

THE FACTORS CAPITAL ON THE COST OF EQUITY FIRMS

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ABSTRACT

The cost of representation, advertising and identifying products, well-known brand, the cost of auditing is as Four of the factors of social capital. The purpose of this study is to investigate the effect of social capital factors on the cost of equity. This research is a library and analytical study of Ali and is based on the analysis of panel data(data panel).In this research financial information of 105 companies accepted in Tehran Stock Exchange during the period 2011 to 2017 has been investigated(630 companies - year).The results of the research show that according to the analysis carried out in relation to the confirmation of the first to fourth hypothesis of the research, we concluded that the cost of representation ,advertising and identification costs of products in society, a well-known brand and the cost of auditing as the factors of social capital affects the cost of shareholders' equity significantly.

KEYWORDS: Social Capital Factors, Cost of Ownership and Data Panel.

1. INTRODUCTION

The cost of equity is considered as one of the decision-making models of investors, and if the cost of agency representation increases and the amount of its social capital decreases, the same will increase the cost of the rights of the owners of the company. Some managers are seeking to reduce the cost of representation in order to increase profitability. No matter how much agency costs are reduced, the same can be expected of increasing social capital. Some corporate executives believe that the cost of advertising in the community is not cost, but rather as an investment. These managers believe that the higher the level of investment in advertising and product identification, the long-term views on profitability will approach reality. As a related question we examine the implication of social capital for the sensitivities of external financing with cash flow and Q. In addition, we explore how these relations are affected by the degree of investor protection and whether efficiencies in firm-level resource allocation attributable to social capital are reflected in firm performance. The importance of these questions stems from the notion that in frictionless capital markets (Modigliani and Miller, 1958) firms enjoy unlimited access to external financing to fund growth options. Market frictions such as information asymmetry and agency, however, distort a firm's access to external funds. Consequently, mechanisms that mitigate these forces are important to the practice of modern corporate finance. We argue that social capital is one such mechanism.

A number of studies have examined the effect accounting conservatism on the cost of equity capital. However, evidence of such effects, as reported in these studies, is mixed and inconclusive. For example, Francis et al. (2004) report no significant association, Chan et al. (2009) and Biddle et al. (2012) show a positive association, however, Artiach and Clarkson (2014) Garcia et al. (2001), Khalifa and Ben Othman (2015) and Li (2015) find a negative effect of accounting conservatism on the cost of equity capital. The apparent inconsistency of the findings may be ascribed to the regression approach employed to test such association (Rush et al., 2014). The idea of social capital has received considerable attention in various social sciences since the publication of Putnam et al.'s (1994) original work. Examining its implication for corporate finance, however, is relatively new development. The term social capital in its contemporary meaning is identified by Jacobs (1961)

and Loury (1977), but the first broad definition reflecting the contributions of other scholars of social capital is by Woolcock (1998): Social capital is defined as the information, trust, and norms of reciprocity inherent in a social network. The concept of social capital is distinct from, but convergent with, the idea of a social network. A social network is the media through which social capital is created, maintained, and used. A social network constitutes social capital to the extent that certain configurations of relationships confer significant information and control benefits.

Bloom et al. (2012) examine the impact of trust on the organization of firms across countries, and find that firms headquartered in high trust regions are more likely to decentralize, and that trust raises aggregate productivity. Pevzner et al. (2015) examine the stock price reaction to earnings announcements and find that the announcements are viewed by investors as being more credible in more trusting societies. In addition, consistent with societal trust reducing outside investors' concern about moral hazard, Pevzner et al. (2015) find that trust acts as a substitute for formal institutions such as investor protection laws and disclosure requirements. The literature suggests that areas with high social capital are characterized by social norms that engender mutual trust and cooperative behavior. For example, Guiso et al. (2008b) define social capital as "the set of beliefs and values that foster cooperation." Fukuyama (1997) notes that "social capital can be defined simply as the existence of a certain set of informal values or norms shared among members of a group that permits cooperation among them." Similarly, Guiso et al. (2004) predict that "high levels of social capital generate higher levels of trust toward others." In addition, investors are more likely to trust people who are trusted by those around them, as is the case in high social capital environments (Pevzner et al., 2015). Consequently, information emanating from managers of firms headquartered in high (low) social capital regions may be viewed as being more (less) credible if the managers are perceived to be more trustworthy. Chen et al. (2009) show that firm-level corporate governance quality has a significantly negative effect on the cost of equity capital in emerging countries with weak legal protection of investors. Besides the country and firm-level corporate governance factors, another key factor that affects the cost of capital is the level of financial development and access to capital (Doidge et al., 2007; Aggarwal et al., 2009; Rajan and Zingales, 1998; Love, 2003). However, none of the papers explicitly investigate the role of financial development in influencing the corporate governance – cost of equity capital relationship.² Our study contributes to the literature by directly studying the corporate governance – cost of equity capital link by examining the level of financial development. The study was presented in the first part of an introduction on the topic, followed by a second section, findings and in the third part, the importance and necessity of research and in the fourth, and theoretical studies continued in the fifth, hypothesis and in the sixth, models and analyzes of descriptive statistics and correlations between variables stated in part VII outlines the results of hypothesis testing and the results will be expressed in the eighth.

1.1 Statement of Problem

Social capital can ameliorate potential inefficiencies in financial markets caused by information asymmetry. A number of studies such as Fafchamps and Minten (1999), Granovetter (1995a,b), and Montgomery (1991) find supportive evidence of social ties as a means for efficient information exchange. Prior evidence suggests that firms that reduce information asymmetry have better access to cheap external financing (Botosan, 1997; Francis et al., 2004; Hail, 2002; Verrecchia, 2001). Social capital through its trust channel reduces the need for costly monitoring. Consequently, trusting economic agents can transact more efficiently. High trust can also facilitate investment where there is no well-developed formal system of investor protection. More recently, Khalifa and Ben Othman (2015) examine the effect of ex post conservatism on the COEC using data collected from firms in MENA emerging countries for the period of 2004–2007. They argue that overall conservative accounting enhances the quality of accounting information and therefore reduce the COEC. Using the Estrada (2000, 2001, 2004, 2007) approach to measure the COEC and Khan and Watts (2009) method to derive ex post conservatism at firm level, they find as expected that ex post conservatism reduce the cost of equity capital.

