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THE EFFECTS OF COUNTRY-LEVEL GOVERNANCE AND CORPORATE CASH HOLDINGS: EVIDENCE FROM HOSPITALITY FIRMS IN ASEAN-5

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ABSTRACT

Despite the proliferation of research on cash holdings, the effects of external factors on corporate cash policy are little known. There are only a handful of studies have examined the relationship between issues related to institutional factors and cash holdings to date.–Many studies have examined the effects of internal, as opposed to external factors on firms' cash holdings behaviours. External factors, such as institutional environment have mostly been neglected in the extant literature, despite the fact that institutional factors have a direct effect on firms' behaviours and strategic choices. This paper inspects the relationships between country governance and corporate cash holdings. This paper presents a cross-country study using 1274 firm-year observations from 2001 to 2013 from public listed hospitality firms in ASEAN-5 to test the impact of corporate governance on cash holdings. The relationship between external governance mechanism and cash holdings behaviour of firms at country-level are studied. The results show positive and significant relationship between the country-level control of corruption, regulatory quality, the rule of law, and corporate liquidity. However, there is no significant relationship between country-level political stability, voice and accountability and corporate liquidity. Further investigation was carried out to test the effect of tourism crisis and corporate liquidity. The results shall benefit various parties including the legislators and policy makers. Not only it serves as a strategic deterrence, but also helps firms to gauge opportunities.

Contribution/Originality: This study contributes to a growing body of cash literature by demonstrating how corporate cash holdings are influenced by country governance. Although enhancing governance mechanisms at the firm level is important in alleviating agency problems within the firm, improving the governance mechanism at the country-level first can be equally important.

1. INTRODUCTION

The importance of corporate cash holdings coupled with the prevalence of substantial cash holdings has intrigued academics and industry practitioners in recent years. There is sizeable literature offering insights on the reason why firms hold cash. Although studies that have examined cash holdings are prolific, the knowledge regarding determinants of cash holdings remains inconclusive, often resulting in conflicting findings. Extant cash holdings literature has mainly emphasized on firm-level determinants such as firm characteristics (Opler *et al.*, 1999; Al-Najjar, 2013) and, corporate governance (Kusnadi and Wei, 2011). Despite that, findings on how these firm-level variables related to corporate cash holdings remain ambiguous.

Cash management is imperative to the hospitality industry. Past studies show that cash holdings are essential to hospitality firms since they operate in a highly competitive market in which financial and operational risks are high (Kim *et al.*, 2011; Kao, 2012). Cash holdings stimulate firm's acquisitions and business growth (Bates and Kahle, 2009) making them relevant to managers especially in the hospitality industry, who receive immense pressure from shareholders to give priority to the growth of the firm (Chathoth and Olsen, 2007). Hospitality firms face various challenges. Bharwani and Mathews (2012) did an extensive review of risk identification and analysis in the hospitality industry. The authors highlighted that asset illiquidity problem is one of the major challenges encountered by hospitality firms. Unlike others, hospitality firms tend to own more fixed assets such as land, buildings, and equipment compared to firms in other industries (Jang and Ryu, 2006). Hospitality may not be able to cope with constantly changing macroeconomic environment promptly as a result of high possession in a substantial proportion of illiquid asset. Furthermore, the hospitality firms are highly leveraged. Firms are exposed to high financial risk where there is a possibility of not being able to fulfil their financial obligations. Thus, cash holdings are a key issue for the hospitality industry.

Despite the proliferation of research on cash holdings and corporate governance, studies in the hospitality industry remain scant. Guillet and Mattila (2010) were one of the pioneers who examine the corporate governance in the hospitality industry. Based on their findings, well-governed hospitality firms perform better. In a more recent study, Dogru and Sirakaya-Turk (2017) highlighted the need for sound corporate governance mechanism in hotel firms. Their findings show that quality of corporate governance is negatively related to the cash holdings value. Furthermore, weak corporate governance mechanisms reduce the value of cash holdings regardless of degrees of financial constraints.

Although a few cash holdings studies in hospitality industry emerge in recent years, such as restaurants (Kim *et al.*, 2011; Mun and Jang, 2015) and hotels (Morais and Silva, 2013; Dogru and Sirakaya-Turk, 2017) the extent to which the quality of corporate governance affects corporate cash holdings in hospitality firms remain vague. Similar to mainstream corporate finance research, the majority of the literature focuses on the impact of internal, rather than the external factors on firms' cash holdings behaviours. Most literature emphasises more on managerially controllable variables. Although informative, these researches fall short of delineating a holistic view of corporate cash holdings across institutions. The impacts of external institutional factors on corporate cash holdings are often omitted in the existing literature. Despite the significant impact of institutional factors on corporate behaviours and strategic choices, especially in emerging economies, most studies conjectured that institutions only serve a "background" (Peng *et al.*, 2008). Therefore, existing literature may constitute a significant shortcoming since the institutions in emerging markets vary from the developed ones (De Clercq *et al.*, 2010). Institutions play a crucial role in shaping the firm strategies, practices and performance and affect the firm performance in emerging economies. Ignoring institutional environments in examining the determinants of cash holdings thus limit the understanding of corporate cash policy. Despite its significance, it is surprising to find that only a handful of research focuses on the institutional impact on hospitality firms. We attempt to reveal the effect of country governance on cash holdings and firm performance in hospitality firms by incorporating the institution-based view.

