THE CONCEPTUAL PAPER ON CORPORATE CASH HOLDING ON PUBLIC LISTED COMPANIES AMONG TRADING/SERVICE SECTOR IN BURSA MALAYSIA

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Abstract: This study of cash holdings in public listed companies for trading/service sector in Malaysia play important role in break through the breach between developed countries and developing countries such as Malaysia. The discoveries of this study will mirror the genuine ramifications of cash holdings particularly among the Malaysian trading/services sector. Since the research of cash holdings can be said to be still new in nearby research, so, this study will fill in as pioneer by giving an early versions of skill and proper research framework to whatever is left of the researchers locally. Moreover, this research is to make propositional statement and propose a framework to be tested empirically in future studies. Based on Trade-off Theory (TOT), we proposed that there will be positive relationship among firm size, cash flow volatility and capital expenditure which in turn will positively predict corporate cash holding. This variables used are closely related to trade-off theory and contribute the most to the reasons of firms to hold so much cash. This study embark in the contribution of making the government exertion in changing Malaysia economy into a more focused and esteem based economy. Considerable corporate cash holdings in companies will empower persistent innovative work that fill in as a spine of value way of life and business intensity. This can be acknowledged if policy makers set a specific necessity for the sector as far as their exploration and improvements subsidizing in enhancing their business proficiency in term of probability and asset management.

Keywords: *corporate cash holding, trade-off theory, firm size, capital expenditure, trading and service, Bursa Malaysia*.

1. INTRODUCTION

Cash is just a negative obligation, and there is no optimal amount of cash. The financing shortfall is the key driver of changes in the cash position. In any case, markets are far from perfect and transaction costs are important. When capital market defects are presented, companies are not essentially able to follow all value-increasing investment opportunities. For example, capital market gratings boost the cost of external capital in respect to internally produced reserves (Greenwald et al., 1984). Subsequently, a few companies that have alluring growth opportunities contribute not as much as the main best ideal, prompting lower future growth and decreased operating performance and firm value (Denis & Sibilkov, 2007). Consequently, cash holdings can be important when other sources of funds or assets, including cash flows, are lacking to fulfill companies' interest for capital. As a result, these blemishes do exist and are more applicable to companies with a great deal of opportunities investment. In recent years the enthusiasm of monetary researchers about raised to companies' cash strategy, cash positions where if more precise they are giving careful consideration for what reason do companies' hold so much cash. These disputes have a long antiquity and are the premise of companies' fund. Undeniably, from the everyday operations to finance long-term investments, personal resources are just the most imperative source of financing.

The contributing factor and results of corporate cash holdings have pulled in expanded enthusiasm of researchers in the course of recent years. One significant concern was that the connection amongst cash and the value of the organization. Comprehensively, two primary factors in the condition of the upsides of liquidity of the organization and the office cost of administrative carefulness. Both these disputes have their supporters. For instance, Myers & Majluf (1984) contend that external financing implies that organizations must keep up an adequate cash hold, which gives liquidity to exploit new activities a positive net present value. Notwithstanding, as indicated by Jensen (1986) the agency costs of managerial consolidation implies that a lot of cash ought to be paid to investors to keep directors overinvesting undesirable net present value ventures. Evidently, there is no particular fact, which will smear to all organizations without a moment. Additionally, considering the estimation of cash is of premium not only specified for analysts and researchers, this is also meant especially for experts. Equity experts, financiers and corporate CFOs should all be exceptionally fascinating to know which factors influence the cost of cash holdings in the organization and the reasons. Maximum equity examiners just add cash to the highest point of the estimation of the organization, without giving consideration from what could be the motivation behind why cash ought not be assessed at confront esteem.

Notwithstanding, investigates appear, markets, cash related esteems for diverse companies in various ways, and, therefore, investigators might be as well that particularly if the organization has a lot of liquid resources. For corporate lenders circumstance is rather unlike where in light of the fact that they frequently give the conclusion that the estimation of the objective companies is the acquirer, along these lines taking out the impact of the predominant corporate governance and financial policies. On the other hand, it can be important to comprehend the estimation of cash while evaluating the market estimation of the firm. At long last, the cash related bureau of a company should know why their cash can't be acknowledged at confront esteem, and that they could do in the event that they need. Basically, this information clearly acknowledge on a brief clarification for explaining in detail on corporate cash holdings.

