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STUDY OF THE IMPACT OF FINANCIAL STRUCTURE, FINANCIAL LEVERAGE AND PROFITABILITY ON COMPANIES SHARES VALUE (A STUDY CASE: TEHRAN STOCK EXCHANGE LISTED COMPANIES, IRAN)

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Abstract:
The main purpose of this study is investigate of the effect of financial structure, financial leverage and profitability on company's value among the firms listed on Tehran's stock exchange between 2010 and 2014. In this study, the data were collected by using of various sources based the official documents on Tehran's stock exchange, including the Tadbirpardaz and Rahavard Novin software have been used for calculation of dependent research variables have been used for calculation of dependent research variables. Nonetheless, data belonging to firms have been reviewed through investigation of journals, disks that are provided by the stock exchange organization and the website of Tehran stock services and also reports published by Tehran's organization of stock exchange. Which was processed after moving to the EXCEL spreadsheet, and using was of data analysis by combined data method. Results have shown that the variable of financial structure has no statistically significant effects on company's value. Results of the study regarding, there is a positive relationship between financial leverage and profitability on company's value.

JEL: G32, O16, D53

Keywords: financial structure, financial leverage, profitability and company's value

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1. Introduction

One of the ways using to maximize company value and improve shareholders' wealth, is Choosing or combining long-term financial resources. In such a way that the combination, financial resources can earn with characteristics such as low cost of capital more returns. Therefore, capital structure theory is closely related to the cost of a company's capital. Optimal capital structure of the company is the capital structure that is increasing the company value and is minimize the total cost of capital. This optimal capital structure is a combination of debt and equity that is maximizes the company value (Izadinia, 2009). On the other hand, the company value is dependent its income Power that is shown by its ability to is gain profit from sales. This is similar to its ability to invest in its assets (asset back) in order to be increase sales. And whenever the company can reduce these costs (Sales costs or general and executive costs), Can help increase your profits.

1.1 Problem statement

The financial structure refers to how the company finances financing, such as short-term debt, bonds, long-term debt. In other words, funds sources obtained by the company to finance its investments, whether short-term or long-term (Munir Ibrahim Hindi 1989), (Khalil Shama'a 1989). There is a must to differentiate between financial structure concept and capital structure, since capital structure means long-term (long-term liabilities + equity) funding sources, while financial structure (funding structure) includes (short-and long-term liabilities + equity) (Palepu, 2005). Company's financial structure has a great importance in investment and financing decisions, due to its impact on profitability, as well as risk degree faced by the company due to its dependence and expanding on debt. Financial structure decisions Affect Company's financial risk measured by leverage which is a ratio of borrowed to owned money. Each company works to determine its targeted financial structure parameters, in terms of its constituent elements and the proportion of each element in it. Through that it works to achieve its strategic objective represented by increase or maximize company's value. This requires that there should be a balance between the expected return, which resulted financial structure and the risks this return is subject to. Under ideal assumptions imposed by Modigliani and Miller for financial markets, the financing structure does not affect the capital cost and thus company's value remains constant and is not affected by financing structure. However, due to debts privilege of tax advantage given that their interests are exempted from tax , the presence of debt in its financial structure reduces capital cost, which leads to increased profitability, thus increasing the return on equity which will reflect positively on increment of company's value. Company's value depends on its revenue strength represented by its ability to make profits from sales (net profit margin), as well as its ability to invest in its assets to increase sales (assets turnover), and whenever the company is able to reduce its costs, whether sales cost, or general and administrative expenses, they will contribute in its profitability increment. The main question of the present research is that, does the financial structure, financial leverage and profitability on Companies Shares Value of the Tehran Stock Exchange listed companies?

2. Research purpose

Determination the effect of Financial Structure, Financial Leverage and Profitability on Companies Shares Value of the Tehran Stock Exchange listed companies.

2.1 The sub-goals

- Determination the effect of Financial Structure on Companies Shares Value of the Tehran Stock Exchange listed companies.
- Determination the effect of Financial Leverage on Companies Shares Value of the Tehran Stock Exchange listed companies.
- Determination the effect of Profitability on Companies Shares Value of the Tehran Stock Exchange listed companies.

3. Hypotheses

A. The main hypotheses

Financial Structure, Financial Leverage and Profitability have a significant effect on Companies Shares Value of the Tehran Stock Exchange listed companies.

B. The sub- hypotheses

- Financial Structure has a significant effect on Companies Shares Value of the Tehran Stock Exchange listed companies.
- Financial Leverage has a significant effect on Companies Shares Value of the Tehran Stock Exchange listed companies.
- Profitability has a significant effect on Companies Shares Value of the Tehran Stock Exchange listed companies.

4. Research Methodology

The main purpose of this study is determination of the Financial Structure, Financial Leverage and Profitability on Companies Shares Value of the Tehran Stock Exchange listed companies between 2010 and 2014. The present research is considered as an applied study and its data are of post facto type. In addition, it is a descriptive research and its data are subjected to correlation and regression analyses.

