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STUDYING THE EFFECT OF UTILIZING FINANCING METHODS ON LIQUIDATION OF CAPITAL MARKET (TEHRAN STOCK EXCHANGE)

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ABSTRACT

Regarding the fact that financing has changed into a very important issue for the companies during the recent years because of privatization trends and the shortages in financial resources the present research is going to assess the utilization of financing methods by firms accepted in Tehran Stock Exchange on liquidation factor. The time period for the research is a 5 years period from 2006 to 2010 and the statistical population entails all companies accepted in Tehran Stock Exchange. The companies selected after sampling were 55 and there have been 275 observations carried out. The research method used here is applied regarding the goal and it is descriptive based on the administration method. To analyze the research data we have used descriptive and inferential statistical methods by using economy evaluation software of E views edition 7. According to the research results the first minor hypothesis claiming that there is a meaningful relationship between financing methods through issuing ordinary stock and liquidation is not accepted. Also the second minor hypothesis showing that there is a meaningful relationship between financing methods through the receipt and paying back the loan itself plus the liquidation is not approved. Also the third hypothesis is approved.

KEYWORDS

financing, liquidation, common stock, loan, accumulated profit, Tehran Stock Exchange (TSE).

INTRODUCTION

Regarding the speed and progress of the science and technology in the world, financial management and capital markets have benefited from these advances and they also have developed like other branches of science. Financing is one of the most important decisions made in every company. Today financing is one of the most attractive issues which is dealt with in texts, books, and business and accounting journals. This attractiveness is due to the knowledge and the type of supplying the capital needed to continue the activities of the companies. Thus, to achieve the financial resources and regarding the liquidation indexes in the recent years, scholars and specialized people are needed in financing and capital market.

Using appropriate and varied methods of financing to administer profitable projects can have a major role in growth of the companies and also in increasing the wealth of stockholders which is considered to be among the most important goals of the companies and entities.

Some researchers have categorized financing methods into two groups of low cost and high cost. Meanwhile some others have divided it into two groups of short-term and long-term.

Short-term financing methods: they are methods which should be settled during a fiscal year.

Long-term financing methods: they are methods which last more than one year to pay back.

RESEARCH LITERATURE

In a research carried out by Davood Jafari-e-Seresht, the liquidation degree of Tehran Stock Exchange has been used as the dependent variable which was calculated by using a direct criterion of liquidation that is the ratio of transactions flow and two indirect criteria including lack of liquidity measures of Amihud and Wagner. The general result of the research showed that the privatization program had had a considerable effect through public supply of the stocks of the governmental companies in Tehran Stock Exchange on the development and liquidation of this market [5].

In a research carried out by Sami Ben Naser, Narjes Bobakri, and Samir Ghaziani the effect of privatization on market size and liquidation has been shown in a sample containing 31 developing markets. They found out that the amount of privatization and using the indexes of privatization in capital market will result in capital market progress (market investment and value added). But we should not ignore geographical effects and also international sanctions. They used GMM (generalized method of moment) in order to estimate the features of dynamic panels and found out that this process can lead to better results mostly in Asian countries where the conditions before doing privatization have been appropriate [10]. Maybe the most famous research paper done in the field is Bortolotti & et al's through which the relationship between privatization and liquidation has been assessed using the index of Amihud's lack of liquidity index [14].

POPULATION AND STATISTICAL SAMPLE

The statistical society investigated in the present research is Tehran Stock Exchange.

In this research we have used systematic deletion method (sifting technique) to choose our statistical sample. To select our statistical sample, the companies with following characteristics were chosen and others were deleted:

1. Due to their different nature in activities, investing companies, insurance companies, leasing companies and banks were deleted and manufacturing companies were chosen.
2. To choose a convergent sample, those chosen were among the companies accepted in Tehran Stock Exchange since the year 2006 and their stocks have been transacted from the beginning of the year 2006.
3. To choose active companies, their transactions should not have been stopped during the years between 2006 and 2010. In other words, the stocks of these companies should have been active during the years mentioned and their stop should not last more than 6 months.
4. To be able to compare the data and avoid divergence, the companies' fiscal year should end on 29th of Esfand and they should not have had fiscal year changing during the years between 2006 and 2010.
5. The companies should not have negative owners' equity.
6. Financial statements and the descriptive notes about them should be available.

By applying the conditions above, the number of the sample selected from among statistical sample was 55 companies and 385 (years- companies).