This study intends to narrow the gap in the current literature on corporate cash holdings by tackling the question based on the institutional perspective suggested by Peng *et al.* (2008). In response to Park and Jang (2014) call for research in expanding hospitality finance and managerial accounting research horizon, we included public listed hospitality firms based in ASEAN-5 and compared cash holdings behaviours among these five countries. Investor protection in Asia is weak in general (La Porta *et al.*, 2000). According to Claessens and Yurtoglu (2013) the Asian market is characterised as ineffective enforcement of shareholder rights, uncommon takeovers, and low analysts' following. Furthermore, large controlling shareholders are present in firms in emerging economies (Lee and Lee, 2009). Therefore, firms in the region are subject to less disciplinary pressure and monitoring from corporate governance mechanisms externally. As a result of ineffective enforcement, the costs of the agency are expected to be higher. The objective of this study is to bridge the gap in the literature using cross-countries sample of public listed hospitality firms. Although the corporate cash holdings literature is voluminous, existing literature predominantly examines at firm-level, such as firm characteristic and corporate governance variables in predicting corporate cash levels. This article aims to extend that work by demonstrating the presence and importance of subnational institutions and their influence on shaping the corporate cash policy of hospitality firms embedded within the context.

The remainder of this paper is organised as follows. Section 2 discusses the theoretical framework, while Section 3 presents a brief literature review and formulation of research hypotheses. The section is followed by Section 4 where the detailed methodology adopted in this study is presented. Empirical results and discussion are discussed in Section 5. Finally, Section 6 concludes the study and indicates its theoretical and practical implications.

2. THEORETICAL FRAMEWORK

Corporate cash holdings furnish a distinctive platform to test the agency implications emerging from managerial discretion (Jensen and Meckling, 1976). The agency theoretical framework suggests how corporate governance mechanism can align the interest of managers and shareholders to ensure that managers protect and maximise shareholders' wealth. Therefore, the suggested resolution tends to emphasise mainly on the interest alignment principal-agent relationship. However, traditional agency theory lacks the analytical capability to include the social embeddedness and legitimacy of corporate governance. It neglects the impacts of country governance mechanisms (Kwan and Lau, 2011; Filatotchev *et al.*, 2013). Therefore, it does not provide a complete view of the efficacy of corporate governance strategies under various institutional context (Kumar and Zattoni, 2013).

Corporate governance mechanisms consist of two major components namely, internal and external governance. The former examines the effect of firm-level governance mechanisms. The latter focuses on governance mechanisms at country-level. These include the legal regulations of the country, stock market listing requirement, and the guidelines of the business code of conduct (Aggarwal *et al.*, 2012). According to Narayan *et al.* (2015) the sound legal and institutional settings is considered as an essential platform that moulds governance characteristics at the firm level.

Although institutions have long been acknowledged to be salient determinants, prior corporate governance research widely relies on the explanations of agency theory and the resource-based view. However, institutional environments affect the behaviour and performance of firms (Liu *et al.*, 2012). Some of the studies covering country-level governance mechanisms find that countries with better shareholder rights and investor protection have access to broader financing choices from the established financial markets. For example, Claessens and Yurtoglu (2013) argues that country-level attributes are a better predictor in explaining the differences in corporate governance. Doidge *et al.* (2007) shows that firms with better governance practices can obtain better bargaining power in access to needed capital. Improved external governance thus eases the firm's access to external funds from the capital markets and enjoy better terms.

The institutional theory provides a helpful complementary lens to the agency theory. In contrast to the more classical agency theory and resource-based view, institutional theory recognises the importance of institutions (Zucker, 1987). The conceptual framework of institutional theory is much broader and deeper than agency theory. Institutional theory primarily focuses a set of formal and informal rules that affect business activity (North, 2005) as cited in Hearn 2013). Institutions affect not only the organisational routines but also help to determine the strategic choices made (Peng *et al.*, 2008). This theoretical approach is most suitable to explain corporate practices in contexts characterised by the market with higher ownership concentration. The institutional theory thus emerges as the prevailing theory to analyse corporate behaviour in emerging markets (Peng *et al.*, 2008). Therefore, by using institutions as the explanatory variables, the institution-based view defines firms' strategic choices and performance as linked to the economic, political, and social institutions they confront (Garrido *et al.*, 2014; Ma *et al.*, 2016).

3. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The impact of legal and institutional factors on corporate cash holdings emerge in recent years. Pinkowitz *et al.* (2003) and Dittmar *et al.* (2003) move beyond US firms by studying the determinants of firm cash holdings in cross nation settings. The result shows that the country-specific characteristics are significantly related to the cross-country variation in corporate cash holdings. The variables include corruption or country risk. The agency cost is higher in countries with high country risk and corruption due to higher agency costs. Lower quality governmental, financial and regulatory institutions could entice managers to divert corporate resources for private benefits. The following section will discuss on important governance attributes as identified in previous literature and development of the hypothesis to be tested in this study.

