

The Impact of Financial Constraints on the Investment and Cash Holding in Listed Companies in Tehran Stock Exchange

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ABSTRACT- This study was conducted in order to complete and develop the research about the Investment Cash Flow and holding cash, Cash Flow And financial constraints, and, therefore, this research develops a theoretical and empirical literature on the effects of financial constraints on the scope of the investment of the cash flow sensitivity and cash holdings at the same time. For investors, profitability and cash flow growth in the future is important. Many factors contribute to the increase of these two. One of the contributing factors is the volume of investment. It is expected that with all profitable investments, future cash flow and profit will increase. Decisions related to the volume of investment in firms are associated with financial factors. In other words, financial factors can affect the size of the company's investment. In this study, based on performed chi-square, Mann-Whitney, Spearman and regression test of research assumption, it is shown main assumptions of the investment policy and financial constraint are confirmed and investment- cash sub-assumption is accepted and P value is less than 0.05. And at sub-assumption by default value except 4, the divided on the holding –cash ratio has P value larger than 0.05 that is rejected. According to regression coefficients () at stepwise regression is the representation of influence of any variable at models and investment and holding cash is determined and cleared. © 2014 Bull. Georg. Natl. Acad. Sci.

Key words: Investment, cash holding, financial constraints, stepwise regression, Tehran Stock Exchange Market

Introduction

Cash flow sensitivity of investment - without relying on pre-event samples was classified into two groups: limited and unlimited checks. The first estimates of the sensitivity of the company's cash flow - investment received and then they used to classify firms into groups with negative sensitivity, and high and low cash flow. While most companies show a high positive sensitivity of investment cash- flow, very few of them have strong negative relationship between investment and cash flow. For each class of the sensitivity of cash flows - investment properties that reflect the severity of financial constraints is checked.

These characteristics include domestic liquidity, growth opportunities and the behavioral finance and investment firms. In line with the initial interpretation of the sensitivity of cash flows - investment by Fazary and others (1988), it was provided that the firms with positive cash flow sensitivity of investment - the ones who are more likely to have a higher cost of external financing. The smaller and younger firms have fewer tangible assets and dividends are less likely to carry debt rating. They also have higher levels of cash reserves due to liquidity issues which are anticipated. The company's cash flow is less than the cash flow insensitive firms and investment spending much more of their cash flow. Despite the higher costs, these firms issue debt and equity that will allow them to invest and grow at rates higher than non-critical firms. These results imply that the cash flow sensitivity and financial constraints faced by firms in the low cash flow, is more specific. Traditional indicators such as firm size and

financial constraints limit the amount of dividends to be able to identify the above identified companies and the limitations of the limitations of the bottom, the less with the said report. This program by kz indicators (Kaplan and Zingales, 1997) apparently is separated. But the downside is that kz index in identifying companies that are more likely to face financial constraints are less successful.

Theoretical Research

Measurement criteria for investment and growth are including capital expenditures and research and development costs. Sources of financing include cash flow, cash proceeds from asset sales and rising debt and stock. positive sensitivity firms on the floor, and the floor has a positive sensitivity to the companies listed in the category without allergies, that limited this Then check the cash flow sensitivity of firms in different groups, how to grow? How to invest? And how are they funded?

The results show that despite the expected higher costs, companies listed in the category of sensitive positive and negative sensitivity class has higher levels of investment, research and development expenses and sales growth compared to companies listed in the category without sensitivity. This sensitivity agrees with these two groups of firms with more growth opportunities than companies without allergies on the floor. This was shown by the ratio of market value on the book. Since the study group net cash flow is negative, they have to rely on foreign capital to achieve higher growth. The expected profitability of investment projects is so high that they justify the high cost of external financing.

Because the relationship between investment and cash flow (both negative and positive), indicate a higher likelihood of financial constraints on investment growth, investment opportunities abound next discussion reviews the factors that influence the direction of this association for corporate. Especially which is facing severe financial constraints, greater investment in high cash flow and investing cash flow is less than a year that seems reasonable. In this study the sensitivity of the negative, down and up a classified and characterized the sensitivity of cash flows - investment in relation to financial constraints, and cash flow are growth opportunities. Companies that have negative cash flow sensitivity of cash flows are lowest and highest growth opportunities are limited, as most. Insensitive companies to the cash flow have the highest cash flow, the lowest growth opportunities and financial constraints are minimal. To a large extent the negative relationship between cash flow and investment, different trends in investment and cash flow growth during the life cycle of the company.