2. LITERATURE REVIEW

2.1 Corporate Cash Holdings

Cash holdings have many benefits associated directly to investment activities, particularly in flexibility and capitalizing on opportunities. Companies with excessive cash holdings can take benefit of greater investment possibilities without being too confined by means of capital ensure satisfactory capital for deliberate or unplanned opportunities for instance enterprise growth, market opportunities throughout the monetary disaster, while sudden new brings a stock rate down, actual property deal, enterprise opportunities and so forth. Precisely, availability of cash holdings permits corporations to take benefit of the instant. Corporations could make worthwhile funding offers which have a massive effect on their continuity whether or not for restructuring functions or for taking benefit of latest opportunities. Alternatively, the cash holdings choice ought to be sound thorough and logical with the intention to keep away from the terrible effect of retaining an excessive amount of cash. There are some of theoretical models of corporate cash holdings (Opler et al., 1999). Firstly, the trade-off model where in figuring out the optimum degree of cash, managers weigh the marginal expenses and benefits of retaining cash. The primary cost of holding cash is the lower return earned from it, that is known as cost-of-carry (Dittmar et al., 2003). The advantages of conserving cash are pushed by two motives that are transaction costs and precautionary cost. Primarily based on the transaction costs motive, managers are probably to hold extra cash if the cost of external investment and the opportunity cost of foregone investment is excessive. Based totally on the precautionary motive, the value of external investment is likewise taken into consideration to decide the optimal degree however the major purpose is to mitigate economic distress (Opler et al., 1999)**.**

Then, followed by financing hierarchy model where in contrast to the trade-off model, the financing hierarchy model indicates that there may be no optimal degree of cash. Managers are detached to cash or debt, and cash holdings are virtually the residuals of the investment and financing choices made with the aid of them (Dittmar et al., 2003). While corporations have enough cash flows to finance new investment, they pay off money owed and acquire cash. However, whilst corporations lack internal finances to finance new funding, they draw down their collected cash and issue debt (Ferreira & Vilela, 2004). Moreover, defending that a firm has satisfactory liquid assets for funding their future undertakings is at the core of the act of cash management. Accumulation of cash is ordinarily characterized as cash and marketable securities over that utilized as a part of the ordinary course of the business (Lins et al., 2010). Established on the presumption of immaculate monetary markets, expecting no transaction taxes, asymmetric information and bankruptcy costs, the capital structure does not influence firm esteem. In this manner, there would be no purpose behind an organization to hold liquid resources.

Furthermore, storing cash holdings, in any case, may inadvertently fill up inadequacies aspects including the utilization of corporate assets. Ali & Yousaf (2013) contend that adequate liquid resources bear the cost of directors in the adaptability to utilize these assets even in negative net present value ventures. Meanwhile, Faulkender & Wang (2006) have affirmed free cash flow hypothesis that an extra dollar that a firm holds is short of what one dollar. According to Daher (2010), places that the causal of these discoveries is the postulation that extreme cash hides the advantages of remotely sourced funds as the checking instrument, and also enabling directors to remove individual focal points. Therefore, cash holding in this manner, have both an upside and a drawback with the goal that organizations need to capitalized on the previous while limiting the diminishing mentioned.

Precisely, in such a remorseless universe, cash holdings would have no impact on the firm esteem or investor wealth (Opler et al., 1999). Markets, be that as it may, blemished and these defects make outside financing be more costly than interior assets. Consequently, regarding genuine defective markets, corporate cash holdings are a vital part of the business capital structure. Firms with impossible conditions ought to settle on their ideal cash holdings level.

2.3 Firm Size and Corporate Cash Holdings

Various researches were performed to prove the relationship between corporate cash holdings and company size. As argued by Rajan & Zingales (1998), due to diversification, large organizations have more balance of cash flow and therefore they've got decrease opportunity of being in financial distress. It might be less difficult for these companies to have access to diverse investment resources that's often not possible for smaller one. In a comparable vein, Al-Najjar & Belghitar (2011) argue that large companies are taken into consideration to be more diversified than their small counterparts and in turn less susceptible to bankruptcy related costs. Consequently, they'll be a great deal less probably to hold cash reserves. Consistently with those arguments, Bates & Kahle (2009) stated that large company is more likely with the intention to liquidate a part of non-core assets to accumulate cash, which reduces the possibility of encountering financial distress. Contradicting the trade-off view, the pecking order theory affirms that cash holdings increase with firm size, due to the fact large companies are anticipated to have been greater profitable historically and for this reason accumulated extra cash. Opler et al. (1999) argue that large agencies in all likelihood have been more successful, and ultimately need to have extra cash, after controlling for investment.