The information channel implies that social capital can be understood as economically meaningful shared information that resides in a social network. Imperfect information in financial markets leads to high search costs and the failure of financial contracts. From this informational perspective, several studies apply the idea of social capital in finance and economics (e.g., Cohen et al., 2008; Fafchamps and Minten, 1999; Granovetter, 1995a; Hochberg et al., 2007; Montgomery, 1991; Rauch and Casella, 2003). These authors provide overwhelming evidence that social capital through social networks opens new avenues for the circulation of information and plays an important role for portfolio decisions and stock market participation. In addition, social networks are important channels for information flow into asset prices. A smoother and more accurate dissemination of information through social networks guards against failures in financial markets due to asymmetric information. Consequently, it has implications for corporate finance, especially for the availability of external finance.

Moreover, social characteristics that may potentially polarize a society and reduce the level of mutual trust among its members (such as ethnic heterogeneity and income inequality) can increase contracting costs and limit the level of investment and economic growth (Easterly and Levine, 1997; Knack and Keefer, 1997). Zak and Knack (2001) examine the role of trust in a general equilibrium model with heterogeneous agents and moral hazard, and show that the level of investment is lower in low-trust environments because investors bear the costs of investigating the truthfulness of claims made by the agent. Their model provides a transactions costs based role for trust as a driver of economic activity, and is consistent with the findings of Easterly and Levine (1997) and Knack and Keefer (1997). There are a few cross-country studies that have studied both country-level institutional variables and firm-level governance. Chen et al. (2009) study a cross-country sample of firms from emerging markets and show that country-level institutional variables and firm-level corporate governance substitute for each other in affecting the cost of equity.

Zhu (2014) examined a cross-country sample of developed countries and found that the association between governance practice and the cost of equity is more evident in countries characterised by strong legal protection, strict information rules, and high government quality. Therefore, it appears that firm-level and country-level governance play complementary roles to each other in decreasing the cost of equity. The cost of advertising and identifying products from the perspective of some other managers is considered as a cost and reduce the cost of net profit and in some cases, these managers believe that these costs are not very profitable and will cause dissatisfaction with the shareholders. Generally speaking, the cost of advertising and identifying products as one of the factors of social capital is considered in such a way that the higher the cost of advertising and product identification in the society, in the long run, the company's sales also increased and eventually increase the proportion Will invest. If the company has a brand-name brand, this brand is considered one of its main assets. The more popular the brand is in corporate society, the same as the social capital of that company will experience a positive growth rate. Having a well-known brand as one of the social capital can affect the cost of equity. In some cases, the brand has reduced the cost of corporate equity and, in some cases, the inverse relationship means that having a well-known brand increases the cost of equity of companies.

Generally speaking, some companies, given their long-term policies, make advertising and product recognition costs in a large society and increase their awareness of their brand. No matter how much these costs increase and become a well-known brand of the company's business, the same can be expected of lowering the cost of equity and increasing the profitability of companies. Today, in advanced societies, auditing and monitoring costs are considered as one of the factors of corporate social capital. Long-term policies of some countries have forced all companies to perform audits and oversight as models of social capital. However, as much as the cost of auditing and oversight as major and influential models in relation to the cost of corporate rights increases, the same can be expected of increasing profits in companies. The cost of auditing and oversight, from another perspective, will increase the confidence of investors and shareholders and ultimately increase public confidence in a community. Therefore, as much as the costs of auditing and oversight increase as the cost of auditing and oversight, social capital will also increase as much. Making advertising costs associated with a brand and conducting audit and monitoring costs simultaneously can reduce the cost of equity of companies. Whatever the cost of corporate equity shrank, investors can make logical decisions about investing in these countries.

The members of the board of a company can increase the company's social capital, according to the decisions they make. If members of the board reduce the cost of representation, and on the other hand, by reducing these costs, increase the cost of advertising and product identification in the community, as well as increase social capital and, ultimately, can act as a model for reducing the cost of rights Owners of stock companies in the long run. Some managers believe that if advertising costs and product identification in the community increase and the costs of representation diminish as well as increase the cost of auditing and oversight, it can be expected in the long run that the amount of corporate social capital up to A significant increase. Also, these managers believe that if these three factors coincide, it will lead to a sharp reduction in the cost of equity of the companies and ultimately the amount of investment will increase. By increasing the amount of capital, the profitability will increase and eventually increase the brand. The business of these companies will be. According to the stated issues, the main issue of this research is the study of the effect of factors of social capital on the rights of the owners of the companies listed in the stock exchange of companies. In this research, the factors of social capital are examined from four perspectives of agency costs, advertising costs, brand, and audit and supervision costs. Finally, the effect of these four factors on the cost of equity of the companies will be measured.

1.2 The importance and necessity of research

Consistent with Fazzari et al. (2000) and Hubbard (1998) we argue that investment sensitivity to cash flow reflects the existence of financial constraints. Because social capital results in greater transparency, stricter contract enforcement, and more efficient managerial decision-making, investment will be less dependent on internally generated cash for socially well-connected firms. In addition, if social capital improves the availability of external finance, then firms with high social capital, but low cash flows should have greater access to it. Tobin's (1969) seminal work shows that marginal Q predicts real investments. If social capital lessens financial constraints to fund growth opportunities, then, we should observe a relation between investment and external finance sensitivities to Q. Given that firms are monitored in multiple ways, incremental monitoring provided by social capital should have value only when alternate monitoring systems are less effective.

