

CASH HOLDINGS IMPACT ON FIRM VALUE: EVIDENCE FROM LISTED COMPANIES IN TEHRAN STOCK EXCHANGE

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Abstract

This research is trying to study the effect of cash holdings on company value among companies listed on Tehran Stock Exchange. In this study, the library is used to collect data and Excel software was used for data classification and after classifying the data Eviews software was used in order to process the information and test the hypotheses. Sample of this research consisted of 126 companies listed on the stock exchange. The research hypotheses were tested by means of multiple variable regression analysis. In general, the hypothesis test results show that the cash holdings is efficient to firm value in the companies studied.

Keywords: cash holdings, the value of the company, size of company

1- Introduction

However, knowledge of the company's capital structure is important for shareholders and potential investor. On the other hand, information about the capital structure is used by creditors. Financing decisions of firms depend on the stock market. Companies for providing more financial, do release stocks in a time that stock-market stocks are high that And when the redemption value of the stock that the stock market is low (Baker & Wurgler, 2002).

Cash holdings are a significant percentage of assets allocated to companies; normally they are directors looking for a level of cash holdings that are optimal regarding to the advantages and disadvantages of keeping the money supply. In other words, companies are looking for the optimal level of liquidity due to the lack of liquidity won't make big losses for the companies. However, by keeping the extra cash, won't miss the chance of losing the case, this is the level of liquidity in the corporate purpose, but vary due to diverse characteristics of firms and time periods. Experimental studies have shown that the liquidity level of the companies is purposeful. Managers try to achieve for liquidity at the end of a period do plan. What factors influence the level of liquidity? How Various characteristics can describe to determine the level of liquidity? Being familiar with the property and understand the relationships among the target liquidity is a requirement to modify the liquidity. (Aghaei et al., 2009).

Hence, various methods of financing for the company have no additional value and therefore do not limit the director; however, further experimental evidence indicates that this issue does

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not exist in practice and researches of Modigliani and Miller (1963) also achieved new results and the importance of corporate capital structure recognized more than previously. Much research in the field of finance companies are out there that tries to explain the capital structure and the company's influence. As you know, the most important concepts in accounting are recognition and measurement so that the main purpose of accounting is the preparation of financial reports, Valuation is important. Recognition and measurement principles have always been considered of questionable accounting field. Every company needs cash to basic needs (Miller, 1985). Companies that are facing cash shortages or surpluses will face many potential problems. Cash is the best assets of a company, and if well managed, will lead to the success of big companies (Bosk and Frader, 2006). Valuation of companies, is the most important and yet most complex economic concepts in each country; even in developed countries which have developed capital markets The value of the firms are set by investment banks, investment advisors and industry-specific standards and regulations. In Iran Due to the low efficiency in capital markets and investment banking activity has had very limited activity have shown, and Valuation of companies, is done by non-experts and powered by trial and error (Sandra, 2009). Therefore, at the present study we want to find answers to this question; what is the link between the cash holdings on firm value in listed companies at Tehran Stock Exchange?

2- Materials and Methods

This research was carried out within the framework of inductive- reasoning. The population of this study includes companies listed in Tehran Stock Exchange from 2006 to 2011. The population of the Banks which met the following conditions is the chosen:

- 1) Which is listed up to March 2005 on the Tehran Stock Exchange.
- 2) Financial year ending is in March.
- 3) Financial information required to carry out the study for the period 2006 to 2011 have been fully provided.
- 4) Company's stock trading is constantly done and at the Tehran Stock Exchange stops about Trading in the stocks mentioned has not happened over the three months.
- 5) Company has not been changed financially during the year studied.
- 6) The mentioned company is not among leasing companies.

Overall, this study aims to develop a literature survey of methods using library and To test research hypotheses we used data contained in the financial forms, application processor, and also devise new reserved methods of the Stock Exchange and these websites; www.rdis.ir and www.irbourse.com been used.

According to the hypothesis of the presence or absence of the effect of independent variables on the dependent survey result, multiple regression analysis can be used to test the research hypotheses.

3- Findings

This study includes seven sets of hypotheses; regression testing is used to test the hypothesis. The statistical hypotheses are null hypothesis (H_0) and the opposite assumption (H_1) is the following:

H_0 : cash holdings don't have impact on firm value.

H_1 : cash holdings have impact on firm value.

