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Evaluating the Relationship between Firm Characteristics and Financial leverage

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ABSTRACT: One of the characteristics of emerging markets, according to the parameters of the effective ways to maintain and develop the company's capital and risk management in the financial markets.It is necessary to have a comprehensive understanding of the financial position of the company and the environment affect the performance of different companies in different industries.According to different parameters such as position within the company and industry asset size, profitability, and liquidity risk of financial and corporate structure, and consequently are different.In this study the impact of these factors can be assessed by using leveraged financing. Population includes all pharmaceutical companies in Tehran Stock Exchange is accepted that all these companies from 2002 to 2005 were examined.Analysis of the findings of this study showed that there is a significant relationship between financial leverage and profitability.Also, the relationship between financial leverage and profitability was not significant. The findings related to the third hypothesis of this study showed that the relationship between financial leverage and firm size is not significant.

Keywords: financial leverage, firm size, profitability, liquidity.

INTRODUCTION

Development institutions in any form, requires an investment that will inevitably be required to meet the financing needs.The financial management of the two funds mentioned is finances of the Institute and funds from institutions to obtain loans from banks, credit companies and issuing new shares examples of materials and equipment needed outside financing institution.The use of reserves, depreciation of fixed assets, current assets decreased sales of fixed assets and additional dividend, where the financing of the institute.Funding to each of the two high,The Institute of Cost and works to make its decision on the selection of each of the sources of funding will inevitably.

If the costs of financing needed in the final, the return on investment is greater than,will be regardless of the investment. In other words, the theory suggests that the investment performance of the investment funds needed to continue because the marginal cost of capital, equal to the return of investment. The company in its financial decisions, especially for companies through debt or equity financing will make regular which changed on the capital structure of the companyand the stock market affect the profitability and risk and when evaluating companies and investors in the market, it certainly will addressed.In this study the concept of leverage, capital structure, firm size, profitability, liquidity and capital structure will elaborated on that theory.

Financing is one of the important tasks in determining the best mix of financing or capital structure decisions.Each company according to its special features you can optimize a combination of financial or capital structure through which to achieve optimal to maximize its stock market value.Financed through debt leverage and the increase in fixed costs increase the systemic risk. The various methods of financing the cost of capital and the rise of the profit opportunities or financial crisis will protrude.Structure of the optimal mix of debt and equity capital for financing the Company is required.This mechanism should be drawn in such a way that the goal of maximizing the value of all the companies that are creating. Measure the percentage increase or decrease in earnings per share, earnings before interest and taxes in response to changes in the degree of financial leverage is called. Degree of financial leverage is a measure of earnings before interest and taxes is equal to the ratio of the percentage change in earnings per share, earnings before interest, and taxes. The change of percentage change in profit with the operating profit measured. Operating profit before interest and tax as a percentage of net profit increased more than one percent of the business unit will increased. The financial leverage is considered an important indicator.Financial managers should be given a few parameters in the financial statementsespecially profitability and liquidity as well as the qualitative variables such as firm size on corporate performance in order to create the optimal mix of capital.

In this study, we sought to understand whether the use of financial leverage of the company, subject to certain parametersor those factors other than changes in the characteristics of the companies involved?

Research Hypotheses:

1. There is a correlation between firm size and financial leverage.
2. There is a correlation between profitability and financial leverage.
3. There is a correlation between a company's liquidity and financial leverage.
4.

Research Literature:

Each new researchers conducted research on corporate financial structure.The following are brief and concise reference on previous studies reaffirm.

The overall financial structure was first discussed in 1958 by "Modigliani and Miller" were considered.An issue that attracted the most attention at the time was whether the debt ratio and the equity cost of capital and financial structure of the company is on firm value?After much debate over the past two decades, in this case, has already accepted the conclusion that there is an optimal or optimal financial structure,The Company will determine the optimal degree of financial leverage. This issue is currently under consideration at the international level. Because of international differences in financial structure norms have emerged in recent studies.

Scientific research indicates that the process of reviewing the methods so far have shown only part of the whole process.The choice of explanatory variables and the factors associated with the problem of financing butit is important that the financial manager of financial resources in a way that maximizes the value of the company was taking a choice to better meet this choice defines the two types of leverage and leverage.Between companies in every industry and capital structure are significantly considered.In the late 1990s, the Asian financial crisis caused many managers tend to be financed through equity.Other studies and models based on the assumption of continuity of the company and consider different methods of financing capital expenditures and efficient method has been done. In some cases these studies were similar and in some cases the difference was different situations vast.

Dysvmsak to investigate factors affecting firms' capital structure in Central Asia concluded that the company's capital structure is influenced by the environment in which it is active (Dysvmsak, 2004),

Relationship between stock returns and examines the capital structure and suggests, significantly impact the stock price in the debt-to-equity ratios than the previously identified factors, are more important. He returns to equity ratio debt to introduce a Tkhmynznndhy primarily that the only effect that is about to change inferences. (Welch, 2004).

