

Investigating relation between Political Connections and Cash Holding in Companies Listed on Tehran Stock Exchange

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Abstract

We examine the relation between Political connections measured through lobbying activities and percent State ownership. This is an interesting question as many of the motives for holding cash should be diminished by political connections. To conduct this research , we have used information concerning 105 companies listed in Tehran Stock Exchange during financial periods 2010-2015. In addition, the research is the type of post-event descriptive practice, which for testing the research hypothesis the multi-variable regression of data is used. Results indicate a significant and inverse relation between cash levels and lobby expenses and Percent state ownership that the marginal level of cash decreases with increase lobbying and Percent state ownership.

Keywords : Cash, Cash holdings , Corporate lobbying , Political connections , state ownership.

Introduction

Companies as economic units, are always looking for profitability and achieve greater wealth. For various reasons that most important of them are the separation of ownership from management, companies doing business in addition to the duty, the duty to respond to people outside of the company responsible. The most efficient form of accountability, based on empirical evidence, financial reporting (Watts and Zimmerman, 1986). Government as the main supporter of the country's economy guardian role for firms in each society has played. Government due to take over decision-making power in the company and implementing policies always a great investment in developing countries, especially Iran. Apart from discussions about the disadvantages or advantages of this type of ownership, it should be considered that the accounting and reporting systems of firms that are affected by the corporate governance of companies will be affected by the type of ownership. The argument presented is that state-owned companies due to special circumstances (political connection with the government), fewer costs are tolerated by the government (Black and Coffee, 1994). Therefore, it seems that companies are not only responsible for carrying out economic activity on his shoulders, but he had to report the results of their activities and to the extent that it is expected in economic activity and to reduce costs and revenues their own, trying to interpret financial reporting will be conducted at the direction of users of financial statements would not be a transfer of wealth out of the company. One of the main examples of the transfer of wealth out of business, political costs that companies because of the cost of information exchange, and consultation of the group's main decision-making and legislation they are government agencies, can be tolerated. Some companies with specific economic characteristics are more severe laws the state legislature or other groups seek to impose their costs and therefore to avoid these costs (economic consequences) more motivated to use reporting In order to reduce the outflow of benefits will participate (Sadat -far1393).

Research Problem

Financial institutions generally shall be kept a part of their assets for cash holdings and determine how much of the assets must be kept in cash, important decisions that taking the management entity. Research conducted by Kim et al (1998) Ozkan and Ozkan (2004), respectively, showed that managers kept between 1.8% to 9.9 % of all its asset to hold cash. Typically, managers are looking for the optimum level of cash balances due to the advantages and disadvantages of cash holdings, major damage to the entity and the loss of opportunity to prevent the maximum possible value from existing levels Optimized cash gain. In fact, managers and planning for liquidity at the end of a period of time in order to , get it working. Many studies have examined the motivations and factors affecting the company's cash holdings have dealt with various factors, including accounts receivable, inventories, net working capital, current liabilities and long-term, net profit, dividends, opportunities Company growth and size, mentioned as factors affecting cash holdings (aghaei et al 1388).

Hagerman et al (1978) have argued that the companies are subject to political attacks. Lawyers people have an incentive take up positions to transfer wealth companies to their or their clients. This position in the debate about the social responsibility of companies and require them to pay for some of the social issues, flood, earthquake, war and impose higher tax rates on them or deprive them of some of the benefits and rights should be . Managers have incentives to resist transfer of wealth, because these transmissions continuously reduce the company's value. In the same way, they will be prevented from further competition because competition , corporate value and directors receive the wages, will reduce (Hagerman et al., 1978).

By increasing the effective tax rate, companies more incentive to use conservative accounting practice. The amount of impact as the effective tax rate has been raised as a political cost (ibid). Political payments often have great-looking effects. It is not surprising that companies are trying to directly participate in political campaigns or indirectly through the lobby on legislation affect on political events (Stigler, 1971; Grossman and Helpman,1994). Richard et al (2009) stated that lobbying firms have a lower effective tax rate. Zhao and Huang (2011) showed that the joint venture fund managers through the lobby obtain private information about the stock.

In the case of cash and related topics has been done a lot of research. Given that the cash holdings have advantages and disadvantages, so some researchers believe that the optimal amount of cash, where that the costs and benefits of holding cash are balanced . As a result of this research, researchers have provided theories to determine the optimal level of cash . Also in another category of investigation into financial and nonfinancial variables that affect cash holdings, conducted research and effectiveness some of theme in cash holdings , largely been accepted. General political interests can be in two ways: lobbying or donations to politicians or political sectors. Ansolabehere et al (2003) stated that there is no relationship between the donations to politicians and company performance. Because most of these political contributions is known in the name of the person .

