

THE RELATIONSHIP BETWEEN STOCK RETURNS AND OWNERSHIP STRUCTURE OF THE VENTURE CAPITAL INVESTMENT

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Abstract

Importance of investment for economical and social growth is as much as introduce as strong leverages in order to achieve development. However, it should be noted that amount of attention to this in positive process can lead to boom of economy and lack of attention to this process leads to economic crisis and negative process. Therefore, it must be said that economic growth and increase public welfare in long-term without attention to investment and essential available factors in investment environment is not possible. Investment as one making decision always has two components of risk and return and exchange of these compounds in various investment offers. Thus, investors try to maximize earnings by its investments. On the other hand, they are facing with uncertainty condition and recent factor leads earnings' investment to uncertainty. In other words, all of making decisions are happened based on relationship between risk and return. Hypotheses of the research are as following: 1. significant relationship exists between risk of investment and stock return. 2. Significant relationship exists between structure ownership and risk of investment. Shareholders or structural ownership is one of important factor of corporate governance and affect motivation of shareholders. Thus, corporate governance has essential effect on efficiency of each company. Previously, economists assumed that all of related groups act as common objective. However, in three decades, Many of the conflicts of interest between groups and how facing with this conflict by economists. These factors are expressed as agency theory. The main question of the research is stock return and ownership structure on risk of investment. Therefore, in order to answer this question, we used 284 samples of companies during 2007-2011 in Tehran Stock Exchange. We used multiple regression in order to test hypotheses. Results indicated that there was not significant relationship exists between ownership structure and risk of investment.

Keywords: Stock Return, Ownership Structure, Risk of investment, Firm size

Theoretical foundations

With the development of economical foundations, financial markets and rapid growth of investment in capital market mainly the stock market of securities inaugurated by legal entities and individuals, an

access to real time and related information and analyzing them genuinely would be the most applicable method in decision – making and achieving the expected trade and optimal use of financial facilities.

Today, information plays an important role in human life. The more developed the society, the more manipulated exploitation of information. Actually, a prominent feature of developed societies is the efficient use of information, the final product of accounting is providing information for different parties, whether internal or external users of a company. The information is composed as accounting reports for such groups inside and outside of company.

The report, which satisfies the needs of users outside the company are called financial accounting. An understanding of the literature of investment is necessary for any investor. It is believed that investment is a dictum process in which two opposing factors of risk and return function simultaneously. In fact they are both sides of one coin. If one assumes to have (make) a good decision, he/ she should consider both sides and evaluate them carefully so, if we have not enough (the required) knowledge of share risk factor, we will not be able to determine any probable influence involved through the process. Without taking into account this element any analysis on the return element would not lead to a practical method for investment. There are obviously many more factors other than share return than influence the investment. One of such factors is the structure of ownerships which has its unique impact on the ratio of risk in investment. Holding the main share of a company by individuals inside the organization cooperatively (ownership structure) lowers public share to the extent which equals the minority share. It is common that the management of the company itself holds the minority share. It is common that the management of the company itself holds the majority of shares. It could be said that an average of 30 percent of ownership goes to individuals inside the organization. This very amount of share is completely in contact with the market. On the basis of representative theory in cases where the share ownership by persons of an organization is prominent, the least contradiction between the benefits of management and share stock would be expected. The reason behind this is that internal shares represent the contamination of management and share stock. (Here, the management is the owner of the company). On the other hand, the investor in an organization holds 49.9 percent of institutional shares. It means that it holds half of the total share of a company. The present study deals with the influence of share return and ownerships structure on the extent of investment risk. It aims at determining which of aforementioned variables would actually have an effect on investment risk. New theories on this field have embedded in them some other factors like risk and uncertainty as functions of investment process. As it says, risk is defined as the average cost of unpredictable events that happen during investment. Any given investor appropriates huge amounts of assets for his / her investment prior to which he considers his future loss and gain of investment. Through this process, the investor directs his money toward the kind of investment that in turn would have the largest benefit for him. Meanwhile, wherever, the range of risk is considerable, the resultant cost of unpredictable events would increase the cost of investment organization and the outcome would be a considerable decrease of profit of investment. Again, if the loss of unpredictable events is large, the profit element will certainly experience a negative and for this unique situation we can say that the investor is bankrupted. Unpredictable events over a whole range of variables that include some disasters in nature, a change in prices and foreign exchange, a reformation in governmental rules, few interior disorders and an influential change abroad (of other countries). All these elements are regarded as the most effective factors to the extent of risk investment.

