

## DETERMINANTS OF FIRM'S CASH HOLDING

**Alba Kruja**

University of Shkodra "Luigj Gurakuqi", Albania. Email: alba\_kruja@hotmail.com

### **Abstract**

Cash holding, an important asset on firms' balance sheets, receives much attention from companies, investors, and analysts. The credit crunch that started in late 2007 has had a massive and sustained impact. Why firms hold cash? Is there an optimal level of liquid assets? What factors influence these choices? How cash holdings affect firm value and performance? Indeed, from funding day-to-day operations to financing long-run investment, internal funds represent the simple most important source of financing. This research investigates the determinants of cash holding in non-financial firms of Shkodra region across different firm sizes and industries. Furthermore the data set for the period of 2013-2014 for the firm size, log of total assets, EBIT, percentage of sales, working capital, liquidity (current ratio), and leverage has been taken to study the impact of these on level of corporate cash holdings, with a total of 30 firms which represents 60 firm-year observations. The explained variable in this study is the cash holdings (CASH) defined as the ratio of cash to total assets. This value determines the ability of the firm to pay its operating costs and repay debt obligations. It was used the firm size (SIZE) as a proxy for its ability to access capital markets. It was computed as the natural logarithm of total assets. The leverage (LEV) has been measured by the ratio of debt to shareholder equity. It was used the ratio of cash flow to net assets (CF/Net Assets) to test the relationship between cash flow and cash holdings. Cash flow is defined as net operational income plus depreciation. Also it was used net working capital to net assets ratio as a proxy for liquid asset substitutes (NWC). The firm's cash holding strategy provides a trade-off between the costs of holding cash and spending the cash. The evidence provides strong support that variables significantly affect the cash holdings decisions of non-financial firms. Indeed, our findings offer stimulating insights on the factors that determine the firm's cash holding. These findings may be beneficial for financial managers, investors and consultants.

**Keywords:** *Cash holdings, financing constraints, liquidity, leverage, firm size, cash flow*