accountability of those resources. (Zarei& hamkaran., 2013)

The existence of corporate governance increases the firm's trustworthiness of company activities and management policies in the interests of shareholders in a concrete way, and in general, all stakeholders. (Moradi & Rostami, 1391)

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Gradually and due to the financial crises of financially viable companies, the need for a new system of corporate governance was felt. Most corporate governance codes emphasize their presence in order to increase shareholder interests. Lee (2009) presented a framework that correlates corporate governance and corporate cash holdings. The main argument is that managers of poorly-run companies hold excessive cash, which leads to an increase in agency costs and ultimately reduces the value of the company. It is also argued in the same way that companies with strong internal property structures, such as strong boards, are less likely to have representation problems in utilizing cash from the company.

Therefore, in this research, the necessity and importance of the influence of internal and external factors of corporate governance on the level of cash holdings in listed companies in Tehran Stock Exchange has been studied.

AN OVERVIEW OF PREVIOUS LITERATURE

- **Definition of Corporate Governance:**

The term corporate governance has originated from the Greek word "Kyberman", meaning guidance or guidance, and later it was transmitted to the Latin word "Gubernare" (usually in the direction of the ship). However, today it is more used in the concept of control, and this implies that the first definition of corporate governance focuses more on governance than on control. (Fathi & Rahimpour, 1394)

There is no consensus on Corporate Governance Definition and there are significant differences in definition based on the country in question. These definitions are also varied in terms of scope, in the form of a limited space between the shareholders and the company, and until the relationship between all the stakeholders of the company continues. (Hassan Yeganeh & hamkaran., 2008)

- **Indicators of Corporate Governance Quality:**

Corporate governance index is used to determine the quality of corporate governance. In developing a comprehensive index to measure the quality of corporate governance, various criteria of corporate governance can be applied, for example: transparency of information, board structure, ownership structure and control, bonus plans for managers and employees, capital structure, market competition, Product competition, institutionalized shareholders, company size and so on. (Amy Hood & Lee, 2015)

Therefore, based on the above criteria for the quality of corporate governance, several indicators can be developed, all of which depend on the economic, social and cultural context of each country. For example, an index that covers most of the corporate governance mechanisms in Europe and the United Kingdom by Bauer, Geshtere, Otten and Roger (2004), in Germany by Droberts et al. (2004), in Korea by Black, Jang and Kim (2006) and in America by Gamperts et al. (2003). These indicators are used to measure corporate governance ratings and determine their relationship with performance, profit management, and so on. (Jalaei & hamkaran., 1396)

- **Independence of the Board of Directors:**

The board of directors is a guiding entity that plays the role of supervising executives in order to maintain the interests of shareholders. Typically, it is argued that the success of a company depends on its desirable guidance. Recommendations have been made to create a balance of power among the members of the board in order to prevent unconditional control of the decision-making process of some board members in the company. From the point of view of agency theory, the presence of unauthorized members in the structure of the board of directors of corporations and their supervisory function in the status of independent individuals helps to reduce the conflict of interests between managers and stakeholders. (Dyadar et al., 2014). Considering that an independent board of directors can lead to more oversight of the CEO's performance, companies with an independent board of directors are expected to maintain a lower cash flow. In other words, there is a significant negative relationship between the independence of the board of directors and the cash kept. (Bobcock et al., 2013)

The main responsibilities of the board of directors are to create effective corporate governance in the interests of shareholders and balance in the interests of its various stakeholders, including customers, employees, investors and local communities. In all the actions that the board does, executives are expected to make their business decisions that they believe will be the best interests of the company. In fulfilling this commitment, managers can rely on honesty and honesty of senior executives and their independent consultants and auditors. The majority of board members should be non-executive directors. Obligations of board members are subject to approval by the board of directors and the beneficiary manager has no voting rights. (Hosseini and Haghghat, 1395)

- **Board size:**

The size of the board is the number of board members and is an important factor in influencing it. The study literature review shows that there are conflicting views about the size of the board size and its impact.

