



Survey of availability effect to financial resources and working capital management on value of accepted companies in Tehran stock exchange

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ABSTRACT

Nowadays one of characteristics of new markets is consideration to capital parameter and effective methods on keeping company value in competitive markets. Necessity of this case is having comprehensive knowledge towards company place in financial markets and also effective environment on performance of different companies in multiple industries. Hence main purpose of this research is investigating availability effect to financial resources and management of working capital on value of accepted companies in Tehran stock exchange for years from 2007 to 2013. Case study in this research including 90 accepted companies in the market of Tehran stock exchange. Hypotheses based on Dicky Fuller test, Shapiro Wilk test, ANOVA test and Hausman test and multi-variable line regression are tested. Independent variable of this research is availability to financial resources and working capital management and dependent variable of company value that availability methods to financial resources by using three criteria, long term debts, short term debts and new shares are measured. Findings showed that the ratio of long term debts and short term debts have negative and meaningful effect on company value and also financial preparation through new shares and working capital management have positive and meaningful effect on company value.

Keywords: Financial resources, working capital, company value

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INTRODUCTION

Nowadays companies are successful whom by recognition of effective factors on capital structure and structure of suitable and optimized financial preparation prepares their necessary financial funds from correct resources of financial preparation so that expenditure of company capital reached to minimum and wealth of shareholders reached to maximum. The purpose of recognition of capital structure is recognition of financial resource combination for maximizing wealth of shareholders. Nowadays one of characteristics of new markets is consideration to capital parameter and effective methods on keeping company value in competitive markets. Necessity of this case is having comprehensive knowledge towards company place in financial markets and also effective environment on performance of different companies in multiple industries. In terms of being different of internal parameters of different companies and industries such as company situation, type of financial preparation and financial structure of companies are different. At last companies are successful whom by recognition of effective factors on capital structure and structure of suitable and optimized financial preparation prepares their necessary financial funds from correct resources of financial preparation so that expenditure of company capital reached to minimum and wealth of shareholders reached to maximum. The purpose of recognition of capital structure is recognition of financial resource combination for maximizing wealth of shareholders (Myers 1984).

Decisions of financial preparation and investment in companies are decisions that both are adopted with providence. In decisions of financial preparation, the company applied considerable funds till in future can act to its commitments through suppliers of financial resources. In investment decisions, company ignores some present advantages by consideration to gaining more advantages in future. Resources of financial preparation of companies based on their financial policies is divided into two parts, internal financial resources and external financial resources. In internal financial resources, company proceeds to financial preparation from earned profit place. It means that instead of dividing profit among shareholders, they apply profit in mostly operational activities for earning more return and in external financial resources they proceed to financial preparation from debts and shares place (Abzari et al 2007).

In present challenging economy by environmental increasing pressures and confined external resources, property and current debts means working capital of economic firms is so important and optimized management of working capital of firms can consider as a competitive advantage for them (Pinot, Raymond 2007).

Based on place and importance of capital in organizational processes, its management is so important. Here working capital is generally included into high part of organization capital in all organizations especially in organizations by smaller size and its management is based on management mechanisms of supply chain elements which is so important.

Working capital of a company is collection of sums in which current funds is invested and management of working capital is including volume recognition and resource combination and working capital usages so that wealth of shareholders will increase (same reference).

Smith (1980) believes that management of working capital is so important because of its effect on risk and profit of company and at last on company value. Because investment in working capital is included into exchange between profit and risk and decisions which tend to increase profit leads to increasing risk and vice versa decisions which is focused on declining concentrated risk leads to decreasing potential profit (Garsia et al 2007). Hence the purpose of present study is that availability to financial resources and management of working capital have meaningful effect on company value and our expectation of research result is that by correct selection of financial preparation method for investment and improvement in management of working capital, we can have meaningful effect on company value.

2. Research Literature

The main purpose of financial management is maximizing wealth of shareholders or company value which this is a long term purpose. The advantage of this long term purpose including consideration to shareholders returns and one of cases that its effect is confirmed on value in different tests is policies of financial preparation. At present companies for reaching to financial resources have many problems such as high interest and so on. So by lack of resources, managers for investments use suitable methods for reaching to financial resources. Also managing on working capital which is an important criterion of liquidity is duty of managers (Madrakian, Hassan 2011).

Financial resources of each economic unit are included into internal and external resources. Internal resources including cash currents arising operations plus funds of properties sale and external resources including borrowing of financial markets and distribution of new shares. Financial managers for financial preparation proceed operational funds of organization so that they turn to foreign markets and here they prefer debt to special value. Based on this logic, at first most financial managers turn to evaluation of their borrowing capacity and then they make debt after special considerations (Roger et al 1990).

