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The Effect of Political Support on Companies' Cash Holding Level

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ABSTRACT: Since the political power ring is not clearly separable from the economic power ring, and the government's political support affects the economic role-making of companies, this study seeks to explore the effect of the political support of the government on the company's cash holding level. In addition, the intervening effect of the agency cost was examined. Political support means extensive relationship with companies and government. Maintaining extensive relationship with government over time leads to satisfaction and political support of the government. The time period of the research is during the years 2003-2012 .The sample consists of 98 companies. The research method is correlational. The "Least squares method" was used in order to test the hypotheses. The results suggest that there is a negative and significant relationship between political support and cash holding level .Furthermore, the effect of political support on the cash holding increases with the rise in agency cost and the negative relationship between political support for companies and cash holding is affected by high agency cost.

KEYWORDS: political support, cash holding, agency cost.

1 INTRODUCTION

Cash as the current and effective asset in company's operation cycle has always been of interest to managers and researchers. Cash management plays an important role in the use of opportunities and consequently the profitability of companies. Surplus cash causes the inefficiency of monetary sources and the investment opportunity cost. On the other hand, companies with less cash are encountered with the risk of failure. Governments can always complement and provide cash. Facilitating the process of acquiring resources results from the political support of the government. Since governments are the largest sources of financial resources, they can support companies in two ways: a) In Iran, certain banks work directly under the supervision of presidency. Thus, in order to fulfill the objectives, the government pays the financial resources to the executive company. b) Many other banks which generally operate under the supervision of the Central Bank have payment rows that pay according to the Supreme Leader's and the President's discretion . Thus, the political support for the company causes the difference in the cash holding level of companies compared to the unsupported companies. In fact, companies with the political support, in addition to having a comprehensive budget, benefit from the soft budget. Soft budget refers to gaining political support of the government through the performance and benefits of advantages of that support. It seems that the companies which are successful in gaining political support from the government hold less cash, because managers of these companies can whether provide their goods purchase and services with a higher level of reliability that do not require cash payment, or in case they need financial resources ,they will have access to financial resources at a shorter time .The companies that do not use the available financial resources in investing projects with the current positive values have high agency costs. Thus, gaining political support that itself prevents the company's cash holding, in addition to the aforementioned advantages, reduces the agency costs (Boubakri, et.al, 2012). This study not only aims to examine the effect of political support of government on the cash holding level, but it also aims to investigate the regulatory role of political support in companies with high agency costs. Therefore, the following questions are propounded:

1. Can political support have an impact on the cash holding level?

2. Is political support for companies having cash holding affected by high agency costs?

2 THEORETICAL FOUNDATIONS AND LITERATURE REVIEW

2.1 POLITICAL RELATIONS AS THE FOUNDATION OF POLITICAL SUPPORT

Communication, based on the definition given by Charles Cooley's, the American sociologist, is the mechanism upon which human relations are created and all intellectual aspects and transmission equipment and its maintenance in place and time develop on this basis. In fact, establishing and maintaining communication in various forms with the government's executive organizations would lead to gaining their political support. Thus, the development of communication with the government increases the possibility of political support. Regardless of the country's desired strategic product, or the existence of ministers or the members of parliament, this study merely deals with the establishment and maintaining the communication with the government to express political support. Empirical evidences of political support consider the three potential sources of access to credit, tax breaks and market power as the advantages of political support (Boubakri et.al, 2013).

Faccio (2010) came to the conclusion that the companies with political relations and high financial leverage have lower financial rates (tax break) and more share of the market (market power). Faccio et .al identified the additional direct channel in which companies with political support compared to the companies without this support are more likely to be supported by the government compared companies without such support during the financial crisis.

Narayana swamy (2013) stated that the increasing role of the private sector in the economy after liberalization of economy reinforced the link between companies and the political system. Government intervention in the economy and the entrance of companies in the politics (political participation and related business activities) and the dependence of the political parties concerning financing on companies has increased the importance of political support in business. He concluded that the companies with political support, compared to the unsupported companies, gain lower quality benefits. Therefore, the risk of the audit also increases.

Rezaei and Afrouzi (2014), by studying the effect of political relations of companies on the cost of debt in companies listed In Tehran Stock Exchange, arrived to the conclusion that the political relations of companies reduce the cost of their debt.

