PAPER ID: 10A09I

EFFECT OF WORKING CAPITAL ON SUCCESS MEASUREMENT INDICATORS (NON-FINANCIAL VARIABLES)

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A R T I C L E I N F O	A B S T R A C T
	This research investigates the effect of working capital on success measurement indicators (non-financial variables). In this research 142 corporations have been chosen as the research sample among 856 accepted corporations in Tehran Stock Exchange from 2012 to 2016. The research gathered data have used Stata software, Eviews software and Paneling Logit Model as verisimilitude maximizing method to test the research hypotheses. The research hypotheses are the effects of pure working capital and impure working capital on success measurement indicators, (non-financial variables: transaction mass (volume) and transaction times. The research findings indicate the positive and meaningful effect of pure working capital on mass (volume) and numbers of transaction times and lack of effect of impure working capital on mass (volume) and number of transaction times. The research results represent that existence of suitable working capital can help corporations to attract investors' trusts and motivations to invest. Based on the research findings, corporations' managers can play important roles on performance improvement specification and access corporations` success by knowing the important role and application of capital in cycle. © 2019 INT TRANS J ENG MANAG SCI TECH.

1. INTRODUCTION

Investment development and capital attraction can`t cause economic development lonely, however this factor can happen while the capitals are invested in successful corporations with economic relativity beneficiary. Successful corporations can increase their internal impure productions and exports by introductions of desirable products and added value activities and the operation can cause economic growth and exchange technology for country. Investment in these corporations can cause optimized attribution of capital. So, recognitions of successful corporations

are necessary to invest. Then, investors try to divide successful corporations from unsuccessful corporations for more suitable investments. In the developed countries, rank institutes play the mentioned roles, but there aren`t such institutes in Iran and ranking stock exchange is the only credit and common ranking, (Khatanloo, 2004). Loss percent in very high in newfound countries and the researches indicate that 90 percent of the corporations will not enter to their fourth year of their lives. There are many reasons for losses of the corporations and institutes; however, working capital has been known as the important source for growth in challenging economic atmosphere that international organizations are looking for new ways to face with loss, performance improvement and risk decrease, (Baharmoghadam, 2011). Working capital plays an important role in structure of an organization in such a way that working capital and liquidity have been simulated as blood that is flowing in vessels of a commercial unit to help that unit to continue its life, (Kesseven, 2006). Organization literature concentrates on studies of long-term financial securement decisions and researches studies more about this subject. Researchers concentrate on these topics as; financial structure analysis, investment in fixed properties, profit of cash stock and stock evaluation of corporations. While investment in current assets and use of short-term financial securement sources are important elements of corporations` balance sheets that have many effects on corporations values by effectiveness on profitability and risk but the effects of these elements on corporations` values and successes have not been considered and investigated a lot, (Smith, 1980). The reasons of unsuccessfulness of major parts of broken corporations are undesirable status and lack of attention to working capital topic. While these corporations have suitable financial status in long term duration, they have lost their competitive abilities because of unsuitable planning in working capital, (Besley & et.al. 1987). Most of the corporations have extra or deduction of working capital because of lack of suitable planning. Amount of optimized working capital that should be reserved   to attain the most profitability is very important, (Ramachandran and Janiraman, 2009). Working capital is a capital external main source for small and average corporations because these corporations have limited access to capital markets and they use short term liabilities to overcome their problems. Working capital of the corporations has not been a corporation internal topic but it has been an important indicator for risk evaluation by credits, (Samiloglu & Demirgunes, 2008: 44). Working capital and effective planning for it are very important for agencies and they have abilities to overcome financial crises and economic vagueness, (Mashayekh et al., 2015).

There are vast and different indicators to measure successful and unsuccessful corporations. Investors try to divide successful corporations from unsuccessful ones for their better investments. In the developed countries, ranked institutes are responsible for the division, but there aren`t such institutes in Iran and stock exchange is responsible for the division. In the recent years, most of the institutes encourage to be internally and externally evaluated to reserve their competitive beneficiaries in regional and universal markets. The mentioned evaluations clarify whether the corporations are among successful and better corporations in markets or not, so they can plan to access more shares of market. Investors need recognition and owning of a series of credits and indicators to make correct and effective decisions in choice for investment of a successful corporation and the indicators can be suitable different sources. Recognitions of effective key criterions and factors are very necessary for the choice, (Noroosh et al., 2009).

