

## Chapter 8

# Cash Holdings and Corporate Governance: Evidence From Turkey

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### **ABSTRACT**

*This chapter investigates the empirical factors affecting corporate cash holdings with special emphasis on corporate governance variables for a sample of Turkish-listed nonfinancial firms over the period 2006 to 2010. The findings reveal a significant non-linear relation between family ownership and cash holdings. In addition, while board structure does not significantly affect the level of cash holdings, tunneling increases cash reserves of firms. Furthermore, the results indicate that cash flow, leverage, other liquid assets that can be used as cash substitutes, the degree of tangibility of assets, and firm size are important in determining cash holdings among Turkish companies.*

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## **INTRODUCTION**

One of the most important financial policies of a firm is the cash policy. Holding sufficient cash serves to maintain daily operations, finance profitable investment projects, decrease the likelihood of financial distress, minimize the costs of raising external funds and so on (Ferreira and Vilela, 2004; Uyar and Kuzey, 2014). That is why, cash represents a considerable asset for firms. For instance, cash forms 9% of the total assets in UK (Al-Najjar and Belghitar, 2011) and firms hold 18.5% of assets in cash in Japan (Pinkowitz et al., 2003).

Three commonly used theoretical models by previous studies to investigate cash holding of firms include the trade off theory, the pecking order theory and the free cash flow theory. While trade-off model states that the optimal level of cash holdings depends on the trade-off between the marginal benefits and the marginal costs of holding cash (Al-Najjar & Belghitar, 2011; Ferreira & Vilela, 2004), the pecking order argues that firms do not have target cash levels (Myers and Majluf, 1984). Finally, the free cash flow theory suggests that agency conflicts between managers and shareholders affect cash holding policy (Jensen, 1986).

Based on free cash flow theory the objective of this study is to examine the relationship between corporate governance characteristics and cash holdings in Turkish firms. Specifically, the influence of family involvement and excess control rights on cash policy will be explored. The chapter attempts to fill the following gaps in the literature.

First, the empirical literature regarding the determinants of corporate cash holdings has mainly focused on developed countries, such as United States (Opler et al., 1999; Dittmar and Mahrt-Smith, 2007; D'Mello et al., 2008), UK (Ozkan and Ozkan, 2004; Al-Najjar & Belghitar, 2011), and EU countries (Ferreira and Vilela, 2004). The decision of holding cash is still considered under-researched in emerging countries (Al-Najjar, 2013; Uyar and Kuzey, 2014). By providing empirical evidence from an emerging market, Turkey, the study attempts to contribute to the general literature on cash holding determinants.

Second, limited attention has been devoted to the question of whether agency conflicts between controlling and minority shareholders impact cash holding policy of firms, especially in family firms (Liu et al., 2015; Kuan et al., 2011). Indeed, Al-Najjar (2013) indicates the necessity of further discussion about the impact of internal corporate governance factors on corporate cash holdings in developing countries. Uyar and Kuzey (2014) also call a new research which incorporates corporate governance variables into the model that explains the determinants of cash holdings in Turkey. Therefore, the study attempts to contribute to the corporate governance literature by exploring the role of corporate governance factors in explaining cash holding policies of Turkish firms.

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