

Study reveals a higher market valuation of cash holdings of firms adopting electronic voting

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Electronic voting facilitates shareholder participation in shareholder meetings, which shapes a positive perception of the firm's governance and results in a higher market value of cash holdings. Credit: Foto Miki

Firms worldwide are increasingly adopting electronic voting, enabling shareholders to cast their votes online instead of attending shareholder

meetings in person. Shareholders can enjoy superior accessibility to the meetings with electronic voting compared to those with traditional and in-person setups. Despite the emerging popularity of electronic voting in recent years, there is limited evidence of its impact on governance.

To address this gap in research, Associate Professor Wonsuk Ha from the School of Business Administration, Chung-Ang University, along with Eugenia Lee from the Department of Business Administration, Sejong University, provide empirical evidence on the benefits of [electronic voting](#) by examining its effect on the market value of [cash holdings](#). [Their research was published in *International Review of Financial Analysis*.](#)

A firm's cash holdings, in theory, should be valued at their nominal value. However, in the [capital markets](#), they are valued differently depending on investors' expectations of how they will be used.

For instance, investors may assign a lower value to a firm's cash holdings if they have any concerns about the potential misuse of funds by the management. Conversely, when investors believe the firm to be well-managed and prioritize shareholders' interest, they attribute a higher value to its cash holdings.

In the present study, the authors suggest that electronic voting enhances shareholders' perception of corporate governance and increases the market value of a firm's cash holdings. "Electronic voting can contribute to effective corporate governance by easing shareholders' monitoring and engagement in corporate decisions, which improves the firm's investment decisions, resulting in increased market valuation of a firm's cash holdings," explains Dr. Ha.

Using a sample of 12,207 Korean firm-years from 2015 to 2021, the authors examined how the market valuation of cash holdings differs for

[firms](#) that adopt electronic voting in shareholder meetings.

They exploited a Korean setting, which is best suited for this study because Korean firms are mandated to hold in-person shareholder meetings, with electronic voting being optional. This approach allowed the authors to focus on the effect of electronic voting that increases shareholder accessibility without eliminating the traditional on-site component of shareholder meetings.

The authors found that firms that adopt electronic voting have a greater market value of cash holdings compared to those that do not. This effect is more pronounced for firms with larger free cash flows, suggesting that the governance effect of electronic voting is stronger for firms subject to higher risks of asset misappropriation. This finding reinforces the hypothesis that electronic voting helps mitigate shareholders' concerns about the misuse of cash by management.

Moreover, they found that the impact of electronic voting on the value of cash holdings is more prominent for firms with larger ownership by minority shareholders. This result suggests that electronic voting eases shareholders' participation in shareholder meetings, which can alleviate potential conflicts between controlling and minority shareholders.

Overall, the study provides evidence pointing to the benefits of electronic voting. However, the study also suggests that the governance effect of electronic voting could be muted if electronic voting fails to increase shareholder participation or if it attracts unsophisticated investors who make suboptimal decisions.

The authors emphasize the need to explore other dimensions to fully understand the advantages and disadvantages of the electronic voting system. Dr. Ha says, "It should be noted that the governance implications observed in this study reflect only one aspect of the benefits and costs

associated with the electronic voting system. A complete picture of the system's advantages and disadvantages will only emerge upon further research on this subject."

Despite these considerations, the findings from this study undoubtedly offer valuable insights for policymakers looking to adopt electronic voting to encourage shareholders' participation in [shareholder](#) meetings and enhance [corporate governance](#) practices.

More information: Eugenia Y. Lee et al, Electronic voting in shareholder meetings and the market value of cash holdings, *International Review of Financial Analysis* (2023). [DOI: 10.1016/j.irfa.2023.102718](#)

Provided by Chung Ang University

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