While studying the relationship between the unreasonable comment of audit and financial constraints of the companies with broad political relations in companies listed In Tehran Stock Exchange, Rezaei and zijoudi (2014) concluded that receiving unreasonable comment of audit does not eliminate financial restrictions in companies with broad political relation.

2.1.1 FORMS OF POLITICAL RELATIONS

Political relations between companies and government can be created in various ways including:

A) Ownership structure: the government becomes the shareholder of companies directly or indirectly and imposes influence.

B) The structure of the board of directors: the government's representative is effective and the determiner of the company's policies by being present in the structure of the board of directors as the chief executive or being its member.

C) Product: by producing strategic, security and vital products, companies and government interact with one another.

D) Network communication: another factor that leads to the creation of the political relationship between the company and government is network communication. Several factors are involved in the formation of these relationships and this study examines the factors of the size of the company and creating political relations.

THE SIZE OF COMPANY, POLITICAL RELATIONS AND CASH HOLDING LEVEL

The present study uses six variables as the measure of the size of company, they include: 1) the number of employees, 2) foreign sales (exports), 3) total assets of the company, 4) tax on income, 5) Social Security Insurance, 6) the value of stock market

1. THE NUMBER OF EMPLOYEES

The number of employees is one of the most politically sensitive indicators, since the more the number of employees becomes, the more pressure on the company will be. The company also uses it as a tool to impose pressure on the government, since human force is of great importance in societies. Creating jobs are one of the concerns of governments. Thus, the companies that attract a large labor force, in fact, reduce the pressure on the government. The labor protests and strikes are the social problems that the government is trying to avoid. According to the mentioned reasons, companies with a large labor force are more supported by the government. In order to handle personnel matters such as payment of benefits, subsidies, etc. and in order to interact with the Social Security Organization regarding the personnel' insurance ,the companies need to hold cash and this issue varies according to the size of company, because large companies that have many personnel should obviously hold more cash. Thus, the companies are of interest to the Ministry of Cooperatives, Labor and Social Welfare.

2. FOREIGN SALES

Iran's revenue is mainly oil and non-oil exports. Oil export is peculiarly done by government and non-oil export is done by public sector alongside the private sector. Bringing currency is one of the privileges of foreign sales, since part of the required currency for the country and the government is funded by the private sector. Furthermore, although the companies' exports products have the company's name and brand, it causes the interaction between governments and this business relation is very desirable for the companies. Hence, the companies that export more and consequently bring high currency are supported by the government more. In order to maintain its sales market, companies that have more sales and exports, should be ready to face financial fluctuations in the cost of sales such as transportation costs and the cost of exports. This requires having adequate cash and cash holding. Thus, the government considers certain facilities for this group of companies that have the ability to bring credit in cross-border for their country. For instance, these facilities can be in the domain of allocation of public currency and tariffs, receiving facilities with lower rates tax incentives and so on. From this perspective, they have extensive interaction with the Ministry of Industry, Mine and Trade, the economic sector of Ministry of Foreign Affairs, the custom and banking sector of Ministry of Economic Affairs and Finance and in the domain of transportation they have interaction with the Ministry of Roads and Urban Development.

3. TOTAL ASSETS AND THE SIZE OF COMPANY

Large amount of the company's assets suggests its large size and small amount of assets suggests its small size. In fact, there is a direct relationship between the size of company and its total assets (Rezaei, Heidarzadeh, 2012). The government is responsible for providing foundations, welfare and social services that sometimes provide them itself and in some cases, it uses the facilities and assets under ownership of private sector. Thus, the amount and the value of the assets that the companies give the government indicate the largeness of that company. That's why the government supports these companies. Also, the companies that have capital assets with high holding costs should hold a lot of cash to deal with likely costs and to avoid closure. Hence, for the imports of machinery, they interact with customs department of the Ministry of Economic Affairs and Finance, for banking facilities, they interact with banking sector of the Ministry of Economic Affairs and Finance, and for identifying the foreign dealer of machines, and they have interaction with the Ministry of Foreign Affairs.

4. THE VALUE OF STOCK MARKET

The stock market is an organism which is dependent on the government and it is a link between private sector and government. The companies whose stock and the value of their stock is greater play a more important role in comparison with small ones in this field, therefore, government has interactions with business owners for the purpose of keeping the balance of capital market. On the other hand, the value of stock market is a really important issue that the shareholders pay more attention to it and in order to avoid the reduction of the value of stock, it is necessary that companies hold cash for handling market of the company's share and spend the opportunity cost of holding cash for Keeping the stock price. Therefore, companies will have interaction with the Ministry of Economic Affairs and Finance in this regard.

