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Sales order backlog and corporate cash holdings

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[Asian Review of Accounting](#)

ISSN: 1321-7348

Article publication date: 7 May 2020

Standard

Serial

Issue publication date: 5 August 2020

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Abstract

Purpose

We examine the impact of sales order backlog (an important leading performance indicator) on corporate cash holdings and the role of corporate governance in the relation between sales order backlog and cash holdings.

Design/methodology/approach

We use the regression analysis to examine our research questions.

Findings

Consistent with the agency motive and the precautionary motive of cash holdings, we document a significant negative relation between order backlog and cash, suggesting that firms with higher order backlog hold less cash. We further examine and find that the relationship between order backlog and cash becomes stronger for firms with stronger corporate governance, highlighting the role of governance in determining the level of corporate cash holdings.

Originality/value

Our study contributes to the accounting literature on sales order backlog and the finance literature on corporate cash holdings. In particular, our study contributes to developing a more comprehensive understanding of the sales order backlog because it is still an under-researched area in accounting. To the best of our knowledge, this study is perhaps the first empirical study that examines the direct link between order backlog and cash.



Citation
Deng, K., Nichols, L. and Sun, L. (2020), "Sales order backlog and corporate cash holdings", [Asian Review of Accounting](#), Vol. 28 No. 3, pp. 351-371.
<https://doi.org/10.1108/ARA-08-2019-0147>

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