Tables 2-1 and 2-2 show summary of financial preparation methods along with their advantages and disadvantages.

Table 2-1: Methods of short term financial preparation

Users	Disadvantages of Method	Advantages of Method	Definition	Name of Method	ROW
* All economic units	* Inflation of payable accounts * Destroying cash discount * Declining credit degree of economic units	* Easiness of availability * No cost * Lack of need to collateral * Lack of rigor of creditors	Receiving goods and payment of cash with interval	Commercial credit (buying credit goods with services)	1
* Insurance companies * Company Fund of Investor * Retirement Fund	* It is performed only by valid economic units	* Having no collateral * Possibility of deadline setting (redemption time) of securities * Financial preparation through new bonds (continuous financial resource)	Debt without guarantee of economic unit and repayment in deadline	Commercial paper (bond) short term	2
* All economic units	* Guaranteed profit of loan is more than other methods * Necessity of having sufficient capital and suitable liquidity * Compensating balances	* Using banks services * Using financial resource in deadline * Using all or part of allocation * Possibility of repayment before deadline of debt	Receiving needed cash of banks	Bank loans (with collateral and without collateral)	3
* All economic units	* Having guaranteed profit more than loan * Need to collateral for loan	* It is usable when possibility of receiving loan is not available	Receiving needed cash of institutions	Loans of commercial financial institutions	4
* Large economic units in industrial countries	* It is performed only by valid economic units * It has more formality	* Guaranteed profit is less than bank loan * It is without collateral	Securities are exchangeable that it is sold to other units, banks or financial institutions by economic units	Issue of commercial documents	5
* New economic units * Economic units that grow speedily	* Mortgage needs tolerance of extra expenditures	* Availability to cash * Availability to cash in season	Receiving needed cash and giving collateral as a credit	Financial preparation through collateral	6
* Economic units that have temporarily working capital	* Financial situation should be strong and residuals should be acceptable	* Fast access to cash	Collateral of receivable accounts	Mortgage of receivable accounts	6-1
* Automobile trade firms	* Guaranteed profit is more than least bank profit	* Fast access to cash in season * The same as above cases	Collateral is goods	Collateral is goods	6-2
* Economic units of canning and food industry * Economic units that their financial situation is weak	* Financial situation should be strong. There should be sufficient goods * Guaranteed profit is more than least bank profit * The same as above cases			Mortgage of other properties such as ground, machinery and equipment's	6-3
* Economic units with high applicants and have relative quality and price in the market	Necessity of having high applicants with suitable quality	* Fast access to cash	Fast access to cash	Pre-reception for product sale of consumers	7

Table 2-2: Methods of mid and long term financial preparation

Users	Disadvantages of Method	Advantages of Method	Definition	Name of Method	ROW
Economic units that want to make fixed property s or long term investments	<p>Contents of contracts of these loans make limitations for economic units</p> <p>Rate of loan profit is usually more than fixed profit rate</p> <p>Payment of annual installments have high pressure to liquidity</p>	<p>* Profit of mid and long term loans is almost fixed</p> <p>* When setting up a contract, we can debate about conditions of contract</p> <p>* Consumers who are good in payment can use facilities</p>	Bank loans by having deadline more than one year	Long term bank loans (with collateral and without collateral)	1
New Economic units in industrial countries Economic units of transportation industry		Using property s and its payment as installments in a long term period	It is a contract in which owner of property permits to use for personal payment	Long term rents (Rent in a condition of operational rent)	2
All shares companies	<p>Expenditure of this method is more than financial preparation in other methods</p> <p>Payment of share profit does not cause tax saving for economic unit</p> <p>Distributing usual shares cause to decline each share and this case has negative effect on share price</p>	<p>It is lack of deadline and financial preparation</p> <p>Economic unit has no lawful necessity for payment of shares profit</p> <p>By distributing shares, ownership situation and control of economic unit have no change</p>	Holders of usual shares are final owners. Companies of public shares present themselves to all people	Usual shares	3
Economic units by having commercial credit	<p>If return rate of economic unit is less than profit rate, profit of each share will be declined.</p> <p>Inability in profit payment may be a bankruptcy</p> <p>Conditions of contract of bonds make limitations for economic unit</p>	<p>Expenditure of bonds is acceptable for tax. Then the expenditure of bonds is low.</p> <p>This method of short term loans has priority. Some bonds is changeable and some repayable. Holders of bonds in public group of economic unit have no right to vote if return rate will be more than profit rate, it is a suitable method</p>	- Documents which its distributors accepts to repay values	Bonds (by name and without name) (By collateral and without collateral)	4
All shares companies	<p>Using right of usual share paper has special period ,if it is not used in this period, it has no value</p> <p>It increases number of economic unit shares</p> <p>It declines profit of each share</p>	Purchase paper of usual shares is tradable in the market	* Purchase paper of usual shares is tradable in the market	Purchase of usual shares is a type of securities that its holder can buy certain number of usual shares of economic unit in a certain price	5
All share companies in industrial countries	<p>If return of economic unit is less than expenditure of share capital, profit of each usual share decline</p> <p>Expenditure of high share is more than bonds and debts</p> <p>Payment of collected share profit may encounter economic unit with problems</p>	<p>Expenditure of financial preparation through high profit is less than usual share. Holders of high shares have confined advantages. High shares are usually without deadline</p> <p>Economic unit towards payment of high share profit does not have lawful necessity. So high shareholders do not have right to vote.</p>	A type of shares which its holder have towards incomes and property s of economic unit or limited claim	High shares	6
All economic units of industrial countries	This type of loans do not need to compensating residual		Long term loans which are given to companies by insurance economic units and financial institutions	Loans of credit institutions	7
Governmental companies or dependent on government			Loans which are given by government	Loans of government	8