Following Giroud and Mueller (2010, 2011), we use the level of product-market competition in the firm's industry (the sales-based Herfindahl index) to proxy for the level of monitoring effectiveness, and find that the significant negative relation between social capital and the cost of equity holds only for firms that face lower levels of product-market competition (i.e. high Herfindahl index). We interpret these findings as confirming that social capital serves as a monitoring mechanism, and this additional layer of monitoring results in a significant decline in the cost of equity when other monitoring systems are weak. In a related paper to Francis et al. (2004), Khalifa and Ben Othman (2015) and Li (2015), Persakis and Iatridis (2016) examine the joint effect of earnings quality, IFRS and investor protection on cost of capital. Using a sample of publicly listed firms in the Euro zone and Asian countries, they find that the two forms of cost of capital (i.e. cost of debt and cost of equity) are lower in the years after the adoption of IFRS compared to the years before. In addition, they report a significant relationship between the cost of equity capital and earnings quality in both zones. However, Persakis and Iatridis (2016) provide controversial results with regard to the joint effect of earnings quality, IFRS and investor protection. We contribute to the literature in several ways.

First, our main focus is on how financial market development facilitates a reduction in the cost of equity capital of well-governed firms. Chen et al. (2009) focussed on institutional quality in general and found that it had little emphasis on financial market development. They only used a single variable – MKDV – which is a dummy variable taking the value of one if the economy is included in MSCI's developed market index. We use two continuous variables – FININT and STKMKT – to denote two alternate measures of financial development. As such, our measures are much more granular compared to Chen et al. (2009). The factors of social capital can create a positive growth rate in companies in the long run. Whatever the factors of social capital, given the predefined patterns, can increase the brand of business, companies can also be expected to reduce equity costs in the long run. Representative costs, considered as one of the costs of social capital, can be considered as a very important factor affecting the equity of companies.

The higher the cost of agency fees in companies, the same as the company's share price increases, and ultimately create a kind of dissatisfaction among shareholders and shareholders. With increasing dissatisfaction, capital outflow from companies will increase and companies will face a financial crisis. The cost of advertising and product identification in the community can also be considered as a measure to increase the profitability of companies. Managers of some companies believe that the higher the cost of advertising and product identification in the community, the profitability of companies will increase and ultimately reduce the cost of corporate equity. But some other executives did not consider advertising costs and product identification in society as an investment, and they believe that as much as these costs increase, the share of dividends among shareholders decreases and ultimately leads to the creation of a type of bubble. Dissatisfaction among the shareholders of the companies and the withdrawal of capital from the company will take place. A brand can also be considered as one of the most important and important factors in the cost of corporate equity. In some cases, as the brand grows, more people will rely on these companies and will increase sales of these companies.

With increasing sales, profitability will increase and eventually reduce costs for companies. Some policy makers in the capital market believe that if the brand of these companies is to increase and the share of agency costs decreases, we can expect a significant increase in profitability in the long run. Audit quality is considered as one of the main criteria for increasing transparency. The greater the level of transparency and quality of auditing, the same can be expected that the size of corporate social capital is also dramatically rising. If social capital of companies increases, many people will trust these companies and ultimately increase sales and increase the profitability of these companies. Some investors believe that no matter how much the cost of a company's equity is increased, the profitability will decrease as well. But if these investors consider four patterns of agency costs, advertising, brand, and audit and supervision costs as one of social capital, they expect them to increase their costs rationally, and in some cases their decisions in relation to doing or not Investing in the shares of this company will change. Representative costs are one of the criteria that will affect the board's decision.

Most board members vote according to predefined patterns to reduce agency costs. No matter how much the agency costs are reduced and advertising costs increase, the same can be expected of the company's brand growth and ultimately increase the company's profitability with regard to the audit. According to the results of this study, it can be concluded that the study of the effect of social factors on the cost of equity of companies can be of great importance in relation to the decision making of investors. Considering the above issues, the main purpose of the research is to investigate the effect of investment factors on equity costs of listed companies in Tehran Stock Exchange.

2. THEORETICAL REVIEW

2.1 A review of research conducted

To preview our results, this study finds that social capital is positively associated with investment sensitivity to Q and inversely to investment sensitivity to cash flow. Similarly, we find that social capital positively affects the sensitivity of external finance to Q. It inversely affects the external finance and cash flow sensitivity. These effects of social capital are stronger in a market characterized by weak legal protection of investors. Further, our results are consistent with the prediction that social capital has important implications for firm performance. These results are robust to alternative model specifications and variable measurement. To address the endogeneity concerns of social connections in our baseline regressions we apply an instrumental variable estimation method. We still find convincing support of our main conjectures. To our knowledge, this is the first study to present evidence on the effect of social capital on one aspect of a firm's contracting costs, viz., the cost of equity. In the context of the literature, our findings suggest that in addition to its effect on governments and individuals (e.g., Guiso et al., 2008a), social capital also affects corporations by providing an incremental monitoring function, which allays investor concerns about potential agency problems. Additionally, the study contributes to the literature on the determinants of firms' costs of equity. In particular, given that social capital is persistent over time (Putnam, 1993; Guiso et al., 2008b), the findings in our study have implications regarding the permanence of the effects of social capital on firms' costs of equity. While prior research largely emphasizes firm-specific characteristics, the findings in our study suggest that the environment in which firms operate also plays a significant role in influencing investors' required rates of return on equity capital.