From the perspective of the agency, it can be argued that a larger board is more likely to be vigilant in dealing with the problems of representation, because more people will monitor the work of management. (Nicholson and Kiel, 2003)

The size of the board is considered as an important element in the board's characteristics. The optimal number of members of the board should be determined in such a way as to ensure that sufficient members are present in order to meet the board's duties and perform various functions of the board of directors. Empirical evidence suggests that there is no consensus on the optimal size of the board. Green (2005) believes that the number of board members should be limited so that discussions about the company's issues can be discussed. The bigger boards have less power. In such boards of directors, it is very difficult to reach consensus on a specific subject. Goodstin et al. (1994)

Have found that smaller boards - between 4 and 6 members - can be more effective because they are able to make timely strategic decisions because of their small size. On the other hand, some others, such as Lippmann and Lippmann (2006), believe that the size of the board should be large enough to include a range of skills and experiences of different people, as well as Peirce's (1989) research, also suggests that The greater the number of board members-the bigger board-will increase the ability to monitor the activities of senior executives. But what is clear is that the board should have a reasonable amount. (Moradi et al., 2012)

- **Cash holdings:**

The ratio of the company's cash balance to its total assets is defined. (Betis et al., 2006)

Kins (1936), in his famous book *The General Theory of Employment, Interest Rates and Money*, lists three motives for keeping cash:

Precautionary motivation: Companies keep caution to cope with the foreseeable needs. These precautionary reserves are usually held in the form of retail securities, which, if needed, can easily be converted into cash. **Trading incentives:** Based on transaction incentives, cash is paid to pay bills. The cash required for a company's transactions is due to regular payments and receivables collection. Cash payments include salaries, trade debts, taxes, and cash benefits.

Speculative impetus: The speculative motive of cash is maintained so that potential favorable fluctuations of the exchange rate can be exploited from probable conditions such as auctioning goods with discounts, attractive interest rates, and (in the case of international companies). (Shakerkhan and Morteza Zadeh, 1394)

RESEARCH HYPOTHESES

There is a meaningful relationship between the size of the board and the cash holdings.

There is a meaningful relationship between the independence of the board and the cash holding.

THE CONCEPTUAL MODEL OF RESEARCH

MODELS AND VARIABLES OF RESEARCH

To test the hypotheses of research, the following model is used:

$$CASH_{it} = \beta_0 + \beta_1 BSize_{it} + \beta_2 PNEXEC_{it} + \beta_3 LEV_{it} + \beta_4 PROF_{it} + \beta_5 SIZE_{it} + \epsilon_{i,t}$$

where in,

The dependent variable:

$CASH_{it}$ = Ratio of cash to total assets. According to Iranian accounting standards, "cash" is defined as:

"Cash balance and deposit accounts with banks and financial institutions, including rials and value (including short-term investment deposits with no maturity), to deductions for overdraft that are requested without prior notice."

And independent variables:

$BSize_{it}$ = Number of board members,

In addition, in accordance with the definition of paragraph 27 of Article 1 of the Law on Securities of the Islamic Republic of Iran, from institutional investors, any real or legal person who buys more than 5% or more than 5 billion Rials of the value of the securities in circulation. They are also part of this group of investors. Therefore, by examining the accompanying financial statements, the percentage of these investors' ownership has been determined by the company's shares.

$PNEXEC_{it}$ = To measure the independence of the Board of Directors, similar to those of Dimitropliyus & Asterio (2010), Ghaemi and Shahriari (2009), the ratio of the number of non-executive directors to the total number of board members was used to measure the independence of the board of directors.

LEV_{it} = Total debt is in proportion to total assets,

$PROF_{it}$ = Ratio of company income to total assets,

$SIZE_{it}$ = The natural logarithm of the total assets,

$\epsilon_{i,t}$ = Error statement.