Management of working capital is one of the most important parts of management in organization that is responsible for management

of current property s in daily activities. Basically this part of management emphasizes on cash, securities, receivable accounts and property s. making balances in these accounts is so sensitive so that by each change in environmental factors of organization, each one of these accounts is affected. Management of working capital should forecast through midterm programming for possibility of making balance against changes of environmental factors. Working capital is arising difference between current property s (working capital) and current debts and they are used as a suitable index for investigating ability of company liquidity against repayment of current debts. A company has suitable liquidity that can repay all its debts. Management of working capital is one of duties of financial department that included all current property s of company so that he is responsible for recognition of suitable rate of current property s in comparison with risk of repayment of current debts. On the other words management of working capital is a decision in which policy and practical technique for controlling current property s in comparison with current debts are selected and it maximizes profit of company share (Parsaeen 2007).

Mustafa (2014) investigated the effect of management of working capital on the profit performance of non-financial companies in Karachi stock exchange. He resulted that management of working capital shows a field on output performance of a company. Hence for bigger companies, working capital usually make considerable ratio of all their property s.

Ferdinand et al (2012) in a research investigated company ownership and quality of financial reporting and company value. They concluded that ownership of stronger company has positive relationship with company value and quality of financial reporting has negative relationship with company value.

Simpson (2008) showed the effect of advertisement output on value of company market and their rivals. Also he reported that disclosure of advertisement outputs leads to increasing company value.

Veptz and Pensa (2007) in a research as capital structure and shares return in European countries by using information of 425 European companies between 1990 and 2005 and also using Welch (2004) model considered to investigating relationship between different methods of financial preparation for capital structure and share return of European companies. Results show that there is a meaningful relationship between different methods of financial preparation and share return of European companies. Also they consider to comparison of this result with the similar results of researches in American companies.

Muradoglu G and Sivaprasad (2007) investigated if structure of value capital is related to investors. They combined theoretical framework of Miller Mililani with investment case by estimating unusual return on financial leverage portfolios in time series for different groups of risk. Their selected panel is company information related an interval 25 years in London exchange. They divided all present industries in exchange except banks, insurances, financial institutions and so on to different group of risk. Results showed that return of share owners rights will be increased with financial leverage for some groups of risk and some other may be declined. For most groups of risk, unusual return will be increased when the average of financial leverage increased. For example public industries is a risk group in which financial leverage and unusual return have positive relationship.

Welch (2004) considered in a research as capital structure and methods of financial preparation and share return in American companies. He used information of American companies through 1962 to 2000 in this research. Results of his research showed that companies which use high debt ratio for their financial preparation, this ratio effects on their share return and on the other hand there is a meaningful relationship between debt and return in this research and also this research is the criterion of different researches in this case.

3. Hypotheses of research

Hypothesis 1: Ratio of long term debts on company value has meaningful effect.
 Hypothesis 2: Ratio of short term debts on company value has meaningful effect.
 Hypothesis 3: Financial preparation through distributing new shares on company value has meaningful effect.
 Hypothesis 4: Management of working capital on company value has meaningful effect.

