

The Effect of Ownership Structure on the Relationship between Free Cash Flow and Asset Utilization in Firms Accepted in Tehran Stock Exchange

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Abstract: Ownership structure, including management ownership and Government ownership, creates a monitor optimal use assets. The purpose of this study, investigation effect of ownership structure on relationship between free cash flow and assets utilization of the 53 firms listed in Tehran Stock Exchange for the period 2006 to 2010. In this study, are used from criteria management ownership and Government ownership for evaluation of ownership structure. Research findings show that there is negative and significant relationship between free cash flow and utilization assets, also management ownership amendment adjusted relationship between free cash flow and utilization assets but Government ownership wont adjusted relationship between free cash flow and utilization assets.

Keywords: Ownership Structure, Management Ownership, Government Ownership, Free Cash Flow, Assets.

Introduction

In today's world economic system transmission and accurate reporting of financial information to decision-making centers is extremely important. Shareholders that their deposits are located in the capital of firms for knowing how to manage your assets and ensure the accuracy and efficiency of managers means other than bills and annual reports are not available. Also government for various reasons including ensure the correct use of funds and Sources of income through the collection of taxes and the others requires accurate financial reports. On the other hand the precise knowledge of the results of various economic activities and accuracy in accounting principles and establish appropriate systems to transfer information financial reports an important factor that is considered in achieving economic programs. Today the "ownership structure" as one of the controversial issues and appealing the accounting literature is considered because the texture and composition of a company's shareholders and sometimes the owner of a firm's stock Forms ownership structure of the firm. Mahdavi and Miadari (2004) found in Iran such as China and the Czech ownership concentration meaning a positive impact on corporate performance. Mohammadi and et al (2008) found between ownership concentration and the operating efficiency of the firm there is a positive significant linear or relation and absence of any significant relationship between ownership concentration and firm value. Ahmadvand and et al (2010) found independent variable Q-Tobin has positive effect but weak on the managerial ownership and capital structure. Ang and et al (2000) and Singh and Davidson (2003) found evidence to suggest that

ownership structure (management ownership) is causing regulatory mechanism on how to use the asset. Dahlquist and Robertson (2001) and Yoo (2005) and Benfratello and Sembenelli (2006) found evidence to suggest that ownership structure (foreign ownership) is causing regulatory mechanism on how to use the asset. Feng and et al (2004) and Ang and Ding (2006) found evidence to suggest that ownership structure (governmental ownership) is causing regulatory mechanism on how to use the asset. Skandar and et al (2012) found there is a significant negative relationship between free cash flow and asset utilization. Also the ownership structure such as foreign ownership and governmental ownership and management ownership specially in firms with high free cash flow results in adjusted free cash flow of communication between assets are underutilized.

Materials and Methods

This study is applied and it is a quasi-experimental design. Financial data is derived from financial statements and firms reports. Research data from sample firms are obtained resources such as Rahavard Novin software and Tadbirpardaz software and Tehran Stock Exchange web site during fiscal years 2006 to 2010; also is used SPSS and E-Views software for data processing. To test the research hypotheses, to determine the relationship between the dependent and independent variables, was used the multiple regression. Sampling with used systematic method and was based on the following criteria:

- 1- The selected firms are not banks, financial institutions, investment and leasing.

- 2- To compare the observed arability, financial yearending29Marcheachyear.
- 3- The firm has not changed fiscalyearduring2006to2010.
- 4- The firm is listed on the Tehran Stock Exchange until the end of2006.
- 5- The financial statements of these companies are available.

Considering the above criteria, were selected 53firmsofthefirmslistedinTehran Stock Exchange, The research hypotheses are:

H₁:There is a significant relationship between free cash flow and use assets.

H₂:Governmental ownershipmakesadjustmentsrelationship betweenfreecashflowand useassets.

H₃: Managementownershipmakesadjustments relationship betweenfreecashflowand useassets.

