International Journal of Management, Accounting and Economics
Vol. 2, No. 10, October, 2015
ISSN 2383-2126 (Online)

www.ijmae.com

Evaluating the Effects of Ownership Structure and Cash Holding on Accepted Companies Value in Tehran Stock Exchange

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Abstract

The current research is studying the role of ownership structure and cash holding on the accepted companies' value in Tehran Stock Exchange. The sample of the research includes 62 corporations within 2008 to 2013.The ownership structure can direct the corporate toward better performance and increasing its value and has remarkable importance for increasing the company's success and society's economics. According to the results based on variance analysis, there is positive and significant relationship between ownership structure and corporate value while there are not significant relationships between other independent variables such as the size of the board of directors, power of the board of directors and cash holding with dependent variable (corporate value). Regarding the controlled variables of the research, which are financial leverage, dividend payout ratio, Q Tubin, there is a positive and significant relationship between the corporate value and financial leverage, while the other controlled variables do not have significant relationship with corporate value.

Keywords: Ownership structure, cash holding, corporate value.

Cite this article: Yousefi, M., Farajzadeh, A. A., & Nasirpour, A. (2015). Evaluating the Effects of Ownership Structure and Cash Holding on Accepted Companies Value in Tehran

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Stock Exchange. *International Journal of Management, Accounting and Economics, 2*(10), 1218-1229.

Introduction

Establishing the industrial revolution in 18th century and advent of stock companies and introducing the isolation of ownership from management at the end of 19th century are considered as important revolutions. The Ownership isolation and corporation control was introduced at the second half of 19th century in the United States of America which led to the conflict of interest between owners and manager named as agency problem (John & Senbet, 1998). Upon solving the agency problem, the manager tried to increase the wealth of shareholders.

In recent decades, at stock corporations, having established the conflict of interest between their groups and mode of encountering the corporation with related conflicts, it attracts the economists. The above ones led to the issues such as agency theory in accounting management and since the most important aim of owners is maximizing the wealth of shareholders, they shall supervise the representative for reaching to it and evaluate their performance. The relationship between ownership structure and corporation value and its performance is one of the raised issues in financial literature area. Following studies in 1932, Berel & Means found a reverse relationship between shareholders dispersion and performance of institutions. Although the results of their researches have been challenged in 1983 by Demsetz, the mentioned study became a start for several research topics which has been done by researchers at different levels and in different countries.

Regarding the studies on the type of ownership, we studied the role of different types of ownership such as governmental ownership, institutional ownership, corporate ownership, individual ownership, and family ownership, foreign ownership, management ownership and other types of ownership on company's output. The suppliers of financial resources are investors (shareholders) and creditors in which each group follows its resources. What persuade the suppliers to use their interest in specified activities, the desirable performance of that activity which is followed by increasing the corporate value and therefore increasing the wealth of shareholders. Having combined the ownership of accepted companies at Tehran Stock Exchange, there are majority shareholders and institutional shareholders which can control the corporate performance. This research aims at studying "whether the ownership structure and cash holding is effective in corporate value?"

Theoretical foundation and review of related literature

Definition of ownership structure

Tsaia & Gu (2007) defined the ownership structure and institutional ownership as follow "the institutional ownership is equal to the hold dividend by governmental corporate out of whole capital and these corporate include insurance companies, financial institutions, banks, governmental corporate and other governmental elements. In the journal of sustainable development (vol.3, No.2, June2010), the ownership structure was defined as follow: ownership structure includes several of ownership percent which led to difference in the power of investing groups.

According to Bushee definition (1998), the institutional shareholders are big shareholders like banks, insurance companies, investing companies and etc. He said that the institutional shareholders supervise on the corporate by collecting the information explicitly and via governing the manner of corporate performance explicitly.

Zangina Isshag et.al (2009) in their study in Ghana, entitled as the effects of corporate governance, ownership structure and cash holding on corporate value of Ghana exchange companies, expressed different types of ownership structures (concentration of ownership, family ownership, governmental ownership, institutional ownership and foreign ownership).

According to Pound definition (1988), the institutional shareholders mean the insurance companies, investing funds, financial institutes, banks and stock corporate who invest in other joint stock companies. Therefore, institutional shareholders are the biggest group of shareholders at joint stock companies.

Researches

Kini & Mian (1995), have chosen a sample including 1063 companies from America Stock Exchange and studied the relationship between ownership dispersion and difference of proposed price of buying and selling share and did not found a significant relationship between these two variables.

Chung & Zhang (2009), provided evidences for the relationship between corporate governance and institutional ownership. The evidences of this research showed that the ratio of company's share which is hold by institutional shareholders increase the quality of ownership structure. The results of this research correspond with such opinion that "institutional shareholders tend to payout of corporate which has the governance structure for meeting the stewardship responsibility for management.