5. TAX

Zimmerman (1983) studied the empirical relationship between the company's tax rate and its size or largeness. Larger companies, in comparison with small ones, have higher rate of tax and such description is consistent with the fact that they pay more political cost (assuming that large companies have higher rate of tax and probably benefit from more political

interests so that they can make governmental lucrative contracts and use the import rules of import limitation, etc.) in a way that that they can neutralize higher rate of tax. Tax form an important part of the revenue of government in Iran, tax is dependent on taxpayer's more revenue. In order to increase the revenue of these companies and consequently to increase the amount of their tax payment, the government should pave the way for these conditions and offer some concessions to companies and have interaction with them. In some cases, it is necessary that companies hold the necessary cash in order to have interactions with tax affairs office and use the included discount and the reached agreements .By doing so, the payments are done on time. This issue varies depending on the size of companies, since the companies which pay more tax should hold more cash for this purpose. Accordingly, these companies have an interaction with Ministry of Economic Affairs and Finance.

6. EMPLOYER'S CONTRIBUTION AND UNEMPLOYMENT INSURANCE

Social Security Organization which is responsible for health insurance and retirement of the many Iranian people is dependent on the government. The main revenue of this organization comes from the premium which is charged by the employers to this organization. Since the government is responsible for providing social welfare, the bulk of expenses of this responsibility is achieved by these revenues, therefore, larger companies with more employees, have to pay more premiums. Government supports them by offering the facility and impunity, etc. to protect and continue these companies .On the other hand, companies may fail to pay the debts including the employee contribution and unemployment insurance due to lack of liquidity. In order to offer concession to these companies and receive its demands, Social Security Organization usually indemnities companies' insurance charges including those companies which is larger and have more employees. Thus, it is necessary that companies hold cash in companies in order to use these concessions at a desired level. Therefore, by the development of relationship of the governments' executive organizations with companies, gradually government's support can be gained. This support is done politically. In following section, hypotheses are propounded regarding this relationship.

3 RESEARCH HYPOTHESES

Hypothesis 1: The broader political support for companies has an inverse relationship with cash holding.

Hypothesis 2: the relationship between the political support for companies which hold cash is intensified by the rise in agency costs.

Hypothesis 3: the relationship between the political support for companies which hold cash is affected by high agency cost.

4 RESEARCH METHODOLOGY

In this study, the relationship between variables (political support, agency and cash holding costs) are examined, therefore, this research is correlational. Since it aims to study the relationship between political support and cash holding, it is an applied research. After selecting 98 companies using the political support variable (POL) and cash, and agency cost (AC) as the independent variable and other control variables by multiple regression and by using the software Eviews7, hypothesis test was done. The study population consists of all listed companies in Tehran Stock Exchange. In this study, a screening method was used for sampling. For this purpose, the following 2 criteria are taken into account. And if a company has established a high level of all criteria, it is selected as the company with political support.

1) To homogenize the sample in the studied years, the companies should be listed in Tehran Stock Exchange before the year 2001.

2) To increase comparability, the financial period should end in March and companies should not change their fiscal year during the years 2002-2011.

3) They should not be a bankrupt company and inclusive of the article 141 of the commercial code.

4) Companies, due to the special nature of activities, should not be a part of investment and holding industry.

5) Companies' transactions should not be interrupted more than once a year during the years 2003-2012.

6) All required financial and non-financial information such as financial records should be available.

After considering all of the abovementioned criteria, 98 companies remained, all of which have been selected as the sample. Thus, our observations are based on 98 companies.

5 RESEARCH VARIABLES

The research variables and the method of their measurement are listed in Table 2. In order to analyze the research data, first, the data was collected, Afterwards, the data matrix was entered in Excel spreadsheet based on the research regression model.

5.1 THE METHOD OF MEASUREMENT OF THE INDEPENDENT VARIABLE OF POLITICAL RELATIONS OF COMPANIES

In this study, to determine the independent variable of political relations, political companies are measured using the multi-criteria model by TOPSIS method and Shannon entropy weighted index method. The companies are prioritized by this method (to the ratio of 40%, 20%, and 40%) and the companies which rank the 40% top are regarded as the political companies. In other words, in prioritizing the options based on TOPSIS method, the options that are most similar to the ideal solution rank higher. To separate the political companies from non-political ones, the political costs indicators such as (the number of employees, the size of company, the total export sales, and the total market value of equity, income tax and unemployment insurance) are used. The decision matrix for separating the political and non-political companies is shown in the following table.

