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Study on the Effect of Accounting Biases on Financial Policies in the Iranian Stock Market

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ABSTRACT

This study investigates the effect of accounting biases on the financial policies of companies listed on the Tehran Stock Exchange. The statistical population comprises 14 leading investment firms along with their investee companies, totaling 109 companies over the period from 2011 to 2017. In this research, three indicators—(a) financial leverage, (b) cash dividends, and (c) the debt ratio—are used as criteria for financial policy assessment. The data was analyzed using a panel data model and STATA software. The results indicate that the investment firms studied demonstrated behavioral accounting biases in 71.35% of cases. Additionally, it was observed that investors' accounting biases have a significant negative impact on financial leverage, a negative effect on cash dividends, and a significant positive effect on the debt ratio as indicators of companies' financial policies. This is because accounting biases, as an irrational behavior, lead to loss aversion and a tendency to revert to the mean returns of stocks, ultimately resulting in decreased stock returns and reduced ability to finance companies from internal sources, thereby increasing reliance on external financing.

Keywords: Accounting Biases, Financial Policies, Loss Aversion, Panel Data Model.

1. Introduction

In the past two decades, behavioral finance has emerged as one of the most significant topics in finance, attracting increasing attention from researchers in the fields of finance and economics. This domain combines concepts from financial economics and psychology to create more accurate models of human behavior in financial markets. Moreover, behavioral finance management examines how managers collect, interpret, and process information. In particular, this field focuses on cognitive and perceptual biases. The premise here is that models can influence behavior and shape decisions. These biases may disrupt the decision-making process and result in outcomes that fall below the optimal level, as emotions can overwhelm individual control and influence human behavior (Aktas et al., 2017).

Thus, errors and biases arise in the decision-making process, and awareness of these can be beneficial for investors. These biases often stem from a tendency to rely on shortcuts and an excessive emphasis on experience, unfounded emotions, illusions, and rapid calculations, leading to a general departure from reality. Although these biases can sometimes yield positive results, the likelihood of negative outcomes is also significantly high. Among various types of behavioral biases, “mental accounting” is an economic concept first introduced by Richard Thaler in 1985. One of the key implications of this cognitive mechanism is that individuals assign different values to the same currency units. Mental accounting studies how individuals interpret information to make decisions based on their analyses of events' impacts in their minds, which may deviate from the general principle of rationality. This concept indicates that individuals tend to make their financial decisions in separate mental accounts (Gordon et al., 2016).

Disregarding the rational assumption that it is better for all decisions to be made within a single portfolio, mental accounting largely overlooks the interactions between different decisions. Moreover, this concept leads to a phenomenon known as “loss aversion.” The theoretical and empirical findings of researchers and market analysts indicate that there exists a unique and puzzling phenomenon in financial markets. It appears that investors, both individual and institutional, are reluctant to realize losses and are more inclined to recognize gains. In other words, investors tend to sell profitable stocks quickly while holding onto their losing stocks (Bonner et al., 2013).

On the other hand, understanding how company managers make decisions regarding appropriate financial policies to meet a company’s financial needs is one of the critical subjects in the field of accounting. A company’s ability to establish suitable financial policies to create investment opportunities is a pivotal factor in its growth and development. Therefore, generally speaking, employing financial policies for profitable investments and appropriate financing plays a crucial role in the growth of companies (Mascareñas & Yan, 2017). Undoubtedly, the behavioral biases and mental accounting of investors can impact the financial policies of companies.

One of the fundamental decisions that business manager's face is financing, which is an essential component of every company's operations. For growth and progress, companies need to expand their activities through new investments in a competitive environment. Industrial projects require financial resources and cash; thus, companies find it essential to employ financing mechanisms. Financing sources are divided into two categories: (1) internal sources such as retained earnings and reserves, and (2) external sources such as issuing bonds and securities. According to the pecking order theory of financing choices, in cases where there is asymmetric information between managers and external investors, managers prefer internal financing sources over external ones. They initially utilize retained earnings, then bonds, and finally, if more funding is required, they opt to issue equity. In this study, financing policy is assessed using three criteria: financial leverage, cash dividends, and debt ratio. Multiple factors, including agency problems, information asymmetry, firm size, and financial crises, influence managerial decision-making. In addition to these factors, investors' behavioral biases, especially mental accounting, also play a key role in financing decisions (Fennema & Koonce, 2010). Therefore, this study examines the impact of investors' behavioral biases from mental accounting on the financing policies of companies listed on the Tehran Stock Exchange. The current study aims to test the following hypotheses:

1) Investors' mental accounting has a significant impact on financial leverage.

2) Investors' mental accounting has a significant impact on cash dividends.
3) Investors' mental accounting has a significant impact on the debt ratio.

2. Theoretical Foundations and Literature Review

2.1. Prospect Theory and Mental Accounting

The serious consideration of behavioral finance as an academic subject and as a critical approach to conventional economics owes much to the research of Kahneman and Tversky. Prospect theory emerged as a response to the ambiguities of expected utility theory. The contradictions reported from expected utility theory gradually became an unsolved puzzle, prompting efforts to resolve it. Kahneman and Tversky (1979) discovered that, under conditions of uncertainty, individual decision-making does not align with the predictions of conventional economic theories (DeLisle et al., 2015). They recognized that human judgment utilizes intuitive and subjective shortcuts that are not adequately expressed by standard probability theory. This belief was encapsulated in prospect theory, which gradually evolved to serve as an alternative to the expected utility model. Prospect theory was introduced first in 1979 and later extended to cumulative prospect theory in 1992 by Kahneman and Tversky (Kian et al., 2017).

