UNIVERSITI TEKNOLOGI MARA

CASH HOLDINGS, LEVERAGE, OWNERSHIP CONCENTRATION AND BOARD INDEPENDENCE: EVIDENCE FROM MALAYSIA

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Dissertation submitted in partial fulfillment of the requirements for the degree of Master of Accountancy

Faculty of Accountancy

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Candidate’s Declaration

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non academic institution for any other degree or qualification.

In the event that my thesis found to violate the conditions mentioned above, I voluntarily waive the right of conferment of my degree and agree to be subjected to the disciplinary rules and regulations of Universiti Teknologi MARA.

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ABSTRACT

The study aims to investigate the relationship between cash holdings and leverage of Malaysian companies. The main objective of this study is to investigate the relationship between cash holdings and leverage in the context of Malaysian firms. The present study also attempts to compare the cash holdings between companies that have low level of ownership concentration and high level of board independence (good corporate governance) and companies that have high level of ownership concentration and low level of board independence (poor corporate governance). Leverage, cash flow variability, liquidity, growth, size and capital expenditure are used as corporate cash holdings determinants. The final sample of the study consists of 276 companies with 875 observations from six main industries on the Main Board of Bursa Malaysia over a period of four years (2002 to 2005). Linear regression analysis was used to test the relationship between cash holdings and leverage.

The results show that there are significant negative relationships between cash holdings and leverage with or without control variables. In addition, this study also found that the companies that have poor corporate governance hold a high level of cash compared to companies that practice good corporate governance. Overall it can be concluded; leverage acts as a substitute of cash holdings and play important part of cash management policies.
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