Study the Relationship between Capital Structure and Institutional Ownership by examining the Causality Relation between Capital Structure and its Effective Factors in Iran Stock Exchange

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ABSTRACT

The aim of this research is Study the Relationship between Capital Structure and Institutional Ownership by examining the Causality Relation between Capital Structure and its Effective Factors in Iran Stock Exchange Other factors include the percentage of stock dividend ,profitability, Commercial risk, asset structure, liquidity, growth and size of firms. The study population consisted of 117 companies listed in Iran Stock Exchange in the form 7 industry groups during the period of 2004 to 2009s. Pooled regression models with fixed effects econometrics software Eviews 6 were used to test research hypothesizes. Results show that at the level of whole companies, all factors except the percentage of institutional ownership were affecting capital structure. However, in the chemical industry, the percentage of institutional ownership, percentage of stock dividend, Commercial risk, liquidity and size of firms, in the food industry, liquidity, The asset structure and size of firm, in the metal industry, the percentage of institutional ownership, dividend per share, Commercial risk, asset structure, liquidity and size of firm, in non-metallic mineral industry, liquidity, in Tile and ceramic industry, trade and liquidity risk and in the materials and products industry, and pharmaceutical industry, liquidity risk and size of firm were effective on the capital structure.
KEYWORDS: capital structure, institutional ownership, pooled regression with fixed effects and Iran Stock Exchange.

INTRODUCTION

The relationship between capital structure and ownership structure of the company especially institutional ownership is very important in the financial literature. Leland & Pyle (1977) and Jensen (1992) are among the first researchers were aware of this issue. Furthermore, experimental evidence indicates the relationship between capital structure and institutional ownership and various researchers identified this relationship between institutional ownership structure and capital structure (Brails ford et al., 2002; Chianti & Damanpour, 1991; Jensen et al.,1992). Bajaj et al., (1998) concluded that the proportion of debt to equity ownership (Leverage) is positive [10. The relationship implicitly indicates that there is a correlation between ownership structure and financial structure of firm (Brails ford et al., 2002; Mehran, 1992). There is correlation between financing decisions and capital structure and corporation governance (Abort, 2007). Institutional ownership as one of the mechanisms of corporation governance Affects operation of market investment and has strong effect on the resource allocation (Bopping & Arco, 2009). Institutional investors play a key role in the control of stock corporations (Chidambaram & John, 2000). Hence it seems that existence of institutional owners can improve corporation performance, if there is this situation, presence of institutional owners can be anchor to corporation financing.

Modigliani and Miller stated that there is no different between Debt financing and equity financing the in one of the world without any frictions, it means that the financing decisions are without of value added. The Evidences are obtained in the real world do not confirm this issue (Miller & Kevin, 1985). Therefore, the recent study investigates the effect of institutional ownership as one of the effective factors on the capital structure along with other factors affecting these categories.

Background of the study

This research is in the category of first researches that to examine the mutual relationship between capital structure and effective Determinants on this in the listed companies in Iran Stock Exchange.

The numbers of internal and external researches that they are associated with this study are as follows:

John and Kevin Williams and Miller argue that there is positive relationship between dividend payments and capital structure (John & Williams, 1985; Miller & Kevin, 1985). Large companies tend to have diversification and

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less to put at the disposable of bankruptcy risk Thus a positive relationship between firm size and leverage is expected (Bandura, 2002) and Institutional investors tend to invest in large firms (Tong & Ming , 2004). Tsai & Gu show that financial institutions are willing to invest in larger public promenade companies and with lower financial leverage (Tsai & GU, 2007). Al-ajar and Taylor concluded that profitability, size, The Company's growth rate, the ratio of market value to book value; asset structure and liquidity are indicators factors of capital structure, that these factors are as same as the indicators factors of capital structure in the developed countries (Al-ajar & Taylor, 2008). Céspedes et al., Researched on the relationship between capital structure and ownership in 7 Latin American countries and they found that there is a positive relationship between leverage and concentration of ownership. Also these results indicated that there is a positive relationship between leverage and growth variable and Negative relationship between leverage and profitability and larger companies have more tangible assets (Céspedes et al., 2010).