Loiez et.al (2007), has done a research on the relationship between capital structure, ownership structure and corporate value in 216 sample corporate at 15 European countries and the results of research shows that although the manager ownership and corporate debt are the most effective mechanisms in Anglo companies, distribution of ownership and control among the majority shareholders is a basic mechanism in European companies.

Shleifer & Vishny (1997) believed that the concentrated ownership structure which has the two advantages of maximizing interest and sufficient control on companies' assets, can control the company' management effectively, therefore, the agency expenses reduced and corporate performance increases.

Hermali & Weisbach (1978), Morck, Shleifer & Vishny (1988) all estimated a linear sectional regression in which the dependence variable is the Q Tubine ratio as an indicator of corporate performance and independent primary variable is part of shares which was owned by insider shareholders. Although these two researches did not correspond with each other in details of results, both reported that the relationship between Q Tubine ratios is not linear in the ownership of insider shareholders. Therefore, these studies support the opinion that the ownership percent of insider shareholders do not always have positive effect on corporate performance (Han & Suk, 1998). Tsaia & Gu (2007) studied the relationship between institutional ownership and corporate performance in Karino industry for 1999 to 2003. They showed that the institutional investing of Karions may assist the shareholders in this industry to reduce the agency problems resulted from separation of management and ownership.

The results of Zangina Isshag et.al (2008) showed that the corporate value is more influence by income and ratio of debt to assets (financial leverage) and the desire for cash holding fades in corporate value.

Kara Thanassis & Drakos (2004) found that there is a positive and significant relationship between institutional shareholders and corporate value in using Tabniz Q index. And the ownership structure is effective on corporate value.

Although, there are almost strong evidences for the relationship between corporate value and ownership of shares by the people in the company, the relationship between institutional shareholders and corporate value is almost unknown and ambiguous.

According to the research by Pound related to the relationship between institutional ownership and corporate performance, three hypotheses are put forward:

The hypothesis of efficient monitoring: this hypothesis indicates that an institution wants more monitoring on manager due to its risk. According to this hypothesis, only big shareholders like institutional shareholders can reach on enough benefits due to high monitoring expenses. In fact, the big institutional shareholders have opportunity sources, specialty, and ability for monitoring, effectiveness of managers (Cornett, et.al, 2007).

Theory of the conflict of interests: this hypothesis express that the institutional shareholders vote on current management due to conflict of interest. It has no responsibility against its shareholders in such voting or disclosing vote, while the management of company, structure of managers of institutional investing companies is aware of the votes of their shareholders. (Pound, 1988)

Theory of Strategic Alignment: according to this hypothesis, the institutional shareholders create a kind of strategic alliance with current management (Pound, 1998).

The conflict of interest between groups and manner of encountering corporate with such conflicts led to introducing the agency theory in accounting management and in such, Jensen & Mc ling (1976) defined it as follow:

The agency relation is a contract upon which the owner appoints a representative or operator by themselves and empowers the deciding authority to him.

In agency relations, the owners' aim is maximizing the wealth and for reaching to it, he monitors the representative's work and evaluates its performance.

The ownership structure has two dimensions: 1- ownership concentration, 2- identity of shareholders. The shareholders are the main owners of company and empower the managers for performing the trading operations to their behalf which leads to conflict of interest. In England and America, the ownership of stock companies is dispersed widely and the shareholders have weak effect on the company's management and in countries like Japan and Germany, where the origin of civil law, the ownership structure has was concentrated. The disperse ownership structure leads to widening the agency problem.

Composition and structure of the directorate members is one of the most important factors in corporate governance and also corporate value. The attendance of independence and unnecessary directorate members reduce the probability of fraud in providing financial statements. Defining the corporate value is one of the most important factors in investing process and the value of a corporate is defined by the value of its share. Therefore, the shareholder defines its priority in investing regarding the corporate value. Since ownership structure and corporate governance influences each other, we give several definitions of corporate governance:

The organization of economical cooperation and development in 2001, defines the corporate governance as follow: "the structure of relations and responsibilities among a main group including shareholders, directorate members and managing director for promoting the necessary competitive performance for reaching to the primary aims of partnership"

Hamp and et.al (1998) defines the corporate governance as follow: "corporate governance describes the domestic organizing and the structure of company's power, manner of doing the duties of the board of directors, ownership structure of company and interrelation between shareholders and other beneficiaries especially the work labor and the creditors."

International Federation of Accountants in 2004 defined the corporate governance as follow: "the corporate governance "governance of a commercial unit" includes several of used responsibilities and methods by board of directors and obliged managers' aim at defining the strategic path which guarantees the reaching to aims, controlling risks and reasonable using of recourses."

