

The Impact of Investment and Financing Decisions on Market Value in Turkey

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Extensive Summary

Introduction

The effectiveness of investment and financing decisions has a crucial role in lowering the cost of capital and, ultimately in maximizing shareholders' wealth. It is important and necessary to increase the profitability and financial performance of businesses in this framework, to search for the effect of capital structure and investment decisions on the market value of willingness to maintain sustainable competitive advantages.

Studies that investigate the relationship between investment decisions and financial performance and market value are frequently found in the literature. Shin and Soenen's (1998) work is one of the pioneer work to examine the relationship between corporate capital and financial performance. This relation is also tested by DeLoof (2003), Gill et al. (2010), Ching et al. (2011), Karaduman et al. (2011), Vural et al. (2012), Kendirli and Konak (2014), and Keskin and Gokalp (2016). In addition, De Almeida and Eid (2014), Ata and Bagan (2016) have conducted studies to examine the relationship between the corporate capital and market value.

This study has been structured with literature review, explanation of methodology, research findings and conclusion sections. Basic theoretical approaches in literature search and information on the studies done with reference to these approaches are given.

In the methodology section, the aim and method of study, data sets used and constraints, variables, model and statistical analysis are given. The research findings obtained after the analysis has been also evaluated in the conclusion section.

Methodology

The objective of this paper is to examine the impact of investing and financing decisions on the market value and to determine in which direction these relevant decisions affect the market value. For this purpose, 274 real public sector firms, which are regularly accessible during 2010-2014 have been selected and panel data analysis have been utilized.

Model of the Study

Models used in the study are structured below.

Model 1: Investment decisions

$$LHMcap_{it} = \alpha + b_1 APT_{it} + b_2 ART_{it} + b_3 AT_{it} + b_4 IT_{it} + b_5 ARR_{it} + b_6 NFAT_{it} + b_7 ROA_{it} + e_{it}$$

Model 2: Financing decisions

$$LHMcap_{it} = \alpha + b_1 TDTE_{it} + b_2 CO_{it} + e_{it}$$

$$i = 1, \dots, N \text{ and } t = 1, \dots, T$$

“i” represents the number of corporations, “t” represents the number of periods, “a” constant term and “e” error term.

List of variables

| Variables | Abbreviations | Definitions |
|---|---------------|---|
| Dependent Variable | | |
| Logarithm of Historical Market Capitalization Value | LHMcap | Logarithm of historical market capitalization value |
| Independent Variables | | |
| Investment Decisions | | |
| Efficiency Ratios | | |
| Accounts Payable Turnover | APT | Net credit purchases to average accounts payable |
| Receivables Turnover Ratio | ART | Net credit sales to average accounts receivable |
| Asset Turnover | AT | Net sales to total assets |
| Inventory Turnover | IT | Cost of sales to average inventory |
| Asset Reinvestment Ratio | ARR | The ratio of capital expenditures to depreciation |
| Net Fixed Asset Turnover | NFAT | Net credit sales to average net fixed assets |
| Profitability Ratio | | |
| Return on Assets | ROA | The ratio of net income to total assets |

| | | |
|-------------------------------|------|--|
| Financing Ratios | | |
| Leverage Ratio | | |
| Total Debt/Total Equity Ratio | TDTE | The ratio of total debt to total equity |
| Liquidity Ratio | | |
| Cash Ratio | CO | The ratio of cash and marketable securities to current liabilities |

The panel has both time and space dimensions, and the same cross-sectional units are observed over time (Gujarati and Porter, 2014). One of the reasons for using panel data analysis in the study is that it is formed by combining time series and horizontal section data and has more randomness with the number of observations. In addition, panel data analysis is preferred since it enables to control the effect of variables that are not included or not measured, to reveal dynamic relationships, and to provide more effective results than econometric analysis and horizontal section and time series analysis. The collection of data required for panel data analysis is widely used in developed and developing countries, although it is more difficult to collect both dimension data separately (Hsiao, 2006).

The data used in the study were obtained from the Bloomberg Professional Database and analyzed from the extreme values and analyzed in STATA 13 program. The constraints of the work are the removal of the data set from the extreme values and the removal of the dataset from the extreme values of companies that are operating in the real sector which are traded in the period of 2010-2014.

In this study, the market capitalization value, which represents the market value of firms, is used as the dependent variable. Following the literature, the independent variables has been taken as accounts payable turnover, accounts receivable turnover, asset turnover, inventory turnover, asset reinvestment ratio, net fixed asset turnover, return on assets, total debt to total equity ratio and cash ratio.

Findings and Discussion

In the markets where financial markets are not sufficiently developed and credit facilities are not diversified, it has become extremely important that the firm's investment decisions, which are the main effect of firms' maximization of value, and their decisions about where and how the investments are to be provided.

The findings of the study exhibit that there is no significant relationship between cash ratio, total debt / total equity ratio and market value. In addition, no evidence has been found that the accounts receivable turnover and the inventory turnover affect the market value. The relationship between total debt/total equity ratio and market value is similar with Modigliani and Miller (1958) approach. On the other hand, asset reinvestment ratio and net fixed asset turnover, positive direction between market value; the accounts payable turnover rate and the asset turnover have been found to be significantly related to the negative direction.

The high accounts payable turnover rate may be a sign that the related firm can not benefit from the option of long-term borrowing, although they show that the debt load is short, indicating that firms can pay their debts effectively in the period concerned. In addition, there is a positive effect between the market value and the return

on assets, and it is possible to say that the market value of firms with the return on assets is high.

Apart from investment and financing decisions, dividend decisions has been another indicator which affect the market value. Since the number of firms distributing regular dividends during the review period is low, the dividend distribution rate has not included in the scope of the study.

Findings state that asset turnover rate, the rate of reinvestment variable which explain the investment decisions at the level of productivity, and the return on assets have a positive effect on the market value of the firms. Furthermore, debt turnover rate and the asset turnover rate which explain the investment decisions at the level of productivity negatively affect the market value, while the receivables turnover and stock turnover ratios have no effect. Additionally, capital structure and liquidity level representing financing decisions have been found no significant effect on the market value.

In particular, it has been recommended that long-term investment and investment management decisions, which are determined to have a positive impact on market value, should be emphasized, and that managers should make their decisions in this framework in terms of effective management of assets.