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Factors affecting investment according to the degree of financial flexibility in banks

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Abstract

Major corporate executives in different parts of the world attend to financial flexibility as an important issue in decisions regarding their capital structure. University researches consistent with this idea that motivation of accessing to financial flexibility is related to the future power, and need of companies to increase external investment is related to the low costs. Companies having greater financial flexibility to foreign capital markets and access to the resources need to grow their profits unforeseen and new opportunities.

Keywords: financial flexibility, rate of investment, investment efficiency

Introduction

Company needs capital in order that it can be established, and will require more capital for developing. Needed funds from various sources and in various forms of capital can be supplied, but all of the capital can be classified in to groups: Loans and shares as one of the most complex problems that plague today's financial managers, is the relationship between the components of the capital structure. It consists of a mixture of bonds to finance the current price, stock shares now decide how to finance the company's capital structure means, such as financial managers on the company's value affect other decisions. Value of the company, like any other asset, in effected on the present value of future returns based on a fixed discount rate. The discount rate to get the value of the company, the cost of capital. Managers should strive as representatives of the shareholders, the company's capital structure into a set that will be the minimum cost of capital and thus the maximum value of the company's shareholder wealth. Funds constituting the capital structure in two varieties, first one flows on the alleged participation of fixed cash, and are called debts. Second, the remaining portion of the stream that they are called equity. The first group is cheaper than the later one because of a fixed return fund to creditors. But the company's debt further increases the risk of bankruptcy stakeholders that the latter are suppliers of funds. In the event of bankruptcy bearing its costs are, they demand higher returns. Capital structure as the most important parameter affecting the valuation of companies and their orientation has been raised in the capital

markets. Changing environment and the current variable, graded credit companies in terms of their capital structure depends partly built. This matter has brought closer selection of influencing their strategic planning goals of "maximizing shareholder wealth". (Douglas, 2001) [1].

Importance and necessity of the research

Flexibility is a criterion that leads to liquidity problems and loss of investment opportunities and ultimately in extreme circumstances that caused to grow firm if managers of the companies don't attend it. The administrators have the flexibility to grow the company and all decisions are seen as an outlet to maintain or improve the flexibility of the company's capital structure.

Purposes of the research

Shareholders expect returns should rise, but on the other hand, they also increase the risk. So, understanding of the theory of capital structure management that helps companies determine the optimal capital structure. In this study we are looking forward to making capital structure decisions affect the financial flexibility. In fact, in this research, through investigating the final value of cash flow as a measure of flexibility that is also a measure of the ability to participate in investment opportunities, its relationship with leverage (capital structure) is determined.

Theoretical foundation of research

In the more traditional theories of capital structure, including static trade-off theory, companies will try to select a desired debt ratio, and gain it. According to this theory, the theory of optimal debt a company is determined on the basis of parallelism borrowing costs and resources. In other words, this hypothesis from the perspective of companies trying to take advantage of the tax savings and the cost of the bankruptcy balance. In theory Mejlaf and Myer [4] who was the founder of the theory of hierarchy, companies are required financing, will follow a certain hierarchy. The formation of the hierarchy is the result of information asymmetry. In cases where there is no information asymmetry between the directors and investors, managers prefer internal financing. This theory is faced criticism because it does not consider flexibility (DeAngelo and DeAngelo, 2007).

Model of the research

Dependent variable of the research:

Dependent variables of this study are as follows that their operational definitions are offered. According to this matter that Iran is in high and continuous trading relationship with the efficient market returns due to the interruption suffers abnormal returns calculated by the method is unreliable market (Moradi, Nikbakht, 2004). And also because in most cases were not statistically significant (saghafi, Kordestani, 2004), so we can't rely on this method. But, in spite all existing problems in this method, two methods have been used in this research, one is abnormal returns through different market and returns this year with an average yield of three years ago as a measure of abnormal return.

Cumulative abnormal returns of the company. This will be calculated as follows:

To calculate the abnormal returns, we use the above equation (7). For this purpose, expected returns should be accounted firstly, through the market model or the so-called line or market index that can be obtained through the following model. This is because to calculate expected returns for the period beginning 96 months (since 2002 to 2009 per year for 8 years and 12 months) Return is calculated; and it