3.1. Voice and Accountability

Chen and Yang (2016) is one of the first to link democracy to corporate cash holdings. Apart from firm-level corporate governance, democracy is aimed to alleviate agency problems, especially at country-level. Democracy is a political system. There are two main players in the system. They are agent and principal. A company manager and governor serve as an agent at firm and country-level respectively, while shareholders (firm-level) and public citizens (country-level) are the principals. Agents are expected to act in the principals' best interest. The citizens are supposed to enjoy better benefits with a higher level of democracy. Similarly, the value of shareholders should be higher with better corporate governance. According to Chen and Yang (2016) corporate governance better reflects the external democratic setting with a higher level of democracy. In such cases, firms tend to comply with democratic procedures in their governance system. Therefore, there is a need for improvement of corporate governance. With good governance in place, the agency problems are expected to be less severe and thus fewer cash holdings. Thus, the following hypothesis is formulated:

Hypothesis 1. There is a negative relationship between Voice and Accountability and corporate cash holdings.

3.2. Government Effectiveness

The role of government has emerged as an important explanatory variable on corporate cash holdings in recent years (Chen *et al.*, 2014). A good government may be more effective in mitigating expropriation among firms. Caprio *et al.* (2013) take into consideration of protecting their assets from possible government expropriation when structuring the firm's assets. They argue that firms hold a lower proportion of their assets in the form of liquid assets in fear with political extraction. Thus, similar to Chen *et al.* (2014) a positive relationship between government quality and corporate cash holdings are expected in this study as well. When there is a high threat in political extraction, corporate insiders are likely to take measures to minimise expropriation by the government (Stulz, 2005). One of the steps includes holding less liquid assets such as cash in the firm. Since cash can be easily converted to personal benefits and harder to keep track, cash is subject to the higher possibility of expropriation compared to other assets such as fixed assets (Myers and Rajan, 1998). However, if a good government is willing to help to construct a more open and well-regulated banking sector, firms should be able to access to finance. Thus, the firm would not have to hold so much cash. This study examines how government quality helps to relieve financial constraints. The following hypothesis is thus formulated.

Hypothesis 2. Government effectiveness is negatively related to corporate cash holdings.

3.3. Rule of Law

According to Oh and Oetzel (2011) strong and established regulatory quality and the rule of law are an essential element of country governance. For example, the rule of law can alleviate the negative impact of major disasters. Regulation quality is defined based on Kaufmann and Kraay (2008). Similarly, regulatory quality used in this study is measured based on the capability of governments to devise and execute well-constructed policies and regulations. The rule of law relates to the degree to which citizens comply with the societal rules. It also refers to the effectiveness of contracts enforcement and protection of rights (La Porta *et al.*, 2000). On regulatory quality, governments often enact various types of regulations as precaution measures to disasters. Nevertheless, the efficacy of the measure depends on the adequacy of government implementation and enforcement. The latter is reflected in the rule of law. However, it is also the most challenging part of the regulatory process. Similar to agency theory, effective enforcement of the law is prerequisites to reducing agency costs. The following hypothesis is thus formulated:

Hypothesis 3. The rule of law has a positive effect on corporate cash holdings.

3.4. Political Stability

Another important governance attribute is the extent of political stability in a country. Cash and cash equivalents are the most liquid asset in a firm's balance sheet. It is arguably most susceptible to political exploitation (Myers and Rajan, 1998). The more unstable the political condition in a country would lead to more uncertainties associated with doing business, vice versa. Past studies such as (Hearn and Piesse, 2013) show that political instability can lead to avoidance or decline in the level of investment by firms. Firms tend to be risk averse and avoid investment during political turbulence. In another word, firm performs better under stable conditions. Since good governance is associated with the stability and accountability of the political state of a country, firm's tendency to invest and retain cash varies. Julio and Yook (2012) study corporate investments around the time of 248 national elections in 48 countries from 1980 to 2005. Given the political uncertainty during election years, they argue that an election can have an adverse outcome for a firm. Hence, there is a value on the option of waiting to invest. The authors report that firms reduce their investments, on average, by 4.8% during political uncertainty periods, after controlling for other factors. Based on the literature and the helping hand hypothesis of political uncertainty, we predict that a firm will hold more cash to take advantage of new government officials' initiatives. It is in the best interests of a firm to respond quickly to the new initiatives. Hence, a firm will hold more cash for precautionary and speculative purposes when anticipating political uncertainty. In contrast, the grabbing hand hypothesis of politician suggests that a new government official is likely to extract assets from the firm. Political uncertainty creates the risk of extraction. Among many assets, cash is the easiest to extract. Hence, it is a good strategy to hold less cash to minimise such a risk. In sum, we do not know if the helping or the grabbing hand hypothesis prevails. Hence, whether a firm will hold more cash under political uncertainty is an empirical question. Our testable hypotheses are the following.

Hypothesis 4. During a period of political uncertainty, a firm holds more cash.

