



**Investigating the Interactive Effect of Financial Constraints
and Development on the Relationship between Stock Liquidity
and the Company's Future Investment¹**

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INTRODUCTION and THEORETICAL FOUNDATIONS

Based on financial theories, several factors influence the liquidity of shares and the future investment of a company. Understanding these factors is crucial for evaluating and allocating the optimal level of the company's resources to investment projects. An increase in stock liquidity is positively associated with a rise in market investment, as the financial assets of companies are discounted at a lower cost of capital rate when the liquidity of the capital market increases (Amihud and Mendelson, 1988). Efficient and effective investment is a key factor for sustainable economic development. To achieve this, economic units seeking to invest in various plans and projects must carefully consider the threshold or amount of investment in accordance with their limited resources (Moradi et al., 1400). Financial development is also a critical consideration in the world's economic systems, where the issue of limited

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financial resources or financial constraints is a significant challenge. Companies encounter funding restrictions when there is a substantial gap between internal and external expenditures of allocated funds (Heidari Heratmeh and Shirin Bakhsh, 2016). The financial constraints examined in this research encompass financial leverage, interest rates, and the Kaplan and Zinglas index. Furthermore, financial development plays a major role in influencing the capital structure of companies. The development of financial markets in an economy is closely linked to the development of the entire country. Financial development serves as the foundation for enhancing liquidity, optimizing resource allocation, identifying and financing suitable investment opportunities, and managing and diversifying risk (Duko et al., 2011). Therefore, the objective of this research is to investigate the interactive effect of financial restrictions and development on the relationship between stock liquidity and the future investment of a company.

In alignment with the research goals and grounded in theoretical foundations, the research hypotheses were formulated as follows:

Hypothesis 1: Amihud's multidimensional liquidity measure has a positive and significant effect on the company's future investment.

Hypothesis 2: Financial constraint has a significant and negative interactive effect on the relationship between Amihud's multidimensional liquidity criterion and the company's future investment.

Hypothesis 3: Financial development has a significant and positive interactive effect on the relationship between Amihud's multidimensional liquidity measure and the company's future investment.

METHOD

The study is based on the regression model of combined data. Data from 111 companies admitted to the Tehran Stock Exchange during the period from 1394 to 1398 have been collected and utilized to test the research hypotheses.

DISCUSSION AND FINDINGS

Regarding the first hypothesis, the research findings indicate that Amihud's multidimensional liquidity criterion has a positive and significant effect on the company's future investment. In general, it can be stated that the increase in share liquidity contributes to higher cash flows for the company, leading to a reduction in the cost of capital and decreased investor risk. Consequently, this trend results in an



increased inclination of the company towards future investments. For the second hypothesis, which posited that financial constraints moderate the relationship between Amihud's multidimensional liquidity and the company's future investment, three sub-hypotheses related to financial leverage, interest rate paid, and the KZ index were tested. While the sub-hypotheses were confirmed in terms of the significance of the relationship, they were rejected in terms of the direction of the relationship. This suggests that the interactive variable of financial constraints amplifies the relationship between Amihud's multidimensional liquidity and the company's future investment. Additionally, the interactive variable of financial development strengthens the relationship between Amihud's multidimensional liquidity and the company's future investment.

CONCLUSION

Based on the research results, higher share liquidity induces a change in the company's future investment level, specifically an increase. This change is attributed to increased cash flow, reduced costs of capital associated with future investments, and improved overall financial conditions. Additionally, the coefficients and directions associated with the measurement criteria of the interactive financial constraint variable-such as financial leverage, interest rate paid, and the Kaplan and Zinglas index (KZ)-indicate a positive and significant moderating role of this variable in the relationship between share liquidity and the company's future investment. Higher values of these criteria intensify this relationship. Furthermore, the market value to GDP (financial development index) exhibits an interactive role in the relationship between liquidity and future investment. An increase in this index strengthens the relationship between the independent variable (liquidity) and the dependent variable (future investment). Therefore, based on the research findings, which highlight the positive and meaningful relationship between liquidity and company investment, it is recommended to investors and company management to consider the importance and role of stock liquidity in their investment decisions. Additionally, the financial restriction index and financial development factor should be taken into account for a more comprehensive evaluation and achieving more favorable results. Finally, the research suggests that stock exchanges and securities organizations should rank companies based on criteria related to financial constraints and financial development. This ranking can provide

investors with more informed decision-making tools when considering investment opportunities.

Keywords: Liquidity, Investment, Financial Limitation, Financial Development, Multidimensional Liquidity of Amihud.

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