4. RESEARCH METHOD

This study is an experimental research and from purpose, it is a developmental research and it is considered correlation-descriptive from data collection in which real information are used in financial statements of companies for data collection. In this part theoretical aspects of topic and practical studies are investigated. Also part of needed data by using software and information bank are collected. At last data collection and tests by help SPSS and other related software is performed. Statistical community of the present research is included into all accepted companies in Tehran stock exchange. Among present companies, 90 companies are selected as a sample.

4-1 Models and Variables of Research

General regression model for test of all hypotheses

$$CV_{it} = \beta_0 + \beta_1 LTD_{it} + \beta_2 STDR_{it} + \beta_3 SI_{it} + \beta_4 WCM_{it} + \beta_5 SIZE_{it} + \beta_6 ROE_{it} + \epsilon_{it}$$

LTD_{it}: Ratio of long term debt to all properties

CV_{it}: Company value

SIZE: Company value equals to natural logarithm of all properties

ROE: Rate of shareholders return

STDR: Ratio of short term return to all properties

SI: If company will have share distribution in a certain year, it is one otherwise zero.

WCM: Management of working capital

In the present research based on recognized hypotheses, research variables are defined as follows:

1- Dependent variable of this research is company value. Natural logarithm towards shareholders rights to book value in recent studies is used as value criterion of company (Lang et al 2003).

Independent variable: This research investigates availability to financial resources and management of working capital that availability methods to financial resources is measures by three criteria such as long term debts, short term debts and distributing new shares.

STDR: Ratio of short term debts to all properties

LTD_{it}: Ratio of long term debt to all properties

SI: If company will have share distribution in a certain year, it is one otherwise zero.

Management of working capital is measures as follows.

$$(Receivable\ accounts/sale) * 365 + (properties/sale) * 365 - (payable\ accounts/sale) * 365$$

WCM: Management of working capital

Controlling Variables:

SIZE: Company value equals to natural logarithm of all properties

ROE: Rate of shareholders return

4-2 Tests of research hypotheses

4-2-1 Test of Hypothesis 1

H₀: Ratio of long term debts on company value has no meaningful effect.

H₁: Ratio of long term debts on company value has meaningful effect.

Results of table 4-1 show optimization of model for hypothesis test. Wald test (29.14) and meaningful level (0.000) show being meaningful of model for hypothesis test. Results of Wooldridge test also show lack of self-correlation among disturbing sentences. Declined recognition coefficient is 35 percent. Variable for ratio of long term debts as independent variable, company value as dependent variable and variables of company value and return of shareholders rights as controlling variables in research are

mentioned. Variable for ratio of long term debts based on meaningful level (0.000) in following table has a negative and reverse relationship with company value. Controlling variables of company value and return of shareholders rights have relationship with company value. Based on presence of effect of long term debts on company value, hypothesis one of research is accepted.

Table (4-1) Test of Hypothesis 1

CV _{it} =β ₀ +β ₁ LTD _{it} +β ₂ SIZE _{it} +β ₃ ROE _{it} +ε _{it}				
Meaningful level	Statistics z	Coefficient	Abbreviations	Variable
0.000	-4.54	-0.874	Ltdr	Ratio of long term debt
0.00	3.471	0.239	Roe	Return of shareholders rights
0/027	2.193	0/194	SIZE	Company size
0.031	2.103	0.4951	C	Width of Origin
29.14	Wald Statistics	0.35	Declined Recognition coefficient	
0.000	Meaningful level	2.28	Watson Camera	

4-2-2 Test of Hypothesis 2

H₀: Ratio of short term debts on company value has no meaningful effect.

H₁: Ratio of short term debts on company value has meaningful effect.

Results of table 4-2 show optimization of model for hypothesis test. Wald test (17.88) and meaningful level (0.000) show being meaningful of model for hypothesis test. Results of Wooldridge test also show lack of self-correlation among disturbing sentences. Declined recognition coefficient is 39 percent. Variable for ratio of long term debts as independent variable, company value as dependent variable and variables of company value and return of shareholders rights as controlling variables in research are mentioned. Variable for ratio of short term debts based on meaningful level (0.000) in following table has a negative and reverse relationship with company value. Controlling variables of company value and return of shareholders rights have relationship with company value. Based on presence of effect of short term debts on company value, hypothesis two of research is accepted.

