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Value of Excess Cash Holdings of Financially Unconstrained Companies

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ABSTRACT This study provides an investigation into the link between financial constraints and cash holdings from the perspective of a developing country. It is based on the view that managers acting as agents are managing firms on behalf of shareholders, which is leading to agency conflicts and hence giving rise to the Free Cash Flow hypothesis. In addition, the management of cash looks at liquidity as well as the resources of a firm in order to invest in future growth. The current study thus provides a comparison of the value of excess cash holdings by examining the impact of financial constraints. The analysis is based on a single dimension, as well as multiple criteria dimensions, where the findings indicate that excess cash holding is less valuable for unconstrained companies. This suggests that agency problems are the main motives behind excess cash holdings for these companies. Furthermore, the findings indicate that the values are large for constrained firms providing insights into the need for managers of these companies to evaluate cash management strategies in order to enhance corporate value. Furthermore, it provides useful insight for regulators as well as shareholders in terms of the importance of governing and regulating capital markets in the context of a developing country despite having significantly lower balances relative to developed markets.

KEY WORDS: Cash holdings, financial constraints, firm value

JEL Classification: G32, G34

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1. Introduction

Cash management is an essential corporate policy. As the agent that receives operational responsibility, management must allocate cash holdings based on the concept that cash holdings management must maximize shareholders' wealth (Opler, Pinkowitz, Stulz, & Williamson, 1999). Management of cash holdings exceeding standard cash holding levels has many consequences, which are that (1) excess cash holdings provide flexibility to avoid costs emerging from underinvesting, and (2) excess cash holdings indicate that the allocation of cash is inefficient, improvident, and misused (Frésard & Salva, 2010). Based on the thinking that excess cash holdings are corporate resources, they are easy to transfer to the interest of the shareholders. Therefore, excess cash holdings have the potential to be invested by corporate management into projects that decrease the corporate value for personal benefit (Jensen, 1986; Stulz, 1990). This argument is supported by the arguments of Simutin (2010) and Khieu and Pyles (2012) stating that agency problems are found in excess cash holdings.

This study emphasizes this view by focusing on the empirical evidence provision of existing agency prob-

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lems caused by excess cash holdings and by relating excess cash holding with corporate characteristics, such as companies that are financially constrained or financially unconstrained. The results of previous research show that the average cash holdings ratio to corporate assets is relatively high, such as for companies in the United States of America in 2006 at 23.2% (Bates, Kahle, & Stulz, 2009) in countries that are Economy and Monetary Union members at 14.08% (Ferreira & Vilela, 2004) and in China from 1998-2009 at 16.9% (Alles, Lian, & Xu, 2012). However, companies' in ASEAN countries have a cash holdings ratio to assets that is relatively low, for example, Singapore and Malaysia in 1999-2000 at 12% (Kusnadi, 2011) and five ASEAN countries (Malaysia, the Philippines, Indonesia, Singapore, and Thailand) in 2001-2005 at 12% (Lee & Lee, 2009).

The term of excess cash holdings is interpreted as cash reserves allocated to exceed the needs level for financial daily corporate operations and need to invest (Attig, Ghoul, Guedhami, & Rizeanu, 2011). Excess cash holdings is a discretionary cash holding derived from models using transaction motive and precautionary motive in determining cash holdings (Bates et al., 2009).

The transaction motive emerges from the cost to convert cash substitutes into cash. According to this theory, there is an economic scale in transaction motive, so that large companies will hold less cash compared to small companies. Mulligan (1997) supports the existence of this economic scale. The precautionary motive increases when information asymmetry and debt costs make the company wish to obtain external funds so that it has cash holdings to avoid costs from underinvestment. The studies focusing on those motives include those conducted by Alles et al. (2012); Bates, et al. (2009); Ferreira, Custodio, and Raposo (2005); Ferreira and Vilela (2004); Lee and Powell (2012); Ogundipe, Ogundipe, & Ajao (2012); Ogundipe, Salawu, Ogundipe, 2012; Opler et al. (1999); Shah (2011).