The moderate success of alternative theories raises the possibility that capital structure decisions are not equally important to all firms' goal of value maximization and that firms can thus be characterized by the heterogeneous financing choices they make (e.g., Binsbergen et al., 2010, Korteweg, 2010). However, most studies examine the value effect primarily from the perspective of the benefits and costs of debt financing based on debt's impact on cash flow, and studies rarely examine the value effect directly from the perspective of the cost of equity capital. Motivated by this gap in the literature, we investigate the effect of leverage deviation on the cost of equity capital that has potential implications for firm valuation.

We find that the cost of equity is positively related to the leverage deviation, that is, as a firm's financial leverage deviates further from target leverage, the higher (lower) is the cost of equity when the firm's leverage is above (under) target leverage. Rajan and Zingales (1998) posit that well developed financial markets and institutions help a firm overcome the problems of moral hazard and adverse selection, thereby reducing the cost of raising money from outsiders. Rajan and Zingales (1998) suggest that the ex-ante development of financial markets explains the ex-post growth of sectors dependent on external financing. A possible explanation for their finding is that developed financial markets and institutions reduce the cost of external finance for firms. A market oriented financial system depends on public equity markets for raising funds and is therefore conducive to firm-level information production and dissemination to a diverse group of shareholders (Francis et al., 2005). Further, they posit that higher public disclosure of information decreases information asymmetry and therefore reduces cost of equity. Hence, a higher level of disclosure is expected in countries with more market-oriented financial systems. In a similar vein, we posit that a better quality firmlevel corporate governance should be expected in countries with well, developed financial systems since they are likely to result in lower cost of equity. Under this specification, economic losses are recognized in earnings faster than economic gains. The second form of accounting conservatism is ex ante or unconditional conservatism is referred to the understatement of the book value of net assets relative to their market value (Beaver and Ryan, 2005).

Prior analytical studies establish that accounting conservatism, in particular ex post conservatism, improves considerably the functioning of equity markets through providing valuable accounting information to market operators (Gietzmann and Trombetta, 2003; Guay and Verrechia, 2007; SUIJS, 2008). To better understand this mechanism, we review three papers that model the link between ex post conservatism and the cost of equity capital. Specially, they argue that ex post conservatism is linked to the cost of equity capital through informational channel. Ashbaugh-Skaife et al. (2006) study

the importance of firm-level governance attributes in determining the cost of equity capital. They find that the following four types of governance attributes are associated with cost of equity capital – financial information quality, ownership structure, shareholder rights, and board structure. Their sample covers US firms during the 1996–2002 period. Their overall finding is that strong firm-level corporate governance has a negative impact on a firm's cost of equity capital. Chen et al. (2009) study 17 emerging markets covering the 2001–2002 period. They find that firm-level corporate governance significantly influences cost of equity capital. This relationship is particularly strong in countries where legal protection of investors is weak. Zhu (2014) finds that firms with strong corporate governance have lower cost of equity and this effect is more pronounced in countries with strong legal systems, extensive disclosure practices and good government quality.

Corporate capital structure decision making, in a setting of complex dynamics and endogenous relationships, poses a serious unresolved puzzle for finance scholars and practitioners around the globe. A primary manifestation of the puzzle is our inability to convincingly explain the cross-sectional heterogeneity in firms' observed capital structure decisions (Graham and Leary, 2011). In the current paper, we confront this challenge by examining the dynamics of firm capital structure and the cost of equity capital. Specifically, we analyze the impact of leverage deviation (i.e., deviation from the target optimal leverage, where a positive deviation reflects over leverage) on the implied cost of equity capital (i.e., the ex-ante cost of equity capital inverted from a discounted cash flow valuation model), to discover whether the sensitivity of the cost of equity to leverage deviation, influences the speed with which firms adjust their financial leverage toward the target. The present study, by recognizing and investigating the impact of social capital factors on the cost of corporate equity, provides the basis for capital actors including potential and actual investors and others. Obviously, in pursuit of any research, attempts are made to use the results obtained by those who are interested in effective and effective decision-making, so this research will not be the exception. On the other hand, the results of the research for the corporate executives themselves will be remarkable for more positive results. In this research, the concepts of the main variables of research are presented as follows:

2.1.1 Social capital

Social capital is considered as a very important factor for the growth of companies. Some companies have high social capital. Having high social capital increases its credibility in the society, and with increasing credit it is possible to increase the profitability of companies. If a company works specifically in a variety of fields, and these activities will enhance the brand's business, it can be expected that the corporate capital of these companies also had a significant growth. In general, social capital affects a variety of factors, such as agency costs, advertising costs, brand equity, and audit costs. Social capital, in general, creates a high credit rating for these companies in the society, and by increasing this credit rating, the profitability of companies will also increase.

2.1.2 Representative Costs

Representative costs are the costs associated with company management. If the costs of managing the company are significant at a significant level, one can expect increased profitability. In some cases, agency fees increase social capital and, in some cases, the cost of agency reduces social capital. In general, agency costs are considered as one of the key criteria for investors' decision-making in relation to investing.

2.1.3 Equity Cost

The cost of equity is the cost to investors in investing in companies. If shareholders' equity costs are significant from the perspective of investors and less predictable profitability, investors will not be willing to invest in these companies. Investors will be willing to invest in the shares of the above companies. The cost of equity generally affects social capital. No matter how social capital factors increase the profitability of corporations, companies' share prices will also decline.

2.1.4 Brand

A brand is a template and a sign for the company's products and services. The more the firms' brand is related to the goods and services provided in the community, the same can be expected, the profitability of these companies is acceptable and will eventually increase the capital of the companies.

2.2 Assumptions

This study contributes to a fuller understanding of the determinants of firm growth. As Carpenter and Petersen (2002) observe, understanding how firms grow is an important issue because it can provide “insights into the dynamics of the competitive process, strategic behavior, the evolution of markets structure and perhaps even the growth of the aggregate economy”. More specifically, the contribution of this study is that it provides an innovative analysis of a previously

unexamined factor, managerial social capital that directly affects investments and external finance sensitivities to Q and cash flows. In addition, this study adds to the emerging literature on the effects of social capital on corporate decision-making and capital markets (Cai and Sevilir, 2012; Cai et al., 2011; Engelberg et al., 2012, 2013; Fracassi, 2011).