Table (4-2) Test of Hypothesis 2

$$CV_{it} = \beta_0 + \beta_1 LTDR_{it} + \beta_2 SIZE_{it} + \beta_3 ROE_{it} + \epsilon_{it}$$

Meaningful level	Statistics z	Coefficient	Abbreviations	Variable
0.000	-4.84	-0.397	Sltr	Ratio of short term debt
0.017	2.88	0.128	Roe	Return of shareholders rights
0.000	3.99	0.81	SIZE	Company size
0.000	4.176	0.117	C	Width of Origin
17.88	Wald Statistics	0.39	Declined Recognition coefficient	
0.000	Meaningful level	2.23	Watson Camera	

4-2-3 Test of Hypothesis 3

H₀: Financial preparation through distributing new shares on company value has no meaningful effect.

H₁: Financial preparation through distributing new shares on company value has meaningful effect.

Results of table 4-3 show optimization of model for hypothesis test. Wald test (27.46) and meaningful level (0.000) show being meaningful of model for hypothesis test. Results of Wooldridge test also show lack of self-correlation among disturbing sentences. Declined recognition coefficient is 46 percent. Variable for Financial preparation through distributing new shares as independent variable, company value as dependent variable and variables of company value and return of shareholders rights as controlling variables in research are mentioned. Variable for Financial preparation through distributing new shares based on meaningful level (0.000) in following table has a positive and direct relationship with company value. Controlling variables of company value has relationship with company value. Based on presence of effect of Financial preparation through distributing new shares on company value, hypothesis three of research is accepted.

Table (4-3) Test of Hypothesis 3

$$CV_{it} = \beta_0 + \beta_1 LTDR_{it} + \beta_2 SIZE_{it} + \beta_3 ROE_{it} + \epsilon_{it}$$

Meaningful level	Statistics z	Coefficient	Abbreviations	Variable
0.000	4.04	0.397	sl	Financial preparation through distributing new shares
0.28	1.04	1.712	Roe	Return of shareholders rights
0.001	3.01	0.84	SIZE	Company size
0.000	3.014	0.956	C	Width of Origin
27.46	Wald Statistics	0.46	Declined Recognition coefficient	
0.000	Meaningful level	2.32	Watson Camera	

4-2-4 Test of Hypothesis 4

H₀: Management of working capital on company value has no meaningful effect.

H₁: Management of working capital on company value has meaningful effect.

Results of table 4-4 show optimization of model for hypothesis test. Wald test (34.35) and meaningful level (0.000) show being meaningful of model for hypothesis test. Results of Wooldridge test also show lack of self-correlation among disturbing sentences. Declined recognition coefficient is 28 percent. Variable for Management of working capital as independent variable, company

value as dependent variable and variables of company value and return of shareholders rights as controlling variables in research are mentioned. Variable for Financial preparation through distributing new shares based on meaningful level (0.000) in following table has a positive and direct relationship with company value. Controlling variables of company value has relationship with company value. Based on presence of effect of Management of working capital on company value, hypothesis four of research is accepted.

Table (4-4) Test of Hypothesis 4

$$CV_{it} = \beta_0 + \beta_1 LTDR_{it} + \beta_2 SIZE_{it} + \beta_3 ROE_{it} + \epsilon_{it}$$

Meaningful level	Statistics z	Coefficient	Abbreviations	Variable
0.000	6.21	0.99	Wmc	Management of working capital
0.0347	2.12	0.548	Roe	Return of shareholders rights
0.194	0.81	0.214	SIZE	Company size
0.098	-1.72	-0.64	C	Fixed value
0.3534	Wald Statistics	0.82	Declined Recognition coefficient	

5. RESULTS OF RESEARCH

Company capability in recognition of potential financial resources for preparation of investments and suitable financial programs is considered as main factors of growth and development company. In this situation using techniques of financial managers is necessary in controlling companies affairs. In this research we follow the effect of availability to financial resources and management of working capital on value of accepted companies in Tehran stock exchange. Findings show that ratio of short and long term debts have negative and meaningful effect on company value. It means based on increasing ratio of short and long debts, company value declined. Also financial preparation through distributing new shares and management of working capital has positive and meaningful effect on company value. It means that based on increasing financial preparation through distributing new shares, company value will be increased. Also based on increasing management of working capital, company value will be increased.

6. Propositions for Future researches

1. The relationship between methods of financial preparation and investment sensitivity to cash current in Tehran stock exchange
2. The survey of availability effect to financial resources and management of working capital on company value in accepted industries in Tehran stock exchange
3. The relationship of financial and economic value added and types of capital structure should be investigated.
4. The methods of financial preparation of Iranian companies should be studied and also the method for best selection of financial preparation must be recognized.

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