Kahneman and Tversky argue that choices under uncertainty stem from several pervasive effects arising from human behavior. They utilized insights from psychology, which had been markedly underutilized in economics at that time, for their economic theorizing. A key idea of theirs is the tendency to underweight high-probability events while overweighting low-probability events. They also mentioned the certainty effect, which states that individuals consistently prefer options that yield certain outcomes. They explained the segregating effect of individuals' choices, particularly when circumstances change (Fries et al., 2010). Kahneman and Tversky state that the segregating effect leads to the disregard of common outcomes. In other words, to simplify the selection process among various states, individuals ignore the common components among those states and focus solely on the distinctions between each state. This results in their choices being inconsistent with well-defined preferences. On the other hand, the most critical aspect of the theory pertains to the concept of loss aversion. Loss aversion is recognized as a mechanism to explain the phenomenon of risk-seeking and risk-averse behavior in conventional economic theories (Pakdel et al., 2016). Based on this concept, individuals may exhibit risk aversion in some situations while being risk-seeking in others. Generally, when faced with the risk of loss, due to their loss-averse nature, they tend to make riskier decisions (i.e., risk tolerance increases). In contrast, when there is a potential for gain, they tend to protect their profits as much as possible, leading to risk-averse decisions. The value function, mental accounting, framing effects, and establishing reference points—against which decisions can be made quite differently—are some of the other innovations introduced by Kahneman and Tversky (Oli et al., 2017).

The primary yardstick of neoclassical economics in confronting the concept of uncertainty relies on expected utility theory. According to this theory, different options are ranked based on their expected utilities. If individuals seek to maximize their expected utility and their utility function is consistent across all possible states, their utility function will be concave in the case of risk aversion and convex in the case of risk-seeking behavior. In other words, an action (such as a plan or project) is chosen only if it yields the highest expected future value. However, this theory has faced substantial criticism due to its characteristics. Efforts to organize these criticisms commenced by considering psychological insights such as humans' inclination toward loss aversion (Jalili & Moshiri, 2013).

Expected utility theory evaluates the utility of each choice based on its likelihood of occurrence (objective probability), while prospect theory assesses the preference for each choice based on decision weights (subjective probabilities), which differ from actual likelihoods. This weighting assigns greater importance to small probabilities and tends to overestimate them, whereas medium and large probabilities receive less attention and are underestimated. Prospect theory focuses not on overall utility derived from net wealth, but instead emphasizes value based on changes in gains and losses (changes from a reference point). Therefore, if the outcome (profit or loss) is x units, it is not treated simply as x, but rather the difference with

the reference point (z) is considered (x - z). The value function is designed differently for gains and losses; for losses, the function has a steeper slope, and for gains, it is concave. In other words, losses have a greater impact on the value function, which illustrates the inclination toward loss aversion (DeLisle et al., 2015).

In this theory, prospects and outcomes of decision-making are defined based on an individual's total wealth. These prospects are evaluated in terms of gains, losses, or neutrality relative to a reference point, which reflects the current situation of each individual. According to this theory, decision-makers analyze possible outcomes arising from their choices and assess them based on a value function relative to the reference point. This process occurs in two stages: in the first stage, the individual confronts the decision-making framing phenomenon and pertinent mental accounting issues; in the stage that follows, they evaluate the value of potential outcomes for each option. In other words, based on this theory, decision-makers make predictions about the outcomes of their choices and do not merely focus on the outcome of a situation; they also pay attention to organizing, comparing, and evaluating those outcomes (Pakdel et al., 2016).

2.2. Mental Accounting in Finance

Mental accounting is a component of prospect theory that refers to individuals' tendency to allocate specific events to different mental accounts based on their apparent characteristics. In other words, mental accounting provides a framework wherein decision-makers can establish a set of reference points for each account and determine the resulting gains and losses. They can then utilize choice theory to assess differences among types of accounts and ultimately make decisions. Mental accounting is an economic concept first introduced by Richard Thaler in 1985. This concept indicates that individuals compartmentalize their future and current assets into non-transferable and separate sections. In other words, individuals assign varying levels of utility to each category of assets. In mental accounting, it is suggested that individuals prefer to divide their assets across different baskets and manage each basket independently. In essence, transactions are examined separately, rather than continuously evaluated against one another. Mental accounting indicates that individuals prefer to make their financial decisions in separate mental accounts. For example, some individuals do not seek to optimize their investment portfolio; instead, they purchase stocks independently without considering the interrelations among them (Oli et al., 2017).

Mental accounting expands the ideas of prospect theory and is specifically based on three core principles: coding, categorizing, and evaluating. Coding refers to how individuals perceive and experience financial outcomes; it involves determining how an individual assesses the multitude of incoming or outgoing flows, including how they segregate or integrate them, as well as their signs (profit or loss). Categorizing pertains to allocating incoming and outgoing flows to specific mental accounts, such as investment, expenditures, income, and wealth. Evaluation concerns how the accounts are assessed post-coding and categorizing, including the frequency of the mental account evaluation process (e.g., daily, monthly, or annually) (Kian et al., 2017).

In mental accounting, contrary to Bernoulli's view, it is posited that individuals tend to compartmentalize their assets into different baskets and manage each basket independently. In other words, in mental accounting, transactions are not evaluated continuously against one another; rather, they are evaluated separately. This concept illustrates that individuals prefer to make financial decisions in separate mental accounts without the logical assumption that all these decisions should be considered within a single portfolio. Indeed, mental accounting disregards the interactions between different decisions. For instance, when investing, individuals do not seek to optimize their investment portfolio but purchase stocks independently without considering their interrelations (Banai Qadam & Kurbasi, 2014). Barbarias and Hong (2001) examined the equilibrium of stock returns at the company level in two scenarios: one where investors exhibited loss aversion in the face of portfolio stock fluctuations, and another where investors showed loss aversion regarding the fluctuations of the stocks they owned. The results indicated that investors assessed the second method as more successful, reinforcing the above assertions. In other words, investors tend to make financial decisions in separate mental accounts (Pakdel et al., 2016).

