

RELATION TO FINANCIAL DISTRESS THROUGH TRANSACTIONS WITH AFFILIATED ENTITIES

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Summary:-

The purpose of this study was to investigate the relationship between financial distress and transactions with affiliated individuals. In this research financial information of 152 companies accepted in Tehran Stock Exchange during the period of 1391 to 1396 has been investigated. The purpose of this study is applied. In terms of collecting and analyzing data, this research is a descriptive correlation method. From the point of view of information gathering, post-event research is used to analyze the data using descriptive, inferential statistics and multi-variable regression analysis. .

This research has been investigated with two hypotheses by ERW software. In this regard, in the initial implementation of the first model, using the printing statistics and Yasmin, the appropriate regression model model (computational or stationary data with random effects) has been determined and using statistics such as ; The novelty of this and Chou's reliability of variables are investigated. Then, in the second run, the classic regression assumptions model, including the normal distribution of variables, the independence of the distribution of errors, the normal distribution of errors, the heterogeneity of variances and the linear relationship between independent and control variables, have been investigated. Finally, the results of the research show that financial distress through transactions with affiliated persons but the size of the auditor is not relevant to transactions with affiliated persons.

Keywords: - *Financial distress, auditor's size, transactions with affiliated persons*

INTRODUCTION

Currently, businesses operate in a highly competitive environment. The rapid and correct response to the highly variable market conditions has a significant role to play in the position of firms. With the development of monetary and financial markets and, consequently, the domination of a competitive situation, many bankrupt companies will leave the competition. This has raised concerns for capital owners to look for ways to anticipate corporate financial crises in order to prevent their refinancing of their capital. The financial crisis and, finally, the bankruptcy of economic units can bring huge losses to micro and macro levels (Hassanzadeh, 1393.)

The financial crisis in Mexico 1994, the huge financial crisis of East Asia 1997, the Brazilian financial crisis and the liberated economy of Russia in 1998, and the catastrophic crisis of Argentina, the inner crisis in the United States, and the housing crisis of 2005, and the greatest financial crisis of the United States's 230-year history of 2008, all indicate a renewed and sustained crisis (Irvani, 1388). Due to factors such as the recent financial scandals of public corporations such as Adolf, Andron and Redcom in the US Congress, Marconi in England and Royal Holland in Holland, the company's corporate governance system has become increasingly sought after by market players. These scandals clearly point to the need to improve the mechanisms of the company's corporate governance system and to increase transparency in accounting. On the other hand, with the spread of companies and financial institutions, the risk of separation of ownership from management is felt that can lead the company to a financial crisis slow. In fact, with the formation of a representative relationship, a conflict of interest is created between managers and shareholders. This means that managers may take opportunistic behaviors to make decisions that are in their interest and the opposite of the interests of the shareholders (Arunachala et al., 2012.)

Broader and deeper researches in the field of financial distress, especially in the early stages of bankruptcy and when the risk of helplessness reaches its highest level, the value of the partnership is rapidly weakened. When a company suffers from financial distress, it faces one of two possible contradictions: a lack of cash in the balance sheet asset category or debt swap on the left side of the balance sheet. Of course, both modes have the same consequences and in fact cash flows are insufficient to cover financial commitments (Androed et al., 2011).

There are contradictory views on whether transactions with affiliated entities are beneficial or harmful for shareholders. Research on transactions with affiliated individuals shows that affiliated loan lenders (especially the lending line of affiliated entities) have an opportunistic nature that is used to offset the company's resources (Jian et al., 2010). Nevertheless, transactions with affiliated entities may also increase productivity as they reduce transaction costs and increase the value of the company (Jinn, 2011). This increase in efficiency occurs when dealing with affiliated customers, ie, the purchase and sale of goods among them.

On the other hand, all sorts of deals with affiliated entities, including operational transactions with affiliated entities, may provide grounds for abuse, as they provide a route to exploit and manage profits (Jinn, 2011). Cheong, Rao, and Storyati (2006) and Berkman, Cole and Fu (2010) show that companies use subsidiaries to acquire shareholding resources, including buying and selling assets, buying and selling goods and services, selling capital and paying cash to subsidiaries, Activities of affiliated persons. Among the activities of related affiliates, the sale of goods and services, which has a rotating nature, is the most common type of transaction in which the likelihood of identifying misrepresentation and manipulation through operational transactions with affiliated entities is very low (Jian and Wong, 2010). Wang and Yuan (2012) report a lack of awareness of profits for companies with a high level of abnormal sales to affiliated entities (a benchmark for opportunistic deals with affiliated entities) because transactions with affiliated entities violate the principles of free (independent) transactions. And prevent the honest and verifiable presentation of accounting data. Companies also use unusual sales to support and keep their affiliated companies out of reach of the future (Jeiamfi, 2015). Iran is a good area for studying deals with affiliated individuals, the choice of this field is warranted for at least two reasons. First, in Iran, relatively few protective measures have been taken from investors. Among different countries, there are institutional differences between supporting activities of minority shareholders. Secondly, with the separation of ownership and management in stock companies, a conflict of potential interests is created between shareholders and managers, which is expressed by the conflict of interest as the "problem of representation" (Nader Ali, 1393).

