

Cash Holdings And Corporate Performance: Evidence From Morocco

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ABSTRACT

Recently, the controversy over companies' cash and cash equivalents has attracted more coverage in the business investment collected works. Business economics concepts propose conflicting theories on the correlation among money holding and business consequences. This analysis uses a section of businesses registered on the Moroccan Stock Exchange (MSE) in the 2007-2018 periods to empirically analyze the association among money and business results. This research shows that cash is positively linked to business results, adapting to overlooked heterogeneity and other characteristics of the business.

Keywords: Corporate finance cash holdings; corporate performance; Morocco Stock Exchange

INTRODUCTION

The core of every businesses strategies cash and cash equivalents play an important role. In fact the utmost mutual method for companies to secure liquidity to hold cash [1]. Cash assets let companies to react to unanticipated variations in money streams finance day-to-day tasks, longstanding investments and hedge. Since liquidity is a valued and planned asset [2], understanding liquidity strategy is an important topic if we are to strengthen and enhance our understanding of the value of the company, the investment business and financing options. and understand the effects for business cost-effectiveness, risk and economic growth . In this sense elaborate the effects of business cost-effectiveness, risk and economic development. These three interrelated facts helped to strengthen the value of cash in the corporate finance world.

First, in recent years, both US and foreign companies have experienced a drastic increase in liquidity reserves Cash reserves increased fivefold among non-financial corporations in the S&P 500 from 1996 to 2012, reaching \$ 1.334 billion [3]. Truong, and Veeraraghavan (2015) cite a report from the International Institute of Finance which estimates that companies in the US, Eurozone, UK and Japan have \$ 7.75 trillion in cash or cash equivalents, not only the absolute but also the relative values of cash reserves have grown steadily around the world. The authors also note that during the period 1989-2009, the median of the ratios between liquidity and total assets varied from 2.3% for New Zealand to 3.6% for Russia, 5.2% for Australia, 8.0% for Finland, 10.1% for Sweden, 13, 7% for Singapore and 16.6% for Hong Kong. We confirm this upward trend in cash holding ratios around the world by

focusing on two separate periods within a 20-year window using Compustat Global Data. Second, cash holdings are closely related to corporate financing options. Cash can be used as a financing tool to take advantage of profitable investment opportunities, to reduce the cost of obtaining external financing, to service debt during difficulties economic and acting as a resource in difficult times .Thirdly, cash and cash equivalents are also linked to the risk management policy. Liquidity could decrease the volatility of cash flows as a risk management tool and thus reduce financial risks that could affect a company's potential revenues. if cash is used to protect themselves from future shortages companies can avoid attractive investment opportunities, especially in the face of constant financing [4]

In support of this view Almeida. (2004) shed light on the vulnerability of cash reserves to cash flows when a company faces financial constraints. If an organization is financially constrained it may need to implement incremental cash flow savings to secure its future. Consequently, as a hedging strategy for recessions, the company can hold onto a large chunk of cash. In the cash reserve literature some scholars focus on why companies hold liquidity how companies use liquidity in business decisions and what the real implications of corporate liquidity options are. At least as far as Keynes (1936) is concerned, interest in corporate cash reserves goes back. Notably, there has been a growth in the literature since the mid-1990s, when cash became an active topic that is published year after year in liquidity research articles. Although a significant amount of work has been done, there is still a lack of research that collects and systematizes the available information on cash holding.

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Therefore understanding and mapping the liquidity debate of companies can provide a better understanding of the direction of research and help identify potential gaps. This study contributes to the literature on cash holding and corporate governance in several ways. First, our study contributes to literature by indicating that there are several factors that can immoderate the association between cash holding and performance. Second we focus on the largest emerging economy. The Morocco economy is still suffering from weak institutional structures, weak investor protection, and high ownership concentration, which makes it an ideal context to study the cash holdings and firm performance. Our study will extend the literature related to emerging economies by investigating the impact of cash holding policies on firm performance and how this relationship is contingent to other factors