According to the legal framework and ownership structure, each country has a unique set of procedures of corporate governance and the type of control ownership structure leads to differing the corporate governance in insider and outsider models (Marllin, 2008). In all countries, the shareholders receive ownership rights against investing which includes the income of cash flows (that means receiving its share from interest) and control rights in which the shareholders has right of control vote on the company's assets via exercising the voting right and the owners exercise control over the corporate management indirectly upon voting several of proposed managers. While, in several countries, the ownership structure was concentrated and exercising their control is available via a group of control shareholders which has the control rights of more than cash flows such as Japan and most of European countries like Germany, France and Switzerland (Berendd, 2005). Yahya Hassan Yeganeh and et.al (2008) studied the monitoring role on institutional shareholders on corporate value and found that there is direct and significant relationship between level of institutional shareholders and corporate value.

In 2009, a study was done by Mohammad Namazi and et.al on the effect of institutional ownership on current and future financial performance in the accepted companies in Tehran Stock Exchange using the partial least square (PLS). The results and evidences of research show that there is significant relationship between institutional ownership and corporate performance. The more analysis on these findings shows that there is positive significant relationship between the corporate performance and institutional ownership. This result is compatible with the theory of efficient monitoring which expresses that institutional ownership leads to promoting the level of corporate performance.

Research method

The present research is of the applied type and emphasizes on the analytic and correlation relations, since it works on the relations between the different variables of stock exchanges. Applied researches are lead to scientific applications. The thing that guides this research to be considered as an applied one, is the use of its results in the ownership structures of admitted companies in Tehran's Stock Exchange. It follows to define the relations and giving opinions in order to improve the market's efficiency.

Hypotheses

The purpose of this result is: to study the mutual effects between the ownership structure, cash holdings and corporate values. According to Harfard et al and his colleagues (2008) researches in Ghana, it shows that over holding the cash holdings doesn't effect on the stock prices of companies. But the ratio of debits to finance and income fluctuations is one of the remarkable factors of stock prices. The results of researches in Ghana (2008) by Zangina Isshag shows that keeping cash holdings is one of the critical finances in the reckless behavior by management. (The journal of Risk Finance vol. 10No.5, 2009 pp.488-499)

According to the mentioned contents the hypotheses of the research are:

1) There is a significant relation between ownership structure of the company and its value.

2) There is a significant relation between the cash amount of finances and corporate value.

3) There is a significant relation between the size of directorate and corporate value.

4) There is a significant relation between the power of directorate and corporate value.

Research population

The population of this research was all of the admitted companies in Tehran Stock Exchange in (2008-2013) and the investigated statistical case included 190 companies which has been reached by screening method and is done according to the available limitations in criteria filtering techniques. They were chosen according to the following criteria:

1) Full information of all the studied companies is available.

2) There isn't any change of financial year in company during the research period.

3) There isn't more than 6 months operational interruption during the research period.

4) The rights of the stock holders in the investigated periods are not negative.

5) The end of financial year for the studied companies is the March 20th.

Method of sampling & volume of sample

In order to choose the studying sample the screening method was used. It was done according to the available limitations in the criteria filtering technique. The volume of the selected companies was calculated according the followings:

$$n = \frac{\left[Z_{\propto/2}\right]^2 \times P.q.N}{(N-1)\varepsilon^2 + \left[(Z_{\propto/2})^2 \times P.q\right]}$$

Research period

The research period for (2008-2013) is for the admitted companies in Tehran Exchange.

Method of data collecting

At first in this research to collect data and information, the library method was used. In library part, theoretical fundamentals and history of articles, books and specialized Persian and English magazines were collected and then research data was done. Data collecting was done through collecting the selected company's data with referring to financial statements, explanatory notes, and stock exchanges' monthly reports by the use of excel & SPSS software.

Research variables & method of their calculating

Independent variables

A) Ownership Structure

B) Holding of cash assets

C) Gow Variable: It shows the directorate size and directorate power.

A) *Ownership Structure:* It is one of the independent variables of this research which shows the ownership ratio of state and private sectors for each of the used companies in the sample population. They are classified as following:

- State Ownership: Units which their ownership is completely by government and budget supplying activities, management and method of their directing takes place under the ministries and act according to the laws. More than 50 percent of company stock belongs to government or state companies.

- Private Ownership: is defined for the companies that their major ownership is for the real and legal people and not for state.

- Corporate Ownership: is defined for the companies which their biggest ownership is for real non-state people.

- Individual Ownership: is defined for the companies which the most percent of their stocks are for real people.

B) *The Amount of Cash Holdings*: Another independent variable of this research is the amount of retaining cash holdings which is measured by natural logarithm of cash balance at the end of the year.