Another motive is the agency motive, which will be the focus of this study. The agency motive uses the base of agency theory to explain why management tends to maintain cash holdings that exceed the needs of corporate regular cash holdings. They maintain cash holdings for personal benefit (management and controlling shareholders) with activities that can lower corporate value, such as (1) conducting harmful corporate takeovers (Harford, 1999), (2) spending cash inefficiently or (3) using cash reserves in opportunistic ways that provides direct benefits (advantages) for personal and financial excessive luxury (Jensen, 1986).

Controlling shareholders use their dominant position to accumulate cash at the cost of other shareholders. The motivation for controlling shareholders to accumulate cash is to keep control of the company and use corporate resources for personal benefit as the result of the control they gain (Morck, Shleifer, & Vishny, 1988; Shleifer & Vishny, 1997). The studies from Ozkan and Ozkan (2004) and Kalcheva and Lins (2007), as well as Liu (2011), supported that controlling shareholders accumulate cash holdings to fund family projects such as merger diversifications and acquisitions that can reduce portfolio risks but harm investors.

There is potential that corporate controlling parties (insiders) will exploit corporate resources by ignoring the interest of minority shareholders so that the company will be rated lower by investors. Research supporting that the marginal value of cash holdings decreases along with the increase in cash holdings was conducted by Faulkender and Wang (2006), Lee and Powell (2011), and Chen, Cheng, and Huang (2012). Consistent research with the same findings was conducted by Pinkowitz and Williamson (2002) showing cash as much as 1 (one) unit of currency. It uses the rationale the investors that expect excess cash can push corporate controlling parties to invest in unprofitable projects. The reduction of the market value indicates agency problems.

In addition to indicating existing agency problems, excess cash holdings can also give the appearance of financing flexibility (Simutin, 2010; Khieu & Pyles, 2012). Financing flexibility shows the ability of the company to assess and restructure financial activity with lowest cost. The company with flexible finances, when facing adverse shocks, can avoid financial difficulty and provide a fund for investment if an investment opportunity emerges. Having significant cash holdings can provide flexibility for the company to avoid costs from underinvestment in projects that have a positive NPV because the company has a lack of financial resources.

Cash holdings are viewed as the form of cash accumulation to anticipate future investment opportunity, so cash holdings are worth more. The research results from Mikkelson and Partch (2003) and Simutin (2010) and the research of Faulkender and Wang (2006) are consistent with the hypothesis of financing flexibility

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that supports the finding that the marginal value of liquidity is higher in companies with lower liquidity, higher investment opportunity, and higher external financial constraint. Livdan, Sapriza, and Zhang (2009) investigated the effect of financial constraint on risk and return of expectation, with the research showing that financially constrained companies have higher risks and a higher return of expectation when compared to a company that is less financially constrained.

Excess cash holdings indicate agency problems and financing flexibility. The effect of excess cash holdings on the value of a company is not clear because, on the other side, the implication of excess cash holdings is explained by the argument that excessive cash holdings with precautionary motives are not relevant in the company that is financially unconstrained. Therefore, there are other motives. Excessive cash holding will cause high transaction costs and agency costs so that shareholders will value excess cash that it is considered to lower corporate value. Therefore, this study will include the financially unconstrained effect to argue financing flexibility, so the direction and intensity become clear to support the argument of existing agency problems.

2. Problem Formulation

Excess cash holdings are cash reserves exceeding the needs for operational activity and investment (Dittmar & Mahrt-Smith, 2007). Empirical findings of available excess cash holding and agency problems have not been clear, as the research done by Mikkelson and Partch (2003) did not find agency problems in a company that has extensive cash holdings. Research results reported by Chen et al. (2012); Dittmar and Mahrt-Smith (2007); Faulkender and Wang (2006); Harford, Mansi, and Maxwell (2008); Lee and Powell (2011); Pinkowitz, Stulz, and Williamson, (2006); Pinkowitz and Williamson (2002), and are consistent with the view that excessive cash holdings generate agency problems.

