



Corporate liquidity management and technical efficiency: Evidence from global listed hospitality enterprises



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ABSTRACT

This paper examines the influence of corporate liquidity resources on technical efficiency. Results show that internally generated corporate liquidity resources (current assets reserve) and those externally imported (cash flow and short-term debt financing) are very different in affecting technical efficiency. Specifically, current asset reserve intensity negatively predicts technical efficiency, while cash flow intensity would positively impact it. Besides, the relation between short-term debt financing intensity and technical efficiency appears to be inverted U-shape; and cash flow intensity can further strengthen the negative relation between current assets reserve intensity and technical efficiency.

1. Introduction

Hospitality industry is featured with highly operational uncertainty for highly uncertain market demands (Chen et al., 2014). In response to the highly volatile situation and the resulting unexpected expenditure, hospitality enterprises put great emphasis out of precautionary motive on the corporate liquidity management, such as building current assets reserve, short-term debt financing, and cash flow management (Han and Qiu, 2007). During this process, the corporate liquidity management would inevitably trigger the reallocation of strategic resources (Hamilton and Chow, 1993), thereupon the available resources used in core business and the resulting actual production can probably be affected. If the production capacity cannot be sufficiently utilized, the long-term competitiveness of hospitality enterprises would be impaired (Craocolici et al., 2008).

The above ignored issue can be more precisely termed as the effect of corporate liquidity management on technical efficiency which is classically defined as the proportion of actual production to its optimal level for its given technology (Kumbhakar et al., 1989). As the sources of corporate liquidity resources are different, internally generated and externally imported, the influences of different types of corporate liquidity resources on technical efficiency may not be exactly the same. While building current assets reserve can squeeze the limited internal strategic resources (Eroglu and Hofer, 2014), the short-term debt financing and cash flow as externally imported strategic resources can serve as the supplements (Lins et al., 2010). The difference between two

types of corporate liquidity resources can be the reason leading to their different influences on technical efficiency. Hence, substantial work remains to reveal the more fine-grained linkage between corporate liquidity resources and technical efficiency.

In this article, we try to advance existing literature in several ways. First, this study provides the detailed illustration of the ignored but critical linkage between corporate liquidity management and technical efficiency. In spite of critical for hospitality industry, relevant research on technical efficiency just stays in the stage of description by calculation. The underlying determinants need further exploration to deepen the understanding. Second, this study distinguishes corporate liquidity resources into two types (internally generated and externally imported), and in doing so provides a new perspective to view corporate liquidity management. Further, through integrating the respective effects of and interaction between these two types of corporate liquidity resources, this study gives a more comprehensive view of their roles in affecting technical efficiency.

2. Theory and hypotheses

2.1. Current assets reserve intensity and technical efficiency

According to the resource based view, current assets (include such as receivables, inventory and cash on books) are taken as a kind of internal firm resources that can be used to conceive of and implement strategies (Lins et al., 2010). Most firms decide to build current assets

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Table 1
Stochastic frontier estimation of technical efficiency.

	Dependent variable: ln (Output)	
	Coefficients	Z-statistics
ln (Capital)	0.747***	39.61
ln (Labor)	0.340***	17.49
Intercept	2.229***	7.42
ln ($\sigma_u^2 + \sigma_v^2$)	1.452**	2.21
logit ⁻¹ ($\sigma_u^2/\sigma_u^2 + \sigma_v^2$)	2.559***	3.66
Observations	2022	
Log likelihood	-2093.35	
Wald χ^2 [P-value]	4783.48 [0.000]	

Notes: *P < .10, **P < .05, ***P < .01.

reserve in order to pay for short-term, temporary or unexpected expenditures triggered by operational uncertainty (Lins et al., 2010).

However, the high current assets reserve can be a waste of internal resource. This reserve is not built for being used in core business, and is generated from taking away and occupying part of the limited internal resources, making them lose the opportunity to be used in more productive areas (Almeida et al., 2004; Cossin and Hricko, 2004). Besides, current assets reserve itself brings only very low return (Iskandar-Datta and Jia, 2012). Consequently, the production of firms with high current assets reserve will deviate further away from the optimal level, that is, their technical efficiency is deteriorated. Hence,

Hypothesis 1. Current assets reserve intensity negatively predicts technical efficiency.