Sensitivity of investment to cash flow that is provided by Fazary and others (1988) for firms that pay low dividends provided attention to the causes of this phenomenon is the financial economy. Based on an interpretation Fazary and others (1988), the sensitivity of cash flows - investment, reflects high costs of external financing relative to internal financing. This may be due to asymmetric information (Myers and Majluf, Grinvald and others 1984 and 1984) or the existence of agency problems (Jensen and Mac Ling 1976, Gross man and Hart, 1985 and Jensen, 1986). Much of the literature, the sensitivity of cash flows - investing to financial constraints is based on regressions of investment on cash flow and Q-Tobin about it. Other studies challenge, this view by showing that the relation between cash flow sensitivity and financial constraints on how companies classify both restricted and unrestricted susceptible.

Based on this study, the negative relationship between investment and cash flow based on the life cycle hypothesis is justified. Lifetime companies classified as negative cash flow sensitivity, different trends in response to changes in collection development opportunities that will be created. In particular, these firms operate as a public company with a valuable set of investment opportunities, but the benefits are very bottom. The fact that they are able to raise substantial amounts of debt and equity that represents the current cash flow despite that is very least, the profit of the market, expected, and assessed to be high. Also the fact that they started to operate with very low cash flows implies that the allocation of investments when the high cash flow of the solution is not possible. Due to the very low levels of cash flow, much time is needed to ensure that cash flows are high enough to be able to take as a source of financing. Also without The current investments, higher cash flows in the future are not possible. So when you

invest that cash flow is at a low level. However, based on the life cycle hypothesis, as these companies mature, they begin to make investments before higher cash flows and interest rates, these trends coincide in cash flows caused negative correlation between the cash flows and investment becomes.

This study adds to the existing literature the following contributions. First, the advantage of sample classification based on cash flow sensitivity, make it possible to examine a greater number of properties and the behavior of financial and companies Investment ,the Ratio of sensitivities cash flow are different. This raises a more comprehensive description of the different sensitivity cash- investment firms that makes it easy to generalize the results. Moreover, since no prior knowledge of what caused the event cash- flow sensitivity of investment is necessary, the researcher could open minded about the underlying causes and implications of it.

In contrast to this approach, the investment regression approach used in previous studies, classify the sample based on prior knowledge of the relevant factors before estimating the sensitivity cash- investment. As a result, the outcome of cross-cutting analysis is sensitive to the issue of whether certain factors are related to this cash- flow sensitivity of investment? Did you spot a good separation of the sample that is detected? This may be one reason for the contradictory findings in previous literature, especially if the relationship between financial constraints and cash-flow sensitivity of investment as provided by Kaplan and Zingales (1997) are stated differently.

Second, this study finds that cash- flow sensitivity of investment varies with respect to internal funds. This finding is consistent with previous findings. However, this study provides a new rationale. This logic is based on the growth opportunities over the life cycle. Periods of high growth opportunity coinciding with periods of low cash flow and investment spending is high, and vice versa.

This study was completed in order to expand our research and therefore to the study of literature, theoretical and empirical study of the effects of financial constraints within the sensitivity of funding and cash flow is at the same time of cash holdings. For investors, profitability and cash flow growth in the future is important. Many factors contribute to the increase of the two. One of the contributing factors, the volume of investment. Expected to do all profitable investments, future cash flow and profit increase. Decisions relating to the volume of investment firms associated with financial factors. In other words, financial factors can affect the size of the company's investment.

Provide and develop hypotheses

The only problem is expressed in general terms; the study conducts research especially in the hive all the information on it. On the other hand, if all of the information at issue, we will issue full size, so that the wisdom and guidance was not possible. Thus, the problem will never be solved scientifically, unless become the hypothesis or hypotheses. Hypothesis is a proposition that is conditional or unconditional presence, (only in order to extract the consequences of the discovery or without believing in it), that will be accepted. The role of theory in scientific research is to propose an explanation for some of the facts and lead researcher.

The main assumptions

1. Investment policy and the company's liquidity are affected by financial constraints.
2. Sensitivity of investment - cash flow is different for different companies in terms of financial constraints.
3. Sensitivity to hold cash - cash flow for different companies varies in terms of financial constraints.

