Do Foreign Competitive Pressures Impact the Marginal Value of Cash within Organizations? Evidence from the U.S

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Abstract

Shareholders' attitude toward how managers utilize organizational resources is vital for various reasons, such as maintaining a healthy stock price and a favourable stock price volatility. Using the marginal value of cash, this paper investigates how the external pressure arising from import penetration alters the investors' perceptions of how managers use organizational resources. Shareholders usually hold more diversified portfolios compared to managers; because of this, the managers will have different risk profiles compared to shareholders. As the managerial decisions on cash utilization within the business strongly reflect their attitudes towards risk, any exogenous variation in their risk level, such as import competition, will have an enormous impact on managers' cash management decisions. Using data over 27 years from 1990 to 2017, we document shareholders to value an extra dollar of cash in an organization at $1.459 when firms face high foreign competition, while this value assumes $0.991 for firms facing lower foreign competition. These findings are consistent with the threat of survival and external monitoring hypotheses. While increasing the marginal value of cash, higher foreign competition will also reduce the cash holdings in organizations. The results suggest that firms improve their investment efficiency when foreign competition intensifies by utilizing their excess cash reserves in profitable investment projects. Further analysis also shows that the relationship between foreign competition and the marginal value of cash is stronger among firms with poor corporate governance practices and weaker domestic market competition.

Keywords*: corporate governance, domestic competition, foreign competition, import penetration, marginal value of cash, product market competition value of cash*

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