LITERATURE REVIEW

Theoretical review

Tradeoff theory: Firms weigh minimal profits and the charge of cash holdings to increase shareholder income according to the tradeoff theory. The advantages of having money derive from Keynes's (1936) theory of the purpose of liquidity assets the reason for the cost of the transaction, the precautionary reason and the speculative reason. Holding cash helps companies prevent or save on operation costs to increase capitals or depending on the reason for the cost of the transaction. In relation to the reasons for the operation in the case of lower spot prices companies have only cash left to solve the higher opportunity cost [5]. Preventively cash and cash equivalents help companies finance their investments or projects if no other sources of funding are available. Furthermore, Ozkan and Ozkan (2004) point out that in order to solve the possibility of a higher cost of external financing, companies usually invest in liquid assets or can improve their liquidity level. Similarly, Opler (1999) and Bates and Kahle (2009) also provision this assertion. Speculative intent also suggests that financial performers clamp money or negotiable securities to benefit from possible interest rate increases.

Pecking order theory: The extension of the principle of hierarchical order to describe the determinants of cash [6] states that there is no optimum cash standard. It is used between reserved earnings and venture criteria as a buffer. The cash level will actually be the product of investment in and spending choices. According to this theory, due to data asymmetries, it is very expensive for companies to issue new shares. Therefore, companies finance their moneys mainly through inner capital, then through debt and lastly through own money. Businesses usage it to sponsor new manufacturing ventures, refund loans, recompense dividends, and ultimately raise cash while operating cash flow is high. Firms use their cash reserves when reserved earnings are inadequate to sponsorship new acquisitions and thus incur new debt.

Free cash flow theory: According to Jensen's (1986) Free Cash Flow Principle, managers tend to hold onto large amounts of money to maximize their control over the amount of total assets. The basic purpose to get unique rights in the company's venture and monetary decisions. These strategies can contribute to investment problems. Ferreira and Vilela (2004) argue that companies that have a close relationship with financial institutions and companies working in territories with greater security for investors retain lower levels of liquidity. The nature of managerial discretion and issues related to organizational spending in cash management support these conditions. Lastly it is stated that organization can collect

capital because shareholders forbids in making payments. This claim is supported by Drobetz and Grüniger (2007), who show that share disbursements are adversely linked to money reserves. This ensures that by cutting the share, management accumulates cash or makes no payments to stakeholders to retain the fund in business.

Empirical review

While business investment theories indicate that cash reserves can enhance or badly distress business effectiveness, there is only partial experimental effort on the association among cash and business effectiveness. Fresard (2010) uses annual company-wide data from COMPUSTAT tapes for the period 1973-2005 and notes that, when calculated using return on assets, companies that have more liquidity than their contestants succeed enriched efficiency and profitability. . It also showing that the companies' market share increases as a result of the companies' higher cash availability levels than that of their rivals. Finally, it indicates that the company's liquidity strategy requires substantial and valuable strategic dimension. The market of Pakistan, like many other emerging markets, is characterized by large and diversified family-controlled firms, Abdullah, Shah and Khan (2012). Mansoor, et al. (2011), reports that the relationship between company performance and three corporate governance indicators is positive, while company performance is not significantly related to CEO duality. Palazzo (2011) observes a positive relationship between profit on equity and cash using a sample of US corporations. The author attributes this result to the reason for keeping cash to save as a precaution. Emerging markets research also focuses on the association among money and business consequences. More recently, for example, Abushammala and Sulaiman (2014) analyzed the effects of cash on corporate success using a panel of 65 Jordan non-financial companies listed between 2000 and 2011. Their results indicate that there is a relationship positive between cash holding and profitability. As far as we know, no one has concentrated on the impact of cash on the financial results of Morocco companies. Abdullah, et al. (2012) uses accounting and market-based metrics to analyze the role of the ownership structure in the financial performance of businesses. The study finds a positive impact on the market-based measures of the business particularly Tobin's Q) when the ownership of associated holdings and block holdings is above the median values, indicating that such a structure of ownership can reduce the cost of the agency. A recent study by Masood and Shah (2014) found that the percentage of ownership of big 5 shareholders, share concentration and institutional shareholding are positively related, whereas director ownership and board size are negatively related to cash holding.