Secondary hypotheses

1. Firm size on the sensitivity of investment - cash flow is effective.
2. The amount of dividends paid on the sensitivity of investment - cash flow is effective.
3. Maintenance of company size on the sensitivity of cash - cash flow is effective.
4. The amount of dividends paid to maintain the sensitivity of cash - cash flow is effective.

Methods

Due to the use of historical data to test hypotheses, this research is considered experimental - casual. One feature of this project is the inability to control confounding variables and the data after the fact.

The effect of financial constraints on controversial discussion at the company policy, classify them according to the criteria of financial constraints. At This concept of financial constraints, there are differences in financing

costs through internal funds with foreign funds. The standard states that financially constrained firms are likely to be small, non-profitable, high growth potential, high leverage and low debt capacity. Several criteria are met for the most part, but what is the best measure is disputed.

Population and Sample

The population consists of all companies listed on the Stock Exchange. Companies will be selected sample cup according to the following conditions:

1. Until the beginning of 2002, and are accepted in Tehran Stock Exchange by the end of the 2011 active and not deleted from the list of companies listed.
2. Due to the increased comparability, financial period, end in March. The reason for choosing this criterion is that the calculation of the variables as possible to the same time periods and conditions and seasonal factors, the choice of factors and variables are not affected.
3. Financial years are unprofitable. Because of these limitations, the need to calculate the growth rate for the calculation. Since doing this for unprofitable firms is measured in terms of conceptual K.jab entry errors, unprofitable firms are removed from the sample.
4. Relevant data are available. It is clear that, if there is no access to the needed data to implement, the research would not be possible.
5. Not be investment companies. Investment companies, with adjusted earnings per share by its invested companies, the adjusted earnings per share of their own, so in this regard, the efforts invested companies are, therefore, excluded. The systematic elimination technique to select a sample of companies that the third part of the study in detail the findings and expressed as the 90 participants to evaluate the research will be selected.

Methods of data analysis

For data collection, the various tools are needed. These instruments are subject to various factors including the nature and methods. To obtain information for this study will examine the annual reports of the sample companies, and other notes and analysis of the company's board. For this purpose, the existing databases such as Devise processor, the new result of the Securities and Exchange will use a database of links and will benefit information in the Tehran Stock Exchange website. If necessary, be referred to the Securities and Exchange Library. The information gathered by the taxonomy, **Excel** spreadsheet software and a preliminary calculation of the variables in the program is done, then the results in order to meet the assumptions of linear regression model applied to data, software **Eviews** and the software then by **SPSS** and statistical methods and data analysis was performed.

Spatial and temporal scope of the investigation

Spatial scopes of market research is listed companies in Tehran Stock Exchange, the time scope of the study period considers information about the research and were available for the 10-year period from the beginning of the year 81 till 2011. Due to the spatial scope of research, the target population consists of all companies listed on the Stock Exchange. Anticipated time of the study is at least for six months since the adoption of the proposals if they are considered necessary more time.

Test results of model assumptions

First assumption: financial constraints could affect the company's liquidity policy and investment.

Table 1: Effect of independent variables on the dependent variables using chi-square test

Variables	X ²	Degrees of freedom	Significant level.
Cash	329.63	273	0.011
Investment Policy	181.91	141	0.012

As Table 1 shows some of the estimated cash equal to 63/329 with 273 degrees of freedom and the significance level is 0.01. The investment policy of the chi-square is calculated as 91/181 with 141 degrees of freedom and significance level is 0.012. In other words, the smaller the level of significance of 05/0 can be concluded that corporate financial constraints can affect the company's liquidity and policy of investment the above equations that can be high are as follows are written:

Cash = P = 0/011, df = 273, X² = 329/63

Investment Policy = P = 0/012, df = 141, X² = 181/91

As a result, we can confirm that the researcher assumes that the effect of the company's liquidity and financial policy, investment policy constraints are accepted.

Second: there are significant differences between the cash flow sensitivity for investment and financial constraints in different companies,.