3.5. Control of Corruption

Good governance enhances the performance of firms when it fosters the rule of law and sound control of corruption. Corporate governance weakens as government officials appropriate for private benefit. Corruption is important in shaping corporate finance practices. According to Du (2008) corruption is associated with more prevalent ownership concentration and poor corporate governance. In addition, as investor protection and corporate governance weaken, the agency problem will be more prevalent. Besides, Aggarwal *et al.* (2012) argue that the internal agency problems worsen as the level of political donation increase. Chen (2011) claim that levels of corruption are associated with cash holdings. They show that there is a need to hoard more cash to cushion future unexpected shocks in such countries again. In such circumstances, management may engage in corruption to secure investment projects. As the internal agency problem worsens, it is expected that corporate cash holdings will be larger especially in lower control of corruption nation.

Hypothesis 5. The level of control of corruption is negatively related to cash holdings.

3.6. Regulatory Quality

Another important external governance mechanism which affects the corporate behaviour is the regulatory quality of a country (Ngobo and Fouda, 2012). Regulatory quality refers to the ability of governments to enact and implement well-founded policies and regulations (Kaufmann *et al.*, 2011). It should be negatively related to the capacity to extract private benefits of control among managers (La Porta *et al.*, 2000). The presence of independent and strong institutions helps to improve the performance of the firm via open and equal competition. However, strong legal and judicial systems are a prerequisite to this assumption. It relies on the development of private sector which is not necessarily available in the emerging markets. According to Jalilian *et al.* (2007) regulatory quality significantly impacts economic and business performance. As the governance and firm performance improved with the degree of regulatory quality, firms are expected to have better entry to the financial market for external financing. There is less need to maintain internal funds which lead to the following hypothesis.

Hypothesis 6. There is a negative relationship between the level of regulatory quality and cash holdings.

4. METHODOLOGY

4.1. Sample and Data

The sample includes 1274 firm-year observations from the year 2001 to 2013 among public listed hospitality firms in ASEAN-5. Similar to previous studies, financial firms are removed from the sample as they are subject to different regulatory compliance requirement, in which might affect the results (Dittmar *et al.*, 2003). The sample hospitality sectors are selected based on the definition of hospitality provided by Pizam (2009). The hospitality industry is identified using the North American Industrial Classification System (NAICS) for various aspects of the hospitality industry. The codes are Arts, Entertainment and Recreation (71), Accommodation and Food Services (72), Accommodation (721), Food Services and Drinking Places (722). Firm-specific annual financial data are collected from the ISI Emerging Market database (EMIS).

4.2. Model Specification

We develop a set of hypotheses in section 3 given each dimension of country-level governance quality as captured by the Worldwide Governance Indicators (WGI). These hypotheses were also built on the evidence from Doidge *et al.* (2007) that highlight the significance of country-level institutional factors in the firm's ease of access to the capital markets. According to the authors, the external influence was found to be more influential than the firm-level governance. Therefore, each of the six hypotheses is formulated based on the expected link between these country governance quality measures and corporate cash holdings. We augment the cash model developed by Opler *et al.* (1999) by including the six dimension of governance as developed by Kaufmann *et al.* (2011). The model is formulated in Equation 1:

$$Y_{it} = \alpha_0 + \alpha_1 Y_{i,t-1} + \sum_{k=1} \beta_k X_{k,it} + \mu_i + \eta_t + \varepsilon_{it} \tag{1}$$

Where, Y_it is CASH which refers to the cash holdings of firm i in year t; α_0 is the constant; α_1 and β_k represents the estimated coefficients for the variables; X is a vector of independent variables used in the model that are based on extensive literature review of the cash holdings literature and control variables. The details and descriptions of these variables are summarized in the Table 2; μ_i is the unobserved firm fixed effects; η_t is the time-specific effects; ε_it represents the error term which is assumed to be independent and identically distributed (iid). Using the measures of cash holdings and firm attributes, Equation 2 and 3 can be written as follows:

$$CASH_{it} = \beta_0 + \alpha_1 CASH_{it-1} + \beta_1 Individual\ WGI\ Dimension + \beta_2 SIZE_{it} + \beta_3 CF + \beta_4 GRO_{it} + \beta_5 LEV_{it} + \beta_6 DIV_{it} + \beta_7 CAPEX_{it} + \beta_8 LIQ_{it} + \beta_9 PC_{it} + \mu_i + \eta_t + \varepsilon_{it} \tag{21}$$

$$CASH_{it} = \beta_0 + \alpha_1 CASH_{it-1} + \beta_1 WGI + \beta_2 SIZE_{it} + \beta_3 CF + \beta_4 GRO_{it} + \beta_5 LEV_{it} + \beta_6 DIV_{it} + \beta_7 CAPEX_{it} + \beta_8 LIQ_{it} + \beta_9 PC_{it} + \mu_i + \eta_t + \varepsilon_{it} \quad (3)$$

4.3. Dependent Variable

Cash ratio is measured following the mainstream cash literature, for instance: Opler *et al.* (1999); Ozkan and Ozkan (2004) and Dittmar *et al.* (2003) in constructing the variables. The measurement is adopted for future replication and comparability of literature purpose. Cash & cash equivalents (CASH) is used as an indicator for liquid assets; CASH is computed as the ratio of cash and equivalents divided by total assets has been employed extensively in the finance literature.