Also, in most researches that deal with affiliated entities in emerging economies, as well as countries with less developed stock markets, such transactions have overwhelmed the company's performance and have a valuable reverse relationship. On the other hand, corporate financial reports do not have the same information content and it seems that factors and variables lead to a difference in the quality of accounting information. Knowing and aware of these factors will enable universities, research centers and standard setting agencies to provide templates and guidelines for increasing the quality of financial reports of business units, and with the flow of relevant and relevant information in the capital market, will boost economic prosperity and improve social well-being. Provided.

Given the economic conditions of today, the number of bankrupt companies and the importance of bankruptcy are increasing. Even auditors who have a good knowledge of the company's financial position cannot judge firmly about the continuity of the company's operations. The problem of bankruptcy and financial distress has always been a reflection issue, and because of the importance of accounting and financial thinkers around the world, they are thinking about the

causes of financial distress. Hence, in this research, the relationship between transactions with affiliated individuals and financial distress is discussed.

Background research:

Boinan et al. (2018) reviewed the affiliate trading and financial failures of the company in New Zealand. The results show that financial firms that participated in transactions have a negative relationship with the bankruptcy of a related person. Habib (2017) studied political communications and deals with affiliated entities in a sample of 175 companies admitted to the Indonesian Stock Exchange. The research period was between 2007 and 2013 and the results showed that companies with a political relationship with their counterparts who do not have political affiliations have more transactions with affiliated individuals and relationships between political communications and transactions with affiliated entities in companies there is significant meaning.

Mesozo et al. (2015) examined the effect of cash flows using financial ratios on bankruptcy predictions and corporate financial distress analysis, and concluded that the debt ratio would increase the crisis and bankruptcy.

Click (2014) explores the relationship between cash dividend policies, deals with affiliated entities and political relationships with companies admitted to the Chinese securities market. The results of the research indicate that the division of low profits is correlated with transactions with affiliated entities. Firms with political connections pay higher profits than companies that do not have political connections.

Khajavi et al. (1397). In this regard, financial information of 103 companies accepted in the Tehran Securities Market during the period 1383-1394 was investigated. The research findings indicated that there is a negative relationship between managers' ability and risk of bankruptcy, and financial performance is a complete intermediary variable in the relationship between managers' ability and bankruptcy risk.

Setayesh et al (1396). They compared the corporate governance mechanisms of helpless and non-financial companies. The statistical population of the research consisted of 118 companies listed on Tehran Stock Exchange during the 2002-2004 period. EVIEWS 6 software is used to test the hypotheses. The results show that during the whole period of the research, the insolvency of the company's managers in financially sound companies is one of the reasons for the financial distress of companies. In addition, throughout the research period, the type of auditor in preventing financial distress of the company Has not been successful.

Sajjadi et al. (1395) examined the effect of intellectual value added on the financial distress of companies admitted to the Tehran Stock Exchange. In this research, the impact of human capital added value, structural capital value added, added value of capital employed and intellectual value added on financial distress (using the Altman main model and Zimsky model, 105 companies admitted to the stock exchange by systematic elimination For panel data, for estimating the research model, fixed effects and random effects models have been used using the Eivis software. The results of the research using the randomized and generalized least squares model estimate that the value Intellectual addiction and its elements (human capital added value, serum value added) Structural, capitalized value added) have no significant effect on corporate financial distress, and there is a significant and inverse relationship between leverage (as control variable of research) and financial distress.

Najjari and Barzegar (1394) examined the relationship between political communication with the policy of dividing profits and transactions with affiliated entities in companies admitted to the Tehran Stock Exchange. The results of the research showed that there is a significant relationship between political communication and dividend policy of the companies accepted in Tehran Stock Exchange. There is a meaningful relationship between political communication and transactions with affiliated entities in companies admitted to Tehran Stock Exchange.

Methodology

The purpose of this research is "Applied".

The method is correlation and regression analysis.

Given the fact that the main research data are based on past performance and historical data, post-event research project.