Table 2: Significant differences in investment cash flow sensitivity and financial constraints by Mann-Whitney U test

Company with restrictions	Number of	Average Rating	The total mean
Companies with less constraint	147	508 /50	74750
Companies with high limits	663	663	253,705
Man Whitney	Z	Significant level.	
33598	5.9	0.001	

As table 2 shows that firms with low financial constraints and firms with financial constraints mean high ranking 50/508, 663 with an average rating of different from one another the significant level of resulting 000/0 ($p < 0 / 05$) that the smaller of the 05/0 significant difference between the cash flow sensitivity of investment and financial constraints are among the companies in the above equation that can be written as follows:

Cash flow sensitivity of investment = P = 0/000, Z = 5/9, U = 23598

As a result, we can confirm that the researcher assumes that the difference between cash flow sensitivity of investment and financial constraints will be approved.

The third assumption: the sensitivity of holding cash - cash flow and financial constraints in different companies, there are significant differences.

Table 3: Evaluation of a significant difference in the sensitivity of holding cash - cash flow and financial constraints by Mann-Whitney U test

Company with restrictions	Number of	Average Rating	The total mean
Companies with less constraint	147	454/4	66796
Companies with high limits	663	394.6	261,657
Whitney	Z	Significant	
		Level.	
41541	13.3	0.002	

As Table 3 - shows that firms with low financial constraints with an average rating of 4/454 with an average ranking of companies with high financial constraints differ 394.6 the significant level of resulting 0.002 ($p < 0.05$) to be smaller than 0.05 significant difference between cash flow sensitivity and financial constraints holding cash-cash flow is among the above equation that can be written as follows:

Sensitivity of cash flow investment = P = 0/000, Z = 13.3, U = 41541

As a result, we can confirm that the second assumption of the Researcher is approved based on the difference between sensitivity of cash flow investment and financial constraints.

The first sub-hypothesis: firm size is effective on the sensitivity of investment - cash flow.

Table 4: Evaluation of the effect of firm size on sensitivity of investment cash flow

Test	Domain	Significant level.	Number of
spearman	0.562	0.000	810

As the Table 4 - Effect consideration is the sensitivity of investment - cash flow of the company through a range of 0.562 spearman test and a significance level of 0.000, which indicates that the size of the sensitivity of capital investment - cash flow is effective. So we can confirm that the second sub-hypothesis was accepted relationship which may be expressed as follows:

Two domain = P = 0/000, N = 810, $r_s = -0/562$

Determine the impact of firm size on investment cash flow sensitivity by linear regression

Model	R	R ²	t	B1	B2	F	Significant level.
Linear regression	0.812	0.65	39.46	0.86	0.812	1557.23	0.000

As can be seen in the table, linear regression R2 (coefficient of determination) of 0.65 and B is equal to 0.81. In other words, each unit change in firm size as 0.81 considerable impacts on investment, confirmed cash flow will also indicate the level of significance is less than significance level 0.05.

The second sub-hypothesis: the amount of dividends is effective on the sensitivity of investment - cash flow.

Table 5: The Effect of dividends on investment cash flow sensitivity

Test	Domain	Significant level.	Number
Spearman	0.091	0.01	810

As can be seen in Table 5, the rate of dividend on the sensitivity of investment of cash flow through the 0.091 Spearman test and a significance level of 01/0 is effective which indicate that dividends on the investment sensitivity. So we can confirm that the second sub-hypothesis was accepted and the relationship may be expressed as follows:

Two domain = P = 0/0 1, N = 810, $r_s = 0/091$

Determine the impact of dividends on investment cash flow sensitivity by linear regression

Model	R	R ²	t	B1	B2	F	Significant level
Linear regression	0.114	0.013	3.23	0.157	0.114	10.48	0.001

As can be seen in the table, linear regression R2 (coefficient of determination) of 0.013 and B is equal to 0.11. In other words, each unit change in dividend investing cash flows substantially affect the size 11/0 and by the way the level of significance is less than 05/0 and the significance level is confirmed.

The third sub-hypothesis: firm size is effective on the sensitivity of holding cash - cash flow.

Table 6 –the firm size on the sensitivity of holding cash - cash flow is effective.

