

UNIVERSITI TEKNOLOGI MARA

**EFFECT OF CASH HOLDING AND
EARNING QUALITY TOWARDS
FIRM'S EFFICIENCY**

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Thesis submitted in fulfillment
of the requirements for degree of
Master of Science in Business Management

Faculty of Business Management

December 2018

AUTHOR'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 acknowledge as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

Imperfect capital market highlights the important to have cash within a firm as cash serves as a cushion for any unexpected event in a future. However, failure in utilizing the cash within the firms may lead to agency conflict which consequently, would influence the firm's value to drop. An investor is attracted to invest in that particular company and eventually will threaten the position of the manager. In turn, this situation may cause the manager to change some of the figures of earning in the financial report throughout the reporting period that will lead to poor earning quality in order for the manager to protect the position. The earning quality will influence the efficiency of the firms as the financial report will reflect the actual economic activity. Changes in financial report may lead to misallocation of resources and directly affect the efficiency of the firms. Therefore, this study employs two-stage regression (non-parametric and parametric method) of panel data from year 2001 to 2014 in order to assess the effect of cash holding and earning quality towards firm's efficiency by sector in Malaysia as different sector will have different financial structure. Some approaches such as Accrual Quality and Data Envelopment Analysis (DEA) are used in the first stage of the regression (non-parametric). Generally, the findings showed that cash holding has no effect towards efficiency of firm in most sectors. On the other hand, it is found that macroeconomic variables do have strong impact towards the efficiency of firm in most sectors. Overall, each sector shows a different outcome in which it proves that each sector has different financial backgrounds.

ACKNOWLEDGEMENT

I would like to express my deepest grateful to one and only the Most Gracious and the Most Merciful Allah S.W.T.. Praise to Allah S.W.T., I am able to complete this thesis with His blessing, strength and health that given to me.

I take this opportunity to express my profound gratitude and deep regards especially to my main supervisor, Assoc. Prof. Dr. Imbarine Bujang, for his supervision and guidance throughout this study. From the beginning of this study, he gave his invaluable help and advice to me through a useful comment and recommendations that I needed to choose the right path and direction to complete my thesis.

In addition, my appreciation also goes to my co-supervisor, Dr. Taufik Abd Hakim, for his sharing knowledge and valuable guidance in completing this thesis. Not forgotten, I would like to thank Puan Flicia Rimin and Cik Anastasia Harbi, lecturers Faculty of Business Management in Finance, for their support, knowledge and thoughtful opinion regarding my research.

This thesis would not have been possible without the support from my beloved parents, Haji Supar bin Yussof and _____ and also to all my family members for their endless love, prayers, and encouragement to me in this long journey. Saving the most important for last, I wish to give my heartfelt thanks to my husband, Ahmad Nasruddin Ahmed Shahanuddin, whose unconditional love, patience, and continual support of my academic endeavours over the past several years enabled me to complete this thesis.

Last but not least, I would like to thank my fellow friends, especially Dr Debra Toria Anak Nipo, Ahmad Fauze Abdul Hamit, Dr Abdul Aziz Lai, Nurziya Muzzawer, Diana Baharuddin, Nurul Nazurah Atu and Shal Faida Hamzah for their direct and indirect contribution in completing this entire thesis.

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