Firm size is an essential determinant of cash holding, however the normal relationship is uncertain (Niskanen & Niskanen, 2007). Firm size might be identified with potential agency problems, examiner scope, and checking by the market for corporate control. Since there are significant fixed expenses of gaining external financing and economies of scale in real cash management, both develop and bigger organizations are required to get financing in a simpler and less expensive way (Dittmar et al., 2003). To add on, as stated by Almeida et al (2004) contend that vast firms have less demanding access to capital markets in respect to smaller companies; thus they confront less monetary limitations. Besides, on the grounds that larger organizations have a tendency to be more broadened (Rajan & Zingales, 1998), raising cash by offering non-center resources in times of budgetary distress ought to be less demanding for these organizations (Lang et al, 1995). Thus, expansive and more enhanced companies are inclined to less liquidation related expenses, and subsequently less inclined to store cash reserves (Al-Najjar & Belghitar, 2011).

The connection between corporate cash holdings and firm size has been talked about broadly in many studies. According to Al-Najjar & Belghitar (2011), bigger companies are more broadened than the smaller ones which are less vulnerable to chapter bankruptcy. As transaction costs are predictable for bigger companies than smaller companies, firm size and cash holdings are relied upon to have an inverse relationship.

Pragmatic indication supports the trade-off theory in clarifying the relationship between firm size and corporate cash holdings. Therefore, it is argued that firm size is an important determinant of cash holdings and expects the sign of the association between firm size and cash holdings. Thus, the hypothesis of this study is developed as:

Proposition 1: *Firm size will have a significant correlation on corporate cash holdings.*

2.4 Cash Flow Volatility and Corporate Cash Holdings

According to the trade-off theory companies with greater volatile cash flows could be concern to a greater number of states wherein the company can be short of liquid assets (Ozkan & Ozkan, 2004). Hence, companies may additionally fail to finance all profitable projects and they face larger costs of external financing (Ozkan & Ozkan, 2004). So, companies with more volatile cash flows are predicted to hold more cash with a purpose to reduce the costs of unexpected liquidity shortages. The evidence documented in Bigelli & Sánchez-Vidal (2012) show that the cash flow volatility is positively associated with cash holdings. More recently, Bates & Kahle (2009) record that the increase of cash holdings within the US in the past two decades is driven by means of the accelerated volatility associated with the listing of recent companies. Moreover, it is computed as the standard deviation of annual adjustments in the degree of cash flows (earnings before interest, taxes and depreciation) over a lagged four-year period, scaled by average non-cash assets inside the lagged period.

In addition, high volatility of cash flows implies vulnerability out future income and, in that capacity, a greater probability of bankruptcy (Ozkan & Ozkan, 2004). Since firms in monetary misery may be compelled to forego practical investment prospects, these organizations will hold more cash consistent with the trade-off theory. The trade-off theory, in this way, visualizes a positive relationship between cash flow volatility and cash holdings. Observational discoveries are predictable with the trade-off theory (Bigelli & Sánchez-Vidal, 2012).

Correspondingly, Opler et al (1999) also supported that based at the trade-off theory; agencies with extra risky cash flows face a higher opportunity of experiencing cash shortage because of sudden cash drift deterioration, which leads them to forgo a few profitable investment projects. Not only that, Opler et al (1999) displays that uncertainty leads to situations in which, at times, the firm has extra outlays than predicted. Bates & Kahle (2009) propose that companies with greater cash go with the flow risk hold extra precautionary cash. Empirically, Saddour (2006) argued approximately a positive link between cash flow uncertainty and cash holdings. Predominantly based at the trade-off theory and the previous empirical findings, therefore this study proposes the following hypothesis:

Proposition 2: *Cash flow volatility will have a significant correlation on corporate cash holdings.*

2.5 Capital Expenditure and Corporate Cash Holdings

The trade-off view predicts a positive relationship between capital expenditures and cash holdings. Companies with high growth opportunities invest a lot and therefore they hold on average extra cash to assist their capital expenditures. However, the financing hierarchy view predicts that firms that spend greater on capital costs have fewer internal resources and hence those companies could acquire less cash. For the purposes of this examine the variable capital expenditures is measured as the change in net fixed assets between two consecutive years divided by capital at the beginning of the period. Chen (2008) recorded a negative relation between capital expenditures and cash holdings, whilst Opler et al (1999) record a positive relationship.