Recently, there are challenges about non-financial criterions that can omit defaults of operation

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evaluation financial criterions. So, non-financial criterions are effective when they have different effects than financial criterions and these effects are more important than financial criterions, (Ansari et.al., 2010).

Information importance for successful anticipation and corporations` profitability has caused researchers to looking for variables and indicators that have meaningful relationships with corporations` successes and profitability. The information can be divided into financial information that can be extracted from financial statements and non-financial information such as; transaction mass, numbers of transaction times, numbers of buyers and etc. These factors can be important for strategies of beneficent investments. Portfolio choice with financial and non-financial factors can cause suitable return access, (Mehrani et al., 2003). Shortage of research about non-financila variables such as; mass and numbers of transaction times as successful, effective and important indicators for working capital in successful agencies are the main reasons for the topic choice and the research aim is investigating the effect of working capital on successful estimation indicators of corporations. In the otherwise, if there is a suitable plan for working capital in a corporation, its importance will be known and the corporation managers will manage it well, how can this performance effect on the corporation success?

2. LITERATURE REVIEW

Sohili & Shamsi (2015), studied relationship between politic of working capital and profitability of the accepted corporations in Tehran Stock Exchange. The research findings indicated that there was a meaningful relationship between working capital and profitability.

Farmanara & Jaefari (2015), investigated the effect of working capital management and financial leverage on profitability of some of the corporations in Tehran Stock Exchange. Regression results of the studied sample represented that there was a positive meaningful relationship between mixture of working capital and economic added value in the accepted corporations of Tehran Stock Exchange and this relationship would be reversed by the mediatory effect of financial leverage. Moreover, the research findings showed that mixture of working capital had no meaningful effect on variables of financial leverage and return ratio of stockholders` rights in the active corporations of Tehran Stock Exchange and ultra-bourse of Iran during the research time.

Nyabwanga et.al. (2012), investigated the effect of working capital performance on financial performance. The research conclusions indicated that management performance of working capital was very weak in such a way that majority didn`t have working capital management and their financial performances were relatively weak.

Ramachandran & Janairaman (2009), investigated relationship between efficiency of working capital management and profit before benefit and tax in India paper industry. The research results represented that in India paper industry working capital was managed considerably and desirably and suitable working management had direct effect on profit before benefit and tax and liquidity.

3. THEORETICAL BASES

3.1 WORKING CAPITAL

Working capital is amount of liquidity asset that gives credits relief and it shows accessible liquidity amount to encounter with probable situations and threats; moreover, it is used as a safety and guarantee for creditors. In fact, it represents pure short term investments to do daily activities (financial management site). Amount of current asset that is secured by long term financial source places is called working capital. Impure working capital is defined as current asset total and pure working capital as current asset extra on current liability. Amount of working capital is an indicator to recognize liquidity degree and lack of insolvency of a corporation when it has been used in comparison with other indicators and financial ratios, (Kesseven, 2006).

Working capital is a common analytical instrument and standard for liquidity and short term financial ability. Creditors mainly concentrate on difference between current assets and liabilities. Financial analyst evaluated working capital for investment suggestions and decisions. Governmental institutes divide asset legislating, current and non-current liabilities to answer users` needs, (Financial Management Site).

Based on the central bank reports working capital is the sources that cause beneficiary from fixed capitals and it returns to productive unit during a short time. In fact, working capital is for securements of current liabilities and external of a corporation is deducted from its current assets to estimate its liability, (Economic World Site).

Introduced problems in working capital are: inexistence of successful views about specification method of working capital concluded members and existence of different views of items that should be in working capital and inexistence of clear meaning for working capital formed members, (Financial Management Site).

Working capital is very important for agencies and effects on their abilities to overcome on financial crises and encounter with economic vagueness. While suitable management of agencies` liquidities can be important factor for their future success and encounter with economic crises. Insufficiency of current assets as a limited factor may effect on agencies` performance efficiencies and increase their break risks. Moreover, more reserve of cash can endanger agency success and encounter with break. Efficient management of working capital means that manager should manage and plan current assets and liabilities of agencies and do short term commitments and he should prevent from more investments in short term assets. So, agency profitability can be improved in two ways: efficiency of operation and optimized management of working capital, (Setayesh & Masouri, 2009).