Namazi and Heshmati with analysis of 164 firms and applying the Panel data regression models in the during 2000 and 2004 s have reached the conclusion that there is significant relationship between profitability, stock return, Financial deficit and market value over book value of corporation assets with capital structure (Namazie & Heshmati, 2007). Sinai (2007) has investigated the effect of corporation's internal factors on the formation of Capital structure in Iran Stock Exchange and has concluded that the special factor of each industry has an impact on the corporate financial structure. Sinai also has concluded that effective external and internal factors on the capital structure of each corporation are different, and we cannot determine total roll for whole firms (Sinai, 2007). Salivate and Rayon in research as tittle* study of Relationship between capital structure and liquidity of stock * concluded that more than 57% of the variation in financial leverage by "liquidity related variables to be explained (Salvati & Sayyan, 2007). Kimiagary and Inly concluded that growth opportunities variables, asset structure and Stock returns have a negative effect on the debt ratio, and Commercial risk has a positive effect this stated ratio stays and colleagues concluded that, capital structure and profitability depend on definition of variable. Also results of the genetic algorithms indicate that the most Benefits against of using less financial leverage has been achieved, it means that there is negative relationship between capital structure and the rate of return on assets (Setaish et al., 2009). Arbabian and Safari Grayly results show that there is positive relationship between short-term debt ratio and corporation profitability and also between total liability to asset and profitability, but there is negative relationship between long-term debt ratio to asset and profitability (Arbabian & Safari, 2009). Ghadiri Moghadam and Aside concluded that the significant relationship between corporation quick ratio and its Interest coverage ratio (capital structure) (Ghadiri & Acadian, 2010). Setaiesh & kashanipor, (2010) were studied effective factor on capital structure of Listed companies in Tehran Stock Exchange.

Research hypotheses

This study has a Main hypothesis and eight sub-hypothesizes are as follows: Main hypothesis: affecting factors on the capital structure of companies in various industries can be determined.

1. There is meaningful Relationship between institutional ownership and capital structure in various industries.

2. There is meaningful Relationship between cash dividend of companies and capital structure in various industries.

3. There is significant relationship between profitability of companies and capital structure in different industries.

4. There is significant relationship between Commercial risk of companies and capital structure in different industries.

5. There is significant Relationship between asset structure of companies and capital structure in various industries.

6. There is significant Relationship between liquidity of companies and capital structure in various industries.

7. There is significant Relationship between firm growth and capital structure in different industries.

8. There is significant Relationship between firm size and capital structure in different industries.

The statistical population and sample:

The statistic population of this study is all the companies listed in Iran Stock Exchange during 2004-2009 (6 years) which have the follow conditions.

1. Companies that were listed in Iran Stock Exchange up to Stand month of 2003 and their financial year was up to end of Stand.

2. Involved companies should have the continuous activity in during of study and their stocks were traded.

3. The companies not intended to be changed their fiscal year in during of study.

4. Required financial information was fully presented for administration of this study hen during of 2004-2009.

The statistical sample in the present study is as same as the statistical population. The 117 numbers of companies' were selected and evaluated on the basis of mentioned conditions.

Analysis method of research data:
In this study, the relationship between capital structure and institutional ownership alongside with other affecting factors on this relationship was investigated with the use of combined regression analysis on the follow:

$$Y_{it} = \alpha_{it} + \beta_1 PIO_{it} + \beta' X_{it} + \varepsilon_{it}$$

In this regard, we have:

Y=LEV= ratio of total debts to total assets (capital structure) in Company in t year.
α= intercept of firm in t year.
PIO= the percentage of institutional ownership (ownership structure) in Company in t year.
B '= Row vector of regression coefficients of other affecting variables on the capital structure in t year.
X= column vector of other affecting variables on the capital structure for the company in t year.
X_1= DPO= ratio of dividend Payment (dividend per share Income per share)
X_2= ROE= the ratio of return on equity (net profit on the proprietary rights)
$X_3 = \sigma$= BR standard deviation of return on assets (net income over total assets)
X_4 =TNAG= ratio of fixed assets (fixed assets over total assets)
X_5= LIQ= current ratio (current assets over current liabilities)
X_6 = MB= ratio of market value to book value (market value per share to book value per share)
X_7= size (natural logarithm of the market value of the shares).
ε= the residual error (residual) of company in t year. [9]

Analysis of research findings
In this survey before testing this hypothesizes, were investigated the reliability of variables and then each hypothesis have been tested at the level of Companies and in various industries.
The reliability means that the mean and variables variations over time and variables covariance between different years were constant. Reliability of the results is presented.