The effect of excess cash holdings on corporate value creates a rationale to examine the effect of excess cash holdings on corporate value empirically without relating to the previous corporate characteristic; then, it is continued by empirically examining the effect of excess cash holdings on corporate value by using a financially constrained effect and financially unconstrained effect. So far, research examining a company sample in Indonesia empirically and using excess cash holdings as resources is still limited. Therefore, this study will focus on the problem formulated as the following:

1. Do excess cash holdings negatively affect corporate value?

2. Is the adverse effect of excess cash holdings on corporate value stronger in the financially unconstrained company?

3. Literature Review

3.1 The Concept of Cash Holdings

Cash holdings are the amount of cash and cash equivalents, as well as short-term securities. The definition of cash holdings refers to two theories of current asset demand, which are a buffer-stock model and an inventory model. According to the two models, short-term investment in marketable securities is a cash substitution (Jeffers & Kwon, 1969) or the form of excess cash allocation (storage) (Miller & Orr, 1966). The term of excess cash holdings is interpreted as cash reserves that exceed the level needed to fund daily corporate operations and needed for investments (Attig et al., 2011).

3.2 Cash Holding Motive

Based on the study result on economic and financial literature done by Bates et al. (2009), until recently, there have been four motives for a company to hold cash, which are (1) transaction motive, (2) precautionary motive, (3) tax motive, and agency motive. The larger the company is, the smaller the cash requirements because transaction costs are low, so the company does not hold a significant amount of cash. Precautionary motive explains why companies hold cash for preventing adverse shock when access to market share is expensive. In other words, the motivation for a company to hold cash is to overcome unpredictable surges related to the needs for liquidity when the access to market share is expensive. The company's needs to be careful are higher in financially constrained companies compared to financially unconstrained companies, ceteris paribus (Almeida, Campello, & Weisbach, 2004). Tax motive shows that multinational companies accumulate more cash holdings as a consequence of taxes related to foreign profit obtained from affiliations abroad — agency motive experienced by the company that is controlled by corporate controlling parties. Controlling parties tend to prefer holding cash rather

than paying it to external shareholders. As is the case in companies in countries that have more significant agency problems, the companies will hold more cash. Dittmar and Mahrt-Smith (2007); Harford (1999); Harford et al. (2008); and Pinkowitz and Williamson (2002) found consistent evidence with the agency problem view, but Mikkelson and Partch (2003) did not find evidence that a company with high cash holdings shows a greater unsatisfactory performance than a company with low cash holdings.

3.3 Theoretical Framework of the Cash Holdings Determinant

The study of motives for a company to hold cash holdings is now a prominent theme in financial literature that is reflected through the determinant research on cash holdings. The theoretical framework of the cash holdings determinant in the world with transaction cost, agency cost, and information asymmetry are trade-off theory, pecking order theory, and agency theory. Trade-off theory between the cost and the benefit of cash holdings can identify whether or not a company holds cash holdings from the viewpoint of shareholders' welfare. Next, the agency theory will answer why a company holds or does not hold cash holdings that maximize shareholder wealth and helps to identify a company that wants excessive cash holdings (Opler et al., 1999).

According to trade-off theory, the company chooses the standard level of cash by comparing the benefit and the cost of cash holdings. The benefit of cash holdings is related to transaction cost saving in order to obtain funds and meet needs in liquid assets. The other benefit is that liquidity can be used to fund activity and investment when other financial resources are not available or are expensive. Meanwhile, cash holdings cost is the opportunity cost of capital investment in the form of liquid assets. The benefit and cost of cash holdings should be analyzed carefully. The short-term investment in marketable securities contains costs. First, the cost results when the company invests in assets that are not liquid but are more productive. Second, the company bears the cost of the transaction when purchasing and selling marketable securities. Third, the company is charged with a higher tax. The other cost of cash holdings is that they can create more significant agency problems compared to less smooth assets (Kim, Mauer, & Sherman, 1998). According to the pecking order theory (Myers & Majluf, 1984), there is no standard level of cash holdings. This theory states that initially, company funds are invested with retained profit, cash holdings, debt, and finally equity. Cash holdings are a buffer between retained profit and investment needs. If the retained profit is not enough to fund current investments, it uses the accumulation of cash holdings and issues debt if it is necessary. The funding order that is followed by the company is done to minimize the cost of information asymmetry.

