CEO Saving Culture and Corporate Cash Policy

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Abstract

We explore a cultural-based explanation for corporate cash holdings. Using a large sample of U.S. companies, we document a significant positive impact of CEO’s culturally inherited saving preference on corporate cash holdings. This effect is stronger when the CEOs are more powerful and is robust to using a subsample of exogenous and internal CEO turnovers. Using the relaxation of interstate branching restrictions as a natural experiment, we find that only CEOs from a low saving culture respond to the improvement in access to external finance by reducing cash holdings. We also examine dividend policy and find that CEOs from a high saving culture would rather retain cash than make distributions to shareholders.

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