Table 1. Reliability Test of variables during the study period.

Criteria \ Variables	Probability of Fly's Prone	Quantity of Fly's Prone	Modified probability of Dickey Fuller	Modified quantity of Dickey Fuller	Probability of I mm boys and Shin	Quantity of I mm boys and Shin	Probability of Levine, line and Chow	Quantity Levine, Line and Chow
Capital structure	0.000	882.89	0.000	684	0.000	-16.81	0.000	-62.68
institutional ownership	0.000	259.93	0.000	223.69	0.000	-23.00	0.000	-62.67
stock dividend	0.000	619.93	0.000	525.39	0.000	-16.01	0.000	-52.18
profitability	0.000	473.89	0.000	383.67	0.000	-1000	0.000	-1600
Commercial risk	0.000	501.74	0.000	384.07	0.000	-1000	0.000	-1600
asset structure	0.000	636.14	0.000	462.39	0.000	-12.66	0.000	-32.52
liquidity	0.000	443.19	0.000	322.19	0.000	-5.32	0.000	-53.03
firm Growth	0.000	651.03	0.000	525.91	0.000	-14.84	0.000	-43.39
Firm size	0.000	374.14	0.000	289.41	-0.032	-1.58	0.000	-14.28

Testing of significant hypothesis at the level of all companies
Results show that there isn't relationship between the institutional ownership and capital structure. Other results indicate that at level of all companies, the relationship between all research independent variables and capital structure is significant except the percentage of institutional ownership. It shows that independent variables of stock dividend, profitability, Commercial risk asset structure, Liquidity, Growth and size of firm hade effected on the capital structure at the level of all companies.

Among these factors, two factors including cash flow and business growth have had a negative impact on the capital structure of company and other factors have had negative impact in the during of research. The results of the F statistic Also show this model totally was significant, and there isn't Auto correlated problem regarding by Durbin–Watson statistic. In addition, the relevant results of the adjusted determination coefficient indicate that, 49% of changes of the company's capital structure were affected from the independent variables of this research at the total period.

Table 2. Regression model of affecting factors on the capital structure of the company.

variables	Probability of T statistics	Quantity of T statistics	Standard Deviation	Regression Coefficient
capital structure	0.0000	92.75	0.007	0.63
institutional ownership	0.1674	-1.38	0.05	-0.07
stock dividend	0.0457	2.002	0.01	0.02
profitability	0.0489	1.97	0.02	0.05
Commercial risk	0.0102	2.58	0.16	0.42
asset structure	0.0124	2.51	0.06`	0.15
liquidity	0.0000	-6.6	2.51	-0.08
firm Growth	0.0295	-2.18	0.001	-0.003
firm size	0.0000	6.3	0.009	0.06
determination Coefficient	Probability of T statistics	Quantity of T statistics	Durbin–Watson statistic	Modified determination Coefficient
0.0000	6.51	1.96	0.49	0.58

Testing hypotheses at the various levels of industries:
Regression models of affecting factors on the capital structure in different industries are set, in Table 3 – 8.

Table 3. Regression models of affecting factors on the capital structure of non-metallic mineral industries:

Variables	Probability of T statistics	Quantity of T statistics	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	13	0.06	0.073
liquidity	0.0124	-2.64	0.04	-0.11
determination Coefficient	Probability of T statistics	Quantity of T statistics	Durbin–Watson statistic	Modified determination Coefficient
0.55	0.0001	5.87	1.98	0.45

Table 4. Regression Model of Affecting Factors on the Capital Structure in food and pharmaceutical products Industries.

Variables	Probability of T statistics	Quantity of T statistics	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	15.11	0.05	0.81
liquidity	0.0012	-3.35	0.04	-0.13
determination Coefficient	Probability of T statistics	Quantity of T statistics	Durbin–Watson statistic	Modified determination Coefficient
0.6	0.0000	7.41	1.71	0.52
Variables	Probability of T statistics	Quantity of T statistics	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	30.51	0.02	0.62
firm size	0.0016	3.26	0.02	0.06
determination Coefficient	Probability of T statistics	Quantity of T statistics	Durbin–Watson statistic	Modified determination Coefficient
0.6	0.0000	7.34	1.87	0.52

Table 5. Regression models of affecting factors affecting on the capital structure of the food industries

Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	8.11	0.06	0.47
asset structure	0.0125	2.64	0.27	0.71
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.35	0.0289	2.6	1.89	0.22
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	11.04	0.08	0.85
Liquidity	0.0032	-3.18	0.06	-0.19
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.4	0.0107	3.18	1.8	0.27
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0436	-2.1	0.42	-0.87
firm size	0.0011	3.57	0.03	0.11
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.43	0.0047	3.66	1.89	0.31

Table 6. Regression models of affecting factors on the capital structure of the metal industries.

