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The Effect of Stock Valuation on the Company's Management

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Abstract

One of the most significant issues in investment management is stock valuation. Investors and shareholders can value their own shares based on stock valuation models and make decisions on stock trading accordingly. This study attempts to examine the relationship between stock valuation and a company's management. In this regard, the present study uses field and library research methods, and examines 25 companies listed in Tehran Stock Exchange from the years 2009 to 2013 along with 125 observations. The results of this study suggest that managers' success in stock valuation primarily depends on the correct understanding of influential resources and it is recommended that managers increase the value of their company's stock by the prober use and combination of factors effective in stock valuation according to the information of the company.

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Keywords: stock valuation; a company's management; shareholders; investors

1. Introduction

Today, one of the most controversial issues in economic communities is the issue of stock valuation. Since it is carried out by major managers and shareholders of companies, it motivates them to conduct stock valuation with different types of models.

In order to develop an economic model for stock valuation, managers should have a correct understanding of the influential resources which itself is a key factor in a company's success in stock valuation. Therefore, these questions arise first: "what kind of relationship is there between stock valuation and corporate management?" "Is this relationship influenced by the resources?" In this study, only the models and viewpoints raised at the level of theory are discussed using financial statements.

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The methods and techniques which have been introduced for stock valuation in financial statements are only used as a theoretical framework and cannot help the managers determine the actual value of companies. Thus, using practical and scientific methods of valuation according to the local conditions and the set of factors that influence stock valuation of a company makes a significant contribution.

Along with the scientific and practical methods, some factors could be taken into consideration in stock valuation. These factors include: the conditions of industry, supply and demand for the company's products, domestic and global market, technology, company’s life, product pricing and competitive status. Although these factors are qualitative, they can be explained as quantitative by using economic models. Since the stock valuation has become one of the important issues for the majority of investors and shareholders, this study aims to describe the proposed models in stock valuation and its relationship with management.

2. Review of Literature

In a study, Bani Mahd, Moradzadeh Fard and Naseh (2014) examined the institutional investors from a theoretical perspective and divided them into two groups: the first group involves the investors who have a commercial relationship with the company and the second one are the investors who have no commercial relationship with the company. The results indicated that the ownership of investment companies as major shareholders of the investee companies has a negative effect on the price per share, and reduces the value of the investee company's shares.

Nabavi Chashmi, Metan and Nasrollahi (2012) in a study investigated the role of institutional investors as a controlling force. This study shows that institutional investors monitor a company’s earnings by controlling the managers and concludes that the arrangement of shareholders should be considered while using the financial statements. It is also recommend that minor investors reflect upon their decisions about buying these companies’ shares and take into account the size and leverage of the company.

Hosseini, Karami and Abdzadeh Kanafi (2011) investigated the non-operating components of accounting earnings and analyzed its relationship with stock value. It has been concluded that operating and non-operating profits, forecast and stock valuation do not have similar functions and that non-operating profits that are used to forecast future earnings are more appropriate in valuation.

Heibati and Moradi (2011) examined the methods of stock valuation in the initial offering in Tehran Stock Exchange. Their purpose was to enhance the qualitative and quantitative development of these methods in companies listed in Tehran Stock Exchange

In an article, Pouria Nasab and Talaneh (1994) investigated the relationship between policy dividend and stock valuation. They found out that, based on the existing approaches (traditional theory, Walter, Gordon, and Radical models), each of which follows its own specific logic, policy and dividend have an impact on stock valuation.

Arslan and Zaman (2014) in a study examined the impact of dividend yield and price earnings ratio on stock returns (the companies listed in non-financial study of Pakistan). They examined 111 non-financial Karachi Stock Exchange in the period of 1998-2008. . They figured out that the size and the ratio of corporate earnings have a positive impact on stock value and that there is a significant relationship between dividend yield and stock value.

Gherghina, Vintila and Tibulca (2014) in a study investigated the relationship between corporate governance ratings and company values and examined the practical and empirical evidences of 100 top companies in NYSE and Nazdeek Stock Exchanges. Their purpose was to test the relationship between corporate governance ratings and value of all S&P 100 companies except for the companies in financial sector that use the data for the year 2013. By estimating the equations of cross-sectional regression, it has been concluded that there is not a relationship between corporate governance rating and firm value. Therefore, when making investment decisions, these rates should be considered with a certain confidence.

Wang and Zhan (2014) examined individual investor trading and stock liquidity. They came to this conclusion that the shares that are traded more intensely by individual investors have higher liquidity after being controlled in terms of other determinants of liquidity. Moreover, the positive impact of individual investor trading on stock liquidity is greater in the companies with more information asymmetry. As a result, individual investor trading reduces the information asymmetry and accordingly, enhances stock liquidity by reducing the information asymmetry.

Bissoondoyal Bheenick, Brooks and Treepongkaruna (2014) in a study investigated the impact of spillover effects on the stock markets. It can be said that this article studies the impact of changing independent rating in particular