More research in the field of political communication used donations to politicians as political associations instead Of the lobby. The aim of this study is to fill this vacuum. In general, previous studies have shown that the Lobby's activities have an important impact on shareholders and their wealth. According to what was said , in the study also sought to examine the effect of the political cost that will be measured through lobbying costs on cash holdings (The cost of conferences , events and meetings) and percent owned by the government or state-owned companies on cash holdings in the sample companies.

The reasons for holding cash and prevailing theories on maintaining cash

Two theories governing the maintenance of cash, exchange theory and hierarchical theory . According to exchange theory, the optimal level of cash holdings set based on a balance between the benefits and the cost of maintaining cash . Three major motivation for keeping cash are transactions, precautionary motive and speculative motive. In accordance with the incentive to trade, companies that are faced with reduced internal resources , can provide it by selling assets,

issuing new shares, or reduced dividend and borrowing. But all these strategies entail costs that are both variable and fixed cost element. (Garcia et al. 2008). The results for payments by companies that are facing high cost of transactions, large cash holdings, hold.

The precautionary motive, companies in hard times to reduce the risk of financial crisis, hold their cash. The speculative motive, companies to take advantage of unexpected investment opportunities coming when external financing is costly to maintain their liquid assets. According to Jensen opinion when companies increase the amount of free cash flow, representing the conflict between shareholders and managers is intensifying.

Administrators can pursue their interests in the expense of shareholders and thus to maintain cash reserves for manager more than shareholders (Ferreira and Villa 2004).

Another disadvantage maintenance of high cash flows can be low return on these assets to fixed assets as well. Kim and others have documented, for example, companies that have a relatively low asset returns are significantly more liquid assets they hold. (Garcia et al. 2008).

Political costs

Based on the political costs hypothesis that offer by Watts and Zimmerman (2008) was presented, politicians have the power to redistribute wealth with use of policies, influence resources. It is also one of the main factors affecting the wealth management, cash rewards.

Changes in cash flow can be affected by taxes, regulations and information about the political costs. So managers have rules and regulations that affect them consider and, if possible, control them. Based on the hypothesis political costs in larger companies, executives tend to move income from the current period to future periods to reduce political costs .

Watts and Zimmerman with research about the relationship between political costs and size of company, the hypothesis that larger companies incur greater political cost has been rejected. Watts and Zimmerman in their study concluded that tax rates over time and between all companies and industries are not the same (yaghob nejhada et al. 1388).

definition of political costs

The political costs are costs for business continuity and life, according to legal requirements and customary institutions and economic environment are essential. Such costs due to law enforcement and regulatory approvals or by political pressure imposed on companies. Such costs can be tax policy, pension insurance, the costs of grants to individuals and organizations and institutions, contribute to the sport, export customs duties, environmental costs, the cost of developing educational facilities, payments to union labor and other official and unofficial sources noted (Pour Heydari and Hemati 1383).

Research Background

Jensen and Meckling (1976) argue that firms are subject to political attacks. Lawyers people have an incentive to transfer of wealth from their companies to their clients. This position in the debate about the social responsibility of companies and require them to pay for some of the social issues as, flood, earthquake, war and impose higher tax rates. Costs incurred by companies are a function of their size, because smaller companies are less visible and therefore less subject to political distribution of wealth. Watts and Zimmerman (1978), investigation the relationship between the rate of corporate income tax and size of company to examine the relationship between political costs and the rate of corporate income tax . They concluded that the relationship between firm size and tax rates over time and across all industries are not the same. Digan & hallam (1991), their study showed that companies with a greater share of the market for its industry, most likely the political cost will be more. If the hypothesis was proposed that companies with a greater share of the market related to your industry tend to incur political costs more, the results of the study hypothesis was confirmed. Godfrey & jones (1999) to evaluate the effect of political costs on smoothing earning use the of share in the market. The hypothesis of this study was, whether political costs on the smoothing effect or not? The results show that firms activity in the banking, finance, research, and basic urban services activity also incur the political costs higher. Faccio (2007) in a study to examine the characteristics of political companies pay .The results are based on information about 47 countries, showed that companies have higher leverage and market prices have higher political than other companies. Faccio (2010) in a study as the difference between politically connected companies and other companies concluded that companies with political connections, have leverage larger and more market value and pay less tax, but has a lower performance compared to other companies. Boubaker et al (2012) study to examine the relationship between political communication and exchange their cost of capital. They concluded that firms with political connections rates are lower capital costs but also the country's legal and institutional environment affects this relationship. Hill and colleagues (2013) in a study to assess the determinants of lobbying by companies and concluded that the company's size, investment opportunities, cash flow, industry are characteristics the influence on corporate lobbyists. Hill and colleagues (2014) in a study as a relation between Political Connections And Cash Holding find that between political Connections through lobbying activities and Cash Holding, significant negative relationship exists. Pourheidary and Hemati (1383), while use the total sales variable as a proxy for cost of political, find between the size and tend to reduce realize profits is a positive relationship. They also use the number of employees as a representative political costs and reached a negative relationship. Izadinia and Rasaiian (1389) to examine the relationship between levels of cash holdings and strategic monitoring tools includes the percentage of institutional ownership and the percentage of board of directors of the listed companies in Tehran Stock Exchange concluded between the level cash holdings and firm value there is a significant positive relationship.