DATA COLLECTION AND DATA CATEGORIZATION

1- The transaction system in bourse and informing software: in first step the data needed to calculate the variables related to stock market were extracted by using bourse software (mainly Rahaward-e-Novin, Tomba, and Tadbirpardaz). Then the final amounts of these data were compared with the information in stock transaction system.

2- statistical software and economical measuring: Excel software was used in collecting, categorizing, and primary processing of the data. In this phase, the data related to stock market extracted from informing and transaction software of bourse were directly entered into Excel. After proper categorization of the data and carrying out the calculations and primary processing, the output data were used to administer the model and test the research hypotheses by using Eviews7 software.

INTRODUCING THE MULTI-VARIABLE REGRESSION PATTERN TO TEST RESEARCH HYPOTHESES

1- The model utilized for the main hypothesis: there is a meaningful relationship between financing methods and liquidation.

$$(1) \quad LIQ_{it} = \beta_1 + \beta_2 St_{it} + \beta_3 Le_{it} + \beta_4 Re_{it} + \beta_5 size_{it} + e_{it}$$

1-1- The first minor hypothesis: there is a meaningful relationship between financing through issuing common stocks and liquidation.

$$(2) \quad LIQ_{it} = \beta_1 + \beta_2 St_{it} + \beta_3 size_{it} + e_{it}$$

1-2- The second minor hypothesis: there is a meaningful relationship between financing through the receipt and paying back the original amount of the loan and liquidation.

$$(3) \quad LIQ_{it} = \beta_1 + \beta_2 Le_{it} + \beta_3 size_{it} + e_{it}$$

1-3- The third minor hypothesis: there is a meaningful relationship between financing through accumulated profit and liquidation.

$$(4) \quad LIQ_{it} = \beta_1 + \beta_2 Re_{it} + \beta_3 size_{it} + e_{it}$$

The issues considered in estimating the models

The fundamental criticism towards the estimation of the regression models we encounter is related to classic presupposition rejection (variance heteroskedasticity, self-correlation, co-linearity, and proper Torque) [13, 21].

1- Normality

To study the normality of the data we have used normality tests. These tests are generally divided into two groups of graphical methods and numerical methods. Graphical methods present only a sketch of the random distribution of the variable but numerical methods are able to prepare an objective and quantitative criterion to judge about the normality of random distribution of the variables [23]. In numerical methods we can use both descriptive statistics and different techniques and tests of inferential statistics [24].

2- Variance heteroskedasticity

One of the classic presuppositions of the regression analysis is regarding the convergence or similarity of the error variance distribution and if it is rejected there would be heteroskedasticity elements of variance. In fact variance heteroskedasticity is caused due to lack of equality of the dependent variable's variance in different periods [25, 28]. When the dependent variable's variance is not equal, the variance of heteroskedasticity elements will not be the same during different periods and thus the estimation of the model will be damaged and inefficiency will be resulted.

If the regression model is considered as the following equation:

$$(1) \quad y_t = b_1 + b_2 x_t + b_3 z_t + e_t \quad \text{White's test model will be as follows:}$$

$$(2) \quad e_t^2 = \alpha_0 + \alpha_1 x_t + \alpha_2 z_t + \alpha_3 x_t^2 + \alpha_4 z_t^2 + \alpha_5 x_t z_t + \varepsilon_t$$

F statistics and Kai2 statistics test will be calculated for the result of multiplying the observations and identification coefficient for this model.

3- Variables' Consistency

Because it is possible that the economic variables having integrative data be inconsistent before utilizing it in the model the needed studies should be carried out to recognize their consistency and consistency or inconsistency of these variables should be well documented [25]. In fact, some operations such as using the ordinary least square (OLS) is done in experimental researches regarding the consistency of the variables. Consistency can be studied in the two forms of absolute consistency and weak consistency [16, 22]. To avoid using inconsistent data in the models, we can test the present variables in the model using three methods below:

- Graphical method
- Co-correlation (which presents correlation type against a specified software)
- Unit root testing method

Also there are 3 tests to study and test the unit root test in statistical software which are usually used in the following forms:

- Dikky Foulter Test (DF)
- Added Dikky Foulter Test (ADF)
- Philipse Prone test (PP)

In testing another Fauler Dikki method, the variable having time series will regress with a delay.

$$(3) \quad y_t = \mu + \rho y_{t-1} + \zeta$$

Then we can conclude that the series Y is a consistent series if the delay for it in the regression above is $-1 < \rho < 1$. If $\rho = 1$, we can say that the series is not consistent. If we have a random walk with drift during the process started in some points of the dependent variable variance we continuously will encounter increases and it will move forwards to the infinity. In Dikki Fauler's test the additive of the regression equation will be devised as follows:

$$(4) \quad \Delta y_t = \delta y_{t-1} + \sum \delta \Delta y_{t-1} + \varepsilon$$

In this regression the consistency requirement of the regression is the lower than zero amount of sigma (ρ). Also by observing the existence of a less delay, we should delay the model until self-correlation is removed. In economic measurement software usually the critical area testing of the unit is done in three assurance points including %99, %95, and % 90.