According to agency free cash flow theory, proposed by Jensen (1986), it stated that cash accumulation is done to increase the number of assets that can be controlled in order to have more significant power on a company's investment decisions. The existence of cash availability means that external funding is not needed and provides detailed information to the capital market about a company's investment projects, so corporate controlling parties can allocate the excess cash for personal benefit, for example, investing in projects that have a negative NPV and can harm the corporation's value, conducting bad mergers and acquisitions, and others.

3.4 Hypothesis Development

Agency theory explains why management or controlling shareholders (insiders) tend to hold cash holdings until exceeding corporate standard cash holdings. Controlling shareholders use their dominant position to accumulate cash with other shareholders' costs. The research of Kalcheva and Lins (2007); Ozkan and Ozkan (2004); and Liu (2011) support that shareholders accumulate cash holdings to be used in funding family projects, such as diversification of merger and acquisition that can reduce portfolio risks but are disadvantageous for investors. It causes the company to have a lower value for investors. Studies by Chen et al., (2012); Faulkender and Wang (2006); Lee and Powell (2011) and support that marginal value of cash holdings decreases along with the increase of cash holdings. Pinkowitz and Williamson (2002) also show that cash as much as 1 (one) unit of currency significantly produces a contribution to the return less than 1 (one) unit of currency. It discloses that investors have negative evaluations indicating that excess cash can push controlling parties of the company (management and shareholders) to conduct investment to projects that are not profitable for the company.

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Based on the rationale that is described above, hypothesis 1 (H1) is formulated as the following:

H1: Excess cash holdings negatively affect corporate value

Excess cash holdings are cash reserves exceeding the needs for operational activity and investment (Dittmar & Mahrt-Smith, 2007). Excess cash holdings can also give the impression of financing flexibility (Khieu & Pyles, 2012; Simutin, 2012). Financing flexibility demonstrates the ability of a company to access and restructure its financial activity at low costs. The company that is financially flexible when facing adverse shocks can avoid financial difficulties and provide a fund for investment needs if an investment opportunity becomes available. Having significant cash holdings can give flexibility for a company to avoid costs from underinvestment in projects that have a positive NPV as the result of the lack of corporate financial resources. Livdan et al. (2009) investigated the effect of financial constraint on the risk and return of expectation. The result of the study shows that a company that is more financially constrained has higher risks and gives a higher return of expectation compared to companies that are less financially constrained.

This study includes the effect of financially unconstrained companies. Companies are categorized unconstrained if they have adequate finances to conduct traditional investments so that a reasonable financial policy can replace all other financial policies (Han & Qiu, 2007; Mielcarz, Osiichuk, & Wnuczak, 2018). For financially constrained companies having an exciting growth opportunity, the consequence is that the company will invest at a less optimal level so the growth, corporate performance, and corporate value increase. The financially constrained company is a company that has a limitation in obtaining debt capital.

The corporate investment decision is strongly affected by the investment opportunity because the more profitable the investment, the greater the investment amount In this case, a manager tries to take those opportunities in order to maximize shareholders' welfare. If there is a profitable investment opportunity, the company that does not have financial constraint will easily take the opportunity to invest. Since the company that does not have financial constraints has more accessible access to the capital market, it easily adapts its finances to invest and that demonstrates greater financing flexibility. In other words, the financially unconstrained company shows high corporate value (Azouzi & Jarboui, 2014; Chan & Chen, 1991, Fama & French, 1992).

Based on the description above, hypothesis 2 (H2) is formulated as the following:

H2: The adverse effect of excess cash holdings on corporate value is stronger in the financially unconstrained company.