Hypotheses

The main hypothesis:

Political communications firm and cash holdings are related.

Hypotheses:

H1: Political communications through lobbying activities with cash holdings are inversely related.

H2: Political communication through public ownership , with cash holdings are inversely related.

Statistical population

The study population consisted of all companies in Tehran Stock Exchange during 1388 to 1393 and adjusted for the community using a set of restrictions that are mentioned below, the sample is known. The samples started with the whole population and then consider the following example based on the systematic elimination.

until 1388 to be listed in the Tehran Stock Exchange. Companies should not be removed during the course of investigation of Tehran Stock Exchange. Financial information needed for this research in the period 1388 to 1393 is fully available. Companies do not in investment companies, financial intermediaries, banks and insurance companies due to differences in pricing these companies. Companies surveyed financial year ended 29 March. According to the restrictions listed 105 companies during the period of 6 years actively involved in the exchange of conditions are met.

Descriptive statistics

A summary of descriptive statistics is shown in Table 2. In this study, data relating to 105 companies in 6 different years (88 to 93) have been collected from the Tehran Stock Exchange. Descriptive statistics (mean, standard deviation, minimum value and a maximum value) variables in Table 2. Descriptive statistics, measures of dispersion and central figures show. Knowledge of descriptive statistics step towards understanding the relationship between them and the average trend data and reviews about the distribution . In this section, the descriptive statistics of the variables studied (Table 2) is explained.

Table1

	CASH	LobbyRatio of (lobbying activities)	LobbyRatio 2 (public owner)	SIZE	Leverage
Observations	630	630	630	630	630
Median	.36	.05	.25	5.65	.25
Mean	.26	.02	.013	4.25	.19
Std. Dev.	.22	.06	.08	3.33	1.6
Minimum	.11	.00	.14	1.63	.17
Minimum	.68	.09	.63	7.58	.36
	M/B	CF	NWC	CFVOL	
Median	1.05	.09	.12	.01	
Mean	.88	.05	.05	.00	
Std. Dev.	.63	.00	.03	.00	
Minimum	.55	.03	.02	.00	
Minimum	2.36	.12	.18	.06	

Testing the hypotheses

To select the method of regression models and panel data model Limer joint F-test was used.

Assumptions in this test is as follows:

H0: Data common

H1: Panel Data

F-Limer test results are shown below:

Table2
Hypotheses1

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.160675	(104,726)	0.0000
Cross-section Chi-square	308.231078	104	0.0000

Hypotheses

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.103010	(104,725)	0.0000
Cross-section Chi-square	303.869076	104	0.0000

As can be seen, the results indicate that H0 is rejected. As a result, pattern, panel data is the preferred method. We need to continue the Hausman test in order to select from among the panel data methods with fixed effects or random effects is done. Assumptions in this test is as follows:

H0: Panel data with random effects

H1: Panel data with fixed effects

Hausman test results are shown below.

Table3
Hypotheses1

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.156135	(104,725)	0.0000

Hypotheses
2

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.156135	(104,725)	0.0000

As can be seen, the results indicate H0 is rejected as a result of the pattern, panel data with fixed effects is the preferred method.

The results of the regression

First hypothesis: political communications through lobbying activities with cash holdings are inversely related.

Table 6 shows summary statistics for this model. One of the most important values to the right of the model, adjusted coefficient of determination is that the closer to zero is a sign of weakness, and the model is closer to a sign of the appropriateness of the model. This model shows the adjusted coefficient of determination (53%) of the dependent variable explained by the independent variable. The Durbin-Watson statistic is also at an acceptable level (1.85).