Zero hypothesis and H_1 in testing consistency are as follows:

$$\begin{cases} H_0: \rho = 1 \\ H_1: \rho \neq 1 \end{cases} \quad \text{Data Analysis Methods}$$

In regression statistics there is a type of mathematical function which is applied between the dependent variable from one hand and the independent variable on the other hand [18].

To test the hypothesis, the effect of the independent variable on the dependent variable is tested [8].

$$(5) \quad y = a + bx \Rightarrow \quad b = \frac{\sum(x-\bar{x})(y-\bar{y})}{\sum(x-\bar{x})^2}, \quad a = \bar{y} - bx$$

Regarding total regression and linear relationship in meaningfulness test we have:

Zero hypotheses shows that the total coefficients of the regression equals zero.

Research hypothesis shows that at least one of the independent variable's coefficients is meaningful.

If the statistics calculated for the test is bigger than the critical statistics or the meaningfulness level calculated is less than 0.05, at least one of the independent variables has a meaningful regression coefficient or there is a linear relationship between the two variables [3].

The recognition coefficient is analyzed as follows:

- Independent variable does not create any changes in dependent variable. ($r^2 = 0$)
- All changes of the dependent variable can be expressed by the independent variable. ($r^2 = 1$)

The bigger amount of the absolute amount of the identification coefficient than zero and close to 1, shows that the relationship between independent and dependent variables is stronger.

DESCRIPTIVE STUDY OF THE RESEARCH DATA

To enter data analysis step, the descriptive statistics of the data including the indexes of centralization, dispersion indexes, and deviation from the symmetry and also Jark Bra's test which approves the normal distribution of the wastes is calculated and the results are shown in table 2.

TABLE (2): THE DESCRIPTIVE STATISTICS OF THE DEPENDENT VARIABLES

Dependent and independent variables					
variable	common stock	bank loan	accumulated profit	liquidation	size
variable symbol	St	Le	Re	Liq	Size
average	3.4312	3.3889	1.29E+11	0.002077	26.8376
mean	0.0000	0.0000	1.25E+10	0.000488	26.77
maximum	27.63	28.61	1.18E + 13	0.041587	32.03
minimum	0.0000	0.0000	-2.55E+13	1.08E-0.5	22.37
criterion deviation	8.5994	8.4972	9.33E+11	0.0049	1/4045
loosening	2.1120	2.1164	8.89	4.8303	0.4970
stretch	5.4897	5.5196	101.8194	30.4463	5.6159
Jark-Bra statistics	275.468	278.0524	115516.9	9700.997	89.7369
statistics probability	0.0000	0.0000	0.0000	0.0000	0.0000
number of observations	275				

To calculate the variable liquidation, there are different indexes. But in the present research we have used transaction flows to calculate the variable under investigation.

The ratio of transactions flows = the number of stocks transacted/total stocked published

THE RESULTS OF TESTS AND ESTIMATIONS CARRIED OUT

In the present research we have used static integrative data to test the hypothesis. In this method we can use a test entitled Chow to select from among the two integrated models and it is called structural changes test. To test the research hypotheses, first fixed time effects outcomes are estimated and then structural changes test will be used to study the existence of fixed effects as follows:

H₀: lack of existence of fixed effects >> pool model

H₁: existence of fixed effects >> fixed effects model

Regarding P-Value gained for the zero hypotheses considering the width equal from the focal points is rejected. Therefore, in this phase the fixed effects model is chosen as a priority for the first and second main hypotheses and their related minor hypotheses (due to the lack of space in the present paper we have not brought the tables related to Chow's tests here).