4. Methodology

4.1 Data and Sample

Data used in this study are secondary data from the Bloomberg database, as well as the annual report and consolidation report issued by an issuer from 2005 to 2014. The data structure used in this study is the combination of cross-section data and time series data starting from 2005-2014. Panel data are used to calculate the estimation of standard cash holdings, and the issuer sample is chosen by using a purposive sampling method. Sample members are selected based on some criteria. The first criterion is nonfinancial public companies in Indonesia that are classified based on the classification system of Global Industry Classification Standard (GICS), which is a global standard to classify companies into sector and industry. The second criterion is nonfinancial public companies that have been going public at least for five years or maximally have conducted an Initial Public Offering in 2001. The third is that those nonfinancial companies have all data of related variables in 2005-2014.

4.2. Operationalization of Research Variable for Examining the Adverse Effect of Excess Cash holdings on Corporate Value

Estimates of standard cash holdings are used to investigate amounts of excess cash holdings. The original method to estimate standard cash holdings is forming a baseline cash holding with a regression model. The data structure used is a panel data structure arranged by data longitudinal way, which is done by determining the number of cross-section samples and following the behavior of variables that are observed over time. This study will conduct cash holdings estimation by using three approaches of regression estimation models, which are as follows: 1) static panel regression model, 2) dynamic panel data regression model, and 3) regression model with estimated GLS model through the Cochrane Orcutt iterative procedure.

Table 1. Summary of Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std.Dev.
ABNRETURN	0,002	-0,135	4,420	-1,553	0,776
XCASHHOLDING	0,038	0,036	0,162	0,000	0,028
EVA	-0,018	-0,005	0,435	-0,959	0,098
RISK	0,276	0,228	1,206	0,008	0,177
SIZE	13,406	13,516	17,543	8,628	1,702
Observations			672		

ABNRETURN, which is the excess of the actual return that occurs on normal returns. Normal return is the expected return (return expected by investors). XCASH HOLDINGS are cash holdings that exceed normal cash holdings, which are obtained from estimated residual cash holdings from regression results that have a positive sign. EVA is economic value added, namely, measurement of company performance based on value creation for shareholders, EVA = (NOPAT- (WACCxCAPITAL) / TOTAL ASSETS. RISK is a risk that is a deviation from the asset expectation value, which is a company-specific risk proxy normalized by TOTAL ASET and the size of the company, ln (TOTAL real ASSET)

This study uses a specification model of corporate evaluation with a value-based approach (Ramezani, Soenen, & Jung, 2002). This specific model uses abnormal returns as the measure of corporate value measuring the amount of compensation received by shareholders on equity risks. This will place variables of excess cash holdings (EXCHOLD) as the prime variable, as well as control other variables that are correlated with abnormal return (AR). Those variables are the variables that are consistent and in line with the objective of shareholders' welfare maximization, which is a variable of economic value added (EVA), corporate nonsystematic risks (RISK) measuring unique corporate risk (idiosyncratic) toward an abnormal return. The size of the company (SIZE) is the total value of real assets.

Regression statistic model to test H1 is:

$$AR_{it} = \alpha_1 + \beta_1 XCHOLD_{it} + \beta_2 EVA_{it} + \beta_3 RISK_{it} + \\ + \beta_4 SIZE_{it} + \varepsilon_{it} \quad (1)$$

4.3. Operationalization of Research Variables for Examining the Effect of Financial Constraint in Strengthening/Weakening the Negative Effect of Excess Cash holdings on Corporate Value

This study uses a variable of financial constraint to test the value of excess cash holdings. The classification base of financial unconstraint uses defined criteria, which are as follows: 1) single criterion (variable dummy DDIV) for a company that provides dividend payments. Financially constrained companies generally pay a dividend; in contrast, if the companies do not pay a dividend, they are classified as financially unconstrained companies. 2) Multiple criteria (variable dummy MULTIPLE) are the criteria that are determined by using more than one criterion, which includes dividend payment criteria, cash flow, book to market, and debt.