Table4

Variable	Coefficient	Std. Error	t-Statistic	Prob.
c	1.256	3.53	.005	0.7630
LobbyRatio1	-.162	0.0025	-5.365	0.0012
SIZE	-.115	0,0236	-4.365	,0002
Leverage	-.520	0.0002	-6.255	,0001
M/B	.125	0.6500	3.255	0.0000
CF	.329	1.1023	4.33	0.0000
NWC	-.025	0.2236	-.658	0.1357
CFVOL	-.034	0.0011	-.0569	0.1125
Div-DV	.092	0.0129	1.256	0.3237
R-squared	0.545	Mean dependent var	.0365	
Adjusted R-squared	0.539	S.D. dependent var	12.511	
S.E. of regression	8.491	Akaike info criterion	7.131	
Sum squared resid	2.365	Schwarz criterion	7.196	
Log likelihood	3.235	Hannan-Quinn criter.	7.156	
F-statistic	15.256	Durbin-Watson stat	1.825	
Prob(F-statistic)	0.0000			

Given that the level of statistical significance Fisher (F) is less than 0.05, it can be concluded that at least one of the independent variables with the dependent variable is a linear relationship. Given the significant negative relationship, political relationship through lobbying activities (negative values t-statistic and probability of less than 5%), the first sub-hypothesis is confirmed. In addition, the variable operating cash flow, leverage, the ratio of market value to book value as well as a significant relationship with the dependent variable there.

The second hypothesis:

political communication, with respect to public owner and cash holdings are inversely related. Table 5 shows summary statistics for this model. One of the most important values to the right of the model, adjusted coefficient of determination is that the closer to zero is a sign of weakness, and the model is closer to a sign of the appropriateness of the model. This model shows the adjusted coefficient of determination (39 %) of the dependent variable explained by the independent variable. The Durbin-Watson statistic is also at an acceptable level (1.75).

Table5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.292	3.589	0.130	0.800
LobbyRatio2	-0.126	0.061	-5.240	0.007
SIZE	-0.079	0.082	-4.240	0.006
Leverage	-0.484	0.059	-6.130	0.000
M/B	0.161	0.709	3.380	0.036
CF	0.365	1.161	4.455	0.036
NWC	0.011	0.282	-0.533	0.172
CFVOL	0.002	0.060	0.068	0.149
Div-DV	0.128	0.072	1.381	0.360
R-squared	0.482	Mean dependent var	.0365	
Adjusted R-squared	0.395	S.D. dependent var	11.525	
S.E. of regression	8.000	Akaike info criterion	6.395	
Sum squared resid	1.582	Schwarz criterion	6.958	
Log likelihood	2.958	Hannan-Quinn criter.	6.256	
F-statistic	14.256	Durbin-Watson stat	1.750	
Prob(F-statistic)	0.0000			

Given that the level of statistical significance Fisher (F) is less than 0.05, it can be concluded that at least one of the independent variables with the dependent variable is a linear relationship. Given the significant negative relationship, Political communication, with respect to state ownership (negative values t-statistic and probability of less than 5%), the second sub-hypothesis is confirmed. In addition, the variable operating cash flow, leverage, the ratio of market value to book value as well as a significant relationship with the dependent variable there.

According to the approval of both hypothesis, main hypothesis "there is a significant relationship between political communication and cash holdings" is confirmed.

Only research in the field of political communication and the level of cash holdings, Hill et al (2014), which results correspond with the results .

Conclusion

The political costs are costs for business continuity and life, according to legal requirements and customary institutions and economic environment are essential. Such costs due to law enforcement and regulatory approvals or by political pressure imposed on companies. Such costs can be tax policy, pension insurance, the costs of grants to individuals and organizations and

institutions, contribute to the sport, export customs duties, environmental costs, the cost of developing educational facilities, payments to union labor and other official and unofficial sources noted (Pour Heydari and Hemati 1383). Managers have incentives to resist transfer of wealth, because these transmissions continuously reduce the company's value. In the same way, they will be prevented from further competition because competition corporate value and directors receive wages will reduce (Hagerman et al., 1978). In other words, companies except to provide honest results of operations and financial condition of interest is the formulation of accounting standards, the economic consequences of the financial statements, as well as their attention. We examine the relation between Political connections measured through lobbying activities and percent State ownership. This is an interesting question as many of the motives for holding cash should be diminished by political connections. To conduct this research we have used information concerning 105 companies listed in Tehran Stock Exchange during financial periods 1388-1393. In addition, the research is the type of post-event descriptive practice, which for testing the research hypothesis the multi-variable regression of data is used. Results indicate a significant and inverse relation between cash levels and lobby expenses and Percent state ownership that the marginal level of cash decreases with lobbying and Percent state ownership.

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