Furthermore, the source of money affects how it is spent or consumed. One study revealed that individuals organize budgets for their daily expenditures, and when they have income exceeding their daily expenses, they treat it as "free money." They could use this surplus for times when they lack sufficient income for their daily expenses. Sudden gains, such as winning a contest or receiving a tax refund check, also exemplify free money. Individuals respond differently to free money compared to money earned through their employment. Hall Arkes, a psychologist at Ohio State University, states that mental accounting significantly influences how individuals deal with free money (Kian et al., 2017).

In summary, irrational and emotionally-driven decision-making by investors, such as the phenomenon of mental accounting in the capital market, can lead to the divergence of stock prices from their real (fundamental) values. Consequently, when investors become overly optimistic, they may overlook negative information and, influenced by positive information, overestimate stock prices beyond their actual value, and vice versa. This leads to reduced capital costs when stock prices are overestimated. Based on market timing theory, in this scenario, managers may issue new shares to secure funding. After obtaining sufficient financial resources, managers may decide to increase the company's investments. If these increased investments are made without careful evaluation, resources may be wasted on projects with negative net present value, resulting in the overinvestment phenomenon.

In this context, investors' mental accounting may contribute to the emergence of overinvestment and underinvestment phenomena (investment inefficiency) due to mispricing of stocks in the market and its consequences (Chen, 2013). Additionally, financing theory posits that investor emotions, similar to mental accounting, influence the level of company investments under market timing by managers deciding to issue stocks. According to this theory, companies with minimal internal funds or low borrowing capacity will need to secure funding for investments (Rahmani Rodposhti and Jalili, 2010). Hence, as described, there exists a rational relationship between emotionally-driven decision-making based on mental accounting and financing policies, which this study aims to investigate and test within the Iranian stock market.

2.3. Literature Review

Haywood and Stewart (2006) found that individuals assess performance differently when utilizing balanced scorecards, evaluating success (profit) or failure (loss) with disparate criteria, and exhibiting varying approaches toward both financial and non-financial performance measures. Mental accounting in such evaluations can challenge the benefits of the balanced scorecard system, suggesting that the costs of using multiple measures may outweigh the benefits of improved performance evaluations. Fries et al. (2010) examined the impact of prospect theory and mental accounting, demonstrating that investors derive greater utility from multiple dividend payments. Their study confirmed a strong positive relationship between the frequency of dividend payments and company value, illustrating that this relationship is influenced by behavioral factors such as mental accounting. Banner et al. (2014) concluded in their study titled "Sign- and Magnitude-Based Segmented Accounting for Financial Statement Items" that managers' preferences for item segmentation reflect mental accounting. Furthermore, the effects of mental accounting diminish only when managers are under significant pressure for reporting transparency. Managers' preferred presentations also lead to higher valuations by investors. Delisle et al. (2015) demonstrated that prospect theory explains humans' tendency to combine reference points and incorrectly weight low-probability events. The results indicated that options market investors prevent price increases and create similar probability weighting functions as predicted by prospect theory, leading to inefficient pricing of options.

Baker and Yi (2016) assessed the impact of psychological factors on stock market investment decisions in Malaysia. Their findings revealed that overconfidence, conservatism, and availability bias significantly influence investor decisions, while herd behavior has no meaningful impact. Additionally, the results showed that psychological factors are affected by gender. Aktas et al. (2017) investigated the effect of managerial overconfidence on companies' cash reserve value. Their results indicated that the presence of overconfident managers significantly increases the value of each dollar of cash reserves, particularly in firms facing financial constraints and high growth opportunities, aligning with the hypothesis regarding the high costs of financing from external sources.

In light of increasing socioeconomic disparities and the marginalization of specific population segments, the need for critical studies in accounting has become even more urgent since the inception of the Interdisciplinary and Critical Accounting Project (ICPA) in 2013. Despite Cooper's (1997) call for focused research on the majority of workers affected by accounting systems, little progress has been made in this area over the past two decades. The ICPA, now in its fifth decade, has fostered a global community through conferences and scholarly work that promotes the integration of interdisciplinary methods and ideas, particularly inspired by critical realism. Recent workshops funded by the Independent Social Research Foundation have highlighted the potential for critical realism to influence accounting research. The Special Issue emerging from these workshops aims to address broader concerns in conducting critical studies, emphasizing not only methodological and philosophical aspects but also the significance of subject matter and the engagement with societal issues outside academic boundaries (Smyth, Uddin & Lee, 2022). Rogošić and Perica (2023) investigates the impact of accountants' affective professional commitment on their perception of the importance of applying ethical principles in accounting, particularly in relation to the Code of Ethics for Professional Accountants by ISEBA. It highlights that while some accountants possess an inherent sense of morality, others may benefit from consulting the Code of Ethics to guide their ethical behavior. The findings indicate a positive correlation between higher levels of affective professional commitment and a greater recognition of the significance of accounting ethics principles. The study emphasizes the need to promote the application of the five fundamental accounting ethics principles—integrity, objectivity, professional competence and due care, confidentiality, and professional behavior—alongside encouraging accountants to refer to the Code of Ethics, ultimately aiming to reduce instances of unethical behavior within the profession.

