# “Corporate cash holding and firm value in Saudi listed non-financial firms: The moderating role of financial expertise of the audit committee”


| | |
|---|---|
| **AUTHORS** | Abdulwahid Ahmed Hashed Abdullah |



| | |
|---|---|
| **ARTICLE INFO** | Abdulwahid Ahmed Hashed Abdullah (2025). Corporate cash holding and firm value in Saudi listed non-financial firms: The moderating role of financial expertise of the audit committee. *Investment Management and Financial Innovations*, *22*(2), 313-322. doi:10.21511/imfi.22(2).2025.25 |
| **DOI** | http://dx.doi.org/10.21511/imfi.22(2).2025.25 |
| **RELEASED ON** | Wednesday, 28 May 2025 |
| **RECEIVED ON** | Wednesday, 18 December 2024 |
| **ACCEPTED ON** | Thursday, 15 May 2025 |





| | |
|---|---|
| **JOURNAL** | "Investment Management and Financial Innovations" |
| **ISSN PRINT** | 1810-4967 |
| **ISSN ONLINE** | 1812-9358 |
| **PUBLISHER** | LLC “Consulting Publishing Company “Business Perspectives” |
| **FOUNDER** | LLC “Consulting Publishing Company “Business Perspectives” |

| NUMBER OF REFERENCES | NUMBER OF FIGURES | NUMBER OF TABLES |
|---|---|---|
| 32 | 0 | 5 |

BUSINESS PERSPECTIVES

LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine

www.businessperspectives.org

**Abdulwahid Ahmed Hashed Abdullah** (Saudi Arabia, Yemen)

# CORPORATE CASH HOLDING AND FIRM VALUE IN SAUDI LISTED NON-FINANCIAL FIRMS: THE MODERATING ROLE OF FINANCIAL EXPERTISE OF THE AUDIT COMMITTEE

## Abstract

The current study examines the association between Corporate Cash Holdings and Firm Value and explores whether the interaction effect of Cash Holdings and financial expertise supports fair value. The study used data on 175 non-financial firms from 2015 to 2023 and employed pooled OLS regression. The fair value variable denoted by Tobin's Q shows an average (median) of 3.01, while the mean (median) of cash holdings and Audit Committee financial expertise was 18% (13%) and 45% (33%). This study finds a positive coefficient of 0.63, which is significant at less than a 1 percent level, revealing that cash holding increases the value of companies, promoting transaction and precautionary incentives for maintaining cash reserves. Interestingly, the study also finds the positive influence of cash holdings on fair value, which is enhanced by the financial expertise of the audit committee (positive coefficient of 0.04, significant at less than a 1 percent significance level). Moreover, the interaction of cash holdings with audit committee financial expertise found a positive coefficient of 1.84, which is significant at less than a 1 percent significance level. This study presents the importance of the Audit Committee mechanism, particularly with the presence of financial and accounting expertise, in supporting the market value of a company. The outcomes of this study benefit policymakers, managers, and investors regarding effective corporate liquidity management and its effect on fair value.

**Keywords** cash holdings, firm value, audit committee, financial expertise, Saudi Arabia

**JEL Classification** L32, M41, M42

**Received on:** 18th of December, 2024
**Accepted on:** 15th of May, 2025
**Published on:** 28th of May, 2025



Abdulwahid Ahmed Hashed Abdullah, Assistant Professor, Department of Accounting, College of Business Administration, Prince Sattam Bin Abdulaziz University, Saudi Arabia; Department of Accounting, Faculty of Commerce and Economics, Hodeidah University, Yemen.

## INTRODUCTION

Corporate management should make various operational, investment, and financial decisions. The corporation's CH is deemed a vital factor that must be considered in producing such determinations. Recently, there has been a continuous rise in the levels of corporate holdings by corporations worldwide, particularly in the countries of US, Africa, Arab region, and Europe. Cash Holdings are a form of liquidity that can act as a safeguard against financial hardship expenses in times of uncertainty, as companies can better weather economic downturns or unforeseen events, reducing the likelihood of bankruptcy. Moreover, cash holdings represent a significant asset in undertaking investment projects that benefit companies without relying on external funds that incur substantial transaction costs, leading to higher expected upcoming cash inflows, higher fair value, and increased investor confidence. Otherwise, cash holdings can lead to agency conflicts between owners and management. When there is free cash flow, managers practice opportunistic behavior and decide against the owners' interests, increasing agency costs.



**Conflict of interest statement:**
Author(s) reported no conflict of interest

The most common theory used with cash holdings research is the Free cash flow theory. Trade-off theory proposes that firms should determine an optimal cash level that weighs the costs against the advantages of cash holdings. It recommends that higher cash allows companies to invest in profitable opportunities when access to external funding is limited. The Pecking order theory, also known as the financing hierarchy, was proposed by Myers (1977). It claims that companies should use their internal funding first (retained earnings and cash reserves), followed by debt financing or issuing equity. Agency theory claims that the division resulted in conflicts of interest among owners and managers. Managers should represent shareholders' interests by investing in projects that maximize shareholder wealth.