3.2 INDICATORS OF SUCCESS MEASUREMENT

Most of economists as "Adam Smith" and "Ricardo" know capital formation as the most important factor for economical advances. Economic development in progressive world behold on bourse and capital market activities especially in the twentieth century. Capital market in the form of financial market is the conflux place of offer and demand of middle and long terms financial sources. Most of the capital presenters in the market include individual savers, legal individual who have savings or extra money, organizations, credit institutes and government. This market as one of the

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sec00urement center for capital money guides savings and liquidities of individuals by financial personnel and intermediators toward productive long-term investments and business, (Gholizadeh, 2003).

In fact, bourse benefits from criterions such as; balance and diversity of stock business to rank corporations. So, it is necessary that bourse uses not only non-financial standards but also extracted financial standards from financial statements to rank corporations because it can do more comprehensive and accurate ranking. The important point is that all the financial and non-financial criterions do not have equal importance, in the otherwise; some of the criterions are more important than other ones, (Noroosh, Zakeri & Salami, 2009).

Mass and numbers on stock transactions have been considered by transactors and business majors a lot because they can be criterions for corporation success evaluation and they help them to make better investment decisions. Bourse responsible considers mass of transactions as if mass of stock transactions is more, market will have more value meaningfully. Mass of transactions represents amount of investors` attentions and interests toward corporation stock. When mass of transactions is high, it means that stock is buying and selling continuously. Statistic of stock can give you more good information about performance of each share, (Talebnia, Zarenikooparvar & Yazdi, 2009).

3.3 OPERATIONAL DEFINITIONS OF VARIABLES

In this research pure working capital and impure working capital have been considered as independent variables, definitions of each of the variables will be introduced as follow:

Amount of current assets that is secured by place of long-term sources is called working capital. Amount of working capital is an indicator to recognize liquidity degree and lack of insolvency of a corporation when it has been used in comparison with other indicators and financial ratios.

Pure working capital= current assets – current liabilities

Impure working capital= accumulation of corporation assets

In this research, mass of transactions and number of transaction times has been considered as dependent variables and their data have been extracted by Rahavard Novin Software.

MASS OF TRANSACTION

Number of transacted stock in a time duration represents the power of a stock liquidity. Transaction mass for each corporation in one year time durations has gained from information bank.

NUMBER OF TRANSACTION TIMES

It includes number of a stock transactions in the considered duration.

In the research corporation size is the controlling variable because there is a correlation between corporation size and other corporation characteristics. If corporation size is bigger, working capital mass and amount of corporations will be bigger. So, the effects of this variable in the research models should be negated because the effects of working capital and success measurement indicators will be correctly estimated.

Corporation size= LN (mass of yearly pure sale)

Another controlling variable in the research is financial leverage that is correlated with corporation performance. This formula indicates capital structure indicator and represents that how

much of corporation assets are used to secure liabilities. One of the effective factors on working capital management is leverage ratio and it has negative meaningful relationship with working capital. If amount of liability ratio is higher, needed working capital for organization daily operation will decrease.

Financial leverage= accumulation of liabilities / accumulation of assets

4. RESEARCH METHODOLOGY

The research is application oriented based on its aim and it is really used in capital market and the research findings can be used and applicant. The research is descriptive and measured based on its performance method because it studied the variables as what really are and it aim is investigating situation and phenomena descriptions. The research is deductive in term of its rational performance because it has introduced sample and hypothesis exhibitions based on the received findings of previous observations and experiences. The research is looking for relationship between reason and cause of the variables so it is casualty research. The research data are quantitative kind and the research data analytical methods is data paneling method which measures variables among each other contracted and during time. In the research paneling data regression models have been used. The research time duration has been considered from begging of 2012 to 2016. The research theoretic subjects has been gathered by library studies, investigating the existence document and experiences related to the research subject, books, theses, internal and external credit magazines related to the research subject and internet that includes update scientific information source. Moreover, the needed research data for the hypotheses have been gathered by reference to Tehran Stock Exchange Organization, yearly financial statements, descriptive notes of the accepted corporations in Tehran Stock Exchange and abbreviated software for the corporations` financial information is Rahavard Novin. Other research needed data have been gathered by references to weekly, monthly and yearly published journals by Tehran Stock Exchange from 5 year time duration (2012 – 2016). Excel information bank has been used to calculate and save research variable calculations and State Data and Eviews softwares have been used to analyze research data. In the research the statistical population include all 856 accepted corporations in Tehran Stock Exchange in 2014, however; 142 corporations have chosen as the research statistic sample by systematic deletion.