Statement of the problem

Most of the work already directed in advanced nation states as mentioned above but these consequences cannot be indiscriminate to unindustrialized less developing nation states such as Morocco, which have particular economic problems and trading conditions that can be affected by the political instability, commercial conditions, and instability, Security and antiextremism campaigns and energy crises. Therefore, this study focused on evaluating the factors influencing the adequate amount of money available from Moroccan companies in different sectors[7].

CONCEPTUAL FRAMEWORK OF THE STUDY

The following conceptual framework and research hypothesis can

be drawn from the above literature review (figure 1).

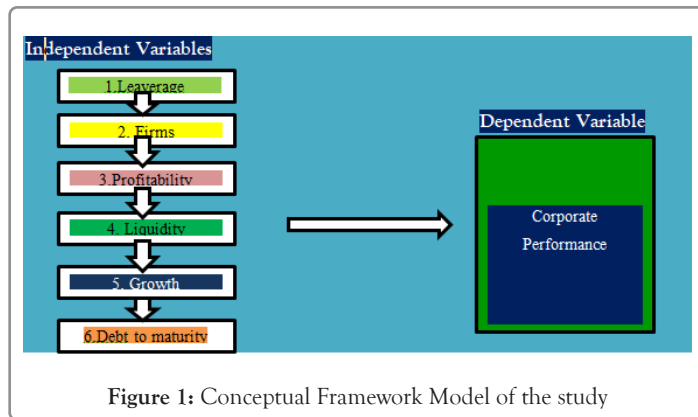


Figure 1: Conceptual Framework Model of the study

Specific objectives of the study

1. To find out either the Cash holding have a consequence on the corporate performance at Morocco city.
2. To find out either the leverage, Firm, Profitability, Liquidity, Growth and Debt to maturity have effects on the corporate performance at Morocco city.

Hypothesis

It is evident from the previous studies that most of the corporate finance theories have conflicting assumptions about the link between a company's cash and cash equivalents. Although the whereas the two notorious theory of corporate finance recommend affirmative association of cash reserves and financial results while agency theory forecasts a adverse association these studies tend to give mixed results. Modern experimental work [8] show that money has a affirmative influence on the commercial results of companies in developed countries and emerging markets, while Wang (2002) records a adverse correlation between cash and cash equivalents and company profitability.

The association among money and business effectiveness is positive and significant.

Model specification and estimation methodology

We estimate that corporate performance is correlated to cash and cash equivalents through the following regression model:

$$\text{Perform} = \alpha_0 + \alpha_1 \text{Leverage} + \alpha_2 \text{Firm} + \alpha_3 \text{Profitability} + \alpha_4 \text{Liquidity} + \alpha_5 \text{Growth} + \alpha_6 \text{Debt to equity} + v_i + vt + \epsilon$$

Where I index businesses, t years.

Provides intended meanings and guidance for all variables used in this article. Three components form the error term in equation (1). There is a specific company impact; v_t , a specific temporal impact that we monitor through the use of fictitious variables. In any of the cycles considered these fictitious variables vary over time but are identical for all societies and, therefore, capture the effects of the business cycle. This is an idiosyncratic word for mistake.

Dependent variables: We used two alternative proxies in this survey to calculate corporate performance (referred to in equation 1) namely, return on assets (ROA) and return on equity (ROE). While ROA is classified as net income (net income) divided by total assets at the end of the year, ROE is defined as total equity divided by net income. Cash reserves (denoted by liquidity), which are used to capture the impact of liquidity on business results, are

the independent variable. According to prior work of resources are estimated as cash and separated from total assets. We suppose an affirmative association among money and retributions based on the hypothesis.

Cash holdings: Cash reserves (represented by liquidity), which are used to internment the impact of liquidity on business effectiveness are the independent variable. Cash reserves are estimated based on prior work [8], Divided as cash and cash equivalents by total assets. We suppose an affirmative association among money and effectiveness.

Control variables: For a collection of company-specific characteristics that could be associated with business results our empirical model contains many supplementary elements to monitor.