Saudi Arabia is a group of 20 economies with the largest capital market among the Gulf Cooperation Council (GCC) nations and other Arab regions. Recently, Saudi Arabia implemented significant changes in its business markets, notably allowing foreign investors to invest in its markets. Like other GCC states, Saudi Arabia, "as an emerging market," is classified as a state with poor investor protection, undeveloped legislation, and ineffective enforcement mechanisms. Institutional factors, such as actors' attitudes and slower institutional development, impact the formulation of financial strategies for companies, like cash management.

Literature enriches the present debate by investigating the association between corporate cash holdings and fair value using data from companies listed within the oil-dependent market of KSA. Secondly, and even more significantly, it uses internal corporate governance represented by Audit Committee expertise, which is considered an important mechanism in the overall corporate governance structure, as a moderating variable on the association between the companies' cash holding levels and their value, which has not previously been examined. This is the first study to deliver empirical evidence examining how Audit Committee financial expertise affects the association between corporate cash holdings and fair value.

## 1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theoretically, it is suggested that financial decisions would not impact their values in a perfect market. In this scenario, external funding would always be easily accessible and reasonably priced, with no cost for maintaining cash reserves. However, the costs and benefits of maximizing fair value are analyzed. Therefore, higher cash holdings can increase the chances of value-enhancing projects that may have been overlooked and lessen the need for expensive external financing.

Dimitropoulos et al. (2019) explained that managers aiming to maximize shareholder value will determine cash reserves. The benefits of maintaining cash include reducing transaction costs associated with raising capital, preventing the need to sell assets to meet payment obligations, and facilitating the ability to capitalize on investment opportunities while minimizing reliance on external resources. In contrast, firms do not maintain cash holdings at an optimal level. Instead, cash reserves are utilized to bridge the gap between retained earnings and future investment expenses. Essentially, these are short of meeting new investment needs; companies will tap into their cash holdings to cover the deficit, resorting to debt only when no other options are available (Ali et al., 2024; Ha & Tai, 2017). Having liquid assets on a company's balance sheet, as Keynes (1937) suggested, is the ability to pursue valuable projects.

Another point of view argues that holding liquid assets signifies an increase in cost, as the potential return on these liquid assets is usually lower than what could be earned from other investments of similar risk. This opportunity cost is especially significant if a company forgoes more lucrative investment opportunities to maintain a high cash balance (Chang et al., 2017). Based on an agency theory, higher cash could lead to conflicts, as managers may misuse funds on investments that provide personal satisfaction but do not benefit the company's profitability, ultimately harming share-


http://dx.doi.org/10.21511/imfi.22(2).2025.25

holder value (Bates et al., 2009). Furthermore, by increasing their liquidity, managers can enhance the worth of their assets and exert more influence. This also enables managers to avoid seeking external capital, thereby avoiding the need to divulge information about investment projects to foreign investors (Asante-Darko et al., 2018).

Previous research shows that cash holdings enhance firms' performance (Ali et al., 2024; Alnori, 2020) and improve their profitability (Abushammala & Sulaiman, 2014). These scholars discuss that HC permits companies to avert the significant expenses of seeking outside finance and offers a more cost-effective funding alternative. Alnori (2020) used data from the Saudi market from 2005 to 2016, finding that cash holdings enhance firms' performance. In addition, the author found a converse relation in the non-linear Model.

Martínez-Sola et al. (2013) examine the impact of cash holdings on the value of firms in the USA and discuss how the optimal cash level reduces fair value and between cash holdings and fair value in the linear association. Their findings also indicate a curved association between the amount of cash held and FV in a non-linear association with an optimal cash holding level. In contrast, Anton and Nucu (2019) found an association between cash holdings and fair value in Polish-listed firms from 2007 to 2016. They document that companies aim to achieve cash to improve their value. Similarly, a study by Nguyen et al. (2016) reveals the same results among companies in Vietnam from 2008 to 2013.

