

# Corporate cash holdings: financial determinants and corporate governance\*

Nicolas Couderc<sup>§</sup>

Preliminary draft - Comments welcome.

## Abstract

This paper investigates the determinants and consequences of the corporate cash holdings. We use firm-level data of 4,515 firms in Canada, France, Germany, Great-Britain and the USA over the period 1989-2002. We provide two sets of estimations of corporate cash holdings determinants. The first one shows that financial factors, as well as institutional factors, influence corporate cash holdings. The second one, based upon a dynamic panel data estimation, tends to support the hypothesis of implicit cash targets. Finally, investigating the consequences of “excessive” cash holdings, we implement a bivariate probit model to take into account the fact that cash balances levels and the future performance of these firms are probably jointly determined. We conclude that excessive cash holdings lead to poor firm performances.

*Keywords:* Corporate cash holdings, corporate governance, dynamic panel data, bivariate probit model.

*JEL Classification:* C33, G32.

---

\*Financial support from the Alliance Program is acknowledged. Bureau Van Dijk (Paris) provided us the Osiris database. We would like to thank Olivier Bertrand, Gunther Capelle-Blancard, Thérèse Chevallier, David Jestaz and Pluvia Zuniga for their valuable comments. All remaining errors are mine.

<sup>§</sup>TEAM-CNRS. University of Paris 1 Panthéon-Sorbonne, 106-112 boulevard de l'Hôpital, F-75647 Paris Cedex 13, France. Mail : [couderc@univ-paris1.fr](mailto:couderc@univ-paris1.fr)