

The Effect of Corporate Governance on the Relationship between Uncertainty in Macroeconomics and Cash Holdings¹

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Research Paper

INTRODUCTION

This study aims to investigate corporate governance's effect on the relationship between macroeconomic uncertainty and cash retention in companies listed on the Tehran Stock Exchange. In this study, the effect of three macroeconomic uncertainty variables; Economic growth rate fluctuations, inflation rate fluctuations, and exchange rate fluctuations in cash maintenance have been studied and corporate governance has been used as a moderating variable.

MATERIALS AND METHODS

This research is applied in terms of purpose because it is used by a wide range of users. And its method is correlational and because it examines the cause and effect relationships between research variables, it is of the causal type after the occurrence the purpose of estimating

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research models is to test the hypotheses of a sample of companies listed on the Tehran Stock Exchange is examined. In this study, multivariate linear regression has been used to analyze the data. For this purpose, 180 companies were selected during the period from 2012 to 2018. Then in Excel software, analysis and estimation of models and testing of research hypothesis were performed using eviews 8, stata12 and spss 22 software.

RESULTS AND DISCUSSION

The results indicate that according to the first hypothesis, with increasing economic uncertainty based on the economic growth rate, the amount of cash retention in companies decreases, and with increasing economic uncertainty based on the exchange rate, the amount of cash retention in companies decreases. Given that the increase in economic growth rate fluctuations and exchange rate fluctuations in the first main hypothesis reduces the retention of cash in companies, managers and policymakers of companies are advised to adopt procedures and policies that can reduce the effects of uncertainty. In this way, they can keep the cash of the companies at a reasonable level. The results of the second hypothesis show that the presence of strong corporate governance mechanisms has a positive effect on the relationship between inflation rate and cash retention, and also the presence of strong corporate governance mechanisms has a positive effect on the relationship between exchange rate and cash retention. It is suggested that in order not to be misused due to the storage of excess cash in the company, companies should maintain current assets with high liquidity capacity to be able to pay debts and, if necessary, finance through debt and the level of retention of funds Cash should be used as a useful mechanism in financial reporting and its effect in creating a margin of confidence for shareholders and creditors regarding the proper use of company resources.

CONCLUSION

The estimation results of model (1) for the relationship between the economic growth rate and cash retention showed that there is a significant and negative relationship between the economic growth rate and cash retention that is, with the increase in economic uncertainty based on the economic growth rate, the amount of cash retention in companies decreases. , so the hypothesis was accepted. And the relationship between inflation rate cash retention showed no significant relationship between inflation rate and cash retention, so the research was rejected. Also, for the relationship between the exchange rate and cash retention, it showed that there is a significant and negative relationship between the growth rate of the currency and cash retention, that is, with the increase in economic uncertainty based on the exchange rate, the amount of cash retention in companies decreases, so the hypothesis was accepted.

The estimation results of model (2) for the effect of corporate governance on the relationship between economic growth rate and cash retention showed that corporate governance does not have a significant effect on the relationship between economic growth rate and cash retention, so the hypothesis was rejected. And for the effect of corporate governance on the relationship between inflation rate and cash retention, showed that corporate governance has a significant and positive effect on the relationship between inflation rate and cash retention, that is, the presence of strong corporate governance mechanisms has a positive effect on the relationship between inflation rate and cash retention, so the hypothesis was accepted. And also for the hypothesis of the effect of corporate governance on the relationship between exchange rate and cash retention, Corporate governance has a significant and positive effect on the relationship between exchange rate and cash retention, that is, the presence of strong corporate governance mechanisms has a positive effect on

the relationship between exchange rate and cash retention, so the hypothesis was accepted.

Keywords: Corporate Governance, Macroeconomic Uncertainty, Cash Holdings.

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