On the other hand, Ha and Tai (2017) examined the effect of cash holdings on fair value and found a positive association between cash holdings and fair value. They conclude that companies that hold great cash in their balance sheet can grow their cash flows from business operations and fulfill their obligations and debts, enhancing the market value of their shares. Similarly, Kusnadi (2011) used data from listed firms in Singapore and Malaysia. They reveal that holding excess cash increases the value of the firm. However, they prove that companies with weaker governance attributes tend to accumulate more cash than those with stronger governance practices. The emerging market studies by (Abushammala & Sulaiman, 2014; Kusnadi, 2011) point out that maintaining cash allows firms to bypass enormous external funding costs and offers a low-cost financial option. Corporate holding cash in the Saudi market is a more cost-effective financing alternative that can improve a company's value. Further, the firms with higher cash holdings have a negative firm value, while the opposite is true that firms have high firm value with lesser cash holdings (Habib et al. 2021). Moreover, the extent of investor protection compels the firm to maintain the level of cash. A firm with more investor protection must maintain significant cash levels (Akhtar et al., 2023). Further, Chireka and Moloi (2024) reported that the cash holdings of firms will increase the firm's value up to some extent of rise in firms' cash levels; the opposite is true with the crossing of optimal cash levels.

Adequate corporate governance controls are necessary to reduce conflicts and agency problems to align managers' and shareholders' interests (Raweh et al., 2021). These authors suggested that corporate governance practices are essential to managing the decisions of cash holdings and aligning conflicts between owners and managers. Corporate governance tools, such as Audit committees, are vital monitoring tools for reducing agency costs and conflicts (Raweh et al., 2021; Abernathy et al., 2014).

Raweh et al. (2019) report that an Audit Committee encourages the timely disclosure of financial statements by company management. It is found that the Audit Committees with a high rate of financial experts support financial reporting. Song et al. (2023) prove that existing Audit Committees encourage appointing industry specialists. As reported by Cohen et al. (2014), Audit Committee directors with financial expertise support other expert members in Audit Committees in reducing earnings management and increasing the quality of financial reporting. Likewise, Raweh et al. (2021) record that although Audit Committee financial expertise has an insignificant association with timely auditing reports in Omani companies, it strongly contributes to reducing delays in audit reports and promotes issuing financial reporting promptly when it merges with industry experts. Moreover, similar results were reported by Sagitaria and Mita (2019), who reported that audit committee expertise did not affect the earnings reduction of Indonesian firms. Baatwah et al. (2019)

examined the expertise of the audit committee and audit report and reported that the expertise of the audit committee reduces the delays caused by audit delays. Similarly, Raweh and Abdullah (2024) established that Audit Committee characteristics contribute to reducing agency problems among Saudi Arabian listed companies by decreasing the magnitude of SG&A costs asymmetric in these companies. Furthermore, Choi et al. (2020) investigate the association between Audit Committees with CEO expertise members (supervisory experts) and the value of cash holdings in Korean-listed firms from 2000 to 2015. The study shows that having supervisory experts on the Audit Committee reduces the value of cash holdings, implying that their presence may hinder monitoring managerial decisions. Jiang et al. (2023) highlighted the importance of Corporate Governance, cash holdings, and firm value of PSX-listed firms. They observed that corporate governance components do not affect the cash holding levels of the firms.

Accordingly, corporate cash holding is a more cost-effective financing alternative that can improve a company's fair value. Moreover, effective firm-governance mitigates agency problems and enhances fair value by supporting the value of cash holding levels. Therefore, the current study assumes that directors with financial expertise in the Audit Committee support its effectiveness and observation of a company's projects, promoting fair value by monitoring and directing the company's assets of cash holdings and cash equivalents and restricting the entrenchment effect of managing cash by the Saudi Arabian companies. Therefore, the following hypothesis was formulated:

*H1: There is a positive association between cash holdings and fair value, moderated by the Audit Committee's financial expertise.*

# 2. DATA AND METHODOLOGY

## 2.1. Data collection

The study sample included 175 companies listed on the Tadawul from 2015 to 2023. This period captures the benefits of Tadawul's stricter disclosure requirements, increasing the data's dependability and quality for examining the cash holdings-firm value relationship and assessing the influence of the Audit committee's financial expertise on this relationship. The main sources of data are firms' annual reports and the website of Argaam (https://www.argaam.com/en/company/financial-pdf) for data regarding firms in the market and data on stock prices. Financial firms were not included in the analysis because they are governed by unique regulations, which significantly influence their financial decisions. Further, all missing firm-year observations for any variable were removed, giving 1,097 client-year annotations.

## 2.2. Measurement of variables

This study uses Tobin's Q as a proxy for fair value (Kusnadi, 2011). This is the ratio of a firm's MV to the replacement cost of its assets. The ratio compares the MV of assets to the estimated funds to replace those assets at the current moment.

Corporate Holdings (CHs) are the primary independent variable indicating a company's capability to meet its obligations and/or secure investment opportunities (Alnori, 2020; Martínez-Sola et al., 2013). Audit Committee financial expertise (ACFX) is a moderating variable that denotes the percentage of members (Table 1).