Rahmani Rodposhti and Jalili (2010) conducted a study titled "Mental Accounting and Balanced Evaluation," focusing on interactive and behavioral analysis. This research elucidated the multiple criteria of the balanced scorecard system, emphasizing the symmetric processing of these criteria and providing a final evaluation. The results indicated that individuals tend to make financial decisions in separate mental accounts, disregarding the fact that making decisions within a single portfolio could be more logical, thereby neglecting interactions between various decisions. Jalili and Moshiri (2013) further explored mental heuristics in the use of management accounting practices. Their study revealed a significant inverse relationship between conformist biases, framing effects, and mental accounting, while ambiguity aversion did not show a significant correlation with the efficacy of these techniques. Chavoshi et al. (2015) analyzed the relationships between managerial overconfidence and financing policies in companies listed on the Tehran Stock Exchange, finding that overconfidence does not significantly influence financial decisions. Moreover, there is a meaningful relationship between growth opportunities and profitability with financial decisions. Pakdel et al. (2016) examined the factors affecting mental accounting in portfolio formation by inexperienced investors, finding through techniques like VIKOR that anchoring, information accessibility biases, and halo effects have the most significant impact on investor decisions. Oli et al. (2017) extracted the capital asset pricing model within the framework of mental accounting, demonstrating that expected returns are a function of the risk-free asset return, beta, and subjective risk premium. Kian et al. (2017) investigated the impact of mental accounting on investor behavior from a financial reporting perspective, concluding that loss reporting has an adjustment effect on the relationship between net income and stock price, corroborating mental accounting theory. Azar et al. (2018) modeled shareholder behavior in the Iranian capital market, revealing that the removal of control mechanisms such as price volatility limits leads to short-term market instability but drives the market towards greater efficiency in the long run. These studies highlight the psychological and behavioral factors influencing financial decision-making in capital markets and demonstrate their effects across various domains.

3. Research Methodology

3.1. Research Variables

The following table presents the research variables and their calculation methods:

To analyze mental accounting within an investment portfolio, we begin by designating the cost

price of each share as the reference point. This reference point is established using the average cost price of the stocks purchased, a methodology supported by the research of Sisy (2005), Edin (1998), and Greenblatt and Klahrjou (2001). By comparing the current share price to this reference point, shares are classified as either gains or losses: if the current price exceeds the initial cost price, it is considered a gain; conversely, if the current price is lower, it is classified as a loss.

Table 1. Research variables and how they were measured

Variable	Type	Symbol	Calculate
Financial Leverage	Dependent	FL	Operating profit ÷ (Financial expenses - operating profit)
Homogeneous Cash Earnings Per Share	Dependent	DIV	Earnings on shares ÷ Total assets
Debt Ratio	Dependent	DEBT	Total liabilities ÷ Total assets
Accounting	Independent	M	Explanation below
Cash Holdings	Control	CASH	Cash and cash equivalents ÷ Net assets
Firm Size	Control	Size	Natural logarithm of assets
Future Growth Opportunities	Control	Growth	Market value ÷ Book value of equity
Cash Flow	Control	Flow Liquid	(Earnings before tax + depreciation expense) ÷ (Total assets - cash and cash equivalents)
Debt To Banks	Control	Debt Bank	Bank debt ÷ Total liabilities
Cash Assets	Control	LiquAS	(Current assets - Current liabilities) ÷ Total assets

Source: Research findings

However, it is important to acknowledge that some transactions, particularly block trades, may occur at prices that diverge from current market values. This discrepancy can lead to situations where a share is registered as a gain according to the reference point but is ultimately sold at a loss (and vice versa). To address this issue, the research establishes specific criteria for assessing the classification of shares during such transactions:

- When the cost price of a share is less than its sale value, it is deemed a gain.
- Conversely, when the cost price exceeds the sale value, the share is classified as a loss.

To further investigate the influence of mental accounting behavior on corporate transaction patterns, we calculate the ratio of realized capital gains to realized capital losses for each company on a quarterly basis. This allows us to quantify the extent of bias in reporting: specifically, it reveals a tendency among companies to recognize capital gains more readily than capital losses. The difference between these two ratios serves as a measure of the impact of mental accounting behavior, highlighting a prevalent inclination to favor the acknowledgment of positive financial outcomes over negative ones. By carefully analyzing these patterns, we gain insight into the psychological factors that may drive investment decisions and affect overall portfolio management strategies. As Edin also states, mental accounting for company (i) in quarter (t) is calculated as follows:

Mental Accounting = Ratio of Realized Capital Gains - Ratio of Realized Capital Losses

$$Ratio\ of\ Realized\ Capital\ Gains = \frac{\text{Number of Realized Capital Gains}}{\text{Number of Realized Capital Gains} + \text{Number of Recognized Capital Gains}}$$

$$Ratio\ of\ Realized\ Capital\ Losses = \frac{\text{Number of Realized Capital Losses}}{\text{Number of Realized Capital Losses+Number of Recognized Capital Losses}}$$

Fannama (2010) stated that mental accounting is confirmed when the ratio of realized capital gains is greater than the ratio of realized capital losses, meaning that mental accounting is positive. Finally, in this study, to test the research hypotheses, the following relationship will be estimated using a panel data model:

Model 1:

$$Policy_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 CASH_{it} + \beta_3 Size_{it} + \beta_4 Growth_{it} + \beta_5 FlowLiqu_{it} + \beta_6 Debtbank_{it} + \beta_7 LiquAs_{it} + \varepsilon_{it}$$

In this model, Policy represents the type of financing policy (Financial Leverage (FL), Homogeneous Stock Cash Dividends (DIV), and Debt Ratio (DEBTR)).

3-3 Statistical Population and Data Collection Method

The statistical population of this research comprises investment companies listed on the Tehran Stock Exchange and their related investee companies during the period from 2011 to 2017, which meet the following criteria:

1) To ensure the comparability of information, the fiscal year-end of the companies must be the last day of Esfand (the last month of the Iranian calendar).
2) To maintain homogeneity in data, the research sample should not include banks and insurance companies.
3) The stock transactions of these companies during the research period must not be halted for more than three months on the Tehran Stock Exchange.
4) Information related to the selected variables in this study must be accessible.
5) During the research period, there should be no operational changes or changes in the fiscal year.

