The relationship between capital structures, product market competition and performance sensitivityin listed companies in Tehran Stock Exchange

[1] Gholamreza Poormoosa, [2*] Parviz Saeedi

[1]Department of accounting, Golestan science and research branch, Islamic Azad University, Gorgan, Iran.

[2]Department of Accounting, Aliabad Katoul Branch, Islamis Azad University, Aliabad Katoul, Iran

Corresponding Author Email: dr.parvizsaeedi@yahoo.com

Abstract

According to changes in the world today, the countries, are facing with many threats, particularly in developing countries.They need to solve economic problems to perfect solution to make better use of resources and wealth. One of the main solutionsis development of investment. The purpose of this research investigates therelationship between capital structure, product market competition and performance sensitivity in listed companies in Tehran Stock Exchangeduring the 2010 to 2014. The study statistical society in this research is all companiesin listed companies in Tehran Stock Exchange. We used the removed method and create conditions for selected society and sample. Of total industry selected90 companies. For testing research hypothesesused descriptive statistical method and analytical test method and software Eviews. Finally, the results showed there is significant relationship between capital structure, product market competition and performance sensitivity in Tehran Stock Exchange.

Keywords: Capital structure, product market competition, performance sensitivity.

1. Introduction

One of the important tasks of financial management is offering the perfect solution to use present financial resources in the society for better performance and access to forecasted goals at a lower cost and the higher desirability.One of the most important issues providing good condition for optimum selection investment projects with this knowledge,increase efficiency and public wealth due to honoring the divine blessings. (RahnamaRoodposhte, 2008).

Theoperational techniques of management accountingused for analysis and interpret the financial informationentity to plan and control and better management. This resulted in increased powerproduction and reduces costs. In recent years, this techniquewas strong growth due to technologychanges and customer needs. So, the impact is not covered the effect of these tools on efficiency and performance of the company. (Andersen, 2005).

Decision time must specify every business the cost of different sources of financing to use the new funding and identify effects of these resources on returns and operational risk and finally recognizedcompany value to survive, and developmentactivates. Companies need for development activitiesin the help capital and rely heavily infinancial markets. The role of in the market is providing capital in institutions and companies. Method of financing is oneof the main points considered by financial managers. (Zahmatkesh, 2005).

Therefore,this topicIt's important thanconsidering the importance of capital structure, product market competition and sensitivity performance. So, this researchtrying, considers the relationship between capital structure, product market competition and performance sensitivity in listed companies in Tehran Stock Exchange.

2. Review of literature

Huang and Song (2006)Examined1200 companies in their study and tested capital Structure and debt ratiothey showeddebt ratio increases with the increase in profitability and increasing the share ownership management reduction in failure with the increasing size of the company also tangible assets arethe positive effects on the debt ratio. Furthermore, the survey showed government ownership and organizational no significant impact on company's capital structure policy.

Céspedes et al (2010) tested relationship between capital Structure and ownership at seven countries in Latin America. The results showedthere is a positive relationship between leverage and concentration of ownership also the results showed there is a positive relationship between leverage and growth variables and there is a negative relationship between leverage andprofitability, and larger companieshave tangible assets more.

Paligorova andZhaoxia(2012) in research in the name"complex ownership and capital structure" tested company leverage and motivate them on financing by debt. They found company leverage significantlyto have a higher leverage compared to non-leveraged companies and the use of debt on company leveraged there is risk of expropriation. They did not evidence to improve control, discipline and Tax Research for using the financing results showed them capital Structure is under the influence activities, final owners. That can have the right to control more.

Bigler (2006) investigates the relationship between capital structure and firm performance property onTehran Stock Exchange results of the surveyapproved the impact of capital structure on corporate financial performance from all components of related to capital structure and connect withperformance market value and the adjusted value and after them the book value the most important.

3. The research hypothesis

H1. There is a significant relationship between product market competition and sensitivity performance pay in listed companies in Tehran Stock Exchange private firms under control.

4. Methodology

This research the method in terms of reasoning is a posteriori and statistically is descriptive correlational and In terms of aim is practical and its pattern is experimental. For achieve the desired information used the software of modern RAHAVARD NOVEN and all the sites associated with the Stock Exchange used software Eviews and to test the coefficient significance in hypotheses used multiple regression correlation analyses for determine the type and the relationship between the variables. That isthe method collect data to measure the research variables:

1. Information the Stock Exchange.
2. The use of internet sites, including: Exchange Companysite, the notification exchange site, information and report of stock site and management research and development of stock site and used of software to exchange information such as RAHAVARD NOVEN, DENA SAHM, TADBER PARDAZ.

5. Statistical society and statistical sample

The statistical society of this research is all public companies accepted in Tehran Stock Exchange during years 2010 – 2014. Furthermore, Sample after limitations is90 companies.

6. Empirical results

Hypothesis test

H_0: There isn't a significant relationship between product market competition and sensitivity performance pay in listed companies in Tehran Stock Exchange private firms under control.

H_1: There is a significant relationship between product market competition and sensitivity performance pay in listed companies in Tehran Stock Exchange private firms under control.

Table (4-8) the dependent variable: Sensitivity performance pay

variable	Coefficient	T -statistic	prob
PAT	312.5	16.78438	0.0000
FAMD	11.213	18.27910	0.0000
ENTCOS	21.57814	32.0617	0.0000
DIFF	17.1124	20.137	0.0000
Lev	1.92	7.090860	0.0000
OWNERSHIP	3.56	17.95767	0.0000
SIZE	0.003	5.391902	0.0000
MTB	1.2348	31.78124	0.0001
GNP/Capita	11.2487	25.2457	0.0000
INF	18.2476	14.4871	0.0000
R-squared	0.79		
F-statistic	175.62		
prob	0.000		
Durbin-Watson stat	2.04		

Source:the calculationsresearch.