Leverage: is major factor that has a substantial impact on maintaining cash is the size of the companies leverage as companies are forced to hold less cash due to economies of scale the pecking order hypothesis predicts a affirmative association among the dimensions of the company and the maintenance of business money as big businesses generally sort out improved than small ones. Ferreira and Vilela, however, have shown inconsistent domino effect that minor businesses facing greater development prospects and greater corporate threat prefer to keep additional money as raising capital in loan markets is very costly for businesses in some studies, no association was found between company size and cash equivalents. In addition, compared to other sectors, businesses functioning in big economical trades retain greater money investments and companies with broad admittance to the capital market increase capitals from foreign stakeholders. We assume the size of the company to have a optimistic or undesirable impact on cash.

Firm: profitability together with leverage and size of the business also affects the level of cash retention of the company. Due to the greater availability of cash flows from operations profitable companies are forced to have less cash [10]. The hierarchical directive theory predicts a affirmative relationship among productivity and the maintenance of cash as money is a product of supporting and speculation actions. Almeida et al. Approved the principle of hierarchical order; As the more profitable companies have better access at a lower cost to the external capital market, they reimbursement shares to stakeholders and pay off their liability. Therefore there is a standard affirmative association among holding money and productivity and we expect a significant optimistic or undesirable impact of productivity on holding money.

Profitability: in addition to cash and marketable securities having multiple financial assets on the balance sheet often affects optimal cash holding as they are considered an alternative to cash. Ferreira and Vilela have shown that liquid assets can be easily liquidated if the company faces a cash shortage and can be used as a substitute for cash. Therefore, multiple studies have found that cash and cash reserves have an inverse relationship. Zeyda badinezhad, Sarokolaei and Shoul (2013) found that conversion of corporeal resources distresses the sensitivity of cash flow to financing constraints.

Liquidity: businesses also take growth prospects into consideration when optimizing cash amounts. The companies with the greatest growth potential need to raise funds. Therefore, a higher degree of investment in liquid assets is expected to be carried away by companies with greater growth opportunities. In addition, higher-growth companies were found to have additional cash buffers [11]. Based on previous studies, we see a affirmative influence of the development outlook on money.

Growth: also have a huge effect on companies as a means of internally generated funds to carry higher levels of cash (Afza and Adnan 2007; Al-Najjar and Belghitar, 2011; discovered the optimistic relationship among money and liquid assets. Ogundipe et al. (2012) on the other hand, did not find a substantial connection between the company's cash flows and liquid assets. Therefore, we expect a negative relationship between cash flows and liquid assets. The volatility of cash flows means the risk of money; the greater the unpredictability, the greater the money share of the company to maintain .

Debt maturity: is also strongly influenced by the trend in dividend distribution. Dividend paying companies tend to be less volatile and have better entrance to the assets market, so the protective reason for holding cash is small for share disbursing businesses matched to share disbursing businesses. Al-Najjar and Belghitar (2011) and Ullah, Rehman, Saeed, and Zeb showed that share [6,10] disbursing businesses detained less cash. The adverse relationship among dividend payments and money was found in these studies. On the other hand, the optimistic association is also establish in certain former research.

METHODOLOGY OF THE STUDY

We use fixed impact regressions to analyze the degree of impact of cash on business results. The possible endogeneity of cash and cash equivalents resulting from unnoticed corporate heterogeneity is not accounted for in a combined Ordinary Least Square (OLS) (for example, manageability). The Hausman measurement assessment is used to determine whether the fixed effect method (FEM) or the random effect method (REM) is an econometric approach to our results. The extremely important Hausman X statistics (130.54, P value = 0.000) indicate efficient inconsistencies in the quantities among the two models, suggesting very important company-specific paraphernalia and their association with the dependent variable, demonstrating that FEM offers a specific of the stronger model than REM.

Data and descriptive statistics

The data used in this analysis are extracted from the yearly information for the period 2007-2018 of the distinct businesses registered on the Morocco Stock Exchange (CSE). Data is collected from five sectors, namely utilities, manufacturing, technology, oil and gas, and real estate; we used appropriate test group (depending on the regression variables to reduce the effect of possible outliers. We then compared the neat data with expressive figures published elsewhere. Lastly, afterward this run and calculation of the variables, we are left with a 42 year result panel still for our empirical study [15].