Our study also contributes to the general social capital literature by providing new evidence that individual social capital matters for real firm-level economic activities. Trust, as proxied by social capital, helps limit opportunistic behavior (Coleman, 1988), constrains self-interest (Knack and Keefer, 1997) and helps overcome the free rider problem (Guiso et al., 2010). Higher social capital areas also have more effective enforcement of community norms (Spagnolo, 1999). The level of trust between participants is therefore expected to have a significant impact on the value of any transaction. There is considerable empirical evidence confirming this proposition, documenting that the level of trust in society is positively related to the level of financial activity (Guiso et al., 2004), government performance, and economic growth (Putnam, 1993; La Porta et al., 1997), international trade and development (Guiso et al., 2009), and corporate M&A activity (Ahern et al., 2015). In addition, Knack and Keefer (1997) report a positive correlation between the level of trust prevailing in a country and the growth in its per capita income. For example, Gietzmann and Trombetta (2003) articulate that ex post conservatism acts as substitute of voluntary disclosure which is empirically recognized to reduce the cost of equity capital by decreasing investors' information risk (Diamond and Verrecchia, 1991; Botosan and Plumlee, 2002; Easley and O'hara, 2004; Hail and Leuz, 2006; Lambert et al., 2011).

In the same avenue, Bagnoli and Watts (2005) establish through a signaling framework that the manager's declaration that financial reports are conservative allows investors in the presence of information asymmetry to infer hidden information about actual and future prospects of the firms. In turn, with more information acquired, investors are more able to assess the firm value and therefore support less estimation risk, thereby the required return rate (cost of equity capital) decreases. From another point of view, Guay and Verrecchia (2007) demonstrate that by imposing stronger verification to recognize positive economic events than negative economic events, the use ex post conservatism encourages managers to adopt a strategic behaviour by fully disclosed accounting information which in turn lead to the reduction of the market discount. Guay and Verrecchia (2007) argue that this is achieved because ex post conservative improve contracting efficiency and reduces agency and litigation costs. These results coincide with the work by Lambert et al. (2007, 2011) who demonstrate that increase the amount of information disclosed to the market improve the precision with which market actors can estimate future earnings and therefore reduce the cost of equity capital as investors lowered the required rate of return.

Based on the theoretical and research conducted assumptions research provided below:

H₁: The cost of representing as one of the factors of social capital affects the cost of company equity.

H₂: advertising costs and product identification in society as a factor in social capital affect the cost of corporate equity.

H₃: Having a well-known brand as one of the factors of social capital affects the cost of corporate equity.

H₄: Audit and oversight costs as one of the factors of social capital affects the cost of company equity.

3. METHODS

This survey and the purpose the research is correlational. Well the quasi-experimental research design, because of the historical data used. the population of this study, all of the companies listed in Tehran Stock Exchange during the period from 2008 to 2013 and The sample includes companies that by the end of 2007 are listed in Tehran Stock Exchange, financial period to the end of March, the research during the financial year have not changed and data required for this study is available. Restrictions on the intended number 105 corporations (all years) was selected as the ultimate example. Information and data necessary to carry out research through official websites Tehran Stock Exchange including site development Research and Islamic Studies (Rdis), company Information Exchange, new Software outcomes collection and preliminary analysis was required in an Excel spreadsheet. The final analysis using the software Eviews 7 and was Spss 20 and Minitab 16. To test the hypothesized model for panel data regression and statistical methods used.

Model related to research hypotheses:

$$(R_{MEDIAN} - R_F)_{i,t} = \alpha_0 + \beta_0(SocialCapital)_{i,t} + \beta_1(StateGDPperCapital)_{i,t} + \beta_2(Beta)_{i,t} + \beta_3(Ln(MarketValueOfEquity))_{i,t} + \beta_4(BookToMarket)_{i,t} + \beta_5(Leverage)_{i,t} + \beta_6(Momentum)_{i,t} + \beta_7(ForecastDispersion)_{i,t} + \beta_8(LongTermGrowthRate)_{i,t} + \beta_9(Delaware)_{i,t} + \beta_{10}(HerFindahi)_{i,t} + \beta_{11}(MarginalTaxRate)_{i,t} + \beta_{12}(AccountingQuality)_{i,t} + Q_j + \partial_t + \varepsilon_{i,t}$$

$\varepsilon_{i,t}$ = Random error of firm i in year t.

3.1 Descriptive statistics for variables

In descriptive statistics, data analysis using index of dispersion parameters such as mean and median, and standard deviation, skewness and elongation done. The relationship between the mean, median, and the main central index data show, so that if the data on a regular basis row axis, the mean value is exactly the balance point or center of distribution. Standard deviation of the distribution parameters and the distribution the data show. Skewness of the parameters determining the deviation from symmetry and asymmetry index databases. If the community has a symmetric distribution, the skewness coefficient is equal to zero, if the skew to the left, the skewness coefficient is negative and if you have a skew to the right, the coefficient of skewness is positive. Stretching towards the normal distribution is the distribution of the index. Summary descriptive statistics of the variables after the screening model and outlier removal software 20 Spss is presented in Table 1.