RESEARCH METHODOLOGY

Regarding the subject of this research, which is to investigate the effect of internal and external factors of corporate governance and cash holdings on companies admitted to Tehran Stock Exchange, this research is an applied research in terms of purpose, since its results It can be used in decisions of managers and investors. Also, the method of inference regarding research hypotheses is correlated in the research group, because regression techniques will be used to explore the relationships between research variables. Also, we will come to the conclusion by examining the available data. The research will be in the group of theories of theories. In order to collect information about the explanation of the literature, the library method and documentary studies have been used. To obtain the data required for processing the research hypotheses, the financial statements of the companies accepted in the Tehran Stock Exchange by visiting the official website The Tehran Stock Exchange has been used. Information gathering tools in this research are databases, information extracted from the Tehran Stock Exchange, theses, internal and external articles and internet resources.

In this research, it will be selected through the systematic elimination of the statistical community. Thus, the sample consists of all companies in the statistical society that meet the following criteria:

1- During the research period, be present in the stock market

2. During the research period, there is no change in the financial period.

3. It is not part of the active companies in the field of financial activities, including investment companies, banks, insurance companies and financial institutions. Because these institutions are different in terms of the nature of the activity and their main income is derived from investment and are dependent on the activities of other companies, so

they are essentially different with other companies and therefore will be excluded from the sample. .

4. The data needed for the research variables are available during the period from 1391 to 1395.

5. Their financial period leads to 12.29 years each year so that data can be combined with each other and, if needed, by panel. According to the above mentioned conditions, selecting 106 companies as a statistical sample of this research Became It is worth mentioning that each company has five financial records extracted from financial statements and other sources of information during the years 1391 to 1395.

In this research, multivariate linear regression model was used to test hypotheses. The statistical method used in this research is the combination data method. It should be noted that in this study, the data were sorted and sorted in Excel spreadsheet and finally analyzed using SPSS version 19 and version 9 software.

RESEARCH FINDINGS

In a compilation, descriptive statistics can be used to describe the characteristics of a category of information. The central parameters and scattering are used for this purpose. The functions of these criteria are that one can express the main characteristics of a set of data and thus, in addition to improving the understanding of the results of a test, comparing the results of that test with other tests and observations. Also facilitates. It should be noted that after deletion of data and sorting of data, number of companies-years of research variables has been slightly reduced.

Tab.1. Descriptive statistics of research variables

	numb er	mean	mid	max	min	Standar d deviati on
$CASH_{it}$	530	0.0783	0.0624	0.549	0.006	0.106
$BSize_{it}$	530	11.5	11	14	9	3.37
$PNEXEC_{it}$	530	0	0.031	2.590	-2.680	1
LEV_{it}	530	5.8424 72	5.7639 04	1.0273 01	0.2547 61	0.20496 0
$PROF_{it}$	530	0.098	0.078	0.783	-0.459	0.84
$SIZE_{it}$	530	13.582 91	13.247 92	18.437 63	10.816 55	0.54428 8

The results of the estimation of the research pattern are presented in Table 9. As can be seen, the value of the expression F, 12.492312 and the probability of the F statistic of 0.30 indicates the general significance of the regression equation. The coefficient in this templateThe determination is 689612/0 and the adjusted coefficient of determination is 642146/0. Therefore, 21.24% of the variations of dependent variables are explained by independent variables. The Watson camera statistic is 2,913 / 2, which shows no correlation error in the pattern.

Tab.2. hypotheses Test Results

	Estimated coefficient	t	prob
β_0	0.044567	0.214996	0.0000
$BSize_{it}$	0.036278	0.296298	0.0343
$PNEXEC_{it}$	0.0585394	0.017986	0.0161
LEV_{it}	0.139783	0.224545	0.0003
$PROF_{it}$	0.830751	1.192021	0.0035
$SIZE_{it}$	0.011232	0.0680176	0.0000
R			0.689612
R Adjusted			0.642146
D-W			2.0913
F			12.43923
Prob			0.0000

As shown in Fig. 1, the JB statistic is 713,932 and the probability value is 0/0000. Therefore, the zero hypothesis is based on the normal distribution of disturbance components at a significant level of 5%. Although the JB test indicates that the sentences are not normal, but due to the use of more than 30 samples of the year, the charts have a distribution similar to normal distribution, so there is no serious problem.

