The Study of the Effect of Commercial and Financial Crises on Decision-Making of Shareholders in Tehran Stock Exchange

Eshrat Yaghoobi1*, Abas Samadi2

1Department of Management, Malayer Branch, Islamic Azad University, Malayer, Iran
2Public Administration, Bu-Ali Sina University, Hamedan, Iran
*E-mail: Yaghoobi_nasim@yahoo.com

Abstract

The aim of the present study is to explore the effect of commercial and financial crises on decision making of shareholders in Tehran Stock Exchange that for this purpose of the 139 of the shareholders in Tehran Stock Exchange have been selected with the use of simple random sampling method and have responded to research questionnaires. Content validity of this questionnaire has been confirmed by three of the experts in this field and its reliability also has been confirmed with the help of Cronbach's alpha test. In the end, the data obtained from research questionnaires have been analyzed with the help of structural equations test and results indicate that commercial and financial crises have a significant effect (p<0.05) on Tehran Stock Exchange.

Keywords: commercial and financial crises, financial decision making, shareholder, Tehran Stock Exchange.

Introduction

Financial crisis term refers to a situation in which a considerable percentage of the value of some assets are lost unexpectedly. Historical evidences show that so many financial crises are resulted from crisis in banking networks that eventually lead to economic recession and unemployment crisis (Mokhtari Hashi, 2008).

Globalization is a process in the course of which boundaries are gradually removed and simultaneously increasing international transactions and transnational interactions. Structural transformation in global economy is one of the most important effects of this process which causes an increase in economic interdependence and facilitates the required conditions of global economy village. Among the passive reactions of countries for coping with globalization phenomenon, economic integration, economic, commercial and regional arrangements can be mentioned (Shakibaee and Saeed, 2012).

Financial crisis of 2007 - 2009 of financial institutes and its extension to global markets in recent years has been the main subject of financial and economic experts discussions (Strazicich and Day, 2004).

Crisis started with back to back bankruptcy announcement of massive US credit institutions and following the creation of fundamental doubts regarding the sustainability of the current foundations of market economy, through Periodic fluctuations in stock prices (sharp fall and partial recovery) was extended to stock markets (Miremadi, 2008). Prominent aspects of the recent crisis in global trade together with a decline in exports and imports in developed and developing economies were become evident in September of 2008 (Karimi Hasnije, 2007).

This crisis caused shed some doubts on efforts which have been made for the realization of globalization in recent decade. Globalization, in addition to internationalization of global markets, has created a competitive environment in which only powerful and efficient economic units can survive. Hence, national governments have turned to regional - orientation and formation of regional arrangement so that they can survive against global problems (Azarbayaiejani, 2002).
Although capital markets and especially stock exchange did not have a role in starting the financial crisis, they have got the largest effect from it. This crisis has been more than a credit crisis and in the beginning was extended through markets outside Stock Exchange which have a lower supervision and regulation and next with affecting financial institutes was extended to capital market and Stock Exchange (Kiyani, 2007).

With a decline in stock value of financing companies and other financial institutes, their stock price in Stock Exchange faced a sharp decline, and investors lost their trust in these markets and transferred their financial resources, that were lost a part of their value due to stock value decline, to other markets with lower risks. This event caused stock exchange of some countries to face serious problems, in a way that the need of government intervention for helping them was felt (Najarzade and Shaghahtagi, 2006).

With the decline of stock markets all around the world, billions of dollars of the world's wealth and a part of investment incomes of the past 5 years were destroyed and the retirement investments and savings of a great number of people throughout the world were lost. Studying the available information in this regard shows that more or less all the stock exchanges of the world were faced with a decline in stock price and indices and this decline in some stock markets has been almost 50%.

Of course, these declines are more tangible when they are measured in terms of dollar and in this case, a 35% decline in New York Stock Exchange index refers to the loss of around a trillion Dollar of the market value of this exchange within 2 months (Tayebi and Azarbeyejani, 2001).

Of course, since this crisis is originated from the credit market and is known as the credit crisis, studying the situation of credit market provides better information for understanding crisis dimensions. Measurement and monitoring of credit market variables contain more complexities compared to capital market and some qualitative variables have been developed for this purpose, among which rate of return on short-term treasury bills, London interbank interest rate, the difference between the rate of return on short-term treasury bonds and 3-month interbank rate and rate of return on bonds with high return can be mentioned. Studying the above mentioned variables all indicate to the fact that we are facing with lack of Safe and stable conditions in credit market (Derakhshan, 2008).