Table 1- decision matrix model

company	the number of employees	the size of company	total foreign sales	employers unemployment insurance	total stock market value	tax on income
A	X 11	X 12	0	0	0	X 1m
B	X 21	X 22	1	0	0	X 2m
C	0 0	0 0	0 0	0 0	0 0	0 0
D	X n1	X n2	0	0	0	X nm

Table 2-research variables and the method of their measurement

measurement method	variable	symbol	title
t in the year i, cash divided by company's net cash	cash	$CASH_{it}$	dependent
calculated by the multi-criteria model by TOPSIS method and Shannon entropy weighted index method	political support for companies	POL	independent
Q agency cost is considered as a function of interaction between fcf(free cash flow) and tobbin (agent of growth opportunities	agency cost	AC	independent
$MTB = \frac{MVE + TD}{TA}$	market value ratioto assets	*MTB*	control
based on Stock market price	The total value of stock market ؛ MVE		
from Balance sheet	total assets ؛ TA		
from Balance sheet	total debts ؛ TD		
$CF = \frac{CFO}{NA}$	ratio of operating cash flows to net assets	*_CF*	
from Cash flow	Operating cash flows ؛ CFO		
$NA = TA - TD$	net assets ؛ NA		
$NWK = \frac{NWK}{NA}$	net working capital ratio to Net assets	*NWK*	
$NWK = CA - CL$	Net working capital ؛ NWK		
from Balance sheet	current assets ؛ CA		
from Balance sheet	curent liabilities ؛ CL		
$NA = TA - TD$	net assets ؛ NA		
$CAPEX = \frac{\Delta TFA}{NA}$	investing costs	*CAPEX*	
$\Delta TFA = TFA_T - TFA_{T-1}$	؛ ΔTFA Changes in fixed evident assets		
$NA = TA - TD$	net assets ؛ NA		
from Balance sheet	totalassets ؛ TA		
from Balance sheet	total debts ؛ TD		
$LEV = \frac{TD}{TA}$	Ratio of total liabilities to total Assets	*_LEV*	
from Balance sheet	total assets ؛ TA		
from Balance sheet	total debts ؛ TD		
$DIV = \frac{DIV}{NA}$	dividend ratio to net assets	*_DIV*	
$DIV = DPS * N$	total dividend ؛ DIV		

$PAYOUT = \frac{DPS}{EPS}$	ratio of dividend	$PAYOUT$	control
from benefit and los	Dividend per share ؛ DPS		
from benefit and loss	benefit pershare ؛ EPS		
$SG_T = \frac{S_T - S_{T-1}}{S_{T-1}}$	Sales growth	$S\,G$	
from benefit and loss	Net sales in a year ؛ S_T		
shares ownership percent for legal companies and righful individuals above 5%	ownership percent of institutional shareholders	$INIST$	
$SVT = \frac{MVE}{GDP}$	ratio of stock market value to GDP	$\_SVT$	
from Tehran Stock Exchange website	MVE ؛ (Stock market value (Total Exchange		
from strategic monitoring of vice president ofand Iran's Statistics Center	Gross domestic product ؛ GDP		
$QTOBIN_{it} = \frac{MV_{it} + TD_{it}}{TA_{it}}$	Company's growth opportunity	QTOBIN	
Equal to multiplying the number of released shares of company at the latest price at the end of the year	The market value of equity ؛ MV		
FCF=(INC-TAX-INTEXP-CSDIV)/ASSET	Free cash flow	FCF	
from benefit and loss and administrative and organizational costs notes	INC ؛ Operating profit before deduction depreciation cost		
from financial tax status notes	Tax on Income ؛ TAX		
from financial notes	Interest expense ؛ INTEXP		
from the invoice of the accumulated benefit and loss	CSDIV ؛ paid benefit to ordinary shareholders		
from the balance sheet	The total book value of assets ؛ Asset		

5.2 The Method of the Measurement of Agency Costs

Agency costs are considered as the function of the interaction between the index Q-Tobin (the agent of growth opportunities) and fcf (free cash flow). To calculate free cash flow, Lehn and Poulsen model is used. Based on this model, free cash flows are obtained by the operating profit before depreciation deduction and by summing total taxes, plus interest cost and dividend and by dividing those by total assets, they are standardized. By multiplying these two factors (Q Tobin index and free cash flow), agency cost is obtained.