Variables	Probability of T statistic	Quantity of T statistics	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	19.25	0.04	0.77
institutional ownership	0.0007	-3.44	0.09	-0.3
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.58	0.0000	6.79	1.79	0.49
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	45.76	0.01	0.61
stock dividend	0.0282	2.21	0.02	0.03
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.56	0.0000	6.46	1.86	0.48
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	31.26	0.02	0.56
Commercial risk	0.0000	4.58	0.31	1.4
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.59	0.0000	7.22	1.88	0.51
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	25.05	0.02	0.58
asset structure	0.0114	2.55	0.11	0.28
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.57	0.0000	6.54	1.7	0.48
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	31.82	0.02	0.71
liquidity	0.0012	-3.29	0.02	-0.05
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.58	0.0000	6.74	1.74	0.49
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	54.36	0.01	0.65
firm size	0.0000	4.66	0.01	0.06
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.59	0.0000	7.25	1.77	0.51

Table 7. Regression models of affecting factors on the capital structure of the chemistry industries.

Variables	Probability of T statistics	Quantity of T statistics	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	12.57	0.06	0.81
institutional ownership	0.0076	-2.71	0.14	-0.39
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.4	0.0000	3.29	1.86	0.28
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	33.55	0.02	0.06
stock dividend	0.0409	2.06	0.02	0.04
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.39	0.0000	3.11	1.92	0.26
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	33.4	0.02	0.059
Commercial risk	0.0042	2.91	0.29	0.86
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.4	0.0000	3.36	1.84	0.28
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	28.7	0.03	0.85
liquidity	0.0000	-7.48	0.02	-0.17
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.55	0.0000	6.13	1.8	0.46
Variables	Probability of T statistics	Quantity of T statistics	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	6.51	0.02	0.16
firm size	0.0076	2.71	0.02	0.04
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.4	0.0000	3.29	1.85	0.28

Table 8. Regression models of affecting factors affecting on the capital structure in ceramic and tile industries.

Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	20.71	0.03	0.54
Commercial risk	0.0073	2.89	0.3	0.87
determination Coefficient	Probability of T statistic	Quantity of T statistic	Durbin–Watson statistic	Modified determination Coefficient
0.41	0.0122	3.36	2.15	0.29
Variables	Probability of T statistic	Quantity of T statistic	Standard Deviation	Regression Coefficient
Fixed amount	0.0000	9.16	0.09	0.78
Commercial risk	0.0422	-2.13	0.07	-0.14
determination Coefficient	Probability of T statistic	Quantity of T statistics	Durbin–Watson statistic	Modified determination Coefficient
0.34	0.0432	2.53	1.85	0.21

Also any nothing of the above mentioned factors weren't effective on the capital structure in the wood and textiles industries; hence the results in this field weren't presented.

Conclusion

The results show that the capital structure of the listed companies in Iran Stock Exchange similarly developed markets are subject to factors such as a stock dividend, Profitability, Commercial risk, asset structure, liquidity, growth and size of the firm, but the effect of these factors in a various industries have been different. Summary of this research conclusions are described as following.

1- About 49% changes of companies' capital structure were affected by stock dividend, profitability, Commercial risk, asset structure, liquidity, Growth and size of firm variables. Among these factors, liquidity and growth factors have negative effect on capital structure and others have a positive effect.

2-The percentage of institutional ownership, dividend stock, Commercial risk and liquidity have affected in the chemical industry. About %26, 28% and 28% of changes of capital structure were directly and respectively affected by dividend stock; Commercial risk and the size of firm. Also about 28% and 46% of the variation of capital structure were affected vice versa by institutional ownership and liquidity.

3- The liquidity, asset structure and firm size on the capital structure were effective in the food industry. Approximately 22% and 31% of the variation of capital structure directly and respectively were influenced by the structure of assets and firm size. Also, about 27% of the Changes of capital structure have been adversely affected by liquidity.