2.2. Short-term debt financing intensity and technical efficiency

Since supplementing the strategic resources on demand, short-term debt financing is perceived to be more flexible than long-term debt (Zhao and Susmel, 2008), and is thus more frequently chosen (Custódio et al., 2013) especially when firms are faced with the growth of

opportunities and urgent need of business expansion (Guedes and Opler, 1996). The preference for short-term debt financing is also motivated by firms' intention to have more frequent renegotiation about pricing of debt, such that they can more flexibly adapt to the dynamic market and retain the gain from new projects as much as possible rather than concede to debt holders (Custódio et al., 2013). In this sense, the short-term debt financing can help firms to timely relieve themselves from urgent financial constraint and maintain their productions on the optimal level even though firms are faced with economic austerity. Accordingly, short-term debt financing would benefit the firm technical efficiency (Mugera and Nyambane, 2015).

However, short-term debt financing is not free of flaws. High level of it over a critical point can expose a firm to the dangerous default risk (He and Xiong, 2012), because in this case, the firm probably fail to sufficiently and timely roll over its mature short-term debts (Goldstein et al., 2013; He and Xiong, 2012). Such risk can lead to damage to firm production and operation (Goldstein et al., 2013), and also limit a firm to taking more conservative production strategies (Banga and Sinha, 2005). Thus short-term debt financing high to a certain degree would be harmful for technical efficiency. Hence,

Hypothesis 2. There is an inverted U-shape relation between short-term debt financing intensity and technical efficiency.

2.3. Cash flow intensity and technical efficiency

Cash flow is generated in operation. As the usage of cash flow does not incur dividend or interest payment, it is taken by firms as a source of fund at low cost (Cleary, 1999). For firms faced with uncertain prospects that constrain their credit access, they show heavy reliance on cash flow (Alti, 2003; Khurana et al., 2006) and cash flow serves as their most reliable externally imported strategic resources (Alti, 2003) in maintaining their production on the optimal level (Carpenter and Guariglia, 2008). Hence,

Hypothesis 3. Cash flow intensity positively predicts technical

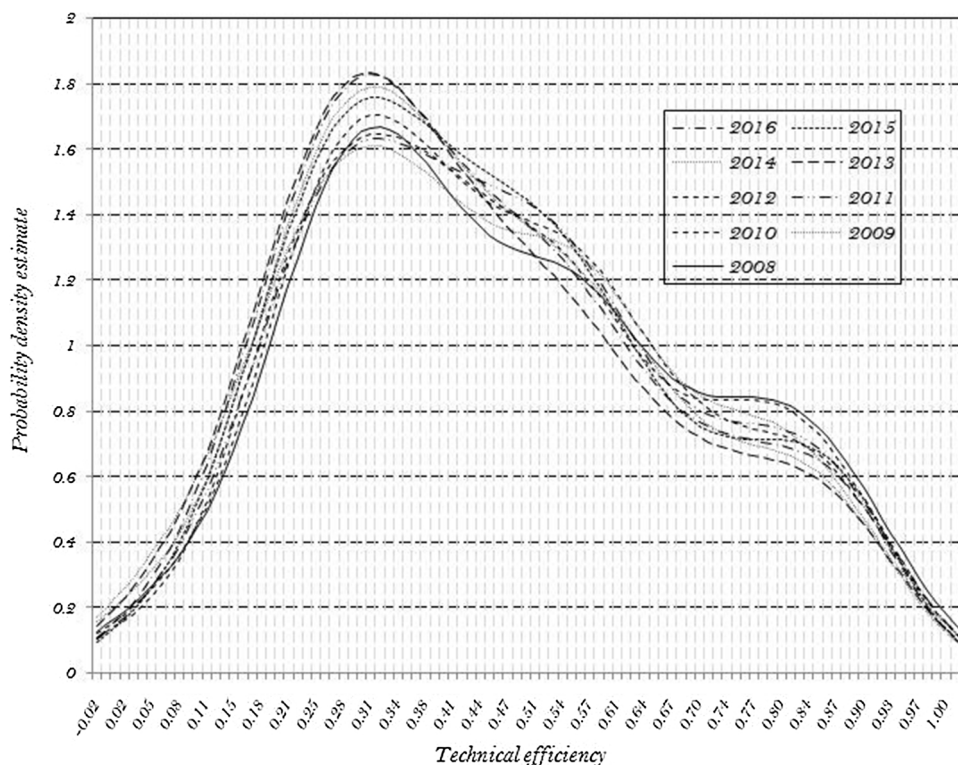


Fig 1. The nonparametric probability density estimates of technical efficiency.

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