**Table 1.** Measures of variables

| Variable | Measure |
|---|---|
| FV(Tobin's Q) | MV of equity + total debt/book value of total assets |
| CHs | Cash and cash equivalents / total assets |
| ACFX | Directors with finance or auditing expertise on the AC / total AC members |
| ACM | Number of AC meetings annually |
| ACZ | Number of members on the AC |
| BSZ | Number of directors on the board |
| ROA | The ratio of return on assets |
| LOGZ | The natural logarithm of total assets |
| LEV | Proportion of Total debt / total assets |
| DIVD | Dummy variable = 1 if a firm pays dividends in a fiscal year, 0 otherwise |

Following Choi et al. (2020) and Kusnadi (2011), this study also introduces control variables such as company size (LOGZ), leverage (LEV), return on assets (ROA) measure for profitability, Dividend payout (DIVD), Audit Committee meetings (ACM), Audit Committee size (ACZ), and Board size (BSZ). This study further includes a dummy (YFX).


http://dx.doi.org/10.21511/imfi.22(2).2025.25

## 2.3. Empirical model

This study employs pooled OLS regression to test the hypothesis (Guizani, 2017; Martínez-Sola et al., 2013). It runs regression analysis using robust standard errors to adjust the potential impact issues. The following are the equations of the study's models:

$$FV\left(Tobin's\ Q\right) = \beta_0 + \beta_1 CHs_{it} + \beta_2 AFX_{it} + \beta_{3-9} CONTROLS + YFX + \varepsilon_{it}, \quad (1)$$

where

*FV (Tobin's Q)* = Fair Value of company *i* at time *t*

$\beta_0$ = Intercept

$CHs_{it}$ = Cash Holdings of company *i* at time *t*

$\beta_1 - \beta_{3\text{-}9}$ = Coefficients of independent and control variables

$AFX_{it}$ = Audit Committee Financial Expertise of company *i* at time *t*

*CONTROLS* = Control Variables

*YFX* = Dummy Variables of '0' and '1'

$\varepsilon_{it}$ = Error term

$$FV\left(Tobin's\ Q\right) = \beta_0 + \beta_1 CHs_{it} + \beta_2 AFX_{it} + \beta_3 CHs_{it} \cdot ACFX_{it} + \beta_{4-10} CONTROLS + YFX + \varepsilon_{it}, \quad (2)$$

where

*FV (Tobin's Q)* = Fair Value of company *i* at time *t*

$\beta_0$ = Intercept

$CHs_{it}$ = Cash Holdings of company *i* at time *t*

$\beta_1 - \beta_{4\text{-}9}$ = Coefficients of independent and control variables

$ACFX_{it}$ *or* $AFX_{it}$ = Audit Committee Financial Expertise of company *i* at time *t*

*CONTROLS* = Control Variables

*YFX* = Dummy Variables of '0' and '1'

$\varepsilon_{it}$ = Error term.

# 3. EMPIRICAL RESULTS

## 3.1. Descriptive statistics

Table 2 displays the summary statistics for the study's explanatory variables. The FV variable, proxied by Tobin's Q, shows an average of 3.01, higher than the median of 0.72, while the mean (median) of cash holdings is 18% (13%). Further, the Audit Committee financial expertise (ACFX) has a mean (median) of 45% (33%) for the sample, suggesting that about 45% of the sample possess at least one financial expertise on their Audit Committees.

**Table 2.** Descriptive statistics

| Variable | Mean | Sd | Median | P25 | P75 |
|---|---|---|---|---|---|
| FV(Tobin's Q) | 3.01 | 4.85 | 0.72 | 0.41 | 2.05 |
| CHs | 0.18 | 0.21 | 0.13 | 0.07 | 0.24 |
| ACFX | | 0.33 | 0.33 | 0.2 | 0.68 |
| ACM | 5.35 | 1.81 | 5 | 4 | 6 |
| ACZ | 3.51 | 0.79 | 3 | 3 | 4 |
| BSZ | 8.22 | 1.4 | 9 | 7 | 9 |
| ROA | 0.06 | 0.09 | 0.06 | 0.03 | 0.1 |
| LOGZ | 15.71 | 1.6 | 14.54 | 13.78 | 15.44 |
| LEV | 0.42 | 0.25 | 0.41 | 0.21 | 0.59 |
| DIVD | 0.04 | 0.35 | 0.06 | 0.01 | 0.13 |

Table 3 shows significant positive and negative correlations between firm value (FV) and corporate holdings CH) and between firm value and leverage (LEV), but a low value of "0.29" and "0.31," respectively, supported the prediction that there is a significant association between corporate holdings and firm value. The matrix shows that the highest correlation coefficient is lower than "0.41" between Audit Committee Members (ACZ) and the Natural Logarithm of total assets (LOGZ). This signifies the absence of a multicollinearity problem (Studenmund, 2014). Further, the VIF test is calculated to verify the multicollinearity. As exhibited in Table 3, the values of VIF are lower than 5, supporting no multicollinearity problem (Studenmund, 2014).