4.4. Independent Variables: Country Governance

The quality of country governance in this study is measured using WGI disseminated by the World Bank and developed by Kaufmann *et al.* (2011). WGI is predominantly used as a proxy for the quality of country governance. The WGI data are collected from some various established organisations and experts. The WGI project constructs aggregate indicators of six dimensions of governance. The dimensions include Control of Corruption; Rule of Law; Political Stability and Absence of Violence/Terrorism; Voice and Accountability; Government Effectiveness; and, Regulatory Quality. Each of the dimensions has a score ranging between −2.5 to 2.5. These indicators are known to have a significant impact on firm's success and performance (Ngobo and Fouda, 2012). The higher the scores indicate a better outcome. Each WGI dimension score is computed "based on hundreds of underlying individual indicators drawn from 30 organisations, based on responses from tens of thousands of citizens, enterprise managers, and experts" (Kaufmann and Kraay, 2008). According to Globerman and Shapiro (2002) the dimension-level measures will have less measurement error compared to individual items. These indicators can capture various facets of country-level political and governance mechanism. Thus it is a useful input to wider country-level governance and their effect on the cash holdings of hospitality firms in this study.

Consistent with prior research such as Globerman and Shapiro (2002) the correlation between these governance indicators are high. The strong correlations among these governance indicators would cause multicollinearity if we were to have all of them tested in a single regression. For this reason, each of the indicators is examined separately (Model (11). Besides, in line with Knudsen (2011) the individual indicators are combined to form an aggregate country governance index (denoted as WGI) as in Model (12). The aggregate index is constructed by adding six dimensions similar to Alon and Dwyer (2014); Knudsen (2011); Nguyen *et al.* (2015). Aggregate scores for the WGI measure fall in the range of -15 to 15. The summary descriptions of the variables and measurements are detailed in the Table 1.

Table-1. Variable measurements.

Variables	Acronym	Definition	Expected sign	References	Source of data
Dependent variable					
Cash ratio	CASH	The ratio of cash and cash equivalent divide by total assets.		Al-Najjar (2013); Chen (2008); Han and Qiu (2007); Kalcheva and Lins (2007); Ozkan and Ozkan (2004).	EMIS database
Independent variables					
Country governance quality variables					
Voice and accountability	VA	Measures the degree of ability of a country's citizens to take part in their government selection, freedom of expression, freedom of association, and a free media.	-	Chen and Yang (2016)	Kaufmann *et al.* (2011)
Government effectiveness	GE	Measures the quality of the civil service and the degree of its independence from political pressures, quality of public services, the quality of policy development and execution, and how credible the government is to commit to the policies.	+	Chen *et al.* (2014); Dudley and Zhang (2016)	Kaufmann *et al.* (2011)
Rule of Law	RL	Measures the extent to which agents have confidence in and abide by the rules of society. It includes the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	+	Chen and Yang (2016); Dudley and Zhang (2016)	Kaufmann *et al.* (2011)
Political stability and absence of violence	PS	Measures the tendency that the government will be destabilised or overthrown by unconstitutional or violent means, which include politically-motivated violence and terrorist activities.	-	Dudley and Zhang (2016)– not significant;	Kaufmann *et al.* (2011)
			+	Xu *et al.* (2016)	
Control of Corruption	CC	Measures the extent to which public power is exercised for private gain, including different forms of corruption, as well as "capture" of the state by elites and private interests.	-	Chen (2011); Dudley and Zhang (2016)	Kaufmann *et al.* (2011)
Regulatory quality	RQ	Measures the extent of the government to enact and execute well-constructed policies and regulations that allow and foster the development of private sector.	-	Dudley and Zhang (2016)	Kaufmann *et al.* (2011)

Aggregate national governance index	WGI	NGindex= Political Stability + Voice and Accountability + Government Effectiveness+ Regulatory Quality + Control of Corruption + Rule of Law. Each of the components of this index is built by Kaufmann *et al.* (2011).	-	Alon and Dwyer (2014); Hearn (2014); Knudsen (2011); Ngobo and Fouda (2012); Nguyen *et al.* (2015); Saona and San (2016)	Kaufmann *et al.* (2011); Knudsen (2011); Nguyen *et al.* (2015); Ho *et al.* (2016)
Control variables					
Size	SIZE	Natural logarithm of total assets	-	Al-Najjar (2013); Ferreira and Vilela (2004); Opler *et al.* (1999)	EMIS database
Cash flow	CF	The earnings before tax plus depreciation & amortisation scaled by total assets.	+	Al-Najjar (2013); Guney *et al.* (2007)	EMIS database
Net working capital	NWC	Current assets minus current liabilities divided by total assets.	+	Guney *et al.* (2007)	EMIS database
			-	Al-Najjar (2015); Ferreira and Vilela (2004)	EMIS database
Capital expenditures	CAPEX	The ratio of capital expenditure to total assets.	-	Chen (2008); Guney *et al.* (2007)	EMIS database
Leverage	LEV	The ratio of total liabilities to total assets.	-	Al-Najjar (2015); Opler *et al.* (1999); Ozkan and Ozkan (2004)	EMIS database
Dividend	DIV	The dummy variable set equal to one in years in which a firm pays common dividends, and zero otherwise.	-	Opler *et al.* (1999)	EMIS database
Growth opportunities	GRO	Proxied using market-to-book ratio, where the market value of assets is divided by book value of assets.	+	Al-Najjar (2015); Opler *et al.* (1999); Ozkan and Ozkan (2004)	EMIS database
Private Credit	PC	The ratio of claims on the private sector by commercial banks and other financial institutions to GDP.		Chen (2011); Dittmar *et al.* (2003); Kalcheva and Lins (2007)	Worldbank