is obtained through regression analysis model 8. Then from version 8 to version 7 we use and efficiency through shares is calculated that is in the model 7, and consequently, we used this formula in order to calculate the market returns, and when we calculate the abnormal return through this formula, it can be calculated with Equation (7) Placement. Modelnumber 7 have an abnormal return. To obtain the cumulative abnormal returns we will use the following formula or model; that the number of dependent variables will obtain from the equation of our research. Model 7 calculated on a monthly basis and placed in nine models and achieved a 12-month cumulative abnormal return. Final value is cash and in this study is considered as a measure of the value of flexible, and reflects the company's ability to use the potential investment opportunities based on the model Folkender and Wang [6] (2006). And using model 2 it will be calculated for individual companies. Coefficients are calculated according to the first model, and then placed in model 2. And the independent variables and the dependent variable Model 2 are also available in this study, and they are not achieved simply by calculation through regressions. Marginal value of cash and in this study as a measure of value was the ultimate flexibility. And reflects the company's ability to use the potential investment opportunities based on the Clarke [7] (2010), which is accounted using model 5. In this study, the coefficients will be calculated based on version 4 and version 5. In this model 2 models like the rest of the independent variables of variable 4 and the models are available, and dependent variable of the research is not achieved simply by calculation through regressions.

Independent variables: Independent variables are presented in the following:

Changes in liquidity cash and short-time investments of the company in comparison to the past year is achieved of difference in cash and short-term investments and investments in short-term cash this year and last year the company.

Total Cash of the company to the beginning or the end of the previous period

The market value will be achieved at the beginning of the investigation period by multiplying the number of shares that the company achieves at the price at the beginning of each. Changes in the company's earningsare before interest and taxes, and in fact the difference between profit before tax and interest () this year and last year achieved earnings before interest and taxes.

Research hypotheses:

1. The final value of flexibility is significantly positive.
2. The final value of flexibility through Falklands and Wang method is significantly positive.
3. The final value of flexibility with significantly is positive according to Clark.
4. There is the inverse relationship between final value of flexibility and leverage.
5. The final value of the company's capital structure decisions has the greatest impact on flexibility.

The definition of concepts and terminology:

Financial flexibility: an ability to provide cash profit shortly after receiving information about the unforeseen financial needs or finding suitable opportunities to invest considered (Shabahang, 2005: p. 154).

Capital structure: A combination of debt and equity financing of companies doing with their assets. Companies use two sources of debt and rights holders in the composition of their capital structure. The choice between debt or equity as a source of new financing is affected by internal and external factors that affect the company's capital structure (Fereidooni, Shariat Panahi, 2007: p. 38).

Final value of cash: The investor reaction to a penny change in cash marginal value of cash in the form of abnormal returns is called final value of cash (Clark, Brian, 2010, p. 8).

Financial leverage: is the percentage change in net profit compared to the percentage change in operating profit, that is, with a percentage change in operating profit, net profit how much altered (F., Shariatpanahi, 2009, p. 34).

Financial flexibility

Financial flexibility can be more defined as the company's ability to re-allocate cash flow between bonds and shareholders over time to better match operational risk and long-term value creation (Donaldson, 1969, p. 121). Flexibility of companies can be saved by investing in real or financial assets. Financial flexibility due to costly external financing can be very useful for shareholders. Company flexibility on the one hand, by increasing liquidity and increase the value of their collateral assets, increased capacity and also reduce the cost of bankruptcy debt (Mawr and Tryantys, 1994, S1253-1277). Although, the Company may take advantages from having flexibility when flexibility is low and opportunity cost of investing also maintain flexibility. For example, Kim, Mower and Sherman (1998) and Williamson (1999) show that investment in current assets (or flexible) is costly, because companies would rather invest in current assets, investments in productive fixed assets. In general, when uncertainty rises in decision-making, flexible asset value increases. Hence, the change in debt levels reflect adjustments that can offer information about the company's financial flexibility. The value of financial flexibility increases by increasing the difference in the cost of external and internal financing.

Thus, companies that have less financial flexibility are more likely to face financial constraints that may force company to adjust fixed investment and convert them to cash in their liquidity shock currents. Here flexibility is actually pointing to real resources companies which improve the company's ability to conduct future operations, investment needs and growth opportunities.

The cost of financing from retained earnings

We multiplied the cost of each resource in their respective weight in order to determine the especial the specific investment cost of each capital resources to fund, and then we collect the obtained values; The result is called the weighted average cost of capital.

Conclusion

Major corporate executives in different parts of the world define financial flexibility as an important issue in decisions regarding their capital structure. University researches consistence this idea that motivation of financial flexibility has low relation to companies' need for investing in future and financial re-allocation with low cost. Companies with greater financial flexibility with easy access to foreign capital markets and access to the resources they need to grow their profits unforeseen and new opportunities.

In this study, the effect degree of financial flexibility in the impact of factors affects the efficiency of investment. In this study, the populations of 103 companies from companies listed on the stock exchange have been used to address the issue. Findings show that the companies who have more flexibility and variable quality of financial reporting and financial leverage on firm performance affect industry. But at other levels of flexibility (low and medium) there was not significant relation.

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