In addition, in order to examine each of the research hypotheses, t statistics are used for independent variables. As can be seen in Table 9, the t-value of the board size (0.296298) with the probability of 0.0343, the board independence (0.017986) with the probability of 0.0161 / 0, as well as the presence of other variables listed in the model , Indicates that there is a positive and significant correlation between each of these independent variables and cash holdings. Hence the first and second hypotheses are confirmed.

In the following, as shown in Table 9, the value of the t-index of institutional ownership (962123/1) with a probability of 0.0692 in terms of other variables mentioned in the model indicates that there is a significant relationship between the institutional ownership variable and the cash asset does not exist. Hence, the third hypothesis is not approved.

CONCLUSION

In this research, the hypothesis of the existence of a significant relationship between the internal and external factors of corporate governance including the size of the board, the independence of the board of directors and institutional investors, and the level of cash holdings were tested. The results of the first and second hypothesis of the research show that there is a positive and significant relationship between the size of the board of directors and the independence of the board of directors by holding cash. Therefore, the first and second hypotheses of the research have been approved. The results of this study confirmed the

significant relationship between the size of the board of directors and the independence of the board of directors by holding cash. Based on the theoretical foundations, unauthorized members in the structure of the company's management and their supervisory function as independent individuals, helps to reduce the conflict of interests between managers and stakeholders. This result is consistent with the findings of Bobcock et al. (2013).

The results of testing these hypotheses in Tehran Stock Exchange are consistent with the results of Jimmy Lee (2010) and Michelson & Pearch (2003). This finding is consistent with the results of Chen et al. (2012), Malekian and Adeli (1392), as well as Verdi and his colleagues (2013), and contrasts with the results of Bilrutati (2005).

From this point of view, it's important to note that in Iran, little research has been done on the effect of internal and external factors of corporate governance on cash holdings. Institutional ownership can reduce information asymmetry, and since information asymmetry has an effect on the company's cash holdings, it can be expected that the presence of institutional investors by reducing information asymmetry and subsequently reducing excess cash requirements, Will increase the efficiency of the investment and improve the company's cash management, which ultimately leads to less cash holding in the company. The coefficient and t-variable of institutional investors indicate a lack of meaningful percentage. Therefore, the third hypothesis of the research is not verified. ThisThe findings are consistent with the results of Harford et al. (2004) and Dietmar and Smith (2009), which did not achieve a meaningful relationship between equity investors and cash holdings. According to the results of the first and second hypotheses of this study, it seems that strong corporate governance mechanisms in Tehran Stock Exchange increase the company's cash holdings. Therefore, users of financial statements are advised to ensure the independence of the board and the size of the board of directors in order to ensure effective and effective monitoring of the company's cash holdings. Investors should also be aware that the high independence of the board of directors in companies is not a reason to control them and manage the company's liquidity properly, as the results of the present study show that there is cash-accumulation in these companies.

Considering the significant relationship between the variables related to corporate governance mechanisms and cash holdings, it is suggested that the system of ranking the effectiveness of corporate governance should be designed and formulated. Each year, all companies admitted to the stock exchange based on this system and based on the degree of realization of the goals of governance The Company is ranked and publicly announced. According to the rules and the rating system, it will play a very important role in maintaining the cash of the companies. It is also suggested that the recently approved ratification of the corporate governance code of the Stock Exchange should be seriously reviewed and re-engineered and added the new roles of the strategic control of the corporate governance that has been addressed, along with the observation of the context of the country and the environment in Iran. .

Strategic control of corporate governance can enhance the effectiveness and realization of its goals, and it is imperative that its roles and responsibilities be seen in the corporate governance code. Since the size of the board has a positive impact on cash holdings, make investors goBuying shares in companies that have a strong corporate governance system. Given the positive impact of board independence on cash holdings, strong corporate governance can reduce shareholders' worries about cash-outs, because shareholders believe Independence of the board can reduce the probability of managers' opportunistic behavior.

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