5. EMPIRICAL RESULTS AND DISCUSSION

5.1. Descriptive Statistics

Table 2 shows the summary statistics for cash holdings and the variables. Country governance variables include the indexes of Voice and Accountability (VA), Government Effectiveness (GE), Rule of Law (RL), Political Stability & Absence of Violence (PS), Control of Corruption (CC), and Regulatory Quality, as developed by Kaufmann *et al.* (2011). The values for each of these six indexes range from -2.5 to 2.5. Higher values are corresponding to better governance outcomes. Panel A summarizes the statistics description for the variables used in this study. Panel B shows the correlation coefficients details for the variables. Cash holdings (CASH) is the ratio of total cash and cash equivalent to total assets. Cash flow (CF) is the earnings before tax plus depreciation & amortisation scared by total assets. Net working capital (NWC) is measured as current assets deduct current liabilities divided by total assets.

Table-2. Summary Statistics.

Panel A: Summary statistics for the aggregate sample of ASEAN-5					
Variable	**Mean**	**Std. Dev.**	**Min**	**Max**	**Observations**
Dependent variable					
CASH	0.133	0.153	0.0012	0.875	1140
LNCASH	-2.685	1.287	-6.728	-0.134	1140
Explanatory variables					
VA	-0.18	0.242	-0.7	0.5	1194
GE	1.087	0.982	-0.5	2.4	1194
RL	0.601	0.919	-1	1.8	1194
PS	0.0554	1.076	-2.1	1.3	1194
CC	0.721	1.276	-1.1	2.4	1198
RQ	0.829	0.892	-0.8	2.1	1194
Control variables					
SIZE	4.962	1.911	-0.428	9.989	1140
CF	0.0268	0.204	-2.59	2.29	1140
NWC	2.238	65.8	-3.994	2220	1140
CAPEX	0.0579	0.109	-1.112	1.027	1157
LEV	0.45	0.253	0	2.998	1140
DIV	0.623	0.485	0	1	1153
GRO	0.919	1.16	-9.06	12.15	1137
Panel B: Summary Statistics by country					
Country	**Malaysia**	**Singapore**	**Thailand**	**Indonesia**	**Philippines**
Observations	247	494	208	208	117
CASH	0.0881	0.187	0.072	0.105	0.162
SIZE	6.181	5.240	4.751	3.583	3.695
CF	0.0136	0.0295	0.038	0.0226	0.0295
NWC	0.0850	0.265	0.041	0.101	21.16
CAPEX	0.0361	0.0537	0.076	0.0789	0.0553
LEV	0.431	0.480	0.391	0.531	0.364
DIV	0.740	0.702	0.718	0.313	0.345
GRO	0.539	0.737	1.150	1.140	1.638
VA	-0.406	-0.109	-0.237	-0.120	0
PS	0.208	1.156	-0.858	-1.121	-1.454
GE	1.098	2.171	0.300	-0.287	-0.0154
RQ	0.523	1.868	0.268	-0.368	-0.108
RL	0.500	1.627	0.00340	-0.691	-0.492
CC	0.248	2.244	-0.270	-0.760	-0.631

Capital expenditure (CAPEX) is the ratio of capital expenditure to total assets. Leverage (LEV) is the ratio of total liabilities to total assets. Dividend (DIV) is the dummy variable which is set to be equal to 1 in years in which a firm pays common dividends, otherwise 0. Growth Opportunities (GRO) is proxied using market-to-book ratio. *, **, and *** indicate statistical significance level at the 10%, 5%, and 1% respectively. This table presents the descriptive statistics based on aggregate samples. The variables are as defined in the Table 2. Financial data are downloaded from Emerging Market Information System (EMIS) database. Worldwide Governance Indicators (WGI) are constructed by Kaufmann *et al.* (2011) and available from World Bank database.

5.2. Country Governance and Cash Holdings

Table 3 reports empirical results from estimating Equation 2. All tested models are estimated using the Arellano and Bond dynamic panel. Two-step system GMM method is estimated using the Stata "xtabond2" command to control potential sources of endogeneity. Hansen test and Arellano-Bond test for serial correlation had been carried out, and the p-values are reported. T-statistics are reported in the parentheses. Whereas the significance level is indicated by *, ** and *** with 10%, 5% and 1% significance levels respectively. Z-Statistics are shown in parentheses. Based on the F-statistics, the explanatory variables are jointly significant in all regression models. Instrument validity is also carried out. It shows significant results when it is regressed on the instrument variables. The Sargan test of over-identification on restrictions also confirms that the instruments are valid. Similarly, Hausman test is carried out to test the non-significance of these instruments by running the residuals from a regression on all the variables of the model.