**Table 3.** Correlation matrix analysis

| Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. FV(Tobin's Q) | 1 | | | | | | | | | | VIF |
| 2. CASH | 0.29* | 1 | | | | | | | | | 1.01 |
| 3. ACFX | –0.05 | –0.04 | 1 | | | | | | | | 1.01 |
| 4. ACM | –0 | 0.00 | –0.06 | 1 | | | | | | | 1.04 |
| 5. ACZ | –0.07 | 0.00 | –0.07 | 0.16* | 1 | | | | | | 1.35 |
| 6. BSZ | –0.06 | –0.01 | –0.02 | 0.10* | 0.35* | 1 | | | | | 1.25 |
| 7. LOGZ | –0.20* | –0.06 | –0.02 | 0.12* | 0.41* | 0.37* | 1 | | | | 1.55 |
| 8. ROA | 0.11* | 0.05 | –0.04 | –0.01 | 0.02 | 0.10 | 0.04 | 1 | | | 1.02 |
| 9. LEV | –0.31* | –0.07 | 0.05 | 0.00 | 0.10* | 0.05 | 0.28* | –0.06 | 1 | | 1.23 |
| 10. DIVD | 0.13 | 0.01 | –0.01 | 0.04 | 0.05 | 0.07 | 0.17* | 0.02 | –0.20* | 1 | 1.14 |

*Note*: * Significance at the 1% level.

## 3.2. Regression findings

The findings of the analysis for Model (1) in Table 4 demonstrate that the corporate holdings model is significant at 1% ($p < 0.001$) and has a predictive value of 29.5%, indicating that the Model is fit and justifies the variability in fair value. The results revealed that corporate holdings increase fair value (Tobin's Q) at p-value < 0.01(coefficient = 0.63, t-statistics 4.19). The results also reported that the Audit Committee's financial expertise (AFX) has a positive association with Fair Value (Tobin's Q) at p-value < 0.05 (coefficient = 0.04, z-statistics 2.05), signifying that the Audit Committee contains financial expertise members related to promoting fair value.

**Table 4.** Regression results for the relation of corporate holdings with fair value (Model 1)

| Variable | β | t-statistics |
|---|---|---|
| CHs | 0.63 | 4.19*** |
| ACFX | 0.04 | 2.05** |
| ACM | 0.02 | 0.63 |
| ACZ | 0.00 | 0.12 |
| BSZ | –0.01 | –0.65 |
| LOGZ | 0.05 | 3.90*** |
| ROA | 0.1 | 6.41*** |
| LEV | –0.41 | –3.32*** |
| DIVD | 0.38 | 2.44* |
| _cons | 1.48 | 6.11*** |
| FXY | Included | |
| R-squared | 0.295 | |
| Wald chi2 | 2136.00 | |
| P-value | 0.00 | |
| N | 1,097 | |

*Note*: *** $p < .01$, ** $p < .05$, * $p < .1$.

Table 5 exhibits findings from Model 2. The results display the interaction regression of cash holdings and Audit Committee financial expertise with fair value (Tobin's Q) and demonstrate that this Model has a high level of significance at $p < 0.001$, suggesting that the Model is fit and explains the variability in fair value (FV "Tobin's Q"). The results presented that Audit Committee financial expertise (AFX) promotes the positive association between corporate holdings and fair value (Tobin's Q) at p-value < 0.01(coefficient = 1.84, t-statistics 3.32).

**Table 5.** Regression results for Model 2 interaction effect of ACFX with CASH

| Variable | β | t-statistics |
|---|---|---|
| CHs | 0.71 | 2.31** |
| ACFX | –0.20 | –1.00 |
| CHs*ACFX | 1.84 | 3.32*** |
| ACM | 0.00 | 0.20 |
| ACZ | 0.013 | 0.24 |
| BSZ | –0.01 | –0.74 |
| LOGZ | 0.06 | 3.80** |
| ROA | 0.11 | 5.31*** |
| LEV | –0.51 | –2.24*** |
| DIVD | 0.42 | 3.26** |
| _cons | 1.46 | 5.78*** |
| FXY | Included | |
| R-squared | 0.294 | |
| Wald chi2 | 7570.68 | |
| P-value | 0.00 | |
| N | 1,097 | |

*Note*: *** $p < .01$, ** $p < .05$, * $p < .1$.