Accordingly, the statistical population includes 14 top investment companies that together account for over 50% of the value of stock purchases and sales (according to the Statistics and Information Department of the Tehran Stock Exchange), along with their investee companies that are included in the investment portfolios of these investment companies and listed between March 21, 2011, and March 19, 2018. The investment companies that met the necessary conditions and were selected are as follows: 1. Saba Tamin Investment, 2. Mofid Investment, 3. Refah Kargaran Bank Investment, 4. Bank Mellat Investment, 5. Agricultural Bank Investment, 6. Shahr Investment, 7. Hafez Investment, 8. Agha Investment, 9. Amin Avid Investment, 10. Sepah Bank Investment, 11. Parsian Bank Investment, 12. Bank Melli Iran Investment, 13. Behgozin Investment, 14. Novin Capital Investment.

4- Results and Discussion

4-1 Variable Description

In this section, descriptive statistics of the research variables will be presented:

Descriptive Findings

The descriptive findings illustrate the state and trends of the financial policies of the companies under investigation during the period from 2011 to 2017. Descriptive statistics of the key variables provide important insights into the financial management of these companies.

Table 2. Descriptive Statistics of the Research Variables

Variable	Symbol	Average	S.D	Max	Min	KURT	SKEW
Financial Leverage	FL	2.167	36.967	926.855	-141.899	518.735	20.816
Homogeneous Cash Earnings Per Share	DIV	0.048	0.073	0.600	-0.071	12.835	3.040
Debt Ratio	DEBTR	0.654	0.264	4.003	0.057	38.110	3.753
Accounting	MA	0.129-	0.268	0.521	-0.673	-0.253	-0.211
Cash Holdings	CASH	0.056	0.068	0.479	0.000	8.053	2.577
Firm Size	Size	2.275	7.210	33.190	24.320	1.839	0.939
Future Growth Opportunities	Growth	0.134	0.179	121.510	-53.218	134.793	7.062
Cash Flow	FlowLiqu	0.386	0.216	1.081	-1.069	7.235	0.030
Debt To Banks	Debtbank	0.107	0.261	0.883	0.000	-0.892	-0.037
Cash Assets	LiquAS	0.107	0.261	0.681	-3.111	32.329	-3.188

Source: Research findings

Financial Leverage: The average financial leverage is 2.167, indicating a relatively high reliance on debt in the capital structure of the companies. The maximum value of 926.855 and the minimum of -141.899 reflect a wide variety in financing strategies and financial risk tolerance among the companies. This discrepancy may arise from differences in investment strategies, industry types, and the specific economic conditions of each company. This situation may suggest that some companies prefer to finance through debt to enhance their returns, while others may lean towards more stable and lower-risk financing.

Cash Dividend Payout: The average cash dividend payout is 0.048, reflecting a limited willingness among companies to distribute cash dividends to shareholders. The highest value in this context is 0.600, while the lowest is -0.071, which may indicate a decrease in profitability for some companies or a preference among managers to reinvest earnings rather than distribute them. This could be interpreted as a strategy to strengthen long-term growth and improve the financial position of the companies.

Debt Ratio: The average debt ratio is 0.654, indicating a relatively reasonable balance between debt and equity. However, the maximum and minimum values of 4.003 and 0.057, respectively, show that some companies face a high debt burden, while others have significantly shunned borrowing. This discrepancy may suggest various impacts, including the companies' ability to manage risk and their financing costs.

Investor Mental Accounting (MA): The average investor mental accounting score is -0.129, indicating some behavioral biases in investors' expectations. The higher and lower values for this variable are 0.521 and -0.673, respectively, which may reflect differences in levels of confidence and how financial information is processed among investors. This can influence their decision-making and market behavior.

Behavioral Bias in Mental Accounting: The findings also indicate that the investment companies under review exhibited signs of behavioral bias in mental accounting 35.71% of the time. This percentage may highlight the prevalence of this phenomenon among investors and underscores the necessity of awareness regarding it in financial and investment decision-making processes. Overall, these findings represent the complexities of the companies' financial policies and the potential impacts of investment behaviors on their financial performance. Analyzing these statistics contributes to a better understanding of the financial behavior of companies and aids in forecasting future trends in the stock market.

4-2 Stationarity of Research Variables

Before estimating the research model, it is essential to assess the stationarity of the variables under investigation. In this study, the Levin, Lin, and Chu (LLC) test was utilized to evaluate the stationarity of the variables, and the results are presented in Table 3. Based on the results, all research variables, except for company size, are stationary at level and become stationary after first differencing.

Table 3. Results of the Levin, Lin, and Chu Test (Stationarity of Variables)

Variable	t-Statistic	P-Value	Stationary Result
FL	2.31	0.021**	Stationary at the level
DIV	3.11	0.000***	Stationary at the level
DEBTR	2.18	0.029**	Stationary at the level
MA	3.03	0.002***	Stationary at the level
CASH	2.55	0.011**	Stationary at the level
Size	1.51	0.131NS	Unstable at the level
Firm Size	4.21	0.000***	Stationary at the first difference
Growth	2.99	0.003***	Stationary at the level
FlowLiqu	2.88	0.004***	Stationary at the level
Debtbank	3.47	0.000***	Stationary at the level
LiquAS	2.61	0.009***	Stationary at the level
***Significant at the 1% level - **Significant at the 5% level - *Significant at the 10% level - NS Not significant			

Source: Research findings

4-3 Testing Hypothesis 1 (Investor Mental Accounting Has a Significant Impact on Financial Leverage)

After assessing the stationarity of the research variables for the companies under study, mixture tests—including the pooled tests, Breusch-Pagan test, and Hausman test—were employed to determine the model structure in the panel data method. The results of the mixture tests, Hausman test, and Breusch-Pagan test for the first model are presented in the table below:

Table 4. Results of the Mixture Tests, Hausman Test, and Breusch-Pagan Test for the First Research Model