In cases where the probability of unpredicted events in economy is high, the extent of risk is intensively high. In these cases the investor tries to invest in projects with most outturn to compensate the cost of unpredicted events. From general point of views, investment is somehow spending the inventory to gain more than that in future.

Investment embeds in it two other different but important characteristics that include time and risk. The necessity of these two elements is more significant than we get the idea that spending money happens at the present and the amount of which is predetermined, while the outcome of it will appear in future that usually lack enough certainty. In some cases, time factor dominates (such as governmental debentures) and in other situations risk factor is of priority (Such as purchasing popular shares). Through other circumstances, both factors equal importance. In investment literature, various definitions are given on ownership and different terminologies are coined for this purpose such as share combination and ownership structure. The latter conveys the way of share distribution and ownership rights for the sake of vote right and capital. The nature and participation of shareholders are the important factors. We can study the ownership structure from different perspectives. First, the variables of inside shareholders and outside ones should be taken into consideration on this basis, institutional shareholders and government could be regarded as the main outside owners of a company. Inside shareholders represent some indefinite shares that are owned by managers and personals of the company. Institutional share ownership refers to some percent of shares which is owned by institutional investors and legal entities.

Moreover, the combination of ownership may be considered on the basis of centrality or decentralization, institutional or real nature, managerial and public sharing as well as internal or external factors. It should be noted that the effect of ownership structure on the functionality and outturn of company is surprisingly complex and dimensional. For this very reason, there exist many contradictions and opposing benefits between persons and parties. The most conventional of those conflicts are the opposition of share holders and creditors, owners and managers, individual shareholders and legal entities, shareholders, inside and out the company are among the notable quarrels in this respect.

However, one of the most important aspects of representative theory is related to some kind of heterogeneous atmosphere between the manager and shareholders. This incompatibility is the main issue to which a large amount of research has been focused in recent studies. Specialists believe that, shareholders should have a look at their company managers and they should endeavour to prohibit any inconsistency of what the manager has as their slogans and what they actually do in real situations. Any submission of power to manager should be followed after understanding of the nature of their function in the company. In any case, shareholders are only pseudo-controllers of their managers and are not able to influence directly on any decision making. Their prosperity would depend on how other members of the company behave during some special circumstances (Pusher). Since, the present study aims to analyze the relationship between the outturn share and ownership structure with investment risk; it is worthwhile to discuss the phenomenon.

Research Background

Farzin and Esmaeili (1378) in their research titled "The analysis of risk and outturn of share on investment companies in Tehran stock market" showed that investment companies try to collect a lot of shares from companies instead of the share of just a few companies with efficient function in their portfolio, this strategy would result in a decrease in the outturn following the combination of full

outturn share and low or negative outturn share. It is common that in such companies the outturn share is really compatible to the market outturn.

Ghalibaf (1378) in his outstanding research on "The relationship between financial leverage, systematic risk and not systematic one" has tried to explain the relationship of financial leverage, systematic and not systematic risk. His analysis was followed after he tested different aspects of the phenomenon. The results show that there isn't any meaningful relation among the aforementioned variables. He attributed the situation to the kind of structures of Iranian companies.

Namazi and kermani 1387 studied the influence of ownership structure on the admitted (accepted) stock market securities of Tehran. They argued that there exists a meaningful relationship between the ownership structures of the companies entered in stock market and their function in general. The results show that there is also a meaningful but negative relationship between institutional ownership and the function of the company at one end and a meaningful but positive relation between cooperative ownership and the function of a company managerial ownership has a meaningful impact on the functionality. However, there did not exist any such relation with external ownership and those individuals outside the company and mainly the foreigners who tried to invest in sample companies for the study. Statistical community of all accepted companies in Tehran stock market of securities cover a time rage (period) from 1382 to 1386, i.e. five years of membership of the related companies.

Darabi and Saiedi in 1388 in a research titled "an evaluation on the relationship between operational leverage, with risk and outturn in Tehran stock market of securities", have resulted that between operational leverage and systematic risk there exit a positive relationship but the case is not similar with regard to the accepted companies in Tehran stock market of securities, in other words, the result is vice versa in this regard.