# 4. DISCUSSION OF RESULTS

The results of descriptive statistics on fair value, cash holdings, and Audit Committee financial expertise imply a strong scattering to the right,


http://dx.doi.org/10.21511/imfi.22(2).2025.25

which indicates that the values of certain companies are significantly greater than those of others. The result also shows that Saudi Arabia-listed companies hold almost 18% of their net assets in cash. To compare, this result is close to that found by Guizani (2017) of Saudi Arabian firms over 2006–2014 (14%), and Choi et al. (2020), who report the mean (median) for cash holdings in listed companies within the Korean market is almost 21% (11.3%). The regression results indicate a positive correlation between cash holdings and fair value, showing that greater cash reserves are linked to increased value. Such findings support the assumption that cash holdings increase fair value. These findings are consistent with those of Ha and Tai (2017) in Vietnam and Kusnadi (2011) in Singapore and Malaysia, who showed that cash holdings positively affect fair value. This positive association between cash holdings and fair value (Tobin's Q) can be attributed to the fact that the substantial cash reserves enable companies to avoid the large costs of outside financing and provide them with the agility of profitable investment opportunities. This aligns with precautionary motives for higher cash as outlined in the trade-off theory (Chireka & Moloi, 2024).

Furthermore, this capacity is indicated by a company's cash reserves; a firm with substantial cash holdings is better equipped to generate cash flow from its business operations and is more capable of meeting its debt obligations and expenses. The result of the audit committee's financial expertise claims that committees with diverse knowledge in finance and accounting reduce asymmetric information and agency conflicts between owners and managers. It is also supported by the argument that Audit Committee attributes promote fair value (Agyemang-Mintah & Schadewitz, 2018) by monitoring the quality of financial reports, which increases the investors' trust in the health of a company's financial position, which in turn, reflects on the rising of fair value (Bédard & Gendron, 2010).

The Regression results for Model 2 again confirm that corporate holdings are positive, with fair value (Tobin's Q). These results explain that directors having financial and accounting or auditing expertise on the Audit Committee improve the monitoring effectiveness of the company by monitoring the managerial actions concerning the utilization of corporate cash, making the effect of cash holdings positive on the market value of equity. This result aligns with the view of agency theory (Habib et al., 2021; Asante-Darko et al., 2018) and increases the value of firms (Masood & Shah, 2014). The presence of expertise in the Audit Committee improves its function and effectiveness as an internal control mechanism to monitor the financial reporting process, thereby supporting financial performance (Raweh et al., 2021).

These results are supported by the argument that internal governance mechanisms significantly influence the valuation of a company by affecting its cash reserves, where sound Corporate Governance systems constrain the entrenchment effect of managers in the exploitation of excess cash for their self-interests that increase agency problems, and maximizing fair value (Raweh et al., 2021). Conversely, the adverse effect on operational performance associated with holding substantial cash reserves is lessened in firms with effective governance practices (Jiang et al., 2023). For control variables, firm size (LOGZ), profitability (ROA), and DIVD are related to increasing fair value. Meanwhile, leverage (LEV) significantly affects fair value (Tobin's Q). Other variables, ACM, ACZ, and BSZ, have insignificant associations with fair value. Therefore, the results discussed above support the hypothesis (*H1*) that there exists a positive association between cash holdings and fair value, moderated by the Audit Committee's financial expertise.

## CONCLUSION

Managing corporate cash holdings is a complex and strategic decision that requires careful consideration of the trade-offs between liquidity needs and fair value. In this regard, the current study analyzes the effect of corporate holdings on fair value by employing firm-level data from 175 companies listed in the Saudi stock exchange (Tadawul) from 2015 to 2023. The study employed regression analysis using robust standard errors to analyze the data.

The findings showed a positive effect of cash holdings on fair value with a coefficient of 0.63, which was significant at less than a 1% significance level, reinforcing the perspective of motives of the transactions and precautionary for holding companies suggested by trade-off theory. The study also provides new evidence related to the interaction influence of cash holdings and audit committee financial expertise on fair value. It was found that financial expertise in audit committees, with a coefficient of 1.84, significant at less than a 1% level of significance, strongly enhances the association between corporate cash holdings and their market value. Further, internal governance, like Audit Committee Financial Expertise, positively influences the association between cash holdings and fair value (Tobin's Q). Moreover, although the results have shown the effectiveness of the Audit Committee's financial expertise in promoting the effect of corporate holdings on a firm's value, other corporate governance mechanisms recorded insignificant results with fair value.

This study provides practical value for potential stockholders, investors, policymakers, and managers. It indicates that directors and managers should consider both costs and benefits when setting up and developing cash management strategies. Thus, this study also provides valuable insights for Saudi capital market authority regulators and companies' management in improving corporate governance practices.

It is important to emphasize that the explanatory variables used in this study were limited. Other elements, such as the internal auditing function and adherence to Islamic Shariah, could also influence the decisions on cash holdings. Therefore, future research could explore the influence of Shariah compliance on corporate cash reserves and fair value, which may not be generalized for the financial sector in the same market and capital markets with different institutional standards.