1- Hausman's Test

The results of Chow's test for first and second main hypotheses and their related minor hypotheses show that the model selected is fixed effects. Now we should test fixed effects model compared to random effects model. To do so, we used Hausman's test. To do Hausman's test first we should estimate random effects-time model. Hausman's test was arranged to study the existence of random effects in the following form:

H₀: There is not any correlation between individual effects and the descriptive variables >> Random Effects model

H₁: There is a correlation between individual effects and the descriptive variables >> Fixed Effects model

The results of these tests are presented in table 3:

TABLE (3): THE RESULTS OF HAUSMAN'S TEST OF HYPOTHESES

Hypothesis	Kai Square Statistics	Freedom degree	P-Value	Test result
Minor 1	10.315438	2	0.0141	Fixed effects model
Minor 2	10.572427	2	0.0311	Fixed effects model
Minor 3	10.331809	2	0.0471	Fixed effects model
Main	11.430350	4	0.0024	Fixed effects model

As it can be seen in the results of table 3, the amount of P-Value is less than %5. Thus, the most appropriate method for the first hypothesis is fixed effects model.

2- Hypotheses' test based on model determined

To test the research hypothesis after doing Hausman's test and selecting the fixed effects model we have tried to estimate the model coefficients by using the least generalized squares (EGLS).

First minor hypothesis: there is a meaningful relationship between financing through issuing common stocks and stock liquidation.

H₀: there is not a meaningful relationship between financing through issuing common stocks and stock liquidation.

H₁: there is a meaningful relationship between financing through issuing common stocks and stock liquidation.

TABLE (4): FINAL BALANCE OF THE MODEL BY USING EGLS ESTIMATOR FOR THE FIRST MINOR HYPOTHESIS

Liq dependent variable							
Regression model's $liq_{it} = \beta_1 + \beta_2 St_{it} + \beta_3 si_{it} + e_{it}$							
Hypothesis	independent and controlling variable	coefficients	T statistics	P-Value	F statistics	Durbin-Watson	Adjusted R ²
1	St	1.51	0.515	0.606	4.01	2.42	0.44
	Size	0.000	2.893	0.004			
	Ar (1)	-0.181	-4.278	0.000			

Second minor hypothesis: there is a meaningful relationship between financing through receipt and paying back the original loan and stock liquidation.

H₀: there is not a meaningful relationship between financing through receipt and paying back the original loan and stock liquidation.

H₁: there is a meaningful relationship between financing through receipt and paying back the original loan and stock liquidation.

TABLE (5): FINAL BALANCE OF THE MODEL BY USING EGLS ESTIMATOR FOR THE SECOND MINOR HYPOTHESIS

Liq dependent variable							
Regression model's $liq_{it} = \beta_1 + \beta_2 D_{it} + \beta_3 si_{it} + e_{it}$							
Hypothesis	independent and controlling variable	coefficients	T statistics	P-Value	F statistics	Durbin-Watson	Adjusted R ²
2	Le	-6.22	-0.71	0.481	10.67	2.43	0.77
	Size	0.000	6.79	0.000			
	Ar (1)	-0.370	-44.09	0.000			
	Ar (2)	-0.350	-7.90	0.000			

Third minor hypothesis: there is a meaningful relationship between financing through accumulated profit method and stock liquidation.

H₀: there is not a meaningful relationship between financing through accumulated profit method and stock liquidation.

H₁: there is a meaningful relationship between financing through accumulated profit method and stock liquidation.

TABLE (6): FINAL BALANCE OF THE MODEL BY USING EGLS ESTIMATOR FOR THE THIRD MINOR HYPOTHESIS

Liq dependent variable							
Regression model's $Li_{it} = \beta_1 + \beta_2 R_{it} + \beta_3 si_{it} + e_{it}$							
Hypothesis	independent and controlling variable	coefficients	T statistics	P-Value	F statistics	Durbin-Watson	Adjusted R ²
3	Re	-1.03	-5.58	0.000	4.15	2.44	0.45
	Size	0.000	2.60	0.01			
	Ar (1)	-0.194	-4.32	0.000			

The main hypothesis: there is a meaningful relationship between different methods of financing and stock liquidation.

To test the main hypothesis, the zero hypotheses and the opposing hypothesis were described as follows:

H₀: there is not a meaningful relationship between different methods of financing and stock liquidation.

H₁: there is a meaningful relationship between different methods of financing and stock liquidation.

The summary of the results regarding the main hypothesis is presented in table 4-7.

