The Study of Corporate Governance Structure Effects on the value (P/E) of listed Companies in the Iran's Stock Exchange

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ABSTRACT: Corporate governance is a set of rules, law and structure, which help manager for reaching to firm objective. There is relationship between corporate governance mechanism and performance of company. But prior research is shown different result. So this article wants to retest this relation in an emerging market like IRAN. In order research, we gather financial data of 140 companies during 2007-2011 periods and with panel data analyses method test our hypotheses. The finding shows a direct relationship between insider ownership and independence manager ratio and performance of company. And there is negative relationship between institution stockholders with performance of company and finally there isn't any relationship between duality and performance. This finding is very useful for decision maker of Iranian stock exchange for fulfillment of corporate governance rules in Iranian companies.

Keywords: Corporate governance, institutional stockholder, independence manager, performance of company.

INTRODUCTION

The distribution of corporate governance can stabilize financial markets, encourage investors and result in economic growth; the companies know that performing the right principles of corporate governance can help them in the arena of competition. The investors, especially institutional investors that work with fiduciary funds; due to their own investment justification, have an important role in performing these principles. In fact these principles have a key task in improving the efficiency, economic growth and increasing the investors’ trust. The principles of corporate governance relate the managers and board of directors to shareholders. Furthermore the structure of company’s goals, how to access them and the correct performance of them, create the exact motives for managers to achieve their purposes and how to supervise the efficiency of investors. The primary goals of corporate governance are directly improving the function of companies and collinear the benefits of shareholders with the ones of managers in order to solve the problems of agency. The system of corporate governance as a system which connects different branches of knowledge such as: Accounting, Economics, Financial and Law and keeping balance among different social, economic, personal and collective goals, can not only encourage and improve the efficient performance of resources but also provide the commitment of companies toward other beneficiaries. On the other hand, the performance of corporate governance provokes optimum allocation of resources; promote the value of company and finally causes economic growth. Corporate governance lessens the contrast between shareholders and managers, that expresses in shape the theory of agency.

On the other side P/E ratio is a common tool to evaluate the condition of market, companies and industries. We can get to P/E ratio by dividing the market price of each share from the profit of that share and this expresses the price investors pay for each Rial profit. P/E ratio is used as the basis of stock investment value and it evaluates share and index of market and specifies high or low share’s price which is exploited as common and universal index for evaluating the value of stock and performance of company. As far as the comparison between P’s price and EPS’s each share’s income of companies is not Significant alone, So P/E ratio makes it possible to have a joint scale for evaluation and analysis of companies’ value and their performance. But this scale should be in the framework of effective factors on P/E and mass economic.
Although there were widespread researches, the corporate governance structure effects especially on capital markets of Iran were not emphasized enough. So the essential goal of this study is to evaluate the corporate governance structure effects on the performance of listed Companies in the Iran Stock Exchange. The findings of our research help the policy makers to perform the necessity of corporate governance regulation and it will also give new indexes of performance criterion for possible and potential share holders. Therefore we will continue with literature and the background study, present hypotheses, model, the method of research, the analysis of findings and then the result.

**Literature & the Background Study**

The world in last ten years ago have faced some changes in private companies, in economic growth and providing more employment opportunities. As more countries are following the market oriented theory in economic policy, knowledge of private agencies about the welfare of people are increasing. With more reliance of economic on private sectors in all over the world, corporate governance has received more attention. By analyzing literature you will see there is no adaptive explanation of corporate governance and there are dominant differences in explanations of different countries. From one point of view, corporate governance refers to company and share holders. This definition is a traditional pattern in shape of the theory of agency. We can also refer to corporate governance as a network of relation not only between company and their owners but also between company and beneficiaries such as: employees, customers, vendors, bond owners and…. Such a kind of view is in format of the theory of beneficiaries. Analyzing the definitions of corporate governance in scientific texts shows all of these definitions have a common characteristic and that is “response”. The relation between corporate governance and the performance of company is an important topic in financial economics. Although this relation is being compared many times with the theory of traditional agency, due to the development of companies, the new problems of agency in external matters and cooperation of beneficiaries, it is still an attractive topic in scientific and professional meetings. The first and the boldest research and report is done by Cadbury in 1992 in England and the legislation of Sarbanes Huxley in 2001 of America about corporate governance.

Ami Dltmar and Ian Mart Smith have analyzed two criteria of corporate governance and their relations with the value of market: in the companies with low governance, by each change in dollar, the value of market faces 0.42 to 0.88 change but this rate in high governance companies is double. Bernard Black and Love Rachini(2006) during a research in Russia have noticed there is a relation between corporate governance and the function of companies.