Table 4 shows the relationship of corporate cash holdings to the quality of country governance. The findings are consistent with previous studies (Opler *et al.*, 1999; Dittmar *et al.*, 2003) where there is a positive relationship between firm size and cash holdings level in low control of corruption countries. However, such impact is not observed in countries with higher control of corruption. The results imply that higher cash holdings are more prevalent in countries with lower quality of governance. Contrarily, firms hold lesser cash in the high quality of governance countries as they have better access to the financial markets. This effect is elevated even more with higher control of corruption.

Next, there is a positive relationship between growth opportunities and level of cash. It indicates greater need to hold cash as firms have greater growth opportunities. On the other hand, cash flow plays a minimal role as cash holdings determinants in countries with low quality of country governance. Nevertheless, it has an adverse impact on cash in countries with a higher quality of country governance (Dittmar *et al.*, 2003).

Private credit, on the other hand, is a proxy for the depth of the debt market, is positively related to corporate cash holdings in countries with the low quality of country governance. When a country has good governance quality, firms tend to hold more cash. The results imply the possibility that firms tend to maintain higher cash reserves when the financial market is more accessible and developed. There is a negative relationship between leverage and corporate cash holdings. Leverage may serve as a substitute. Dividend-paying firms appear to hold more cash in countries with the low quality of country governance, vice versa. The coefficient sign of net working capital is negative, thus confirming that it serves as a cash substitute.

5.3. Value of Cash Holdings

Table 5 reports the association of firm value to cash holdings. It also presents the findings on the influence of the country governance quality on the relationship. Models are adopted following Dittmar and Mahrt-Smith (2007) with the addition of the country governance factors. In column 2 and 3, a comparison between a country with high vs low country governance is made. When the interaction variable such as VA, GE, RL, PS, CC, RQ, and aggregate WGI is included, the coefficient of CASH becomes negative. Based on the results, it implies enhancement of firm value depends on the quality of country governance. Notably, holding excessive cash may hurt the firm value. However, effective country governance may alleviate the negative effect of excess cash especially when country governance is sufficiently effective (HGOVERN).

Table-3. Results of dynamic panel GMM estimations. Dependent variable: lncash.

Variables	1	2	3	4	5	6	7
lncash							
L.lncash	0.471***	0.469***	0.468***	0.473***	0.471***	0.469***	0.472***
size	-0.0905***	-0.0825***	-0.0917***	-0.0739***	-0.0895***	-0.0776***	-0.0751***
cf	0.149***	0.174***	0.168***	0.163***	0.162***	0.169***	0.165***
nwc	0.000423***	0.000439***	0.000422***	0.000441***	0.000420***	0.000442***	0.000437***
capex	-0.397***	-0.334***	-0.378***	-0.310***	-0.347***	-0.328***	-0.325***
lev	-0.307***	-0.282***	-0.283***	-0.302***	-0.309***	-0.291***	-0.289***
div	-0.037	-0.0388	-0.0402*	-0.0394	-0.0338	-0.0411	-0.0435*
gro	-0.0119**	-0.0130**	-0.00953	-0.0151***	-0.00856	-0.0130**	-0.0135**
va	-0.115***						
ge		-0.0778*					
rl			0.0498				
ps				-0.141***			
cc					0.0341		
rq						-0.109**	
wgi							-0.0225***
Constant	-0.824***	-0.773***	-0.857***	-0.865***	-0.850***	-0.788***	-0.810***
Observations	1,023	1,023	1,023	1,023	1,023	1,023	1,023
Number of code	98	98	98	98	98	98	98
F-stastistics	33.785***	32.645***	33.134***	34.398***	33.081***	33.737***	34.421***
Wald Chi-Squared statistics	15213.42***	11502.67***	16026.92***	13633.5***	14814.02***	14694.08***	14475.97***
Sargan test of overidentifying restrictions	81.1453	81.24984	80.90933	79.4206	80.23118	79.68663	80.11559
	(0.3220)	(0.3191)	(0.3286)	(0.3717)	(0.3479)	(0.3638)	(0.3513)
Arrelano-bond test for AR(1)	-4.6989	-4.6969	-4.6412	-4.6448	-4.5888	-4.6219	-4.6341
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Arrelano-bond test for AR(2)	-0.53376	-0.58462	-0.43338	-0.47146	-0.46579	-0.43229	-0.46271
	(0.5935)	(0.5588)	(0.6647)	(0.6373)	(0.6414)	(0.6655)	(0.6436)

*** p<0.01, ** p<0.05, * p<0.1.

Table-4. Impact of High Quality of Country Governance on Cash Holdings.