In order to analyze the data, descriptive, inferential statistics, the multivariate regression method of the panel will be used. **Research variables** independent variable

1) Financial distress

Financial distress is an independent variable in this research. Two Altman financial distress indicators and corporate auditing type are used. The measurement of financial distress from Altman's Z-Score is as follows (Altman, 1968):

$$\text{Z-Score} = \frac{3}{3} \frac{\text{EBIT}}{\text{Total Assets}} + \frac{1}{0} \frac{\text{Revenue}}{\text{Total Assets}} + \frac{1}{4} \frac{\text{Retained Earnings}}{\text{Total Assets}} + \frac{1}{2} \frac{\text{Working Assets}}{\text{Total Assets}}$$

In relation to 1-1:

Total Assets: refers to the total assets of the company, including current and non-current assets that are reported in the company's balance sheet.

Revenue: The net sales of the company. With the sale of goods or services, income is obtained, and the amount is equal to the amount received from the supply of goods or the provision of services to the customer, the customer and the tenant. This variable will be extracted from the entity's profit and loss account.

Retained Earnings: The sum of the realized profits of previous years and the current year, which is not divided according to the policies and policies of the company between the shareholders.

This variable will be extracted from the company's balance sheet.

Working Capital: This is the result of the difference between current assets and current liabilities.

2) Auditor Size

If the audit by the auditors who are the first auditors to rank the trustees of audit firms and audit organizations is one, otherwise the number is zero.

The dependent variable:

Transactions with affiliated persons are an associated variable in this research, which is used to measure it as follows (Demergan 6002):

= Transactions with Affiliated Persons (Affiliated Persons with Transaction Amount) / (Shares of Owners of Market Value Rights) Relationship 1-2

Control variables:

Board size: The logarithm is the number of executives on the board (Boinan et al., 2018).

Amount of assets: The natural logarithm is the total of office assets (Boinan et al., 2018).

Total Return on Assets: The ratio of profit after deduction to total office assets (Boinan et al., 2018).

Leverage ratio: total debt ratio to total office assets (Boinan et al., 2018).

Operating cash flow ratio: The ratio of operating cash flow to total company assets (Boinan et al., 2018).

Liquidity ratio: The ratio of total current assets to total current debts (Boinan et al., 2018).

Ratio of independent directors: The ratio of independent directors to the total number of boards (Boinan et al., 2018).

Research hypotheses

1. Financial distress has a significant relationship with transactions with affiliated persons.

2. The size of the auditor has a meaningful relationship with transactions with affiliated entities.

Statistical population and statistical sample

The statistical population of this research is the renal acceptance of the listed companies in Tehran Stock Exchange. In this study, systematic deletion sampling method was used. Of the statistical population of the study, 152 sample companies were selected according to the conditions and limitations of Table 1:

Table 1: Sample size and screening factors

تعداد	شرح	ردیف
541	Companies active in the Tehran Stock Exchange in 1396	
(25)	Deducted: Companies in the financial intermediation industry	1
(50)	Defamation: Companies that have not been listed in the research period	2
(27)	Deducted: companies in the banking industry	3
(11)	To be deducted: Stop trading	4
(21)	Deducted: insurance companies	5
(89)	To be deducted: Companies in the investment industry	6
(77)	Deducted: companies with incomplete data	7
(89)	Deducted: companies with fiscal year other than March 29	8
152	The final sample	

Descriptive statistics of research variables

Table 2: Descriptive Indicators of Variables

The size of the assets	Board size	Total Returns of Assets	The ratio of independent directors	Liquidity ratio	Operating cash flow ratio	Leverage ratio	Auditor Size	Altman financial distress	Deals with affiliated entities	Variable	
LNT	BODS	ROA	IDDIR	LIQ	CFO	LEV	BIG4	AC	RPT	Symbol	
/065	12	5/057	0/135	0/359	2/296	0/0001	0/593	0/730	40/848	0/137	Average
/973	11	5/00	0/115	0/334	1/718	2/882	0/597	1/00	11/439	0/120	Middle
/863	14	7/00	0/668	3/421	81/892	0/038	1/409	1/00	123/117	0/501	Maximum
/298	10	4/00	-0/197	0/202	0/008	-0/0006	0/145	0/00	-42/444	0/064	Minimum
/682	0	0/265	0/121	0/208	4/894	0/001	0/191	0/444	2/912	0/056	Standard deviation
/941	0	0/079	1/185	1/255	1/544	1/201	0/090	-1/037	1/818	1/098	Elongation
/014	2	1/812	2/143	3/725	2/422	2/225	2/097	2/075	2/071	1/422	Skidding
912	912	912	912	912	912	912	912	912	912	912	observations

Table 2 results:

The most important central average indicator is the equilibrium point and the distribution center, and is a good indicator of the centrality of data, and the highest mean of Altman's financial distress is 40.884, indicating that most data related to This variable is centered around this point.