Table 1: Statistics of the variables

		rmedianrf	Socialc apital	StateG DPperc apita	Beta	Ln market value of equity	Bookto market	Leverage	Momentum	Forecastd ispersion	Longtermgr owthrate	Delaware	Herfindahl	Marginalt axrate	Accountin gquality
N	Valid	627	627	627	627	627	627	627	627	627	627	627	627	627	627
	Missing	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Mean	.236698	.260885	.190110	.456140	.348179	.340630	.235132	.510319	.469110	.388173	.308672	.544002	.381341	.208215
	Std. Deviation	.2012151	.1408184	.1717182	.4984703	.0594143	.0799130	.1826259	.1503999	.1435368	.2474110	.1667938	.1644860	.0650723	.1880729
	Skewness	1.115	6.753	1.629	.177	-1.015	-1.491	.823	-.399	-.374	1.095	2.102	.001	-1.015	1.629
	Std. Error of Skewness	.098	.098	.098	.098	.098	.098	.098	.098	.098	.098	.098	.098	.098	.098
	Kurtosis	.608	61.411	2.600	-1.975	2.468	3.291	-.046	-.081	-.374	4.822	13.256	-.189	2.468	2.601
	Std. Error of Kurtosis	.195	.195	.195	.195	.195	.195	.195	.195	.195	.195	.195	.195	.195	.195
	Minimum	.0024	.0725	.0321	.0000	.0278	.0094	.0322	.0810	.0972	.0021	.0435	.0107	.0304	.0322
	Maximum	.6346	.6099	.5311	1.0000	.4730	.4696	.7874	.9274	.8201	.7952	.9029	.9078	.5181	.9103

3.2 Correlation between variables

In this section, using Pearson's correlation coefficient to assess the relationship between the variables and the correlation between them will be discussed. Matrix of correlations between variable in Table 2 are provided.

Table 2: Correlations

		rmedianrf	Social capital	State GDP percapita	Beta	Lnmarketvalueofequity	Booktomarket	Leverage	Momentum	Forecastdispersion	Longtermgrowthrate	Delaware	Herfindahl	Marginaltaxrate	Accountingquality
rmedianrf	Pearson Correlation	1	-.010	.014	.005	.038	.022	-.030	-.016	-.050	-.025	.011	.048	.038	.014
	Sig. (2-tailed)		.794	.736	.904	.345	.587	.450	.696	.207	.529	.779	.227	.345	.736
	N	627	627	627	627	627	627	627	627	627	627	627	627	627	627
Socialcapital	Pearson Correlation	-.010	1	-.068	.023	.001	-.013	-.025	-.055	.039	.030	-.092*	-.016	.001	-.068
	Sig. (2-tailed)	.794		.088	.573	.990	.738	.540	.170	.328	.450	.022	.696	.990	.088
	N	627	627	627	627	627	627	627	627	627	627	627	627	627	627
StateGDPpercapita	Pearson Correlation	.014	-.068	1	.034	.063	.046	.038	-.054	-.001	-.004	.058	.030	.063	1.000**
	Sig. (2-tailed)	.736	.088		.401	.117	.255	.347	.176	.980	.915	.145	.446	.117	.000
	N	627	627	627	627	627	627	627	627	627	627	627	627	627	627
Beta	Pearson Correlation	.005	.023	.034	1	.031	-.012	.028	.003	.074	-.068	-.076	.066	-.031	.034
	Sig. (2-tailed)	.904	.573	.401		.436	.760	.489	.949	.065	.088	.056	.099	.436	.401
	N	627	627	627	627	627	627	627	627	627	627	627	627	627	627
Lnmarketvalueofequity	Pearson Correlation	.038	.001	.063	-.031	1	.708**	-.012	.042	-.080*	-.004	.040	-.024	1.000**	.063
	Sig. (2-tailed)	.345	.990	.117	.436		.000	.756	.293	.044	.922	.318	.547	.000	.117
	N	627	627	627	627	627	627	627	627	627	627	627	627	627	627
Booktomarket	Pearson Correlation	.022	-.013	.046	-.012	.708**	1	-.047	.055	-.020	-.045	.068	-.006	.708*	.046
	Sig. (2-tailed)	.587	.738	.255	.760	.000		.236	.172	.609	.262	.088	.878	.000	.255
	N	627	627	627	627	627	627	627	627	627	627	627	627	627	627

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	N	627	627	627	627	627	627	627	627	627	627	627	627	627	627
	Pearson			1.000											
	Correlation	.014	-.068	**	.034	.063	.046	.038	-.054	-.001	-.004	.058	.030	.063	1
Accountingquality	Sig. (2-tailed)	.736	.088	.000	.401	.117	.255	.347	.176	.980	.915	.145	.446	.117	
	N	627	627	627	627	627	627	627	627	627	627	627	627	627	627

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

4. TTE RESULTS OF HYPOTHESIS TESTING

4.1 The main first hypothesis of the research results

The purpose of the first hypothesis test is to investigate the effect of the cost of representation as one of the factors of social capital on the cost of shareholders' equity, and the statistical hypothesis is defined as:

H₀: The cost of representing as one of the factors of social capital does not affect the cost of shareholders' equity.

H₁: The cost of representing as one of the factors of social capital affects the cost of shareholders' equity.

This hypothesis using converters (1) for panel data estimation and if the coefficient is statistically significant at the 95% confidence level will be verified.

$$\begin{cases} H_0 : \beta_1 = 0 \\ H_1 : \beta_1 \neq 0 \end{cases}$$

To be certain whether the use of panel data in estimating the model will be efficient or not, the Chow test in order to determine which method of tying or F (fixed effects or random effects) is more appropriate to estimate (recognition of the differences between fixed or random cross-sectional units) used the Hausman test. The results of these tests are presented in Table 1-3.

Table 3: Chow and Hausman test results for the model

Test	Count	Count	P-Value	Degrees of freedom	Statistics	Count
Chow	<i>F</i>	627	0/0000)509/104(3/7486	<i>F</i>
Hausman	χ^2	627	0/0331	13	5/6891	χ^2

According to the results of the Chow test and P-Value (0/0000), test the hypothesis was rejected at 95%, indicating that the method may be used panel data. Also according to the results of the Hausman test and P-Value (0/0331), which is less than 0/05, hypothesis testing and hypothesis rejected at 95% will be accepted. The model is estimated using fixed effects.