## AUTHOR CONTRIBUTIONS

Conceptualization: Abdulwahid Ahmed Hashed Abdullah.
Data curation: Abdulwahid Ahmed Hashed Abdullah.
Formal analysis: Abdulwahid Ahmed Hashed Abdullah.
Investigation: Abdulwahid Ahmed Hashed Abdullah.
Methodology: Abdulwahid Ahmed Hashed Abdullah.
Project administration: Abdulwahid Ahmed Hashed Abdullah.
Resources: Abdulwahid Ahmed Hashed Abdullah.
Supervision: Abdulwahid Ahmed Hashed Abdullah.
Validation: Abdulwahid Ahmed Hashed Abdullah.
Visualization: Abdulwahid Ahmed Hashed Abdullah.
Writing – original draft: Abdulwahid Ahmed Hashed Abdullah.
Writing – review & editing: Abdulwahid Ahmed Hashed Abdullah.

## ACKNOWLEDGMENT

The author acknowledges that the current project under research project number PSAU/2023/02/25900 was funded by Prince Sattam Bin Abdulaziz University.

## REFERENCES

1. Abernathy, J. L., Beyer, B., Masli, A., & Stefaniak, C. (2014). The association between characteristics of Audit Committee accounting experts, Audit Committee chairs, and Financial Reporting timeliness. *Advances in Accounting, 30*(2), 283-297. https://doi.org/10.1016/j.adiac.2014.09.001
2. Abushammala, S. N., & Sulaiman, J. (2014). Cash Holdings and corporate profitability: Some evidences from Jordan. *International Journal of Innovation and Applied Studies, 8*(3), 898. Retrieved from https://ijias.issr-journals.org/abstract.php?article=IJIAS-14-228-01#google_vignette
3. Agyemang-Mintah, P., & Schadewitz, H. (2018). Audit Committee adoption and Fair Value: evidence from UK financial institutions. *International Journal of Accounting & Information Management, 26*(1), 205-226. https://doi.org/10.1108/ijaim-04-2017-0048


http://dx.doi.org/10.21511/imfi.22(2).2025.25

4. Akhtar, T., Tareq, M. A., & Rashid, K. (2023). The role of shareholders and creditors' rights in affecting cash holdings and firm value: A recent evidence from ASEAN. *International Journal of Finance & Economics, 28*(1), 929-961. https://doi.org/10.1002/ijfe.2457

5. Ali, M. A. S., Aly, S. A. S., Abdelazim, S. I., & Metwally, A. B. M. (2024). Cash holdings, board governance characteristics, and Egyptian firms' performance. *Cogent Business & Management, 11*(1). https://doi.org/10.1080/23311975.2024.2302205

6. Alnori, F. (2020). Cash Holdings: Do they boost or hurt firms' performance? Evidence from listed non-financial firms in Saudi Arabia. *International Journal of Islamic and Middle Eastern Finance and Management, 13*(5), 919-934. https://doi.org/10.1108/imefm-08-2019-0338

7. Anton, S. G., & Nucu, A. E. A. (2019). Fair Value and Corporate Cash Holdings. Empirical Evidence from the Polish listed firms. *Economics and Management, 3*(22), 121-134. https://doi.org/10.15240/tul/001/2019-3-008

8. Asante-Darko, D., Bonsu, B. A., Famiyeh, S., Kwarteng, A., & Goka, Y. (2018). Governance structures, Cash Holdings and Fair Value on the Ghana Stock Exchange. *Corporate Governance: The International Journal of Business in Society, 18*(4), 671-685. https://doi.org/10.1108/cg-07-2017-0148

9. Bates, T. W., Kahle, K. M., & Stulz, R. M. (2009). Why do US firms hold so much more cash than they used to? *The Journal of Finance, 64*(5), 1985-2021. https://doi.org/10.1111/j.1540-6261.2009.01492.x

10. Baatwah, S. R., Salleh, Z., & Stewart, J. (2019). Audit committee chair accounting expertise and audit report timeliness: The moderating effect of chair characteristics. *Asian Review of Accounting, 27*(2), 273-306. https://doi.org/10.1108/ara-12-2017-0190

11. Bédard, J., & Gendron, Y. (2010). Strengthening the Financial Reporting system: can Audit Committees deliver? *International Journal of Auditing, 14*(2), 174-210. https://doi.org/10.1111/j.1099-1123.2009.00413.x

12. Chang, Y., Benson, K., & Faff, R. (2017). Are excess Cash Holdings more valuable to firms in times of crisis? Financial constraints and governance matters. *Pacific-Basin Finance Journal, 45,* 157-173. https://doi.org/10.1016/j.pacfin.2016.05.007

13. Chireka, T., & Moloi, T. (2024). Firm value, corporate cash holdings and the role of managerial ability. *South African Journal of Business Management, 55*(1), 10. https://doi.org/10.4102/sajbm.v55i1.4541