Fama and French, in another study on financing decisions were confirmed Malyf the preferred model.It concluded that although their decisions in previous studies, in most cases the preferred model predictions were confirmedbut the results of this study found substantial question about this model.They study the preferred model of forecasting financial firms about how often and under what circumstances do shares issued violatestheir preferred model of success Bashyam Sander and do not agree Mayzr, But as a result they decide on their main rival, the parallel model, has serious problems, agreed.Negative relationship between leverage and profitability in most previous works have taken a serious violation of the predictions of the model are the tax benefits of debt agency.Thus, both the parallel and preferences with regard to serious problems. (Fama and French, 2005).

Huang and Ritter recently had been testing the market timing theory.They have strong evidence to support the theory of market timing as an important explanation for firms' financing decisions led volatility time series (Huang and Ritter 2005).

Recently, strong evidence that Flannery and Rangan non-financial firms target capital ratios are well known and documented follow-up, found. Furthermore, they suggest that short-term volatility of the stock price is the market debt ratio. (Flnry and Runge, 2006).

Ahmadpoor and Prayer, (1998) the effect of operating leverage, financing and firm size measured on systematic risk of common stock.Like (original carpet weavers, 1994) results indicate that the effect of financial leverage on systematic. But operating leverage has no effect on the level of systematic risk. If it affects the size of the company.

Asfydany and colleagues investigated the structure of the bank's capital and cost of capital, and it became clear that there is no relationship in this regard.

Nysy Sinai and to investigate the factors affecting the use of financial leverage as the member companies of Tehran Stock Exchange and the most important part of the vision statement of financial leverage and influence of industry type, company size, business risk and operating leverage, financial leverage are examined. Thus, it was assumed direct relationship with financial leverage coefficient industry and company size and industry variables and firm size relationship between business risk and leverage lever both financial and operational are relationship with financial leverage.The results are examined in this study, and these assumptions are rejected (Sinai, HA and Nysy, 2003). Bagherzadeh's research about the capital structure of listed companies in Tehran Stock Exchange sought to explain the pattern of his results in 1998 and 2002, when the territory was taken and The sample was comprised of 158 manufacturing firms suggests that these firms' capital structure function of variables such as fixed assets, firm size and profitability. The results confirm the prediction of the theory of capital structure predicts stable equilibrium theory of the hierarchy of financing options does not confirm (Bagherzadeh, 2003).

StatisticalPopulation:

The study pharmaceutical companies listed in Tehran Stock Exchange during the four year period 2002 to 2005 stands for required financial reports are presented to the Tehran Stock Exchange.

The population of the options above for the following reasons:

• Inclusive of all firms that are in the community.
• More systematically the company's non-native companies.
• Better access to financial information of the company through stock.
• Audited financial information (reliability for more information).

Sampling and Sample Size

Typical options include companies from which to calculate the number of items required to conduct research, provide the required information in the time domain.So the options were members of the methods in terms of which have not been used.

Methods of data collection

In order to study and correctly concluded that the information will play an important role. In this regard, two groups of data are needed:

Group I: information that is associated with the basic principles and framework of research and literature express. This information is obtained by studying the library.

Group II: Financial Information of Listed Companies in Tehran Stock Exchange data needed to calculate the accounting variables from financial statements of the selected companies is provided by the Stock,Software used in the companies and stock investment Stock Exchange has been collecting links.

This study investigated the relationship between the dependent variable and each of the independent variables from the regression analysis, the software is used, Kolmogoror&Smirnon(KS) test for normality of residuals and far between Durbin-Watson (DW) test for correlated residuals, which is being put on them as a reliable indicator of regression. The result of these tests continues to be studied.

Testing hypotheses:

First hypothesis: there is a correlation between firm size and financial leverage.

According to the table the correlation coefficient between firm size and leverage in surfaces 05/0 ≥ P not significant, so there is no significant relationship between the two variables. Therefore the first hypothesis is rejected.

Second assumption: there is a correlation between profitability and financial leverage.

According correlation table between profitability and leverage in surfaces 05/0 ≥ P was significant, so there is a significant correlation between the two variables. Therefore the assumption is confirmed. The third assumption: there is a correlation between a company's liquidity and financial leverage.

According to the table of correlation between liquidity and leverage the 05/0 ≥ P was significant, so there is a significant correlation between the two variables. Thus the third hypothesis is confirmed.

CONCULSION

Conclusions suggestions

In this study we were looking at the issue of whether there is a correlation between the characteristics of the company's financial leverage.In general, the desired outcome using regression models, liquidity and leverage, financial, and could verify the hypothesis that the correlation between profitability and financial leverage financial leverage confirm and reject the hypothesis that the correlation between firm size.Profitability and liquidity are two important features in financial leverage affect firms' profitability is an important factor for prospective buyers of the stock dividend paid Rehabilitation.It is recommended that the credit institutions and capital market participants noted thatin considering this issue in terms of the research corporations nodule size with a long or short break not recommended.In considering this issue in terms of the research corporations and small-sized firms have been separated a long mess.Suggest an investigation to determine how to finance the difference between these types of firms are compared with each othersince there is a correlation between financial leverage and liquidity Inc.As a result of the financial users especially corporate investors for the risk assessment should consider the liquidity ratios suggest future research to examine the liquidity ratios in different industries pay.

Recommendations for Future Research

1. Return on assets with enterprise features
2. Return characteristics of corporate ownership rights
3. Circulating assets and the tangible assets and financial leverage
4. Performance, financial leverage ratios

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