Considering the above discussion, in the present study, the impact of commercial and financial crises is explored on shareholders' decision making in Tehran Stock Exchange.

Ma Zihui and Leonard cheng (2003) have conducted a study with the title of impact of financial crises on international trade in the past two decades. Their theoretical analysis has predicted that imports will decline during and after banking crises and on the other hand, exports will increase during the crisis and decline after it. Their theoretical analyses predict that imports and exports decline during monetary crises. However, the effect of after crisis depends on the external source of shock. With the use of a Model of bilateral trade between 50 countries during a 19-year period with actual data they have estimated the monetary crises of the world. Therefore, they have concluded that empirical results in general have a more compatible theoretical prediction result, especially during 1991 – 1998. Their empirical results also indicate that after monetary crisis, exports has sharply increased during 1991-1998 compared to these experts during 1982-1990, in which solving inclusive crises in the past decade might play a key role.

Mckibbin and Stoeckel (2009) in their article entitled "potential effects of financial crisis on world's trade" have considered financial crisis as a context for shock in global markets and a high increase in risk taking of companies. They have shown that the shocks observed in financial markets can be a context for intensive economic integration of countries in trade in 2009. Also, they have shown that the main difference between production and trade of durable goods and non-durable
goods play an important role in a more intensive integration of bilateral trade in so many countries. They have concluded that severe lack of tax and trade war is a response to financial crisis. Other findings of this study indicate that global financial crisis of 2008 has been the largest and sharpest decline in global economic activities from the beginning of the modern history. In 2009, developed countries were inflicted with a deep recession. Organization for Economic Cooperation and Development has predicted that trade volume in 2009 has reduced by 13% compared to that of 2008.

Frankel and Rose (1996) and Frreti and Razin (1998) for determining crisis have used a certain percentage of the rate of depreciation of the currency as a criterion for determining crisis. They have directed the focus of this empirical literature toward modeling monetary crises for developed countries. With the use of Panel data probit analysis for 105 countries during the time period of 1971 – 1993, they have performed their analysis. Contrary to Eichengreen, Rose, and wyphosz, they have found that low levels of Foreign Direct Investment, low international reserves, high growth of domestic credit and overvaluation of currency rate increase the occurrence possibility of monetary crisis.

Some researchers such as Lee and Rhee (2000) have used Acceptance of International Monetary Fund programs as a criteria and basis for determining crisis. Eichengreen, Rose, and wyphosz, (1994, 1995, 1996) who have analyzed monetary crises by using the information of countries, have founded a kind of empirical literature in this field. Eichengreen, Rose, and wyphosz have focused their work on industrial countries whose currency rate has been stabilized. They have defined crisis as major movements or changes in currency rate, interest rate and international reserves and then, have compared the behavior of so many variables during calm and crisis periods. They have found that the behavior of macro-economic variables for countries with European Monetary System changes during those periods, however, this difference in variables' behavior cannot be observed for countries having Non-European Monetary System. Also, they have found that there is a relationship between occurrence of monetary crises among countries who are trade partners for one another.

Miremadi (2008), in an article with the title of "explaining financial crisis of 2008 as the paradigm rotation threshold in the information and communication technology revolution" in the light of Schumpeter - Friedman theory has studied the reasons for the occurrence of financial - credit crisis of 2008 and its effects. In this article, he has achieved two main conclusions: first, the current crisis is the return of the delayed critical side effects that have caused 10 years ago following the bubble burst of companies with new technology, known as Dot-Com which were disappeared temporarily with economic liberalization policies; second, this crisis considering the destructive effect has left on economic foundations and the changes which have been created in macroeconomic policies. So far, in the course of overcoming it, a rotation has been indicated in the dominant technical - economic paradigm and a transition from establishment stage to expansion stage in the cycle of information and communications technology revolution.

Naderi (2003) has explored the effects of financial crisis on real section of economy and has concluded that export-orientation, favorable environmental conditions inside and outside the country and degree of development or financial deepening have a significant and lasting effect on adjustment procedure of the real section of economy after financial crisis. A market-oriented financial system, policies of demand management and difference in the initial conditions also have a significant effect only on the adjustment procedure of two years after crisis.

Based on the above mentioned and research variables, conceptual model of the present study is presented as below:
**Methodology**

The present study in terms of aim and goal is an applied study, in terms of method is a descriptive study and is a survey study in terms of data collection method. In this study, two categories of information were used. First, information that was gathered with the use of bibliographical method and second, those information that are used for statistical analyses and hypotheses test that are collected by using field method and a questionnaire. In the end, the collected data were analyzed by using one-sample t-test in SPSS software.