5. HYPOTHESES

5.1.1 First Main Hypothesis

Pure working capital has meaningful effect on success measurement indicators of corporations (non-financial variables).

Sub-Hypothesis

Pure working capital has meaningful effect on transaction mass.

Pure working capital has meaningful effect on numbers of transaction times.

5.1.2 Second Main Hypothesis

Impure working capital has meaningful effect on success measurement indicators of corporations (non-financial variables).

Sub-Hypothesis
Impure working capital has meaningful effect on transaction mass.

Impure working capital has meaningful effect on numbers of transaction times.

First model:

$$TV_{it} = \alpha_{0it} + \alpha_{1it}WC_{it} + \alpha_{2it}WC.N_{it} - \alpha_{3it}LEV_{it} + \alpha_{4it}SIZ_{it} + U_{it} \qquad (1)$$

Second model:

$$NT_{it} = \alpha_{0it} + \alpha_{1it}WC_{it} + \alpha_{2it}WC.N_{it} - \alpha_{3it}LEV_{it} + \alpha_{4it}SIZ_{it} + U_{it} \qquad (2)$$

First Model: Investigating the Effect of Pure and Impure Working Capitals on Transaction Mass

Table 1: Regression models for the first and third hypotheses

Model dependent variable: transaction mass or volume (TV): conclusions paneling logit model estimation by verisimilitude maximizing method						
	Fixed effects			Random effects		
Variable name	Coefficients	Meaningful level (Z)	Probability ratio (final effect) dy/dx	coefficient	Meaningful level (z)	Probability ratio (final effect) dy/dx
Pure working capital (WC.N)	0.1158	0.004	0.8906	0.01608	0.033	0.98404
Impure working capital (WC)	0.76379	0.095	0.4658	0.23622	0.382	0.2664
Financial leverage (LEV)	-0.0699	0.023	0.9324	-0.14874	0.020	0.1603
Corporation size (SIZE)	17.74	0.049	0.35698	2.9367	0.009	0.05303
Pass cross origin	--------	-------	---------	2.7355	1.08	15.41
Numbers of contracts: 142 Time duration: 2010 – 2014 Numbers of observations: 710	Logarithm of likelihood: -446.26			Logarithm of likelihood: -245.0086		

Model based on fixed effects:

$$TV_{it} = 0.1158WC.N_{it} - 0.0699_{3it}LEV_{it} + 17.74SIZ_{it} \qquad (3)$$

Model based on random effects:

$$TV_{it} = 0.01608WC.N_{it} - 0.14874LEV_{it} + 2.9367SIZ_{it} \qquad (4)$$

Meaningful level of z test for pure working capital in fixed effect model is 0.004 and in random effect model is 0.033 and is less than 0.05, so it can be concluded that pure working capital variable has an effect on stock transaction mass. This variable regression coefficient is positive that represents the positive meaningful effect of this variables. Meaningful level of z test for impure working capital in fixed effect model is 0.095 and in random effect model is 0.382 and is more than 0.05, so it can be concluded that pure working capital variable has no effect on stock transaction mass. Meaningful

level of z test for controlling variable of financial leverage in fixed effect model is 0.023 and in random effect model is 0.020 and is less than 0.05, so it can be concluded that pure working capital variable has an effect on stock transaction mass. This variable regression coefficient is negative that represents the negative effect of financial leverage on transaction mass. Finally, meaningful level of z test for controlling variable of corporation size in fixed effect model is 0.049 and in random effect model is 0.009 and is less than 0.05, so it can be concluded that pure working capital variable has an effect on stock transaction mass. This variable regression coefficient is positive that represents the positive meaningful effect of corporation size on transaction mass.

Second Model: Investigating the Effect of Pure and Impure Working Capitals on Numbers of Transaction Times

Table 1: regression equation coefficients for the second and fourth hypotheses

Model dependent variable: numbers of transaction times or volume (TV): conclusions paneling logit model estimation by verisimilitude maximizing method						
	Fixed effects			Random effects		
Variable name	Coefficients	Meaningful level (Z)	Probability ratio (final effect) dy/dx	coefficient	Meaningful level (z)	Probability ratio (final effect) dy/dx
Pure working capital (WC.N)	0.0614	0.001	0.9404	0.0327	0.006	0.9677
Impure working capital (WC)	0.49292	0.496	1.637	0.64191	0.020	1.9
Financial leverage (LEV)	-0.2848	0.000	0.7521	-0.0277	0.04	0.9731
Corporation size (SIZE)	9.1365	0.033	0.0001	4.7062	0.012	0.009
Pass cross origin	--------	-------	---------	2.2794	0.364	9.771
Numbers of contracts: 142 Time duration: 2010 – 2014 Numbers of observations: 710	Logarithm of likelihood: -262.571			Logarithm of likelihood: -455.655		