According to tableT–statisticproduct market competition variable and sensitivity performance pay variable in private companies under their control that the absolute value greater than1.96 is significant and shows significant relationship independent variable with dependent variable. Also, the probability is 0.000 this means that overall model is significant, because the probability is smaller than 5%.The determination coefficient is 0.79 that meanindependent variable show79 percent thesensitivity performance pay in private firms under control. Therefore, the null hypothesis is rejected. So, there is a significant relationship between the variables at the confidence level95%. T-statistics and probability variables shows a significant relationship between variables. Also, Durbin-Watson is 2.04. Then, there isn't autocorrelation in the model. Thus the first hypothesis accepted.

7. The research model

$Log \quad PAT_{i,t} \quad = \beta_0 + \beta_1 DIFF_{i,t} + \beta_2 MKTSIZE \quad _{i,t} + \beta_3 ENTCOS_{i,t} + \beta_4 HH_{i,t} + \beta_5 PERF_{i,t} + \beta_6 DIFF_{i,t} \times \quad PERF_{i,t} + \beta_7 MKTSIZE_{i,t} \times PERF_{i,t} + \beta_8 ENTCOST_{i,t} \times PERF_{i,t} + \beta_9 HH_{i,t} \times PERF_{i,t} + FIRM_{i,t}$ -Level control$_{i,t}$ +country-level control$_{i,t}$ +contry dummy +industry dummy +year dummy +$\epsilon_{i,t}$

PAT:The averagedirect payments, the natural logarithmtotaldirect paymentsboard.

DIFF: Value alternative product in industry, cost of sales (operating) includes: cost of goods sold, selling, general and office costs, depreciation cost and loss the devaluation.

MKTSIZE: The marketsize ofthe industry, the natural logarithm ofindustry sales,industry salesincludealloperational costscompaniesinparts ofthe industry.

NETCOS: costsrecorded inindustry, the natural logarithm ofthe weighted averagethe grossvalueassets, designsandequipmentin the industry.

$HH_{i,t}$:Totalmarketsquare ofcompeting entitiesinanyindustry,country variable.

PERF = RoA:return on assets,net incomebeforeunusualitemsdivided bytotal assets.

FAMD:private ownership(dummy variable), if the stockcontrolbystakeholdersismore than20% 1 andotherwise is 0.

Log ASSETS:total assets, the natural logarithm oftotal assets. (Variable controlat thecorporate level).

LEV:Averagereturn on debts, theshort and long termdebtdivided bytotalequity.(Variable controlat the corporate level).

Log MTB:The rate of market value to book value, the natural logarithm of(1+ the total book value debts and the market value of equity divided by book value total assets). (Variable controlat the corporate level).

Log R & D:R & D costs, the natural logarithm of(1+R&D costs Divided by sales).(Variable controlat the corporate level).

Log FIRMAGE:The number of financial years, the natural logarithm of the number of financial year present company in Stock Exchange.(Variable controlat the corporate level).

Log GNP / Capita:Basic gross domestic product each capital, the natural logarithm of the value of goods and services output end to the state.(Variable controlat the country level).

SMGDP:Stock market, listed stock exchange.(Variable controlat the country level).

INF: Inflation.(Variable controlat the country level).

$\epsilon_{i,t}$: Error regression model.

8. Conclusion

One of the most challenging and difficult problems for company's decision making about capital structure, but at the same time is the most critical decision about Survival Company. (Sajade and Jafare, 2008).Theory of structureshows every company, there is a favorable structure from capital. This structure canbe maximizing performance and corporate value and to minimize cost of capital, but there are several problems for determine exactlythe capital structure,so can't beused the theory carefully.According to the importance of this issue, the aim of this study isthe relationship between capital structure, product market competition and performance sensitivity in listed companies in Tehran Stock Exchange. According to the test results in this relationship is significant at 95%. In the other words, there is a significant relationship between product market competition and sensitivity performance pay in listed companies in Tehran Stock Exchange private firms under control.

References

1. Andersen, T.J. (2005). "Risk Management, Capital Structure and Performance Global Business & Economics Anthology". Paper global business & economics anthology, (www.cbs.dk).
2. Biglar, K. (2006). Studythe impact relationship between capital structure and functional characteristics in companies listed in the Tehran Stock Exchange. Master's Thesis. ShahidBeheshti University.
3. Céspedes, González, J. and M, C. A. Molina (2010). "Ownership and Capital Structure in Latin America", Journal of Business Research, Vol. 63. pp 248،254.
4. Huang, S.G. and Song, F.M. (2006). "The determinants of capital structure: evidence from China". China Economic Review, Vol 17, pp. 1-23.
5. Paligorova, Teodora and Xu, Zhaoxia. (2012). "Complex ownership and capital structure". Journalof Corporate Finance. Vol 18, Issue 4, pp 701-7016.
6. RahnamaRoodposhte, F. (2008). "Strategic management accounting", Tehran Azad University."
7. Sajade, H, Jafare, A. (2008). "Study on Capital Structure and small businesses andentrepreneurs". Articles ShahidChamran University, p 63.
8. Tehrani, Reza. Khojaste, M. A. (2008). The relation capital productivity with future stock returns and its impact on investment strategy value and growth, No. 11, pp. 22-1.
9. Zahmatkesh, J. (2005). Evaluation nature capital structure and its effect stock returns active companies in cement industry 1998-2002 years. Master thesis, Science and Research Branch, Tehran.