RESULTS

Descriptive statistics

Demonstrates expressive figures for the variables in the study. The aggregate average return on assets and the return on equity are respectively 5.93% (0.000%) and 21.25% (.1%). The average percentage of leverage of the companies in our sample is 35.56%. The ordinary dimensions of the companies in our study calculated from total assets, is approximately 898.58 billion compared to the control variables used in our regression model. The Profitability ratio is 577.95 % to review that how effectively companies are manage their working capital requirements for their effective performance.

The liquidity is measured as the capabilities of paying the liabilities of the companies which account about 10.05%. The growth rate of the companies is 308.94% that review these companies achieve dramatic growth from last ten or more years. While 5.51 % of the company's average dividend payout to shareholders form last ten or more years that review these companies are more concern about retain earnings than dividend payout of the shareholders for future considerations.

Correlation analysis

Listed the Pearson correlation coefficients between the variables. Leverage demonstrates a statistically insignificant relationship with company success as calculated from return on asset and return on equity. Business dimensions have a negative association with return on assets and return on equity when switching to control variables. Profitability is not considerably related with return on assets and return on equity. Liquidity has insignificant negative correlation with return on assets and return on equity. Growth ratio has strong positive association with return on assets and return on equity. Finally Debt to equity ratio has strong positive relationship with return on assets and return on equity.

Multivariate analysis

In the effects of our regression model (1) are calculated by a fixed effects estimator where the dependent variable is the return on assets. Return on assets regresses on cash holdings and a collection of control variables such as Leverage, Size, Profitability, Liquidity, growth and Debt to equity and a set of annual dummy variables.

First as demonstrated in, the approximate ratio of cash at the 1% level is positive and significant. This result supports our H1 hypothesis, which indicates that higher corporate efficiency correlates with large cash equivalents. That is large cash equivalents allow companies to avoid high external financing costs and offer companies the flexibility to take advantage of commercial business prospects. Therefore, this result is reliable with the claims of the pecking order and trade-off theory, but inconsistent with corporate agency theorie on the organization of maintaining liquidity. This consequence is also in line with the results of preceding experimental studies such as Fresard and Palazzo [12].

As for as regulator variables we find that at the 5% level the leverage ratio is negatively linked to the 5% level of company performance, indicating that using further liability resources in the investment organization is detrimental to the monetary enactment of the company. The size of the firm (fsize) is positive and significant, indicating that enormous businesses revel in cost-cutting of measure and face a less asymmetrical knowledge delinquent and therefore, they can get outside funding at lesser investment expenditures. The profitability measurement is substantially positive related to the company's production at traditional levels. This result is in line with Manawaduge et al (2011). Liquidity and growth are positively linked to the 5% level of company performance. Finally debt to equity coefficient ratio is positive and significant. The adjusted R2 suggests that .477% of the overall difference of the enactment (ROA) is elaborated through archetypal [13].

Robustness tests

As a measure of robustness, using the fixed effects estimator we estimate our regression model 1 with return on equity (ROE) as a dependent variable rather than return on assets. As can be seen in the table, the results show that once again the cash ratio is positive

and calculated correctly which implies that in line with our H1 hypothesis cash is positively correlated to business success (ROE). They show a trend similar to that of with respect to the control variables [14,15].

CONCLUSION

According to the irrelevant principle of Modigliani and Miller (1958), cash reserves are irrelevant in the ideal conditions of the capital market for the valuation of a company. Later progresses in business investment concepts, however, regarding business expenses, knowledge unevenness and organization expenses and several new economic constraints indicate that cash and cash equivalents can affect businesses performance in the presence of market friction. Using the fixed effects estimator, the study demonstrates to explore the relationship between cash and cash equivalents and results from a panel of listed companies in Morocco. During the period 2007-2018 the analysis uses the company's 10 year results. We report that holding cash has a positive effect on the success of companies in developing marketplaces, as seen in their complements in advanced nation states adjusting for involuntary corporate heterogeneity and other corporate features. Therefore, our study concludes that the phenomenon of cash and cash equivalents of Morocco listed companies is not give details by organization concept through the corporate finance theories Upcoming studies could extend this study by exploring how Morocco business supremacy observes distress companies' money management.

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