Middle is another central indicator that shows the state of the society, and the most moderate variable of asset size is 11.973, which indicates that half of the data is less than this and the other half more than this, as well The highest standard deviation for the liquidity ratio is 4,954 and the lowest standard deviation for transactions with affiliated entities is 0.056.

Normal test of error sentences model of research hypotheses

Error sentences The research hypothesis model has a normal distribution: H0

Error sentences The research hypothesis model has no normal distribution: H1

Table 3: The results of the normal test of error sentences model of research hypotheses

Likelihood of Jarck statistics - for	Jar statistics - for	Symbol	Variable
0/184	3/337	1Resid	Error sentences model of the first hypothesis
0/086	4/898	2Resid	Error sentences model of the second hypothesis

Since the probability of the Jarck statistics is greater than the error level of 5%, it can be concluded that the error sentences of the research hypothesis model have a normal distribution.

Fit Pattern Selection Test

Given the literature available and the nature of research hypotheses in this study, hybrid data has been used. In order to determine the appropriate model (fusion or panel with fixed or random effects), Chow and Hausman tests have been used to test the hypotheses.

A) Chow test

The results of the test for the regression model of the present study are shown in Table 5. The assumption of zero and the opposite assumption for the Chow test are as follows:

Ho: The method of compilation data

H1: The method of panel data

Table 4: Chow test

The probability of the test statistic	Degrees of freedom	Amount of test statistic	Hypothesis	Test type
0/000	(101.395)	6/675	اول	Chow
0/000	(101.398)	6/605	دوم	Chow

According to Table 5, in the case of the first and second models, according to the significance level of the Chavo test results, the hypothesis (integrated model) is not confirmed. In other words, there are individual or group effects. Panel data should be used to estimate the regression model of the research. Hassman test is used to determine the type of panel model (with random effects or constant effects).

B) Hausman test

After determining that the width of the source is not the same for different years, the method used to estimate the model (fixed or random effects) should be determined, which is used for the Hausman test. The assumption of zero and the opposite assumption for the Hausman test is as follows:

Ho: Random effects method

H1: Fixed effects method

The summary of the results of the Hausman test is presented in Table 5 below:

Table 5: Hausman test

The probability of the test statistic	Degree of Freedom statistics x2	Chi-square statistic	Hypothesis	Test type
0/39	2	2/409	اول	Hausman
0/23	2	2/630	دوم	Hausman

As you can see, the probability of the Hausman test statistic is greater than the 5% error rate. Therefore, the use of the random effects pattern against the fixed effect pattern in the research hypotheses is confirmed.

Test of research hypotheses

After reviewing the classical assumptions, we will continue to examine the hypothesis testing of the research and, given the results and regression coefficients, we will summarize the results.

Test of research hypotheses

□ Test the main hypothesis first

Financial distress has a significant relationship with transactions with affiliated persons.

$$PRT_{it} = \eta_0 + \eta_1 AC_{it} + \eta_2 IDDIR_{it} + \eta_3 BODSIZE_{it} + \eta_4 LNTA_{it} + \eta_5 LEV_{it} + \eta_6 LIQ_{it} + \eta_7 COF_{it} + \eta_8 ROA_{it} + \varepsilon_{it}$$

Table 6: Results of fitting the regression equation of random effects of the first hypothesis

				Statistics Variables
0/02	2/061	1/084	C	Constant
0/02	-2/638	-1/055	AC	Financial Distress
0/04	2/201	1/003	LEV	Leverage ratio
0/79	-0/263	-0/285	CFO	Operating cash flow ratio
0/99	0/002	1/032	LIQ	Liquidity ratio
0/59	0/654	0/024	IDDIR	The ratio of independent directors
0/01	-2/645	-2/011	ROA	Total Returns of Assets
0/69	0/387	0/003	BODSIZE	Board size
0/006	2/558	2/003	LNTA	The size of the assets
Probability of F statistics	F statistics	Watson Camera	Adjusted coefficient of determination	The coefficient of determination
0/007	11/188	1/865	0/411	0/502

Based on the results of Table 6 we find that:

- ✓ There is a significant negative correlation between financial distress and transactions with affiliated persons, since the negative variable of the regression coefficient sign of the relevant variable is (-0.05), its coefficient of significance (0.02) is less than the error level of 5%. Therefore, the first hypothesis of the research is confirmed at 95% confidence level.
- ✓ Based on the adjusted adjustment coefficient of the model, about 41% of financial distress changes are explained by transactions with affiliated entities.
- ✓ Control variables have a positive and significant relationship between leverage ratio, total asset returns and asset size with independent and dependent variables.
- ✓ Since the probability of the F (0,007) test is less than the error level of 5%, the appropriateness of the regression is significant.
- ✓ Testing the main hypothesis of the second
- ✓ The size of the auditor has a meaningful relationship with transactions with affiliated entities.