6 Data Analysis

6.1 Descriptive Statistics

Descriptive statistics of research variables that were measured by using the data from 39 active companies listed Tehran Stock Exchange during the years 2002-2011 include the number of observations , mean , standard deviation , maximum ,

minimum , coefficient of skewness and elongation factor that are presented in table3. According to the results of table 3, the average cash with 13.5 percent suggest that the sample company by average hold a low level of cash. The minimum value of this variable indicates that in the studied sample, MAGSAl Company had the lowest level of cash holding (0.002) in the year 2008.on the contrary; the maximum variable with the value of 1.31 indicates that OFFSET Company had the highest level of cash holding (131 %) in the year 2010. The average variable of political companies is 0.3983 that indicate that 39.8% of the sample companies have political relations. And the comparison of central and dispersion indexes for this variable demonstrate that the data is not normally distributed and has skewness to the right. Also, the elongation factor of this variable is 1.172 which indicates its proximity to the elongation factor of normal distribution. The average variable of agency costs 0.032011 which suggests that the agency costs of the data is by average 3.9 %. The minimum and maximum of this variable indicates that the company "Sufian Cemetry" had the lowest level of agency costs with -2.52 in the year 2003 and Sand Foundry Company had the highest level of agency costs with 1.31% in the year 2006. The proximity of central indexes of this variable indicates the normal data distribution.

6.2 THE RESULTS OF HYPOTHESES TESTS

Hypothesis 1: The broader political support of companies has an inverse relationship with cash holding.

Since the research is a compilation of cross-sectional (companies) and time-series data (time interval between 2002 to 2011), the method of hybrid or cross-sectional data of F -Limer test is used for selection, before estimating the model number (1), and other models.

Table 3- Descriptive Statistics of Research Variables

SD	minimum	maximum	mean	number	symbols	variables
0.316	-1.254	3.957	0.112	980	CAPEX	Investing costs
0.146	0.002	1.313	0.135	980	CASH	cash
0.488	-2.065	4.282	0.403	980	CF	Cash flows
0.352	0.000	2.800	0.310	980	DIV	dividends
2.568	0.000	80.790	0.781	980	INIST	Institutional shareholders
0.147	0.118	0.934	0.640	980	LEV	Financial leverage
1.204	0.564	11.804	1.656	980	MTB	Market value to book value
0.679	- 5.307	1.898	0.121	980	NWK	Working Capital
0.460	-5.000	7.500	0.667	980	PAYOUT	Dividend benefit
0.489	0.000	1.000	0.398	980	POL	Political companies
0.545	-1.000	9.468	0.218	980	SG	Sales growth
6.394	0.017	59.94	2.606	980	SVT	Stock market value to GDP
0.171	-2.525	1.312	0.039	980	AC	Agency cost

Given that the probability of F-statistics is more than 1, the null hypothesis of F-Limer regarding the use of cross-sectional data is confirmed and Hausman test is not needed anymore. Therefore, the consolidated least squares regression model is used. To estimate the regression model of the first, second and third model, gravimetric method is used, due to the high autocorrelation and inconsistency of variances. The weights of this model are the inverse standard deviation of the dependent variable. To examine the absence of autocorrelation of the remainders, Breusch–Godfrey and Durbin-Watson statistics are used. To examine the absence of anisotropy of variance Arch test is used.