The regression equation is as follows:

$$ASSET_UT = \alpha_0 + \alpha_1 SIZE_{i,t} + \alpha_2 DEBT_{i,t} + \alpha_3 ROA_{i,t} + \alpha_4 FCF_{i,t} + \alpha_5 GOV_{i,t} + \alpha_6 MGT_{i,t} + \alpha_7 FCF_{i,t} \times GOV_{i,t} + \alpha_8 FCF_{i,t} \times MGT_{i,t} + \varepsilon_{i,t}$$

Where:

ASSET_UT: Use of assets

SIZE_{i,t}: Firm size firm i in year t

DEBT_{i,t}: Debt ratio firm i in year t

ROA_{i,t}: Return on Assets firm i in year t

FCF_{i,t}: Free cash flow firm i in year t

GOV_{i,t}: Governmental ownership firm i in year t

MGT_{i,t}: Management ownership firm i in year t

Results

Table 1-Results of Regression

Results	VIF	Significance level	t-Statistic	Coefficient	Description
Confirmed	1/39	0/0	4/18	1/8	Firm Size
Confirmed	1/7	0/004	-3/06	-3/03	Debt Ratio
Confirmed	1/64	0/003	2/94	0/08	Return On Assets
Confirmed	1/2	0/0	-4/78	-8/62	Free Cash Flow
Confirmed	1/05	0/0002	-3/82	-2/07	Governmental Ownership
confirmed	1/32	0/0	-4/26	0/19	Management Ownership
Significance level	F-Statistic	Adjusted Determination Coefficient	Determination Coefficient	Durbin-Watson statistic	Description
0/0	30/19	0/4	0/41	1/92	Amount

The resultsTable1 show that coefficients of variables firm size, debt ratio, return on assets, free cash flow, governmental ownership and Management ownershiprespectively1/8, -3/03, 0/08, -8/62,-2/07and0/19 that all of which are significant at the 95% level. Also values of the variance inflation factors are all less than the number 2 which is indicative of the absence of multi col linearity between the independent variables. In other words the increase in free cash flow is reduced performance

of the assets. The results of above table show that there is a significant negative relationship between free cash flow and use of assets. Thus first hypothesis is verified that there is a negative and significant relationship between free cash flow and use of assets. According to above table the coefficient Durbin-Watson statistic is1/92 which shows the lack of correlation between the residual terms and also F-statistic is equal to30/19whichwas significant at 95%andisestimated to be well represented.

Table 2-Comparison of the efficacy of the use of the assets and the impact of governmental ownership and management ownership

Research model(with regard to the effect of ownership)		Research model(without regard to the effect of ownership)		Description
Significance level	Coefficient	Significance level	Coefficient	
0/0	1/8	0/0	1/05	Firm Size
0/004	-3/03	0/0009	-3/32	Debt Ratio
0/003	0/08	0/001	0/08	Return On Assets
0/0	-8/62	0/0	-8/8	Free Cash Flow
0/0002	-2/07	0/0003	-2/26	Governmental Ownership
0/0	0/19	0/004	-0/14	Management Ownership
0/12	0/07			
0/0	0/45			
0/0	30/19	0/0	38/17	F-Statistic
0/41		0/54		Determination Coefficient
0/4		0/53		Adjusted Determination Coefficient

The results of Table2 with the addition of free cash flow multiplied by management ownership negative impact free cash flow shave declined on use of assets; in other words coefficient of free cash flow is reached of 8/8-to 62/8. Thus, the third hypothesis is based on the adjustment of the relationship between free cash flow and use of assets approved. But due to the lack of significant coefficient variable of multiplied of free cash flow and governmental ownership senseless moderating effect on the relationship between free cash flow and use of assets thus the second hypothesis is not confirmed and is rejected.

Discussion

Free cash flow is a benchmark for measuring the value and performance of the firm and indicating cash that firm its disposal after expenses for maintenance and development of the assets and its distributed among investors. So it is recommended that firms managers in order to reduce agency costs arising from conflicts of interest between managers and owners and enhance firm value and increase the value of shareholder wealth free cash flow to be used for property development. Also According to the criteria of ownership such as governmental ownership, management ownership, institutional ownership and major role of free cash flows in firm necessary and considerable directed behaviors and motives and decisions of firm managers about use and application of assets in order to increase the firm's value.

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