Regression model; $Q = \beta_0 + \beta_1 \times CH + \varepsilon$

In regression model Q represents dependent variable the value of the accepted company in Tehran stock exchange. The CH represents independent variable of cash holdings variable. β_0 constant factor and β_1 the regression coefficient of the independent variables that actually

represent the effect of independent variables on the dependent variable, and the objective is to estimate the regression analysis.

3-1- Durbin Watson test

As the result table shows, the Durbin Watson statistic is equal to 1.6470. Thus, assuming no correlation between the errors cannot be ruled out. The test camera Watson also concluded that there is a possibility of using the above regression model.

3-2- The results of the regression analysis model are:

Table (1): Results of regression analysis

| | B | t | Sig |
|----------------------|-----------|-----------|--------------------|
| Constant | 2.166 | 32.01 | 0.000 |
| CH | 2.48 | 4.429 | 0.000 |
| R ² 0.447 | F 287.428 | Sig 0.000 | Durbin Watson 1.84 |

However, we continue to investigate the above table.

3-3- Test of significance of the regression equation.

First, we examine the following hypothesis:

Ho; Regression model is not valid

H1: Regression model is valid

As you can see, the value of obtained Prob (F-statistic) is 0.0000 and is less than 0.05 probability level. Therefore the H0 rejected, In other words, the regression model is statistically valid with a confidence level of 0.05 and with confidence of 0.95

3-4- Test of significance of the coefficients

Based on the above table can be made about the significance of the independent variables .

In fact, in this section we test the following hypothesis:

Ho; the coefficient β is equal to zero

H1; β coefficient is opposite to zero

The value of cash holdings is estimated to be equal to 2.4845. The test statistic value is 4.4297 and 0.0000 is the value obtained is smaller than the significance level. So at 0.05 and 0.95, with confidence, the company has a direct impact on the value of cash holdings variable.

3-5- The coefficient determination

As is seen, Value and the coefficient of determination that acknowledges how much of the variability can be attributed to changes in the independent variable, is obtained Equal to the value of 0.4369 which is a good proportion that describe and explain the independent variables 0.4369% of the variability dependent variables. The rest of the other variables those are not included in the regression model.

Note that in the above table the constant regression model is shown with C. Constant factor equal to the estimated value of the test statistic is equal to 32.0102 and for the constant factor is 2.1663 and

Also meaningfulness level obtained 0.0000 which shows that in level of 0.05 and with confidence of 0.95, zero hypothesis namely zero being of constant coefficient is rejected.

4- Conclusions and recommendations

According to the regarding, obtained results by testing hypothesis on the cash holdings to firm value is obvious and above hypothesis confirmed. So this can be presented that companies in order to increase their value do focus on the cash holding. Thus, according to this hypothesis can thus be said that corporate cash holdings for the purpose of influencing the value of the firm is done.

Identifying the company determinants of corporate cash holding is one of the main topics of financial management. The ability to participate in short-term cash commitments shows the company ability in performing its commitment. The company's liquidity is the cash which is company's in short term time and the cash that the company will need to amount of cash kept in any company is influenced by certain factors. Obviously, due to differences in the degree of influence of these factors on corporate, liquidity requirements will vary in proportion.

In the present study it was observed that the cash holdings is efficient to firm value. The result of the research hypotheses corresponds to the Kurdistan, G. and Pyrdavood, Tannaz(2011), Hassas Yegane, Jafari and Rasayiyan (2010), Chow (1998). According to researchs of Sandra Mortal and Mark lipson (2009) and Kashani-Poor and Nagi'nejad (2009) capital structure and cash holdings have no effect to firm value The above findings lead to the hypothesis do not match to the present study.

- 1) Is recommended when using financial forms and financial decision-making in regard to investment in shares of companies note to capital structure and cash holdings.
- 2) The companies listed in Tehran Stock Exchange is recommended to reduce financial crisis and agency costs of debt, adjusted the amount of cash in proportion to their financial leverage Having regard to the debt contracts, do not face financing constraints.
- 3) According to the results of the relationship between financial leverage and cash holding in companies recommended that companies predicting the cash regard to the results and consequences of the financial support of cash.
- 4) It is recommended to the companies that in performing economic activities, due to the provocation of preserving the cash, do pay attention to the financial support and investment so that optimal level of cash be obtained for the company.

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