14. Choi, S., Han, J., Jung, T., & Song, B. (2020). Audit Committee members with CEO experience and the value of Cash Holdings. *Managerial Auditing Journal, 35*(7), 897-926. https://doi.org/10.1108/maj-04-2019-2269

15. Cohen, J. R., Hoitash, U., Krishnamoorthy, G., & Wright, A. M. (2014). The effect of Audit Committee industry expertise on monitoring the FR process. *The Accounting Review, 89*(1), 243-273. https://doi.org/10.2308/accr-50585

16. Dimitropoulos, P., Koronios, K., Thrassou, A., & Vrontis, D. (2019). Cash holdings, corporate performance and viability of Greek SMEs: Implications for stakeholder relationship management. *EuroMed Journal of Business, 15*(3), 333-348. https://doi.org/10.1108/emjb-08-2019-0104

17. Guizani, M. (2017). The financial determinants of Corporate Cash Holdings in an oil rich country: Evidence from Kingdom of Saudi Arabia. *Borsa Istanbul Review, 17*(3), 133-143. https://doi.org/10.1016/j.bir.2017.05.003

18. Ha, N. M., & Tai, L. M. (2017). Impact of capital structure and Cash Holdings on Fair Value: Case of firms listed on the Ho Chi Minh stock exchange. *International Journal of Economics and Financial Issues, 7*(1), 24-30. Retrieved from https://dergipark.org.tr/en/download/article-file/364138

19. Habib, A., Bhatti, M. I., Khan, M. A., & Azam, Z. (2021). Cash holding and firm value in the presence of managerial optimism. *Journal of Risk and Financial Management, 14*(8), 356. https://doi.org/10.3390/jrfm14080356

20. Jiang, Y., Mubarik, M. S., Zaman, S. I., Alam, S. H., & Arif, M. (2023). Corporate governance, cash holding, and firm performance in an emerging market. *International Journal of Finance & Economics, 29*(3), 2787-2803. https://doi.org/10.1002/ijfe.2804

21. Keynes, J. M. (1937). The general theory of employment. *The Quarterly Journal of Economics, 51*(2), 209-223. https://doi.org/10.2307/1882087

22. Kusnadi, Y. (2011). Do corporate governance mechanisms matter for Cash Holdings and fair value? *Pacific-Basin Finance Journal, 19*(5), 554-570. https://doi.org/10.1016/j.pacfin.2011.04.002

23. Martínez-Sola, C., García-Teruel, P. J., & Martínez-Solano, P. (2013). Corporate cash holding and fair value. *Applied Economics, 45*(2), 161-170. https://doi.org/10.1080/00036846.2011.595696

24. Masood, A., & Shah, A. (2014). Corporate governance and Cash Holdings in listed non-financial firms of Pakistan. *Business Review, 9*(2), 48-72. https://doi.org/10.54784/1990-6587.1271

25. Myers, S. C. (1977). Determinants of corporate borrowing. *Journal of Financial Economics, 5*(2), 147-175. https://doi.org/10.1016/0304-405x(77)90015-0

26. Nguyen, T. L. H., Nguyen, L. N. T., & Le, T. P. V. (2016). Fair Value, Corporate Cash Holdings and financial constraint: A study from a developing market. *Australian Economic Papers, 55*(4), 368-385. https://doi.org/10.1111/1467-8454.12082

27. Raweh, N. A. M., Abdullah, A. A. H., Kamardin, H., & Malek, M. (2021). Industry expertise on Audit Committee and audit report timeliness. *Cogent Business & Management, 8*(1), 1920113. https://doi.org/10.1080/23311975.2021.1920113

28. Raweh, N. A., Kamardin, H., & Malik, M. (2019). Audit Committee characteristics and audit report lag: Evidence from Oman. *International Journal of Accounting and Financial Reporting, 9*(1), 152-169. https://doi.org/10.5296/ijafr.v9i1.14170

29. Raweh, N., & Abdullah, A. (2024). Quality of audit and cost stickiness empirical evidence from emerging markets. *Uncertain Supply Chain Management, 12*(1), 195-206. https://doi.org/10.5267/j.uscm.2023.10.005

30. Sagitaria, A., & Mita, A. F. (2019). Role of audit committee financial expertise and their status in reducing corporate real earnings management. *Academy of Accounting and Financial Studies Journal, 23*(1), 212-219. https://scholar.ui.ac.id/en/publications/role-of-audit-committee-financial-expertise-and-their-status-in-r

31. Song, B., Chung, H., Kim, B. J., & Sonu, C. H. (2023). Do business trainings for audit committees matter in organizations? Focusing on earnings management. *Finance Research Letters, 51,* 103423. https://doi.org/10.1016/j.frl.2022.103423

32. Studentmund, A. H. (2014). *Using Econometrics: A Practical Guide* (6th ed.). Pearson Publication.



http://dx.doi.org/10.21511/imfi.22(2).2025.25