TABLE (7): FINAL BALANCE OF THE MODEL BY USING EGLS ESTIMATOR FOR THE MAIN HYPOTHESIS

Liq dependent variable							
Regression model's $liq_{it} = \beta_1 + \beta_2 St_{it} + \beta_3 D_{it} + \beta_4 R_{it} + \beta_5 si_{it} + e_{it}$							
Hypothesis	independent and controlling variable	coefficients	T statistics	P-Value	F statistics	Durbin-Watson	Adjusted R ²
Main	St	2.88	0.95	0.341	4.11	2.39	0.46
	Re	-1.10	-5.41	0.000			
	Le	-2.50	-2.12	0.035			
	Size	0.000	2.68	0.007			
	Ar (1)	-0.18	-4.69	0.000			

Testing consistency of research variables

In the Hadri's tests the zero hypotheses shows the existence of a unified root and if the probability of the table is less than 0.05, zero hypothesis would rejected with %95 probability. Regarding table (8) the results of consistency test (unified root) of the research variables shows that the research variables have been consistent and thus zero hypothesis of having a unified root of the variables is rejected.

TABLE (8): THE RESULTS OF HADRI'S TEST

Variables	Statistics	Probability	Test result
LIQ	23.7402	0.0000	consistent
Size			
St	26.3641	0.0000	
Le			
Re			

CONCLUSION

In the present research we have used a direct liquidation criterion of the ratio of transactions' flow compared to hypotheses' test. To test the hypotheses we have taken into consideration 4 models in which there were variables related to the hypotheses, controlling variables and dependent variables. Therefore, the general models below were devised as the basic models of the research to test the hypotheses:

$$liq_{it} = \beta_1 + \beta_2 St_{it} + \beta_3 si_{it} + e_{it}$$

$$liq_{it} = \beta_1 + \beta_2 D_{it} + \beta_3 si_{it} + e_{it}$$

$$Li_{it} = \beta_1 + \beta_2 R_{it} + \beta_3 si_{it} + e_{it}$$

$$liq_{it} = \beta_1 + \beta_2 St_{it} + \beta_3 D_{it} + \beta_4 R_{it} + \beta_5 si_{it} + e_{it}$$

In these equations, St, Le, Re, and Size represent common stock issuing, bank loans, accumulated profit and firm size, respectively and Liq represents liquidation as the dependent variable and e showed the model residuals.

- **In first hypothesis:** correlation coefficient of issuing common stocks is not meaningful and the relationship between stock issuing and liquidation is rejected.
- **In second hypothesis:** correlation coefficient of bank loans is not meaningful and the relationship between bank loans and liquidation is rejected.
- **In third hypothesis:** accumulated profit and firm size variables in this model could describe %45 of the changes in liquidation of the stocks which is a good level of approving.
- **In main hypothesis:** the relationship between different methods of financing and stock liquidation is approved.

The total results of the hypotheses have been presented in table 9.

TABLE (9): SUMMARY OF RESULTS OF HYPOTHESES' TEST

Hypothesis 1	rejected
Hypothesis 2	rejected
Hypothesis 3	approved
Main Hypothesis	approved

RESEARCH SUGGESTIONS

Regarding the results gained from the present research, the following items are suggested:

- The appropriate distribution of the number of companies regarding their sizes and total Rial values of the stocks supplies during every season as the considerable factors affecting the desirable level preserving and the consistent liquidation should be taken into consideration.
- Regarding some regulatory and operational limitations present in the market besides studying the efficiency of different types of liquidation in Tehran Stock Exchange in determining the liquidity degree more accurately and scientific, market value and the return of Tehran Stock Exchange, the appropriate criteria should be selected or if it is needed new criteria should be devised considering capital market conditions in Iran.
- Due to the considerable effects of transferring the information in efficient and semi-efficient markets on stocks price and its liquidation, Stock Exchange Organization should help training the stockholders to interpret the data published in bourse properly and activate its education and research departments. Thus, stockholders will not encounter losses due to the inappropriate interpretation of the information published by bourse and not change their directions in capital investment towards other activities. Also it is suggested that financial analysts should be more active in market to help the information to be analyzed regarding different dimensions and make stock exchange to be more efficient to be able to sell a share more rapidly and with less expenses.

RESEARCH LIMITATIONS

One of the leading factors of research projects in all countries is the existence of abundant information resources in time and accessible. But in developing countries and due to the lack of having organized information centers and the lack of ability to use the power of computer broadly and the fear of revealing the information prevent the researchers and research centers to have access to the information on the part of the information resources. Accordingly in our country there are limitations in accessing the information.

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