Table 4-the result of the first hypothesis

$CASH_{i,t} = \alpha_0 + \alpha_1 POL + \alpha_2 MTB + \alpha_3 CF + \alpha_4 NWK + \alpha_5 CAPEX + \alpha_6 LEV + \alpha_7 DIV + \alpha_8 PAYOUT + \alpha_9 SG + \alpha_{10} INIST + \alpha_{11} SVT + ei$				
Significance level	**t-statistics**		**coefficient**	**symbol**
0.000	- 5.40		-0.388	C
0.000	-8.06		-0.185	POL_HAC
0.000	- 3.78		-0.033	POL_LAC
0.000	- 8.19		-106	MTB
0.000	5.31		0.084	CF
0.355	-0.92		-0.032	NWK
0.000	12.8		1.16	CAPEX
0.000	7.74		0.223	LEV
0.0006	3.44		0.096	DIV
0.000	-4.00		-0.047	PAYOUT
0.715	- 3.364		-0.005	SG
0.000	- 3.34		-0.005	SVT
Durbin-Watson	56.4	F-Fisher	0.39	R
1.92	0.000	Significance level	0.38	Adjusted R
result	Significance level	Freedom degree	The statistics	test
Using cross-sectional data	1.000	97.95	0.000	F -Limer
With the confirmation of the use of cross-sectional data, this test is not needed.				Hausman

According to Table 6, regression coefficient of the variable of political companies is negative and 0.185990.Aslo, t-statistics is -8.060657. The probability of this statistics is less than 0.05. According to these results, statistically, the first hypothesis is significantly confirmed. This means that the variable of political companies has a negative (inverse) relationship with cash level which indicates that there is a relationship between the political relation of companies and cash holdings. Among control independent variables, only the relationship between capital costs and institutional shareholders, and dependent variable is not statistically confirmed. The relationship of the other dependent variables with the independent variables, statistically, is not significantly confirmed .

Fisher F test of the first hypothesis test model is 56.47 and the probability of this statistics is less than 0.05 which indicates that the designed regression model is statistically confirmed. The coefficient of determination model is 0.39 that shows the explanatory power of the independent variables on the dependent variable. Durbin-Watson statistics is equal to 1.91 and since it is between 1.50 and 2.50, it indicates the lack of correlation between the remainders of regression model.

$$CASH_{i,t} = \alpha_0 + \alpha_1 POL + \alpha_2 HAC + \alpha_3 LAC + \alpha_4 POL.HAC + \alpha_5 POL.LAC + \alpha_6 MTB + \alpha_7 CF + \alpha_8 NWK + \alpha_9 CAPEX + \alpha_{10} LEV + \alpha_{11} DIV + \alpha_{12} PAYOUT + \alpha_{13} SG + \alpha_{14} INIST + \alpha_{15} SVT + e_{i,t}$$

(Model 1)

Hypothesis 2: the relationship between the political support of companies with cash is intensified by agency costs increase.

As table 5 shows**,** given that the probability of F Limer statistics is more than 0.05, the null hypothesis of F Limer is confirmed based on cross-sectional data. Therefore, consolidated least squares regression model is used.

Table 5-the result of the second hypothesis

$CASH_{i,t} = \alpha_0 + \alpha_1 POL + \alpha_2 HAC + \alpha_3 LAC + \alpha_4 POL.HAC + \alpha_5 POL.LAC + \alpha_6 MTB + \alpha_7 CF + \alpha_8 NWK + \alpha_9 CAPEX + \alpha_{10} LEV + \alpha_{11} DIV + \alpha_{12} PAYOUT + \alpha_{13} SG + \alpha_{14} INVIST + \alpha_{15} SVT + ei$

Significance level	t-statistics	coefficient	symbol
0.000	- 5.31	-0.380	C
0.000	-6.57	-0.251	POL_HAC
0.000	- 7.07	-0.170	POL_LAC
0.001	- 3.23	-0.029	MTB
0.000	8.32	0.108	CF
0.000	5.36	0.84	NWK
0.399	-0.842	-0.029	CAPEX
0.000	12.5	1.14	LEV
0.0006	7.20	0.211	DIV
0.000	-3.39	0.094	PAYOUT
0.000	- 3.97	-0.046	SG
0.001	- 3.19	-0.005	SVT
Durbin-Watson	57.1 F-Fisher	0.393	R
2.021	0.000 Significance level	0.387	Adjusted R

result	Significance	Freedom degree	The statistics	test
Using cross-sectional data	1.000	97.95832	0.000000	F -Limer
With the confirmation of the use of cross-sectional data, this test is not needed.				Hausman