Jasoong Bak, Joon Koukangoo, Kioong Supark in 2002 have come to the result that: better managers cause better corporate governance and better attention to beneficiaries, the value of companies has also positive relation with corporate governance.

The studies of Laparta et al, (1991) and Beijic et al, (2001) shows the difference between countries in levels of legal systems and coordination of law with the environment of that country causes disparity in the structure of institutional shareholders, the profit division policies, access to external financial resources and valuation of bonds.

Hoang et al in 2008, in a general survey, have analyzed the methods of corporate governance in Korean companies. They have found out the methods of governance increases the value of company and causes higher profits. Although as the value of company increases, the companies in the most business matters gain less profits in comparison with independent companies, the results show corporate governance can increase efficiency and function of company. As agency theory refers to the direct relationship between effective supervision management and Costs are reduced behavioral. Corporate governance is something that increases efficiency and performance.

There are a few studies in corporate governance of Iran. Yazdanian (2006) has analyzed the effect of some criteria of corporate governance on decreasing profit management. The results of research expresses that the presence of institutional shareholders influences decrease in the management of profit.

Hosseini (2007) has evaluated relation between corporate governance and yield of shareholders. In this research with the study on institutional shareholders and their effects on the shareholders’ yield, we try to calculate the rate of additional yield in shareholders with good governance. According to the results, there is no relation between institutional investors and shareholders yield in Iran.

Rahbary Kharrazi (2007) has studied the rate of shareholders respect to the rights in Iran by evaluating the condition of corporate governance in accepted companies of Iran’s stock and has made a comparison with other countries. The results show shareholders rights are not respected.

Hasas Yeganeh and Ghanbari (2007) have investigated the relation between corporate governance mechanisms and the performance of accepted companies in of Tehran’s stock. The findings show: the proportion of unobligated members presence and obvious information has no effect on function but institutional investors and the presence of internal auditor have direct and meaningful relation with performance.
As you see although there were widespread researches on corporate governance in other countries, there were no such studies in Iran. So we try to study the effects of corporate governance’s structure on the performance of company in newfangled market of Iran and they are as follows:

Institutional investors: according to Bosch, institutional investors are great investors such as: banks, insurance companies, investment companies and, ... It is thought that the presence of institutional investors might change the behavior of companies. This thought originates from the supervisory activities done by such investors.

The effect of institutional investors on the companies, there are different views: Barto et al, believe institutional owners are professional investors with long-term concentration. With respect to the volume of investment and the ability of institutional owners, their presence is due to supervising the management. It can instead focus on maximizing the value of short-term goals of profitability and long-term performance of the company

Agrawell and Nober (1996) come to the result that gathering of stock in institutional investor’s hand, increases supervisory actions of management so improves the function of company.

Schilfer and Vishni say: the presence of big institutional investors, due to effective supervision, has positive influence on the value of company.

Share under the ownership of the board of directors: Damsets and Lahen defend that: those who have more stock have motivation to tolerance the fixed cost of information collection and involvement in supervision of management, but those scattered ownership has little motivation for management supervision.

Rajabi and Khodabakhshi (2006) found out: the average of high managers’ stockholding has positive influence on increasing the value of company among Iranian companies. In companies where the most part of stockholders are board of director’s themselves, the value of market is higher. It shows managers who are themselves the owners of company, try more to control the company and therefore the value of market goes high.

The proportion of unobligated members of the board of directors: according to Fama and Johnson (1983) unobligated managers cause differentiation in decisions of management, this situation is a good corporate governance mechanism when the external limitations on executive director are low.

The members should be selected mostly among unobligated managers. The obligation of members is approved by the board of directors not by beneficiary managers.

The experimental evidences show: by increasing the proportion of unobligated managers in company, the autonomy of the board of directors goes high and so company will have better performance.

Organ et al, (2005) in a study of the function of unobligated managers in decision making concludes: in financial managers’ viewpoint, unobligated members have good function in governance.

The differentiation of CEO (CHIEF EXECUTIVE OFFICER) from the members of board of directors: if CEO is manager of the board of directors, this double function is duty of manager, so manager has more authority and the ability to control the information available for members of the board of directors more effectively so prevent direct supervision.

Chang and son believe: because of many financial scandals, this double function of CEO endangers the trusteeship job of members of the board of directors to supervise financial reports.