Test Type	Test Statistic	Test Statistic Value	P-Value
Poolability	F Limmer	484.11	0.0022^{***}
Breusch & Pagan	LM with χ^2 distribution	276.69	0.0036^{***}
Hausman	LM with χ^2 distribution	21.04	0.0475^{**}
***Significant at the 1% level - **Significant at the 5% level - *Significant at the 10% level - NS Not significant			

Source: Research findings

The results indicate that the P-value of the Poolability test is less than 0.05, suggesting that the OLS model is not suitable, and the use of pooled data is necessary. Furthermore, the P-value of the Breusch & Pagan test is also less than 0.05, indicating the presence of random effects in the model. Additionally, the P-value of the Hausman test is less than 0.05, supporting the superiority of the fixed effects method over the random effects method. The table below presents the estimation results of the fixed effects model:

The findings from this research can lead to a deeper understanding of the interactions between financial behaviors and financing decisions in companies. Based on the F-statistic value, the regression model used is significant, suggesting a strong relationship between the independent and dependent variables. Thus, these effects can influence the financial policies and strategies of companies. The R^2 value of 84% indicates that the model successfully explains a substantial portion of the variations in financial leverage (FL), signifying that many of the independent variables introduced in the model have a significant impact on financial leverage and can improve prediction and decision-making. The results of the Sargan test suggest that the null hypothesis is accepted, confirming that the variables used in the model are appropriate.

Table 5. Fixed Effects Model for Estimating Model One (Dependent Variable: Financial Leverage (FL))

Independent Variables	Coefficient	t-Statistic
MA	-0.126	-2.217^{**}
CASH	0.081	1.882^{*}
Size	-0.059	-1.126^{NS}
Growth	-0.091	-1.513^{NS}
FlowLiqu	0.047	1.724^{*}
Debtbank	-0.144	-2.816^{***}
LiquAS	0.136	2.369^{**}
c_0	2.098	4.069^{***}
R^2		0.84
F		484.11
Sargant test (χ^2)		$1.81\ (0.31)^{NS}$
Arrelano and Bonad Serial correlation (Z)		0.36 (0.52)
Wald (χ^2)		$672.29\ (0.002)^{***}$
***Significant at the 1% level - **Significant at the 5% level - *Significant at the 10% level - NS Not significant		

Source: Research findings

This provides assurance to researchers that the results obtained from the model estimation are valid and that there is no need for instrumental variables for the analysis. The findings from the Arellano and Bond test indicate that there is no autocorrelation among the model's disturbance terms. This result is particularly important for regression analyses, as the presence of autocorrelation can lead to incorrect parameter estimates and improper financial decision-making. The modified Wald test indicates the presence of heteroscedasticity. The statistic value of 29.672, which is significant at the 1% level, emphasizes the need to correct for heteroscedasticity for more accurate estimates. This may indicate a need to utilize alternative estimation methods (such as robust estimates) that can address data heteroscedasticity. The negative coefficient of the mental accounting (MA) variable, significant at the 5% level, reflects its inverse impact on financial leverage. This effect may stem from irrational investor behavior and their aversion to losses. In this regard, the tendency to revert to past average returns leads to reduced stock returns, thereby diminishing the ability to finance through financial leverage. The findings clearly support the first

hypothesis of the research, which posited that investor mental accounting has a significant impact on financial leverage. This result helps us understand how financial behaviors can affect financing choices and, ultimately, influence the financial structure of companies. The outcomes of this research not only aid in understanding how financial behaviors impact financing decisions but can also reveal the strengths and weaknesses of companies in facing financing challenges. Ultimately, this research can serve as a foundation for further studies in the field of financial behavior and for better understanding the complex relationships between investment behaviors and financing policies.

4-4 Testing Hypothesis 2 (Investor Mental Accounting Has a Significant Impact on Cash Dividend Payout)

To select the appropriate model specification, the poolability, Hausman, and Breusch-Pagan tests were employed. The table below presents the results of these tests for the second research model:

Table 6. Results of Poolability, Hausman, and Breusch-Pagan Tests for the Second Research Model

Test Type	Test Statistic	Test Statistic Value	P-Value
Poolability	F Limmer	513.66	0.0020^{***}
Breusch & Pagan	LM with χ^2 distribution	304.32	0.0033^{***}
Hausman	LM with χ^2 distribution	23.14	0.0432^{**}
***Significant at the 1% level - **Significant at the 5% level - *Significant at the 10% level - NS Not significant			

Source: Research findings

The results obtained indicate that the P-value of the Poolability test is less than 0.05, thus suggesting that the OLS model is inappropriate and that pooled data should be utilized. Additionally, the P-value of the Breusch & Pagan test is also less than 0.05, indicating the presence of random effects in the model. Moreover, the P-value of the Hausman test is also below 0.05, confirming the superiority of the fixed effects method over the random effects method. The table below presents the estimation results of the fixed effects model:

Table 7. Fixed Effects Model for Estimating Model Two (Dependent Variable: Cash Dividend Payout (DIV))

Independent Variables	Coefficient	t-Statistic
MA	-0.107	-1.845^{*}
CASH	1.083	2.871^{***}
Size	0.157	0.541^{NS}
Growth	0.139	0.619^{NS}
FlowLiqu	1.318	3.194^{***}
Debtbank	-0.612	-1602^{NS}
LiquAS	0.909	1.846^{*}
c_0	1.843	3.597^{***}
R^2		0.86
F		513.66
Sargant test (χ^2)		$1.59\ (0.37)^{NS}$
Arrelano and Bonad Serial correlation (Z)		-0.39 (0.58)
Wald (χ^2)		$683.11\ (0.002)^{***}$
***Significant at the 1% level - **Significant at the 5% level - *Significant at the 10% level - NS Not significant		