In the second model, the variable of political relations were compared and tested with both high agency costs and the low ones simultaneously to examine the impact of political relations on cash holding level**.** As it is shown in the above table, the regression coefficient on the variable POL_HAC (relationship between high agency cost and the political relations of the company) is negative and equal to -0.251 and t-statistics is equal to -6.571.Furthermore, the probability of t-statistics is less than 0.05 and according to these results, the variable POL_HAC has an impact on prediction of dependent variable (cash holing level). The regression coefficient on the variable POL_LAC is negative and is equal to -0.170 and t-statistics is equal to -7.073. The probability of t-statistics is equal to 0.000 and less than 0.05.The above results suggest that the variable POL_HAC has an impact on prediction of dependent variable (cash holing level).The comparison of the absolute values of the coefficients of the variables of POL_HAC and POL_LAC indicate that the absolute value of the coefficient POL_HAC variable is greater than POL_LAC. This shows that if the political relations of companies are coupled with increased agency costs, they have more impact on the cash holding level, compared to the reduction of agency costs with the existence of political relations. Thus, according to the results, the second research hypothesis regarding the reduction of cash holding level in the condition of the combination of political relations with the rising agency cost, statistically, is significantly confirmed . Among the control independent variables, only the relationship between investment costs and the dependent variable is not statistically confirmed and the relationship between other independent variables with the dependent variable is statistically confirmed. Fisher F-statistics of the second hypothesis test model is equal to 57.143 and the probability of this statistics is less than 0.05 which indicates that the designed regression model is statistically confirmed. The value of the coefficient of determination is equal to 0.39 which demonstrates the explanatory power of the independent variables on the dependent variable. Durbin-Watson statistics camera is also equal to 2,021 and since it is between 1.50 and 2.50, it indicates the lack of correlation between the remainders of regression model.

$$\mathrm{CASH_{i,t}} = \alpha_{.} + \alpha_{۱}\mathrm{POL} + \alpha_{۲}\mathrm{HAC} + \alpha_{۳}\mathrm{LAC} + \alpha_{٤}\mathrm{POL.HAC} + \alpha_{٥}\mathrm{POL.LAC} + \alpha_{٦}\mathrm{MTB} + \alpha_{۷}\mathrm{CF} + \alpha_{۸}\mathrm{NWK} + \alpha_{۹}\mathrm{CAPEX} + \alpha_{۱۰}\mathrm{LEV} + \alpha_{۱۱}DIV + \alpha_{۱۲}PAYOUT + \alpha_{۱۳}\mathrm{SG} + \alpha_{۱٤}\mathrm{INIST} + \alpha_{۱٥}\mathrm{SVT} + e_{i,t}$$

(Model 2)

Hypothesis 3: the political relations of companies with cash are affected by high agency cost.

According to F-Limer test result, the probability of F-Limer statistics has become more than 0.05.The null hypothesis of F-Limer test regarding cross-sectional data is confirmed. Therefore, consolidated least squares regression model is used.

Table 6-the result of the third hypothesis

$$CASH_{i,t} = \alpha_0 + \alpha_1 POL + \alpha_2 AC + \alpha_3 AC.POL + \alpha_4 MTB + \alpha_5 CF + \alpha_6 NWK + \alpha_7 CAPEX + \alpha_8 LEV + \alpha_9 DIV + \alpha_{10} PAYOUT + \alpha_{11} SG + \alpha_{12} INIST + \alpha_{13} SVT + ei$$

Significance level	t -statistics		coefficients	symbol
0.000	- 4.752		-0.364	**C**
0.000	-5.833		-0.159	**POL**
0.897	- 0.128		-0.003	**AC**
0.089	- 1.702		-0.070	**AC_POL**
0.001	-3.119		-0.028	**MTB**
0.000	8.239		0.107	**CF**
0.000	5.287		-0.083	**NWK**
0.422	- 0.802		-0.028	**CAPEX**
0.000	12.060		1.132	**LEV**
0.000	6.824		0.204	**DIV**
0.001	3.220		0.091	**PAYOUT**
0.000	-3.932		-0.046	**SG**
0.738	-0.334		-0.004	**INIST**
0.001	-3.267		-0.005	**SVT**
Durbin-Watson	48.356	**F-Fisher**	0.394	**R**
1.92	0.000	**Significance level**	0.386	**Adjusted R**
result	**Significance level**	**Freedom degree**	**statistics**	**test**
Using cross-sectional data	**1.0000**	97.958	**0.000**	**F -Limer**
With the confirmation of the use of cross-sectional data, this test is not needed.				**Hausman**