4.1 Research tools

The applied data collection method in this study is library studying. These data are in two categories: 1- theoretic data and 2- data regarding prices and other approvals of committees. In order to complete the basic theoretic sections and reviewing the literature of study, post facto statistical data have been used. In this regard, entire information related to entire firms and companies listed on Tehran's stock exchange have been made use of. In addition, the databases of firms of Tadbirpardaz and Rahavard Novin have been used for calculation of dependent research variables. Nonetheless, data belonging to firms have been reviewed through investigation of journals, disks that are provided by the stock exchange organization and the website of Tehran stock services and also reports published by Tehran's organization of stock exchange.

4.2 Method of data analyses

Regression and correlation analyses have been used for analysis of data of this research. Considering the type of data and existing statistical analysis methods, the combined data method is used. Since not considering for certain variables in the model results in lack of efficiency in econometric models, method of combined data which uses time series based and cross sectional data has a better capability for showing the effects of these unconsidered variables. Combined data include the previous trends of variables and are ensuring in terms of considering for dynamicity of variables. Ultimately, it can be stated that with respect to type of data, the software of EVIEWS and the method of Panel Data have been used for investigation of hypotheses.

5. Results

A. Testing the main hypothesis

The results procured from the stable effects method for the second hypothesis is presented in Table 1.

Table 1: Results of the research model test

Adjusted R^2	.3293
F-statistic	17.5
Prob (F-statistic)	.000
Durbin-Watson	1.81

The adjusted determination coefficient shows that 32.93% of the changes in the dependent variable are anticipated by the independent variable .In addition considering the F statistic it can be stated that the designed model is generally significant and suitable for investigation of the research hypothesis.

B. Testing of first hypothesis

The first sub- hypotheses: Financial Structure has a significant effect on Companies Shares Value of the Tehran Stock Exchange listed companies.

The results procured from the stable effects method for the second hypothesis is presented in Table 2.

Table 2: Hypothesis test

The dependent variable: Companies Shares Value			
Independent Variable	**Sign.**	**t-Statistic**	**Coefficient**
c	.000	36.45	79.54
Financial Structure	.242	3.17	71.71
Adjusted R^2	.8059		
F-statistic	16.87		
Prob (F-statistic)	.000		
Durbin-Watson	2.10		

T statistic value for the financial structure is 1.364. This means that, the Financial Structure has no a significant effect on Companies Shares Value. Dues which, significance value of less than 5 % demonstrates the no effect of independent variable on the dependent variable. In the other words, Financial Structure no has a significant effect on Companies Shares Value. As a result, the first hypothesis is rejected.

C. Testing the second hypothesis

Financial Leverage has a significant effect on Companies Shares Value of the Tehran Stock Exchange listed companies.

The results procured from the stable effects method for the second hypothesis is presented in Table 3.

Table 3: Hypothesis test

The dependent variable: Companies Shares Value			
Independent Variable	**Sign.**	**t-Statistic**	**Coefficient**
c	.000	3.70	49.239
Financial Leverage	.345	.94	22.276
Adjusted R^2	.4617		
F-statistic	5.14		
Prob (F-statistic)	.000		
Durbin-Watson	2.28		

According to Table 3, t statistic value for the Financial Leverage is .94. This means that, the Financial Leverage has no a significant effect on Companies Shares Value. Dues which, significance value of less than 5 % demonstrates the no effect of independent variable on the dependent variable. In the other words, Financial Leverage no has a significant effect on Companies Shares Value. As a result, the second hypothesis is rejected.

D. Testing the third hypothesis

Profitability has a significant effect on Companies Shares Value of the Tehran Stock Exchange listed companies.

The results procured from the stable effects method for the **third** hypothesis is presented in Table 4.

Table 4: Hypothesis test

The dependent variable: Companies Shares Value			
Independent Variable	**Sign.**	**t-Statistic**	**Coefficient**
c	.008	2.69	70094
Profitability	.000	4.04	196734
Adjusted R^2	.8394		
F-statistic	27.01		
Prob (F-statistic)	.000		
Durbin-Watson	2.18		

According to Table 4, the Profitability has a significant effect on Companies Shares Value. Dues which, significance value of less than 5 % demonstrates the effect of independent variable on the dependent variable. In the other words, Profitability has a significant effect on Companies Shares Value. Therefore, the third hypothesis is confirmed.

4. Conclusion

In capital markets, corporate credit is dependent on their capital structure. For this reason, capital structure is the most important affecting factor on the valuation of companies. Maximizing the value of a company also requires the optimal use of financial resources and the acquisition of returns and the choice of the appropriate risk for the company. Managers can maximize the company value of two ways: One of these two ways is adding to the company's returns and the other is minimizing the company's capital cost (after tax deduction) and the company's risk. Therefore, to enhance the company's performance, Managers should use less debt in their financing strategies and most of the time, they will be able their needs Funds through to increased sales volumes. Use of debt and leverage in the company's capital structure should be as possible. To maximize the profitability of the company and the shareholders' wealth and the bankruptcy will not be imposed on the company.

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