To check the validity of the model and the assumptions of the classical regression is necessary to assess the absence of multicollinearity between the independent variables in the model, tests remained normal with the consistency variance lack of independence remnant and the stipulates error (linearity model) is also recommended. To test the normality of error terms can be used for various tests. One of these tests is to test Jarkyv- of these tests have been used in this study. Jarkyv- test results indicate that the residues of the estimation model for investigation in 95% of the normal distribution, so that the probability of the test (0/8741) is larger than 0/05. One of the assumptions of the classical regression residual variance is consistency. If the variances are estimated nonlinear unbiased minimum variance will not. In this study we test for homogeneity of variance was used to cut Pagan. Due to the importance of this test, which is smaller than 0/05 (0/0010), the null hypothesis is rejected and we can say that there is consistency variance variance anisotropy model is problematic. In this study, to address the problem of estimating the generalized least squares estimation method (GLS) is used. According to the preliminary results of the model estimation Watson statistic is equal to 2/15 camera, and since that is between 1.5 and 2.5 can be concluded that the residuals are independent of each other. In addition, to test whether the model has a linear relationship with the desired model study of the relationship between linear and non-linear explanation is correct or not coded test is applied. Due to the level of the encoded test (0/4616) is larger than 0/05, so the null hypothesis of this test is to verify that the linear model and the model error is not specified. Table 4 summarizes the results of these tests are presented.

Table 4: Test results of the statistical assumptions of the model

Ramsey		Durbin-Watson		Breusch-Pagan		Jarque-Bera	
<i>P-Value</i>	<i>F</i>	D		<i>P-Value</i>	<i>F</i>	<i>P-Value</i>	χ^2
0/4616	0/7739	2/15		0/0010	4/0953	0/8741	1/9251

According to the results of Chow and Hausman tests and test results of the statistical assumptions of the classical regression model (1.1) and applied research using panel data fixed effects are estimated. The results are presented in Table 5. Shdh estimate the model using Eviews 7 software.

$$\begin{aligned} (R_{MEDIAN} - R_F)_{i,t} = & 0.0544 + 0.0146(SocialCapital)_{i,t} + 1.4315(StateGDPperCapital)_{i,t} + \\ & 0.0066(Beta)_{i,t} + 5.5052(Ln(MarketValueOfEquity))_{i,t} + 0.0578(BookToMarket)_{i,t} - 0.0299(Leverage)_{i,t} \\ & + 0.0222(Momentum)_{i,t} + 0.0102(ForecastDispersion)_{i,t} + 0.0221(LongTermGrowthRate)_{i,t} + \\ & 0.0005(Delaware)_{i,t} + 0.1102(HerFindahi)_{i,t} - 1.2191(MarginalTaxRate)_{i,t} - 1.3070(AccountingQuality)_{i,t} \\ & + Q_j + \partial_t + \varepsilon_{i,t} \end{aligned}$$

Table5: Sub hypotheses research results using fixed effects

Dependent Variable: RMRF
Method: Panel EGLS (Cross-section weights)
Dependent Variable: RMRF?
Method: Panel Least Squares
Date: 06/23/18 Time: 13:24
Sample: 1391 1396
Included observations: 6
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.054436	0.055514	1.980585	0.0272
SOCAP?	0.014653	0.051668	2.283602	0.0068
STAGDPPE?	143.1539	155.4073	3.921153	0.0003
BETA?	0.006697	0.011956	2.560097	0.0156
MARKVALEQ?	55.05273	159.7264	4.344669	0.0005
BOOMAR?	0.057823	0.108718	7.531857	0.0000
LEV?	-0.029998	0.033265	-2.901795	0.0175
MOM?	0.022233	0.041193	0.539729	0.5896
FORECASTDISPERSI				
ON?	0.010242	0.045014	4.227535	0.0001
TEGROWT?	0.022190	0.026132	3.849160	0.0061
DELA?	0.000519	0.036406	0.014252	0.9886
HERF?	0.110213	0.037600	2.931200	0.0035
MARGITAXRATE?	-1.219128	145.8444	-2.344143	0.0309
ACCOUNT?	-130.7083	141.8912	-0.921187	0.3573

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.650546	Mean dependent var	0.216524
Adjusted R-squared	0.503500	S.D. dependent var	0.131124
S.E. of regression	0.100113	Sum squared resid	5.311933
F-statistic	2.383919	Durbin-Watson stat	2.154762
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.218833	Mean dependent var	0.180253
Sum squared resid	5.369312	Durbin-Watson stat	2.120191

In the study of the significance of the whole model, considering that the probability of the F statistic is smaller than 0.05 (0.0500), with the confidence of 95%, the total model's significance is confirmed. The coefficient of model determination also indicates that 65.05% of the cost of shareholders' equity is explained by the variables entered in the model. Considering the significance of the coefficients according to the results presented in Figure 4-7, the probability of t for the variable coefficient of representation costs is less than 0.05 (0.0068), as a result of having a significant effect on the cost of representation as one of the factors Social capital is based on the cost of shareholders' equity at a 95% confidence level. Therefore, the first hypothesis of the research is accepted and 95% confidence can be said that the cost of representation as a factor of social capital on the cost of shareholders' equity has a significant effect. Positive coefficient of this variable (0.0146) indicates that the direct effect of representation costs as one of the factors of social capital on the cost of shareholders' equity is that so, with a 1 unit increase in the cost of representation as a factor of social capital, The cost of shareholders' equity also increases by 0.0146 units. Therefore, according to the analysis carried out in connection with the confirmation of the first hypothesis of the research, it can be concluded that the cost of representation as one of the factors of social capital on the cost of shareholders' equity has a significant and direct effect.