4- The percentage of institutional ownership, stock dividend, Commercial risk, the assets structure, liquidity and firm size on the capital structure were effective in the metal industry. About 48%, 51%, 48% and 51% of capital structure changes directly and respectively was affected by stock dividend, Commercial risk, the assets structure, and firm size. Approximately 49% and 49% of the capital structure changes were inversely affected by Level of institutional ownership and liquidity.

5- The liquidity was just factor that effect on the on capital structure and about 45% of the Changes of capital structure has been adversely affected by liquidity in non-metallic mineral industries.

6- The market risk and liquidity were effective on the capital structure in tile and ceramic industry. Approximately 29% of capital structure changes were directly affected by the Commercial risk and about 21% of capital structure changes were adversely affected by the liquidity.

7- The liquidity and company size were effective on the capital structure in Materials and pharmaceutical products industries. About 52% of the capital structure changes directly were affected by the firm size and about 52% of the company's capital structure changes adversely were affected by the liquidity.

8- None of the factors that were studied, there were no effective on the capital structure in the Wood and textile industries.

DISCUSSION

The comparison of this research with accomplished other research was presented in following:

The results of this survey are concerning about the negative effect of institutional ownership on the capital structure in the chemical and metal industries at the level of the whole companies which are compatible by results of Chianti & Damanpour (1991), (Grier & Zychowicz ,1994) and Tong & Ming (2004). The results of this survey are concerning the positive effect of a stock dividend on the capital structure of the All companies in the chemical and metal industries which are consistent with the results of Bhaduri (2002), John and Williams (1985) and Miller and Kevin (1985). The results of this survey are concerning about the positive effect of the profitability on the capital structure of all companies which are consist with the results of Grayly Arbabian and Safari Companies(2009), Céspedes al et (2010), Kimiagary and Inly (2008) and praise et al (2009). The results of this survey are concerning about the positive Effect of Commercial risk on the capital structure of all Companies in the metal and food industries which are consisting with results of Bhaduri (2002) and Kimiagary and Inly (2008). The results of this research are concerning about the positive effect of liquidity on the capital structure of all Companies in the chemical, steel, food, non-metallic minerals, ceramic and tile industries which are consist with results of Lang and Taylor (2008) and Ghadiri Moghadam Aside (2010), respectively. The results of this survey are concerning about the negative effect of company growth on the capital structure of all Companies which are consist with agree with the results of Lang and Taylor (2008) and Kimiagary and Inly (2008) and contrary to Céspedes et al (2010). The results of this research are concerning about the negative effect of company growth on the capital structure of all companies which are consist with results of Al-ajar & Taylor, 2008, Kimiagary & Einali, (2010). The results of this survey are concerning about the positive effect of firm size on the capital structure of all companies in the chemical,

steel, food and pharmaceutical products industries which are consist with the results of Bhaduri (2002) and Tsai and GU (2007).

Suggestions

1- regarding by existence of the negative relationship between liquidity and capital structure of all Company and the Most industries, it seems that the company with more cash assets Perhaps such assets use as financial resources for future investment opportunities, and does not need to be financed through debt; Therefore, it is recommended that users of company financial information and also the Iran Stock Exchange are no considered the company's current ratio as a negative message, and in this regard, they are more accurate.

2- regarding by existence of the a positive relationship between profitability and capital structure of the all Companies and most industries, this relationship was not significant in terms of the ability of companies in Using of external financing sources to offer Iran Stock Exchange which it is regarded for ranking of various industries.

Suggestions for future studies, there are still several issues to do research in this field that they may be important in the future. Therefore, this survey suggests that for more usage of the research results and also helps to clarify the relationship between capital structure and institutional ownership in the future should be Attention to the following topics: Study of others ownership structures (such as corporate, private, foreign, domestic, and Etc.) in the examines of the relationship between capital structure and company ownership. Study of effect of macroeconomic variables on the relationship between capital structure and company institutional ownership. To evaluate and test of the relationship between capital structure and institutional ownership for determined companies in comparison with Profitable companies by usage of dummy variable. Replicate this study by using of the time interruptions and study of effect of interruption increased on the improvement of model forecasting. Due to the high volatility in the economic, cultural and political factors that ruling on the Companies in our country; it is recommended that is used to design Nonlinearity regression in the Relationship between capital structure and corporate institutional ownership in the future research.

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