In accordance to trade-off theory, capital speculation reflects financial distress (Bates et al., 2009). In this manner, firms with high capital venture will confront higher cash related trouble costs in the capital markets. In their endeavor to keep away from these high transaction costs, such organizations frequently hold more cash (Riddick & Whited, 2009). Conversely, capital expenditure generally outcomes in the formation or the change of new resources that can be promised by firms as guarantee, in this manner, supporting firms' acquiring limit (Kim et al., 2011). Thus, organizations that have improved contact to advances will hold less cash. Though exact confirmation is uncertain with respect to the connection between capital expenditure and cash holding, this investigation postulates a negative relationship, as found by (Iskandar-Datta & Jia, 2014).

Wasiuzzaman S. (2014) gave a purpose that firms having higher capital expenditure will have a tendency to have greater liquid assets. This relationship is predicted if the static trade off theory is carried out due to the fact a firm will need extra cash or liquid assets with the intention to fulfill its capital expenditure necessities. Magerakis (2015) argued that capital expenditures can be used as a proxy for financial distress costs and/or investment opportunities, leading to a positive relationship according to trade-off theory. Opler et al (1999) archive a positive association between capital expenditures and cash holdings where the pecking order view expects that organizations that employ additional on capital expenditures have less internal assets and henceforth these organizations would aggregate less cash. For the reasons for this investigation the adjustable capital expenditures is determined as the adjustment as the change in net fixed assets between two consecutive years divided by capital at the beginning of the period. Therefore, this study proposes the following hypothesis:

Proposition 3: *Capital expenditure will have a significant correlation on corporate cash holdings.*

2.6 Trade-off Theory (TOT)

Generally, the tradeoff off theory of cash holdings sets that companies have two motives for holding cash that are transaction cost and precautionary motives. Genuinely, this two motives have been explained by all the researchers that done their research on cash holdings. In connection to the previous, this theory recommends that companies hold cash since raising assets out of capital markets is more expensive than holding existing cash for example in light of the fact that external financing includes fixed and variable costs identified with the measure of capital upraised (Ozkan & Ozkan, 2004). Furthermore, these cost segments infer that there is an ideal measure of cash to be raised and instigates a company to hold cash as a costly safeguard. Subsequently, transaction costs are greater for companies that are less intently observed and have more terrible access to the capital markets (Opler et al., 1999). The precautionary motive underlines data asymmetries and the opportunity costs of inescapable ventures (Kim et al., 1998). On the off chance that the unfavorable choice expenses of external fund or potentially the expenses of financial distress are too much high, firms collect liquidity to meet unexpected cash shortages and fund back their positive net present value ventures (Opler et al., 1999). Since developing firms confront more extreme market blemishes and higher liquidation costs, this investigation contends that trade-off theory can clarify cash holding choices in these companies.

In proportion to the tradeoff theory, companies taken into consideration the marginal benefits and cost of holding cash to maximize the shareholder's wealth (Dittmar et al., 2003). The benefits of cash holding stem from the theory of Keynes (1936), concerning the motive of liquidity assets that are transaction cost motive, precautionary motive, and speculative motive. Consistent with the transaction cost motive, holding cash allow companies to avoid or save transaction expenses to raise funds or to liquidate assets. In relation to the transaction reasons, companies hold the cash only to overcome the better possibility cost in case of lower cash levels (Tobin, 1956). Nevertheless, precautionary motive discovered that cash holding allows corporations to finance their investments or project if other financing supply isn't always available. Besides, Ozkan & Ozkan (2004) emphasized that to overcome the possibility of higher cost of external financing companies additionally put money into liquid assets or they will enhance their cash level. Likewise, this argument is also supported through (Opler et al., 1999). Furthermore, speculative motive argued that financial players maintain cash or marketable securities with a purpose to earn profit from future rising of interest rate. This isn't appropriate for companies.