$$PRT_{it} = \eta_0 + \eta_1 BIG4_{it} + \eta_2 IDDIR_{it} + \eta_3 BODSIZE_{it} + \eta_4 LNTA_{it} + \eta_5 LEV_{it} + \eta_6 LIQ_{it} + \eta_7 COF_{it} + \eta_8 ROA_{it} + \varepsilon_{it}$$

Table 7: The results of fitting the regression equation of the random effects of the second hypothesis

				Statistics Variables
0/02	2/05	0/085	C	Constant
0/62	-0/488	-0/002	AC	Auditor Size
0/87	0/152	0/002	LEV	Leverage ratio
0/832	-0/211	-0/230	CFO	Operating cash flow ratio
0/029	2/088	1/474	LIQ	Liquidity ratio
0/002	2/254	2/024	IDDIR	The ratio of independent directors
0/044	-2/607	-2/010	ROA	Total Returns of Assets
0/010	2/371	2/003	BODSI ZE	Board size
0/558	0/584	0/003	LNTA	The size of the assets
Probability of F statistics	F statistics	Watson Camera	Adjusted coefficient of determination	The coefficient of determination
0/002	31/154	1/781	0/461	

Based on the results of Table 7, we find that

The auditor's size does not have a significant relationship with transactions with affiliated ✓ entities, because its significant coefficient (0.62) is more than the error level of 5%. Therefore, the second hypothesis of research is not confirmed at 95% confidence level

- Based on the modified model of the model, about 46% of the changes in the type of corporate audit are described by transactions with affiliated entities
- The control variables of the ratio of liquidity, the ratio of independent managers, total asset returns, and board size with independent and dependent variables have a positive and significant relationship
- Since the probability of the F (0,002) test is less than the 5% error rate, the appropriateness of the regression is significant

Results

First hypothesis: financial distress has a significant relationship with transactions with affiliated individuals. According to the test, financial distress has a significant relationship with transactions with affiliated individuals, since the negative variable of the regression coefficient is the corresponding variable (-1.05), its coefficient of significance (0.02) is less than the error level of 5%. Therefore, the first hypothesis of the research is confirmed at 95% confidence level. And control variables have a positive and significant relationship between leverage ratio, total asset returns and asset size with independent and dependent variables

In other words, the result of this hypothesis suggests that with the increasing financial distress of companies, the level of affiliated affiliate transactions decreases and the level of financial distress will increase the level of transactions with affiliated entities

Considering the confirmation of the first hypothesis that financial distress has a meaningful relationship with transactions with affiliated persons, it is suggested that in decisions on problems that lead to financial constraints and eventually bankruptcy of the company, it is suggested that discharges of financial distress As a factor affecting trading with affiliated entities, and investing in companies that have less financial distress in the past

The result of this hypothesis is the study by Boinan et al. (2018) that financial firms that have transactions have a negative relationship with financial bankruptcy transactions and Sajadi et al. (1395). The results show that the intellectual value added and its elements (Added value of human capital, added value of structural capital, value added of capital used) does not have a significant effect on financial distress of companies; it is opposite and is consistent with the) research by Khajavi et al. (1397), Praise and Associates (1396Second hypothesis: The size of the auditor has a meaningful relationship with transactions with • affiliated entities

According to the test, the size of the auditor does not have a significant relationship with transactions with affiliated entities, since its significant coefficient (0.62) is greater than the error rate of 5%. Therefore, the second hypothesis of research is not confirmed at 95% confidence level

The control variables of the ratio of liquidity, the ratio of independent directors, total asset returns, and board size with independent and dependent variables have a positive and significant relationship.

In other words, the result of this hypothesis is that the size of the auditor in the companies that is carried out by the organization itself, as well as the increase of liquidity and assets, can increase the level of affiliated bonds transactions.

The result of this hypothesis with Habib's research (2017) showed that there is a meaningful relationship between political communication and transactions with affiliated entities in companies, and carpenters and barzegar (1394). The results of the research showed that between political communication and transactions with affiliated entities in companies Accepted in the Tehran Stock Exchange has a significant relationship, and contrary to Hassanzadeh et al. (1393) research, there is no significant relationship between the percentage of irregular managers in the board of directors and the type of auditor with the prevention of financial distress.

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