Test	Domain	Significant level.	Number
Spearman	0.194	0.000	810

As can be seen in Table 6 on the studying of the rate of company size at the sensitivity of holding cash flows through Spearman test, the range is equal to 0.194 and Significance level is equal to 0.000, this may indicate that the profit of firm size at holding cash sensitivity is effective. So we can confirm that the third sub-hypothesis is accepted, we can write the following relationship:

Two domain = P = 0/000, N = 810, $r_s = 0/194$

Determine the impact of firm size on the sensitivity of cash flows to maintain the linear regression

Model	R	R ²	t	B1	B2	F	Significant Level.
Linear regression	0.22	0.05	6.16	220	0.22	43.71	0.000

As can be seen in the table, linear regression R2 (coefficient of determination) of 0.05 and B is equal to 0.22. In other words, each unit change in dividend investing cash flows substantially affects the size 0.22 and by the way the level of significance is less than 0.05 and the significance level is confirmed.

Hypothesis Sub-quarters – the rate of dividend benefit is effective on sensitivity of holding cash - cash flow.

Table 7 – studying the effect of the rate of dividend profit on sensitivity of holding cash - cash flow

Test	Domain	Significant level.	Number of
Spearman	0.025	0.520	810

As can be seen in Table 6 on the studying of the rate of dividend profit at the sensitivity of holding cash flows through Spearman test, the range is equal to 0.025 and Significance level is equal to 0.520, this may indicate that the dividend profit at holding cash sensitivity is not effective. So we can confirm that the third sub-hypothesis is not accepted.

Table 8- independent variables and the dependent variable investment through the stepwise regression

Step	Predictor	Model	Sum squares	of Degrees freedom	of Mean square	F	Significant level.	Regression coefficient (β)	R	R ²
First	Cash flow	Regression	15.98	1	15.98	27.98	0.000	0.18	0.18	0.035
		The remaining	436.15	763	0.572					
Second	Cash flow leverage	Regression	21.95	2	10.97	44.19	0.000	0.17	0.22	0.049
		The remaining	430.195	762	0.565					
Third	Cash flow leverage Cash	Regression	26.24	3	8.74	15.630	0.000	0.18	0.24	0.058
		The remaining	425.9	761	0.560					
Fourth	Cash flow leverage Cash Sales	Regression	29.66	4	7.41	13.34	0.000	0.17	0.25	0.066
		The remaining	484.22	760	0.55					

$$Investment_t^i = \beta_1 CashFlow_t^i + \beta_2 FC_t^i + \beta_3 FC_t^i \times CashFlow_t^i + \beta_4 \frac{M^i}{E_{t-1}} + \beta_5 Leverage_t^i + \beta_6 Cash_t^i + \beta_7 Sales_t^i + i Firm_i + t Year_t + \epsilon_t^i$$

As Table 8 above shows the model in the first step, Cash flow is predicted. In the first step, the critical value (F = 27, 98) degrees of freedom (1, 763) is greater than the critical value table. Obtained regression in (0.01) is significant. Standardized regression coefficient of Cash flow is obtained (= -0.18 β). The correlation (R = 0.18), 0.035 from policy making to explain the variance. In the second step, leverage standardized regression coefficient (= .11 β) into the regression equation is predicted. Critical value (F = 44, 19) degrees of freedom (2, 762) is greater than the critical value of statistical tables thus obtained regression is significant at the 0.01 level. By entering, leverage multi-variable correlation (R = 0:22) to explain the increased percentage has increased to 0.049. Cash entered in the third step is predicted by the regression equation. Critical value (F = 15,630) degrees of freedom (3, 761) is greater than the statistical table critical value, and thus the obtained regression is significant at the 0.01 level. Regression coefficient Cash (= 0:09 β) is the multivariate correlation coefficient (R = 0.24) that increased the percentage of explanation to 0/058 percent. In the fourth step, Sales entered into the regression equation was predicted. Critical value (F = 13, 34) degrees of freedom (3, 760) than the statistical table critical value, and thus

and fiscal policy is regard to the policies and general policies at home and abroad. Including matters that Companies and organizations have taken up their efforts in this area and to take appropriate and valuable, suitable measures to reduce the vulnerability to, and remain in the field of trade and economic activity. Discussing the classification of cash flows into the cash flow sensitivity of the policies discussed in the cases that seem to be necessary.

The first hypothesis, which states that financial constraints are Investment policy and cash that can be effective. The results indicate that Due to financial constraints the company's liquidity and funding policies are not random And it is evident that the resulting significance level of $P < 0/05$ is The effect of cash And Will illustrate investment policies, financial constraints as a result of the researcher's hypothesis is accepted. The results of this study) is consistent with Kaplan and Ryngals (1997) and Cleary (1999).