Brimble (2003) in a study titled "Billing information related to risk enterprise value" of risk with respect to growth rate, financial leverage, firm size variable profit, dividend payout ratio, current ratio, interest coverage ratio and operating leverage studied. The correlation coefficient of the regression analysis is a statistical method. The results showed that more than 57% change in selected variables explaining risk.

In an article "The effect of stock returns, inflation and the ownership structure of investment risk industries in Indonesia stock exchange", for the years 2003 to 2009 have been examined and tested by Kumarya CT (2011). Model of this study examines the effect of stock dividends, inflation, operating as a regional financial and ownership structure of the venture capital investment. The study of the equation of the least squares method is used to analyze the data. Based on the hypothesis test can be concluded that all predictions have significant effects simultaneously. The results show that the dividend is the only variable that has a significant effect on investment risk.

Research Hypothesis

The overall goal of this research is to determine the relation between stock returns and ownership structure determined by the investment risk. Therefore the following hypotheses have been developed.

First hypothesis: There is a significant relationship between stock returns and investment risk.

Second hypothesis: There is a significant relationship between ownership structure and investment risk.

Third hypothesis: There is a significant relationship between stock returns and ownership structure with investment risk.

Statistical Society:

The statistical population of this study consisted of listed companies in Tehran Stock Exchange, which has the following terms are reserved.

- The fiscal year is ending in March.
- In the course of the study does not have the financial period?
- Investment companies should not be financial intermediation, banks and leasing companies.
- The desired data should be available.

For this purpose, a sample consisting of 284 years - companies listed in Tehran Stock Exchange during the period from 88 to 90 using a multiple regression model was used.

Conclusion and Discussion

Tehran Stock Exchange official market consists of a sentence; provide necessary facilities for buyers and sellers. So that they can convert their money to bonds or vice versa at any time. Since, the Exchange organization is a way to mobilize, save and direct them towards productive investments and is considered to benefit society and the economy, studying of this organization is important. Investors who are planning to invest in the common stock, they should have a vast review of investments. Because they convert their cash into common stock. In fact if they invest regardless of a bunch of factors, they will not get the desired results from the investment. The global financial crisis has caused the decline of the stock market performance of the company. The recession caused by the failure of risk management, particularly risk is unsystematic. Many companies can not afford to factors such as debt policy, investment decisions, management, earnings, liquidity and ownership structure that is used to manage the risk calculation. Recognizing the issues related to investment is important for investors. The overall goal of this research is to achieve the highest level of return on risk-taking firms. Specific objectives of the present study was to determine the functional relation between stock returns and the risks of investing in corporate ownership structure is determined. To achieve this goal the following hypotheses have been tested.

Hypothesis 1 - There is a significant relationship between stock returns and investment risk.

Hypothesis 2 - There is a significant relationship between ownership structure and investment risk.

Hypothesis 3 - There is a significant relationship between stock returns and ownership structure with investment risk.

Hypotheses	Result
There is a significant relationship between stock returns and investment risk.	Rejected
There is a significant relationship between ownership structure and investment risk.	Rejected
There is a significant relationship between stock returns and ownership structure with investment risk.	Rejected

The study ultimately concluded that between stock returns and ownership structure has no significant relationship with investment risk. This result is consistent with the results of Douglas and C.T Kumarya. Douglas (2004) analyzed the variance between systematic risk and return on the investment risk associated with the payment. The results showed that the intercept was higher than the risk-free interest rate is predetermined. Thus, although the coefficients were significant for all variables and unknown risks but there were not significant variables systematic risk significantly. CT Kumarya (2011) showed that between stock returns, inflation, and there is no significant relationship between ownership structures on investment risk. In the the present study size of the company is a control variable. Gained results indicate a positive coefficient of company size is associated with the investment risk. While the potential value of the coefficient of company size is less than 5 percent. In other words, the results indicate a positive and significant relationship between company size and the investment risk.

Suggestions

- It is recommended that the relationship between types of ownership structures, such as institutional ownership, corporate ownership and ... has been considered.
- It is recommended that research on a variety of risks, including financial risks and systemic risk will also be conducted.

Limitations of the study

Lack of reliable data needed to calculate the variables led to some companies, including those companies domination the statistical range is not.

The results of this study can be generalized only to the company's stock. We generalize the results to companies outside the Exchange should be done cautiously.

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