Variables	1	2	3	4	5	6	7
DV= lncash							
L.lncash	0.447***	0.457***	0.440***	0.440***	0.445***	0.443***	0.445***
size	-0.0681***	-0.0699***	-0.0739***	-0.0435**	-0.0742***	-0.0599***	-0.0613***
cf	0.133***	0.162***	0.148***	0.166***	0.124***	0.142***	0.132***
nwc	0.000451***	0.000479***	0.000461***	0.000494***	0.000444***	0.000475***	0.000470***
capex	-0.322***	-0.306***	-0.367***	-0.265***	-0.298***	-0.244***	-0.303***
lev	-0.358***	-0.266***	-0.320***	-0.347***	-0.368***	-0.323***	-0.322***
div	-0.0488*	-0.0312	-0.0254	-0.0148	-0.00450	-0.0221	-0.0161
gro	-0.0185***	-0.0166***	-0.0132**	-0.0244***	-0.00948*	-0.0168***	-0.0176***
pc	-0.00793***	-0.00811***	-0.0103***	-0.00972***	-0.00939***	-0.00980***	-0.00947***
va	-0.538***	0.113*	0.216***	-0.154***	0.187***	0.0697	-0.00700
hva	0.234***						
hge		-0.256**					
hrl			-0.0408				
hps				0.103			
hcc					-0.153***		
hrq						-0.0301	
hgovern							0.103
Constant	-0.450***	-0.231**	-0.194**	-0.312***	-0.227***	-0.226***	-0.215***
Observations	1,023	1,023	1,023	1,023	1,023	1,023	1,023
Number of code	98	98	98	98	98	98	98
z-statistics in parentheses							

*** p<0.01, ** p<0.05, * p<0.1.

There is a need to hold a higher level of cash in less developed markets. However, excess cash may harm the value of the firm. This can be overcome by better country governance. Similar findings can be seen in Column 3. In this case, a dummy variable of H is used to measure each governance components. The coefficient of CASH reported negative and significant. A significant and positive coefficient is also observed from the interaction variable HGOVERN x CASH.

In a nutshell, the results show that cash may harm firm value in countries with low country governance. However, such adverse effect can be alleviated when governance is enhanced and improved. On the other hand, excess cash contributes to the firm value in countries with high country governance. Results support the formulated hypotheses. In addition, a robustness test is performed. Results are consistent with the previous models.

5.4. Robustness Check and Summary

Based on Petersen (2009) panel data analysis should adjust to the standard errors for possible dependence in the residuals. If the residuals in the panel data sets are correlated across firms or across time, then the standard errors estimated can be biased. As such, in the effort to provide support to the robustness of results for this study, different adjusted standard errors are compared to consider the possibility of the existence of time and the firm effects. As shown Table 5, the different adjusted standard errors are not widely deviated among each other. This is one of the criteria indicating a large robustness of results. White corrected standard errors and panel corrected standard errors are included for comparison purposes. The findings are similar to the results presented in earlier sections.

Table-5. Robustness Check.

	(1)	(2)	(3)	(4)
Variables	**White**	**GLS**	**GLS-cluster firm**	**FGLS**
VA	-0.321	-0.385	-0.385	-1.133
PS	0.129	0.154	0.154	-0.0412**
GE	0.0481	-0.164*	-0.164	-0.257*
RQ	-0.118*	-0.0138*	-0.0138*	0.472
RL	0.855	0.855	0.855	0.932
CC	-0.0309**	-0.146*	-0.146*	-0.618*
Crisis	-0.647	-0.966	-0.966	-0.902
crisisxva	-0.0406*	-0.101**	-0.101*	0.0208
crisisxps	-0.233	-0.277	-0.277	-0.326
crisisxge	0.788	0.969	0.969	0.567
crisisxrq	-0.221*	-0.486*	-0.486*	-0.893*
crisisxrl	-0.0896	-0.171	-0.171	0.660
crisisxcc	-0.219*	-0.125*	-0.125*	-0.118*
Constant	-5.405	-2.702	-2.702	-6.609**

Robust standard errors in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$.

6. CONCLUSION

Our research has two major contributions. Firstly, this study contributes to existing cash literature by looking beyond commonly used determinants. We integrate the cash literature and institution-based views to study the factors that influence a firm's tendency to hoard cash. Through this analysis, we contribute to the emerging literature that uses external governance mechanism variables, such as government quality and cash holdings (Chen *et al.*, 2014); democracy and law (Chen and Yang, 2016); securities legislation and control of corruption (Chen, 2011) to uncover determinants of cash holdings. Like these studies, we include six dimensions of the country governance quality (Kaufmann *et al.*, 2011) as which include: The regulatory quality, the rule of law, control of corruption, government effectiveness, voice and accountability; political stability and absence of violence & terrorism. Secondly, this study contributes further evidence that country-level governance is an essential factor which affects the corporate cash policy, particularly in the hospitality industry. With this analysis, this study provides additional insight into cash literature by including country-level governance as defined by Kaufmann *et al.* (2011) to uncover the determinants of cash holdings. The variables include Voice and accountability; government effectiveness; control of corruption; political stability & absence of violence or terrorism; the rule of law; and, the regulatory quality. The results of this study will serve as a guide for researchers, practitioners and policymakers. Firms determine the level of cash holdings based on their degrees of financial constraints and the quality of corporate governance mechanisms. The adopted business model can further affect the perceived value of cash holdings. Hospitality firms can better devise cash management and cash holding strategies depending on their investment models. The results can potentially guide hotel firms' decision either via expansion through franchising or corporate-owned divisions.

This study has several limitations. Since this study is limited to public firms in the hospitality industry, the results cannot be generalised to the entire hospitality industry. Future research could use samples from private firms to study the corporate cash holdings strategies and its impact on firm performance, which will help improve the generalizability of this study.

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