Regression statistic model to test H-2 is:

$$AR_{t,i} = \alpha_1 + \beta_1 XCHOLD_{t,1} + \beta_2 DDIV_{i,t} + \beta_3 XCHOLDi,t * \\ *DDIV_{i,t} + \beta_4 EVA_{it} + \beta_5 RISK_{it} + \beta_6 SIZE_{it} + \varepsilon_{it} \quad (2)$$

$$AR_{t,i} = \alpha_1 + \beta_1 XCHOLD_{t,i} + \beta_2 DMULTIPLE_{i,t} + \\ + \beta_3 XCHOLDSi,t * DMULTIPLE_{i,t} + \beta_4 EVA_{it} + \\ + \beta_5 RISK_{it} + \beta_6 SIZE_{it} + \varepsilon_{it} \quad (3)$$

5. Empirical Results

Table 1 contains information on statistical descriptions (Mean, maximum, minimum, and standard deviation) of research variables from 672 observations. These variables are ABNRETURN, which is the excess of the actual return that occurs on normal returns. Normal return is the expected return (return expected by investors). XCASH HOLDINGS are cash holdings that exceed normal cash holdings, which are obtained

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Table 2. Hypothesis Testing Results in Effect of Excess Cash Holdings on Company Values

Dependent Variable: ABNRETURN						
	1			2		
	Coef.	t-Stat		Coef.	t-Stat	
C	-0,209	-1,340		-0,441	-5,769	***
XCASHHOLDING	-0,767	-2,730	***	-0,579	-2,588	***
EVA	1,744	19,533	***	1,699	26,425	***
RISK	1,146	3,401	***	0,953	4,651	***
SIZE	-0,006	-0,710		0,015	2,372	**
N Observation	672			773		

from estimated residual cash holdings from regression results that have a positive amount. EVA is economic value added. RISK is a risk that is a deviation from the asset expectation value, which is a company-specific risk proxy normalized by TOTAL ASET and the size of the company, ln (TOTAL real ASSET).

5.1 Testing the hypothesis of the effect of excess cash holdings on firm value

This study focuses on testing the effect of excess cash holdings on firm value to determine whether excess cash holdings can be a significant indicator in the free-cash-flow agency problem. Hypothesis 1 estimates that excess cash holdings destroy firm value. Table 4.1 presents a summary of the test results.

The H-1 testing result shows that excess cash holdings cause agency problems and that they negatively affect corporate value. The testing result shows that the regression coefficient of variable excess cash holdings, XCHOLD (β1= - 0,767), is marked negative and significant at a significance level of 1%. As an additional re-estimation result, it shows a negative and significant coefficient mark. Therefore, H-1 stating that excess cash holdings negatively affect corporate value is supported.

This empirical finding result shows that excess cash holdings become a significant indicator to support the agency free cash flow hypothesis. It means that excess cash holding is an asset of company that has a high risk to be allocated in inefficient projects, wasted, and misused because cash holdings can be changed into assets at relatively lower costs compared to other assets (Attig et al., 2011; Frésard & Salva, 2010; Jensen, 1986; Myers & Rajan, 1998). The agency cost of free cash flow theory explains that cash holdings that are excessive are perceived to increase the incentive of corporate controlling parties (insider) to spend excessive cash holdings for projects that profit only corporate controlling parties and will be perceived negatively by external investors. The findings of this study support the agency cost of free cash flow theory, in line with the findings of Chen et al. (2012); Faulkendar and Wang (2006); Lee and Powell (2011); Pinkowitz and Williamson (2002).

5.2 Testing the hypothesis of the effect of excess cash holdings on firm value

This hypothesis was proposed to issue the financing flexibility hypothesis from the conceptual research framework so that this study could focus on testing the agency of the free cash flow hypothesis. Hypothesis 2 is formulated with arguments that contradict the theory of financing flexibility hypothesis, that is, the effects of nonconstrained funding strengthen the negative influence of excess cash holdings on the value of the company. If supported by the data in this study, then

Table 3. The Results of Hypothesis Testing for the Role of Financially Unconstrained Companies in Strengthening the Negative Effects of Excess Cash Holdings on Firm Values