Source: Research findings

The findings from this research clearly highlight the significance of investor mental accounting's impact on cash dividend payout (DIV). These results are important from various perspectives. Since the F-statistic is significant, we can conclude that the regression model has established a meaningful relationship between the independent and dependent variables, namely cash dividend payout. This suggests that the selection of variables has been well executed, and the model effectively reflects the existing influences in the data. The R^2 value of 86% means that the model has successfully explained a high percentage of variations in cash dividend payout. This level of fit indicates a strong relationship between the independent and dependent variables and reflects the model's predictive capability. Therefore, it can be stated that the factors employed in the model can effectively describe the impacts. The acceptance of the null hypothesis in the Sargan test assures us that the variables implemented in the model are suitable and that there is no need for instrumental variables. This finding provides a solid basis for trusting the results obtained from the model estimation. The findings from the Arellano and Bond test, which indicate the absence of autocorrelation among the model disturbance terms, enhance the credibility of the results. The absence of autocorrelation indicates that observations operate independently of one another, which aids in the accuracy of statistical analyses. The Wald statistic

value of 11.683, significant at the 1% level, suggests the presence of heteroscedasticity in the model. This element may alert researchers to consider potential implications of this heteroscedasticity in model design [or future analyses] and, if necessary, to conduct estimations that correct for heteroscedasticity. The most significant finding here is the existence of a negative coefficient for the mental accounting (MA) variable, indicating a weak inverse impact of this variable on cash dividend payout. This clearly shows that irrational investor behaviors, particularly the manifestation of loss aversion, can lead to reduced stock returns. Consequently, financing through internal resources, especially cash dividends, decreases. In the long term, this could pose serious challenges for companies. The findings support the second hypothesis of the research, which stated that investor mental accounting has a significant impact on cash dividend payout. This result can serve as a theoretical foundation for future research regarding the effects of financial behaviors on financing policies and the assessment of companies' financial capabilities. Based on the findings mentioned, it can be concluded that the occurrence of irrational behaviors, such as mental accounting, plays a crucial role in reducing companies' ability to finance through cash dividends. These results can have widespread implications for decision-making regarding financing policies. Ultimately, this study can serve as a starting point for further research in this area and not only contributes to the theoretical exposition of existing literature but also assists decision-makers in improving companies' financial status and reducing the negative impacts of irrational behaviors.

4-5 Testing Hypothesis 3 (Investor Mental Accounting Has a Significant Impact on Debt Ratio)

To select the appropriate model specification, the poolability, Hausman, and Breusch-Pagan tests were employed. The table below presents the results of these tests for the third research model:

The results indicate that the P-value of the Poolability test is less than 0.05, thus implying that the OLS model lacks the necessary efficiency, and the utilization of pooled data is deemed essential. Additionally, the P-value of the Breusch & Pagan test is also less than 0.05, suggesting the presence of random effects in the model. Furthermore, the P-value of the Hausman test is less than 0.05, reaffirming the superiority of the fixed effects method over the random effects method. The table below displays the estimation results of the fixed effects model:

Table 8. Results of Poolability, Hausman, and Breusch-Pagan Tests for the Third Research Model

Test Type	Test Statistic	Test Statistic Value	P-Value
Poolability	F Limmer	501.23	0.0020^{***}
Breusch & Pagan	LM with χ^2 distribution	293.06	0.0034^{***}
Hausman	LM with χ^2 distribution	22.28	0.0449^{**}
***Significant at the 1% level - **Significant at the 5% level - *Significant at the 10% level - NS Not significant			

Source: Research findings

Table 9. Fixed Effects Model for Estimating Model Three (Dependent Variable: Debt Ratio (DEBTR))

Independent Variables	Coefficient	t-Statistic
MA	0.074	1.862^{*}
CASH	-0.619	-2.093^{**}
Size	0.413	1.127^{NS}
Growth	-0.105	-0.609^{NS}
FlowLiqu	-1.306	-2.849^{***}
Debtbank	0.079	1.598^{NS}
LiquAS	-1.418	-3.015^{***}
c_0	2.503	4.109^{***}
R^2		0.87
F		501.23
Sargant test (χ^2)		$1.61\ (0.34)^{NS}$
Arrelano and Bonad Serial correlation (Z)		-0.42 (0.54)
Wald (χ^2)		$693.88\ (0.001)^{***}$
***Significant at the 1% level - **Significant at the 5% level - *Significant at the 10% level - NS Not significant		

Source: Research findings

The results of the regression analysis clearly indicate significant and complex effects of investor mental accounting on the debt ratio (DEBTR) of the companies in question. These effects and results warrant further examination in the following aspects: Given the overall significance of the F-statistic, we can conclude that the employed model is generally suitable and has effectively explained the relationship between the independent variables and the debt ratio. This assurance allows us to assume that the results obtained are reliable and translatable to broader contexts. The

high R^2 value of 87%, which accounts for the variations in the debt ratio, indicates that the model has adequately explained the fluctuations of this dependent variable. This significant level suggests that the independent and control variables in the model are effectively linked to changes in the debt ratio. The acceptance of the null hypothesis in the Sargan test assures us that the variables used in the model are appropriate and effective, indicating no need for instrumental variables. This aspect can enhance the validity and reliability of the model's results. With regard to the results of the Arellano and Bond test, which show no autocorrelation, we can conclude that the model's disturbance terms operate independently, and the estimated results are meaningful and valid. The findings also suggest that heteroscedasticity exists within the model's disturbance terms, confirmed by the Wald statistic value of 88.693, which is significant at the 1% level and may indicate potential issues in modeling. In this context, the model should be adjusted to minimize this heteroscedasticity to maximize accuracy and validity of the results. The positive coefficient of the mental accounting (MA) variable, significant at the 10% level, indicates a weak positive impact of this variable on the debt ratio. This finding suggests that investor mental accounting may lead to a decrease in stock returns due to loss aversion and the tendency to revert to average stock returns. Consequently, this would reduce the company's ability to finance from internal sources, thereby increasing dependence on external financing and raising the debt ratio (total debt ÷ total assets). Based on all the aforementioned points, the third hypothesis, which stated that investor mental accounting has a significant impact on the debt ratio, is confirmed. These results not only reinforce existing theories regarding the impact of financial behaviors on financing policies but may also provide a foundational basis for future investigations in this area. The findings of this research can serve as an important foundation for future studies in behavioral finance and its implications for financial policies. Furthermore, it is recommended that future studies explore more thoroughly factors such as the magnitude of losses or profits and other forms of behavioral biases to derive a clearer understanding of how investor behaviors impact companies' financial decisions. Additionally, this research can assist company managers and financial advisors in adopting better financing and investment strategies, considering these impacts.