When cash holding is explained by the trade-off model means that there is an optimal level of cash holding which can be attained by balancing the marginal cost and marginal benefits associated with cash holding. Marginal benefits of cash holding are with cash holding firms can avoid financial distress, it act as tool to formulate a optimal investment policy and firms with large cash holdings can reduce increasing financial cost which is increasing because of external fund raising or by liquidating existing assets. The marginal cost of cash holding is basically the opportunity cost associated with cash holding for example return of current short term investments which foregoing for transactional or precautionary motives where named it transactional model because it explains transactional motives of cash holding.

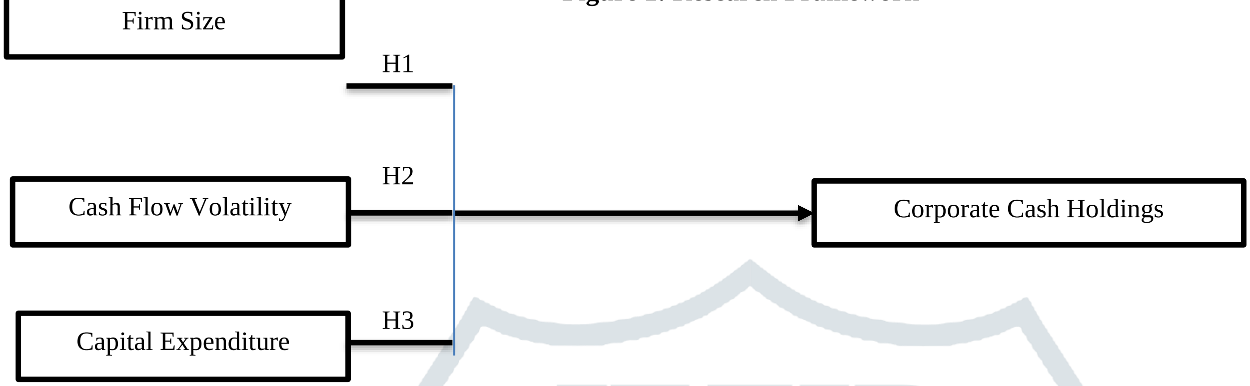
As indicated by the past observational investigations studies different delegations for determinants of cash holding conduct of firm, have been fused to mirror this hypothesis. For example, Wasiuzzaman S. (2014) utilized the dividend payout, leverage, firm size, liquidity and risk, to exactly look at the company's cash holding point of view out line with the trade-off theory. As indicated by the trade-off theory, companies achieve their own particular ideal level of cash holdings when the marginal benefit of holding cash is equivalent to its marginal cost. Precisely to be based on the trade-off theory, one can develop the expected relationship between some companies' attributes and corporate cash holdings.

2.7 Proposed Research Framework

Based on theoretical background and proposition statements made in preceding section, a proposed research framework is presented in following Figure 1 to depict the basic assumptions that guide this study.

INDEPENDENT VARIABLE **DEPENDENT VARIABLE**

Figure 1: Research Framework



3. METHODOLOGY

This paper is conceptual in nature because it serves as proposal for empirical investigation. Hence, the researchers reviewed extant literature obtained from scholarly data bases.

4. CONCLUSION

It is important to note that the proposed research framework seeks to add to the stock of knowledge by integrating trade-off theory to investigate the relationship between firm size, cash flow volatility and capital expenditure with corporate cash holdings. This study will recommend trading/service sectors of public listed companies in Malaysia on optimum cash holdings level in adjusting the enthusiasm of the shareholders and managers and consumers. Excessive cash holdings in trading/services sector in public listed companies will not be well enough in the perspective of boosting of shareholders value as the firms engaged extreme cash to keep the interest of shareholders and managers since they feel anxiety to finance huge principal into new projects as the possibility jeopardy of new and massive projects can be very great as it produce vast depreciation because of the development of technological innovation that affected it to obsolete. Nonetheless, to secure the enthusiasm of shareholders and managers particularly the value financial investors, it is essential for the legislature to guarantee that trading/services sector of public listed companies don't over hold excessive cash that brought on underinvestment in the sector.

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