Dependent Variable: ABNRETURN						
	1			2		
	Financially Unconstrained: Dividend Criteria					
	Coef.	t-Stat		Coef.	t-Stat	
C	-0,356	-2,052	**	-0,418	-4,095	***
XCASHHOLDING	0,025	1,354		-0,904	-1,407	
EVA	1,480	5,677	***	1,610	14,665	***
RISK	1,138	3,177	***	1,006	4,587	***
SIZE	0,001	0,074		0,011	0,969	
DDIV	0,076	1,633		0,052	1,613	
XCASHHOLDING*DDIV	-1,674	-2,732	***	0,130	0,126	
Observations	672			773		
Dependent Variable: ABNRETURN	Financially Unconstrained: Multiple Criteria					
	Coef.	t-Stat		Coef.	t-Stat	
C	-0,587	-3,789	***	-0,682	-11,745	***
XCASHHOLDING	-0,182	-0,139		0,000	0,003	
EVA	1,282	7,064	***	1,549	28,916	***
RISK	1,040	2,473	**	0,933	5,466	***
SIZE	0,008	0,544		0,019	2,885	***
DMULTIPLE	0,302	5,273	***	0,259	8,424	***
XCASHHOLDING*DMULTIPLE	-1,671	-1,817	*	-1,053	-1,383	
Observations	672			773		

the implications of excess cash holdings are followed by the agency free cash flow hypothesis.

H-2 is formulated to eliminate the hypothesis of financing flexibility from the conceptual study framework in order to focus on testing the agency free cash flow hypothesis. H-2 is formulated with an argument contrary to the financing flexibility hypothesis theory, which is that the effect of unconstrainted financing strengthens the adverse effects of excess cash holdings on corporate value. The estimation result of moderating variable interaction regression with the prime variable with a moderated regression analysis approach shows that interaction coefficient of XCHOLD*DDIV is marked negative ($\beta 3 = -1,674$) and significant at a significance level of 1% when unconstrained financing is classified by using the criterion of dividend payments.

By using multiple criteria, the interaction coefficient of XCHOLD*DMULTIPLE is also markedly negative and significant at a significance level of 10% with a coefficient value of $\beta 3 = -1,671$. The result of re-estimation using the MRA approach shows that the moderating variable is the homologizing variable, thus

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examining the moderating effect of subsample analysis. Its result supports that the adverse effect of excess cash holdings on corporate value is stronger in the subsample of companies that are financially unconstrained by using multiple criteria.

The study result shows that the effects of financial unconstraint have a negative return, which is consistent with the results of Denis and Sibilkov (2010); Pinkowitz and Wiliamson (2004); Tong (2011), stating that unconstrained financing causes cash holdings to have less value compared to the value of cash holdings when financing is constrained. The decreasing value of cash holdings is a response to the increase in agency costs of free cash flow.

6. Conclusion

The current study is motivated by the existing literature on the value of cash holdings to nonfinancial firms. It is of particular interest given that empirical priors find that the cash holdings in ASEAN countries tend to be lower relative to more developed economies.

The rationale for holding cash arises from several distinctive arguments, which include transaction motives, tax purposes, precautionary reasons and agency problems. Thus, this study proposes that cash holdings are of different values to firms based on the financial constraints criteria. In addition, the sample selection is based on a developing country where institutional and market discipline may lead to potentially greater agency problems. The main findings indicate that constrained firms' reasons for cash holdings lead to increases in firm value and thus are aligned with financial objectives of shareholders' wealth maximization. However, the relationship is insignificant for unconstrained firms indicating that the motivation tends to be driven by potential agency problems leading to a reduction in firm value at the expense of shareholders.

The evidence provides useful insight to investors in capital markets, which calls for a better model of governance in firms that could potentially be facing agency problems detrimental to firm value. Furthermore, it also indicates that market enforced discipline is lacking for these firms calling for stronger levels of shareholder activism, especially from institutional investors that are expected to provide pressure to boards in these circumstances. In addition, from the regulatory point of view, the findings provide an indication of the short-comings of current disclosure and mandatory governance mechanisms leading to expropriation of wealth and the potential for tunneling. Implications from the managerial point of view can be seen from the potential for maximization of shareholders' wealth, especially for constrained firms that are sensitive to cash holdings. The current study, however, does not account for specific governance characteristics at the firm level and ignores country-level governance. Thus, the inclusion of a broader aspect of the study as well as a larger multicountry sample, especially in the ASEAN context, would enhance the implications.

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