5. Conclusion and Recommendations

The impact of mental accounting bias on financial policies in the stock market reflects the tendency of companies and investors to recognize gains more quickly than losses, which can significantly affect financial decision-making. This bias leads to an unequal identification of profits and losses, creating a more favorable view of company performance, which in turn contributes to stock price volatility and increased investment risks. Additionally, companies may adopt passive financial policies due to this bias, avoiding cash dividend distributions. In the context of financing, there is also a notable inclination towards short-term financing over long-term investments. Analysts and investors must be aware of the inaccurate forecasts stemming from this bias, and regulatory authorities should enhance transparency and enforce more stringent disclosure of financial information. Overall, paying attention to this issue can improve decision-making and enhance the quality and quantity of investments in the stock market.

The results of this research highlight the significant impacts of investor mental accounting on corporate financial policies. The data reveals that the average mental accounting of investors stands at -0.129, with this variable's range fluctuating between -0.673 and -0.521. This statistic indicates notable behavioral biases among investors. On average, the investment companies surveyed exhibited signs of these behavioral biases 35.71% of the time.

Initial analysis suggests that investor mental accounting negatively affects companies' financial leverage (Hypothesis 1). In other words, investors' behavioral biases, stemming from a tendency toward loss aversion and a return to the mean, may lead to decreased stock returns. This, in turn, affects companies' ability to attract financial resources through leverage. Therefore, Hypothesis 1 is confirmed. Additionally, the findings affirm the inverse influence of investor mental accounting on companies' cash dividend payouts. In this case, investors' behaviors resulting in reduced stock returns diminish companies' ability to generate cash dividends (Hypothesis 2). This reality indicates that behavioral biases can affect companies' cash flows and generally lead to a reduction in internal financial resources.

Hence, Hypothesis 2 is also confirmed. In examining the effect of mental accounting on the debt ratio, the results indicate a direct and relatively weak impact of this variable on companies' debt ratios (Hypothesis 3). These behavioral biases can lead to increased financing from external sources and, consequently, a higher debt ratio. In other words, despite loss aversion and the tendency to revert to mean returns, companies may show a greater inclination toward external financial resources, leading to an increase in their debt ratio. Therefore, Hypothesis 3 is also confirmed. Overall, this study provides evidence that the impact of investor mental accounting on companies' financing policies is significant both directly and indirectly. While previous studies have not specifically addressed this issue, the findings of the current research align with the theoretical and empirical results of several researchers and market analysts, including Shefrin and Statman (1985), Odean (1998), Cici (2005), and Grinblatt and Han (2005). These findings clarify the reality that investors generally tend to overlook losses while focusing on recognizing gains. Such behavior can profoundly influence investment decisions, financing policies, and market performance, highlighting the importance of considering behavioral aspects in financial and investment analyses.

The results of this study indicate that the stock market may lose its rational efficiency in response to investor behavior, particularly mental accounting. This phenomenon underscores the critical importance of recognizing and understanding investor behaviors. Specifically, the identification and analysis of these behaviors can help policymakers adopt strategies that steer the market toward rationality. It can also assist managers in designing improved investment strategies, ultimately leading to optimal decision-making in the market.

Given the detrimental effects of mental accounting on corporate financing strategies, it is essential for brokers and financial advisors operating in the stock market to incorporate behavioral characteristics of investors, particularly mental accounting, into their analyses. This should be done alongside traditional accounting and economic variables. To achieve more accurate and holistic results, existing analytical frameworks must be enhanced by integrating behavioral approaches. Investors are hence encouraged to adopt a more cautious and precise approach when making decisions about buying and selling stocks during periods of market enthusiasm. Impulsive decision-making in such times can lead to significant financial losses; therefore, cultivating a disciplined mindset is critical. This practice not only helps in safeguarding investments from unnecessary risks but also fosters a greater sense of security among investors, promoting more stable portfolio management. While this study has focused on assessing the impact of mental accounting by analyzing the frequency of identified gains and losses, future research should delve into the magnitude of these gains or losses to better understand their influence on financing policies. Developing models that encapsulate broader aspects of investor behavior will offer deeper insights and enhance our understanding of mental accounting's role in financial decision-making. Moreover, recognizing the nascent stage of behavioral finance, particularly within the context of Iran, presents an opportunity for researchers to explore additional behavioral factors that may affect corporate financing policies and investment strategies. Influences such as overconfidence, myopia, herd behavior, and regret aversion warrant further investigation. By examining these behaviors, researchers can contribute significantly to the evolution of theories and models focused on behavioral finance, ultimately enriching our comprehension of how these factors impact investment decisions. Establishing educational programs aimed at investors and company executives can further bolster awareness regarding the psychological and behavioral influences on financial decision-making. Such initiatives can significantly improve investment behaviors and enhance strategic choices, equipping participants with the knowledge to make informed decisions. Continuous access to information and training in this domain is vital for preventing impulsive and risky decisions that can lead to adverse financial outcomes. In conclusion, recognizing and accurately assessing investor behaviors and their implications for the market should be an integral component of both corporate and individual financial strategies. Ongoing research in this area will deepen our understanding of the intricate challenges and opportunities present within financial markets, paving the way for more informed and effective investment practices.

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