Model based on fixed effects:

$$TV_{it} = 0.061WC.N_{it} - 0.2848LEV_{it} + 9.1365SIZ_{it} \qquad (5)$$

Model based on random effects:

$$TV_{it} = 0.0327WC.N_{it} - 0.64191LEV_{it} + 0.0277SIZ_{it} + 4.7062SIZ_{it} \qquad (6)$$

Meaningful level of z test for pure working capital in fixed effect model is 0.004 and in random effect model is 0.001 and is less than 0.006, so it can be concluded that pure working capital variable has an effect on numbers of transaction times. This variable regression coefficient is positive that represents the positive meaningful effect of this variables. Meaningful level of z test for impure working capital in fixed effect model is 0.496 and is more than 0.05, so it can be concluded that pure working capital variable has no effect on numbers of transaction times. Meaningful level of z test for controlling variable of financial leverage in fixed effect model is 0.000 and in random effect model is 0.04 and is less than 0.05, so it can be concluded that pure working capital variable has an effect on

stock transaction mass. This variable regression coefficient is negative that represents the negative effect of financial leverage on numbers of transaction times. Finally, meaningful level of z test for controlling variable of corporation size in fixed effect model is 0.033 and in random effect model is 0.012 and is less than 0.05, so it can be concluded that pure working capital variable has an effect on stock transaction mass. This variable regression coefficient is positive that represents the positive meaningful effect of corporation size on numbers of transaction times.

6. CONCLUSION

Based on the received conclusions, it can said that pure working capital variable has positive meaningful effect on stock transaction and numbers of transaction times. Research conclusions represent that existence of suitable working capital can help corporations to attract investors` trusts and their motivations. Working capital is a pure variable that corporations` managers by knowing its important role and application can play roles on performance improvement specification and access to the corporation success. The research results indicate existence of an optimized level of working capital and the corporations that access to the level of optimization can be successful in stock market by increase or decrease of stock status working capital and improved efficiency. Most of the investors are looking for this subject that working capital choice in which corporations will have more effects on their successes. The reason for this topic choice is a lot of use of working capital in different aspects of production and investment that causes increases transaction mass and numbers of transaction times. Based on the research conclusions, impure working capital has no effect on investors` decisions so, it will not cause increase or decrease of transaction mass and numbers of transaction times. The reasons for this factor are using of accounting methods in recognitions of assets, evaluation repeat, not merging of assets and investors` unawareness with the methods because these factors have not been attended during decision making. As the independent and dependent variables of the research have not been analyzed in the other researches, so comparison will not be possible. Financial managers can use accessible corporation assets and consider corporation situations and country major economic to create competitive situations and go ahead their aims and increase corporation success. If a corporation tries to continue monotonic policy for working capital, this factor will cause investors attraction. Financial managers should pay attention to this point that more fluctuation of working capital during the recent years have created investors` insurance and decrease of stock transaction.

7. RESEARCH SUGGESTIONS

It is suggested that investors and market activists should investigate stock transaction mass and numbers of stock transactions in their decisions to buy and sell stocks of corporations because existence of few stock transaction mass and numbers of transaction times will announce the news that corporation doesn`t have suitable status and it needs more investigation of information sources to increase their decision accuracy. It seems that increase of stock exchange attention to bourse corporation development, increase of investors` numbers, supervision on quantity and quality of corporations` transactions and omission of lost corporation are necessary for transaction fluency in Tehran Stock Market. Determination of optimized and considerable limitation of assets are necessary

for the corporations. Optimized of remained working capital means minimizing needed working capital and maximizing income. If a corporation faces with surplus or shortage of working capital and many fluctuations during corporation life years, these status will not desirable. So, it is suggested that researchers should investigate balance sheets numbers during data investigation and they should consider working capital as an effective factor on transaction mass and numbers of transaction times. As investors react to transaction mass fluctuations in stock market, it is better that Tehran Stock Exchange should have better information transparency about the reasons of the fluctuations.

8. AVAILABILITY OF DATA AND MATERIAL
Data used or generated from this study can be requested to the corresponding author.

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