4.2 The main second hypothesis of the research results

The purpose of the second hypothesis test is to investigate whether advertising costs and the identification of products in the community as one of the factors of social capital affect the cost of equity of companies. And its statistical hypothesis is as follows:

H₀: The cost of advertising and identifying products in the society as a factor of social capital does not affect the cost of company equity.

H₁: The cost of advertising and identifying products in the community as one of the factors of social capital affects the cost of company equity.

This hypothesis is estimated by using the model (1) as panel data and will be approved if the coefficient is significant at 95% confidence level.

Considering the significance of the coefficients according to the results presented in Figure 4-7, the probability of t for the variable coefficient of advertising costs is less than 0.05 (0.0003), as a result of having a significant effect on advertising costs and identifying products in the community as one of the factors of social capital, the cost of equity of companies is confirmed at 95% confidence level. Therefore, the second hypothesis of the research is accepted and 95% confidence can be said that the cost of advertising and product identification in society as a factor of social capital on the cost of shareholders' equity has a significant effect. The negative coefficient of this variable (1.3141) indicates the direct effect of advertising costs and identification of products in society as one of the factors of social capital on the cost of shareholders' equity, so that with a 1-unit increase. The cost of advertising and product identification in society as one of the factors of social capital, the cost of shareholders' equity is also increased by 4315/1 units. Therefore, according to the analysis carried out in connection with the confirmation of the second hypothesis of the research, it can be concluded that carrying out advertising costs and identifying products in society as one of the factors of social capital affects the cost of shareholders' equity directly and significantly.

4.3 The main third hypothesis of the research results

In the third hypothesis of research, the effect of having a well-known brand as one of the factors of social capital on the cost of shareholders' equity is examined and the statistical hypothesis can be expressed as follows:

H₀: Having a well-known brand as a social capital factor does not affect the cost of corporate equity.

H₁: Having a well-known brand as one of the factors of social capital affects the cost of company equity.

This hypothesis is estimated using the model (1) as panel data, and if the coefficient is significant at 95% confidence level, it will be verified. Considering the significance of the coefficients with respect to the results presented in Figure 4-7, the probability of t for the variable coefficient of having a well-known brand is less than 0.05 (0.0156), as a result of the significant effect of having a well-known brand as One of the factors of social capital is the approval of the cost of shareholders' equity at 95% confidence level. Therefore, the third hypothesis of the research is accepted and with 95%

confidence it can be said that having a well-known brand as one of the factors of social capital on the cost of shareholders' equity has a significant effect. The positive coefficient of this variable (0.0066) indicates the direct effect of having a well-known brand as one of the factors of social capital on the cost of corporate owners' equity, so that with a 1-unit increase, having a well-known brand as one of the factors Social capital, the cost of shareholders' equity is also increased by 0,0066 units. Therefore, according to the analysis done in connection with the confirmation of the third hypothesis of the research, it can be concluded that having a well-known brand as one of the factors of social capital affects the cost of shareholders' equity significantly.

4.4 The main fourth hypothesis of the research results

The purpose of the fourth hypothesis is to examine the effect of audit and supervisory costs as one of the factors of social capital on the cost of shareholders' equity and the statistical hypothesis is as follows:

H₀ : The cost of auditing and monitoring as one of the factors of social capital does not affect the cost of company equity.

H₁ : The cost of auditing and monitoring as one of the factors of social capital affects the cost of company equity.

This hypothesis is estimated using the model (1) as panel data, and if the coefficient is significant at 95% confidence level, it will be confirmed.

In evaluating the coefficients according to the results presented in Figure 4-7, the probability of statistical t for the coefficient of variable of audit and monitoring costs is less than 0.05 (0.0005), as a result of the significant effect of audit and supervision costs on The title of one of the factors of social capital is based on the cost of shareholders' equity at a 95% confidence level. Therefore, the fourth hypothesis of the research is accepted and 95% confidence can be said that the performance of audit and supervision costs as one of the factors of social capital on the cost of shareholders' equity has a significant effect. The positive coefficient of this variable (5052/5) suggests that the direct effect of auditing and monitoring costs is one of the factors of social capital on the cost of shareholders' equity, so that by increasing one unit, the costs of auditing and overseeing as one Of the social capital factors, the cost of corporate equity increases by 5,155.5 units. Therefore, according to the analyzes carried out in connection with the confirmation of the fourth hypothesis of the research, it can be concluded that the cost of auditing and monitoring as one of the factors of social capital affects the cost of shareholders' equity significantly.

5. CONCLUSION

Summary descriptive statistics for variables in this study, it was shown. Continue to provide inferential statistics were used and research was presented in the form of statistical models and assumptions. The chow test was used to test the models to determine whether the method should be used panel or mixed and Then Hausman test for random effects or fixed effects panel method was used. Finally fit the classical regression model assumptions and the results of the research model in developed. The results of the research show that according to the analysis carried out in relation to the confirmation of the first hypothesis of the research, we concluded that the cost of representation as one of the factors of social capital on the cost of equity of the companies has a significant and direct effect, and in Continuing according to the analyzes carried out in connection with the confirmation of the second hypothesis of the research, it can be concluded that advertising and identification costs of products in society as a factor of social capital affect the cost of shareholders' equity directly and significantly, and also with regard to To parse and Proceedings in connection with the confirmation of the third hypothesis of the research, we concluded that having a well-known brand as one of the factors of social capital affects the cost of shareholders' equity significantly and, ultimately, according to the analyzes carried out in the connection Confirming the fourth hypothesis of the research, it can be concluded that the cost of auditing and supervision as one of the factors of social capital affects the cost of shareholders' equity significantly.

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