**Research variables**

Commercial and financial crises are considered as predicting variables and shareholders' decision making is considered as criterion variable.

**Population and sampling**

Research population in this study included shareholders present in Tehran Stock Exchange which were calculated to be equal to 139 persons according to sampling table of Jersey and Morgan. For the purpose of acceptable number of return questionnaires, 160 questionnaires have been distributed among the population under study that after elimination of incomplete questionnaires a number of 139 complete questionnaires were entered into the software and analyzed by using one-sample t-test.

**Measurement scale, validity and reliability**

The present study's questionnaire includes 29 questions. The questionnaire's validity was confirmed based on content validity that for this purpose Lawshe formula (in this study for testing the content validity a number of 13 questionnaires have been distributed among experts and specialists). Considering the obtained validity ratio for all the questions of the research questions is larger than 0.54, the minimum acceptable value for 13 experts is equal to 0.45, hence, considering the number of evaluators, it can be claimed that research instrument is acceptable and has the necessary validity. Regarding statistical method and index of KMO, software output shows that since significance level is less than 0.05 and statistical index of KMO is 0.916, which is larger than the minimum acceptable value, the present questionnaire has the necessary validity. Also,
questionnaires' reliability was calculated by using Cronbach's alpha method that since the obtained value is larger than 70%, which is the minimum acceptable value, it can be claimed that the questionnaire has the enough reliability.

Results and Discussion

Descriptive results of this study show that 16.3% of the people in research sample are between 26-35 years old, 25.6% are between 36-45 years old, 23.3% are between 41-60 years old, 23.3% are between 61-70 years old and 11.5% are between 71-80 years old that among them 8% are female and the rest 92% are male. Regarding the level of equation, 16.3% of people are having below diploma degree, 34.9% have diploma, 34.9% have bachelor, 13.9% have master and higher. In the following, for the purpose of testing the relationships between research variables, structural equations model is used, the results of which are presented below.

Figures 2 and 3 present the fitted model by LISREL software. The values related to model fit including chi-square to freedom degree ratio, RMSEA, GFI and AGFI are equal to 1.91, 0.08, 0.95 and 0.93, respectively, which indicate that the used model in this study has a good fit in studying the relationships between research variables and that commercial and financial crises have a significant effect (p<0.05) on shareholders' decision making in Tehran Stock Exchange.
Conclusion

Stock Exchange is an economic market in which purchase and sale of securities is conducted under certain regulations and rules. Considering the fact that the stock of the largest and most important economic units of the country is offered in stock exchange, therefore, any kind of change in economic and political conditions can rapidly affect stock exchange and make it experience fluctuations. Investigation and analysis of behavioral finance of market investors and activists is considered as one of the new topics in the field of financial management. Based on the existing approaches in this field, investors' decision-making is not performed only on the basis of quantitative and rational analysis but factors resulting from market expectations also have a great effect on the way shareholders react to market changes. In other words, behavioral finance can be considered as an integration of classic economy, psychological sciences and decision making (Nicholas & Thaler, 2004).

In general, investors at the time of making decision consider two main factors of risk and return (Hunton, 2005). Contrary to major investors who have extensive tools and facilities for creating proportion between these two variables, individual investors often lack any of these tools. In addition, high rate of economic and political changes, instability of rules and regulations, etc lead to an increased risk of decision-making in stock exchange (Kirkpatrick et al., 2014). All these factors cause the capital market to face with a secondary risk resulting from individualism and lack of predictability of investors behavior (Venkatraman et al., 2014). The present study sought to explore the effect of commercial and financial crises on shareholders' decision making in Tehran Stock Exchange and the results indicate that commercial and financial crises have a significant effect (p<0.05) on shareholders decision making in Tehran Stock Exchange.

Continuity of activity is one of the main assumptions in accounting and management that so many principles and procedures gain meaning in support of this assumption existence. Among the main threatening factors of activity, continuity, commercial and financial crises can be mentioned. Hence, for measuring financial crisis, various methods have been established. Failure, lack of liquidity, inability to meet obligations at maturity and bankruptcy are four importance terms in financial crisis literature (Altman & Hotchkiss, 2006) and as it was mentioned earlier also, it is not unexpected that these factors will have a moderating role on shareholders' decision making, specially shareholders in companies listed on Tehran Stock Exchange.

References