The second hypothesis states that between investment cash flow sensitivity and financial constraints in different companies, there are significant differences. It was found that companies with few limitations In terms of statistics, in the Mann-Whitney rank have lower level It was found that the cash flow sensitivity of investment and financial constraints in different companies There was significant difference, In other words, the sensitivity of investments in companies large and small are different In the meantime, companies with more limited are Trying to invest in their cash flow. The resulting significance level of $P < 0/05$ that state the Differences between firms with financial constraints in terms of cash flow sensitivity of investment and this research study, Farrar and others (1988) is consistent.

The third hypothesis, which states that there are, significant differences at the sensitivity of holding cash - cash flow and financial constraints in different companies. Companies with low financial constraints have the Mean Rating 454.4 And firms with high financial constraints mean rank of 394.6 differ from each other .As a result, we can confirm that the Sensitivity of holding cash - cash flows of financial constraints on different firms Is different So that companies with few limitations In terms of ranking in are in better condition Than firms with high limits The results of the above study is..... With the results of..Study.

The first sub-hypothesis, which states that the Firm size is effective on the cash flow sensitivity of investment .The results indicate that Firm size is effective on investment of cash flow sensitivity The results indicate that Firm size on the sensitivity of investment - cash flow is effective And therefore a significant level is $P < 0/05$ It can be concluded that The first sub-hypothesis is accepted. In the study it was concluded that the impact of $B = 0/81$, which may indicate that each one-unit change with the 81/0 size increase, this effect will be seen in the investment cash flows. The results of the carried out research is consistent with in Europe between 1977 and 1996.

In the second sub-hypothesis is that the expression Dividend rate on the sensitivity of investment - cash flow is effective. Evaluation of dividends on investment cash flow sensitivity with 0.091 Spearman to test and the significance level is equal to 0.01; this may indicate that The sensitivity of dividend investing is effective The study shows that the effectiveness of Our beta is equal to 0.11. This may indicate that each one-unit change in dividend with the 0.11 effect size will consider the investment cash flow the study results with the Almeida et al (2004) is consistent.

In the third sub-hypothesis is that the expression of firm size on the sensitivity of investment - cash flow is effective. Evaluation of firm size on investment cash flow sensitivity with 0.194 Spearman to test and the significance level is equal to 0.000; this may indicate that the profit of firm size is effective on the sensitivity of holding cash. Study shows that the effectiveness of our beta is equal to 0.22. This may indicate that each one-unit change in dividend with the 0.22 effect size will consider the investment cash flow. The study results with the Fazary& et al (2004) is consistent.

In the fourth sub-hypothesis is that the expression of dividend profit rate on the sensitivity of investment - cash flow is effective. The results state that dividend profit rate on the sensitivity of investment - cash flow is not effective and the significance level is equal to 0.520 that due to be greater than the 0.05, the hypothesis of researcher is not accepted.

Table10-the results of hypothesis

Hypotheses	Results	
	Approval	Rejection
Restrictions on corporate financial policy, investment and cash can be effective.	P <0/05	-
Between investment cash flow sensitivity and financial constraints in different companies, there are significant differences.	P <0/05	-
Holding the sensitivity of cash - cash flow and financial constraints different companies, there are significant differences.	P <0/05	-
Firm size on the sensitivity of investment - cash flow is effective	P <0/05	-
Dividend rate on the sensitivity of investment - cash flow is effective	P <0/05	-
Firm size on the sensitivity of holding cash - cash flow is effective	P <0/05	-
The cash dividend on holding sensitive - cash flow is effective	-	P> 0/05

In this study, the independent variables in stepwise with First equation variable investment was found that In the first step, the Cash flow alone 0.03 defined the variance, In the second step, the addition of leverage this explanation has been increased to 0.049 ,Cash in third step with the addition of this increase was 0.058. Finally, the fourth step is the addition of Sales; this increase has come to 0.06 that reflect the impact of these variables on investment.

In the study of the independent variables in stepwise with the variable of cash holding, the second equation in the present study was found that the first step on regression FC with 12/0 is effective in explaining variances, in the second step, the addition of Short debt The impact is improved to 0.15. The final step was adding Cash flow that this impact has increased to 0.16.

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