Dependent Variable

The dependent variable of this research is corporate value. Corporate value is one of the important factors in investment process. And the value of each company is determined according to its stock value. The investor clarifies his priorities in investing with regards to corporate values. In this research stock market value at the end of year was used to determine the corporate value.

Operating Variables

Payout Ratio: is some percentage of pure income (profit after subtracting tax) that was measured according to it. And was calculated as followings:

P=Dividend /Net Income *100

Financial leverage: It shows that which parts of finances are supported from debits or shareholders rights. In this research, debits ratio to finance was calculated.

Q Tubin: Another controllable variable of this research is q Tubin which is calculated according to the following formula:

$$Q = \frac{MVS + BVD}{BVA}$$

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MVS: stands for market value of normal stock.

BVD: stands for book value of long term & short term debits.

BVA: stands for book value of assets.

Research results

According to the results shown in the Tables 1-3 this was calculated according to the Regression analysis on the relations between independent and operating variables of the mentioned research with dependent variable.

Research hypothesis are interpreted as following:

Table 1 Summary of model

Model	Correlation coefficient	Coefficient of determination	Corrected Coefficient of determination	Standard error of estimate
1	0.786	0.618	0.567	4090.258

Table 2 Analysis of regression variance

Model	Sum of squares	df	Average of squares	F	Sig.
Regression	1.408E9	7	2.011E8	12.019	0.000
Remained	8.700E8	52	1.673E7		
Total	2.278E9	59			

According to tables 1 & 2 significant level is number 0.000. It shows that the related regression is proper.

Table 3 Final index model

Variables	Nonstandard coefficients		Beta	T	Sig.
	Model Coefficients	Standard error of estimate			
Logarithm of Directorate size	2450.428	2858.425	0.661	0.857	0.395
Ownership Ratio	53.040	21.792	0.564	2.434	0.018
Logarithm of cash amount at the end of year	-29.610	529.358	-0.046	-0.056	0.956
Directorate Power (Number of meetings)	96.354	172.865	0.204	0.557	0.580
Financial Leverage	-301.025	03901.370	-0.699	-1.615	0.011
Q Tubin	2.392E-5	0.000	0.039	0.425	0.672

Dividends Ratio	11.476	11.345	0.139	1.012	0.316

Hypothesis Test

First Hypothesis: There is a significant relation between ownership structure and its value.

As it is clear in table 3, there is a significant level between ownership structure and market value or each share. (State ownership rate). It is 0.018 which is less than considered error (5%). Therefore the relation between these two variables is positive and with the confidence level of 95% is significant. So the first hypothesis is confirmed.

Second hypothesis: There is a significant relation between the amount of cash holdings and corporate value.

According to the results of table 3, significant level is 0.956 which is more than the considered error for the test (0.05). So it is concluded that there is not a significant relation between cash holding amount and market value of stocks (corporate value). And the second hypothesis is not confirmed.

Third Hypothesis: There is a significant relation between directorate size and corporate value.

In calculating the correlation between directorate size and corporate value the natural logarithm of directorate is used. The logarithmic measurement decreases the observed values, so that the correlations can be better seen. According to the table 3 correlation, the significance level is 0.395 which is more than the error amount (0.05). It can be concluded that there is no significance relation between the size of directorate variable and the value of stock market. So the third hypothesis is not confirmed.

Forth Hypothesis: There is a significant relationship between the power of directorate and the corporate value.

In this hypothesis, the power of directorate is measured according to the numbers of directorate meetings in every fiscal year. According to the above table results, the significance level is 0.58 which is more than the considered error. Therefore there is no significance relation between the number of directorate meetings and the value of stock market. So the forth hypothesis is not confirmed.

In the following inscription according to the Durbin Watson the obtained value is 1.692 which is closer to number 2. So there is no linear.

Table 4 Model summary

Model	R	R^2	Adjusted R^2	Standard Error of estimate	Durbin-Watson
1	0.778[a]	0.606	0.577	4040.98240	1.692

The research model is as following:

Yit=B1GOWit+ B2OWNSit+B3CASHit+ B4CONTRLit+ eit

This model changes as following according to the obtained results of final regression model;

Y= 53.040Own -6301.025 Lev + e

According to the obtained final model, corporate value is more affected by the ownership structure and operating variables of financial leverage. Other independent and operating variables don't have much effect on the value of stock market.

Conclusion

According to the obtained results in chapter 4 based on significance level of the final index model and Pierson correlation test, the relation between proportion of state ownership and operating variables (financial leverage) to stock market value is positive and significant. It can be interpreted that, if the proportion of state ownership is more, the company's stock market value will be more. There is no significant relation between directorate size, the amount of cash assets and directorate power.

Recommendations

According to the research results, investors who pay much attention to the long-term, profit in selecting their investors should pay more attention to the ownership ratio of company's investor. They should do their investment in company's stock which most of their shareholders are state.

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