According to the results of table 6, regression coefficient of the variable POL is equal to -.0159 and its t-statistics is equal to -5.833,the probability of t-statistics is 0.000 and less than 0.05.Thus, the variable POL has an impact on prediction of dependent variable. Due to the negative coefficient of regression, it can be concluded that the companies with political relations hold less cash. On the other hand, variable coefficient of AC_POL is negative -0.070 and has in inverse relationship with the dependent variable of the model (cash). By considering t-statistics and its probability which is more than 0.05, statistically, the relationship between this variable and the dependent variable of the model is weakly confirmed. The comparison of the absolute POL variable with the variable AC_POL represents the oppositeness of the absolute value of coefficients of these two variables .As a result, according to the results , the third hypothesis is also confirmed. Among the control independent variables, only the relationship between agency costs, investment costs and institutional shareholders with the dependent variable is not statistically confirmed and the relationship between other independent variables with the dependent variable is statistically confirmed. Fisher F-statistics of the third hypothesis test model is equal to 48.356 and the probability of this statistics is less than 0.05 which indicates that the designed regression model is statistically confirmed. Value of the coefficient of determination is equal to 0.39 which demonstrates the explanatory power of the independent variables on the dependent variable. The value of the coefficient of determination is equal to 0.39 which demonstrates the explanatory power of the independent variables on the dependent variable.

The following regression model was used to test the third hypothesis:

$$\mathrm{CASH}_{i,t} = \alpha_0 + \alpha_1 \mathrm{POL} + \alpha_2 \mathrm{AC} + \alpha_3 \mathrm{AC.POL} + \alpha_4 \mathrm{MTB} + \alpha_5 \mathrm{CF} + \alpha_6 \mathrm{NWK} + \alpha_7 \mathrm{CAPEX} + \alpha_8 \mathrm{LEV} + \alpha_9 DIV + \alpha_{10} PAYOUT + \alpha_{11} \mathrm{SG} + \alpha_{12} \mathrm{INIST} + \alpha_{13} \mathrm{SVT} + e_{i,t}$$

(Model 3)

7 CONCLUSION

In this study, the relationship between the government's political support for companies and cash holding level was examined. As it was mentioned in the section of literature review of foreign and domestic researches, many of researches that have been conducted regarding the relationship between the government's political support of the company and cash holding level suggest that increasing the political support for the company reduces cash holding level in companies. The present study which was conducted on the listed companies in Tehran Stock Exchange suggests that the companies with high political support in our country hold less cash due to the political backing and support of the government, since the government supports these companies as a supplier of liquidity in critical periods. Thus, the results of the first hypothesis test suggest that there is a negative and significant relationship between the political relations of companies and cash holding level. On the other hand, the companies with high free cash flow may , due to a conflict of interest between shareholders and manager, invest in projects with negative net present value and cause high agency costs in companies which these agency costs could have an reverse effect on the company's returns . Therefore, due to the increase in agency costs resulting from cash holding, the impact of political relation on cash increases with agency cost rise. Accordingly, the agency costs of the companies that have strong political relations are reduced, since they hold less cash. Therefore, the results of the second hypothesis test suggest that the effect of political support on cash is intensified with the increase in agency costs. Furthermore, the results of the third hypothesis test indicate that the relationship between the government's political support and cash is affected by high agency cost. In fact, the results of the study demonstrate that in the companies where the agency cost of the board of directors is high, extensive interaction with the government that leads to gaining its political support causes the reduction of agency costs, in a way that this organizational healing is more effective in the high level of agency cost. According to the results of the present study regarding the reduction of cash holding resulted from extensive political support and also the influenceability of this relationship by agency costs, it is recommended that managers and institutional shareholders expand their relationship with the government in order to provide the required timely liquidity of company in critical periods and also in order to reduce the agency costs resulting from cash holding.

8 RESEARCH LIMITATIONS

Since the sample is selected from the companies listed in Tehran Stock Exchange and the sample companies are not necessarily the representative of all active economic units in the country in terms of size, industry, ownership structure and type of products, the generalization of the findings should be done carefully.

9 RECOMMENDATIONS

1) In this study multi-criteria model by TOPSIS method and Shannon entropy weighted index method are used in order to determine independent variable of the political support. It is recommended that other methods of index weighting such as the least square method , the method of logarithmic least squares, special vector method and approximate method be used in the future researches.

2) It is recommended that in addition to the variables used in this research, other variables such as ownership structure , the structure of board of directors , and the companies' products be taken in to account to measure political relations.

3) It is recommended that this subject be studied in various industries.

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