The companies should improve condition of the board of directors in differentiating the presence of unobligated managers from obligated ones, the responsibilities of manager of the board of directors from CEO. They should have not only clear information, auditon committee, and internal auditor, but also should respect stockholder’s rights. By doing these strategies in long term, they will encounter reputation, decreasing of capital, improvement in the function of company and an increase in the value of company.

Methods of Research

This survey answers the Questions: what is the effect of corporate governance on the performance of accepted body corporate in Iran’s stock? So it is an experimental study and the data collected description studies from regression analysis. Although the goal of this research is the development

Study Hypotheses

According to theoretical issues in previous sections and the background of research, this survey has One Main Hypothesis and Four Minor Hypotheses:

Main Hypothesis: meaningful relation between the structure of corporate governance and the performance of companies.

Minor Hypotheses:
1. Significant relation between institutional investors and the performance of company.
2. Significant relation between the proportion of stock owned by members of the board of directors and the performance of company.
3. Significant relation between differentiation of CEO from members of the board of directors and the performance of company.
4. Significant relation between unobligated members of the board of directors and the performance of company. Control Variable: in order to control the effects of other variants, the size and debt of company is recognized as control variables.

**Statistical Society and Sampling**

Statistical society includes all of the active accepted companies in Tehran’s Stock from 2004 until 2008. Sampling is omissive. The characteristics of statistical sample companies under study:

- They have to be active in stock from 2007 until 2011.
- They have to be accepted in stock of Tehran until the end of 2006 and their financial year have to be ended until Esfand.
- They should not change their financial year.
- They should have presented needed financial information from 2007 until 2011 completely.

With such limitations at last 140 companies accepted as final samples.

**Method of data collection**

First we have used library methods for theoretical issues and the literature of study. Collected data were categorized in Excel and by EVIEWS software we did the economic evaluations, at the end by the help of common statistic indexes the result of evaluation were calculated.

**Method of analysis**

In order to test the hypotheses of research, we used regression correlation analysis. The rate of meaningfulness was measured by, F statistical tests, T test, coefficient of determination, coefficient of correlation and Durbin watson test. Due to the type of data and statistical analyses, we used mixed data method. As far as in order to study the effects of corporate governance on the performance of companies, independent and dependant variants are evaluated from two different aspects, on one hand these variants are evaluated in different companies and on the other hand in the period of 5 years. Data variables include a combination of past trends and the dynamics of the variables that would create.

The following research is based on Jayesh Kumar Model (2004) in a study titled as: the effects of ownership structure on the value of company and Hasas Yeganeh et al Model (2008), in order to investigate the effects of corporate governance on the value of accepted companies in stock of Tehran. The relation is as follows:

\[
\text{Performance}_i = \alpha + \beta_1 \text{INOWN}_i + \beta_2 \text{TOP}_i + \beta_3 \text{CEO}_i + \beta_4 \text{BRDIND}_i + \beta_5 \text{SIZE}_i + \beta_6 \text{DEBT}_i + \varepsilon_i
\]

**Descriptive statistics**

Number painting (1) contains the descriptive statistics of research variables.

<table>
<thead>
<tr>
<th>Statistical quantity</th>
<th>Observations</th>
<th>Mean</th>
<th>Median</th>
<th>Max</th>
<th>Min</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>INOWN</td>
<td>700</td>
<td>37.96</td>
<td>27.1</td>
<td>99.08</td>
<td>0</td>
<td>33.036</td>
</tr>
<tr>
<td>BRDIND</td>
<td>700</td>
<td>0.2195</td>
<td>0.6</td>
<td>1</td>
<td>0</td>
<td>0.2195</td>
</tr>
<tr>
<td>CEO</td>
<td>700</td>
<td>0.3903</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0.3903</td>
</tr>
<tr>
<td>TOP</td>
<td>700</td>
<td>23.596</td>
<td>0.187</td>
<td>100</td>
<td>0</td>
<td>23.596</td>
</tr>
<tr>
<td>CEO</td>
<td>700</td>
<td>0.6346</td>
<td>4.25</td>
<td>7.87</td>
<td>4.25</td>
<td>0.6346</td>
</tr>
<tr>
<td>DEBT</td>
<td>700</td>
<td>0.081</td>
<td>0.59</td>
<td>266.9</td>
<td>1.08</td>
<td>30.881</td>
</tr>
</tbody>
</table>
**Statistical analysis**

In order to do the tests and choosing the right model mixed data have been used and to do the homogenous tests, first the model was measured by the pattern of joint coefficients method and coefficients with fixed effects. With respect to F statistics, the fixed effects model was chosen against joint effects model.

**Test of research hypotheses**

In this section each hypothesis is being evaluated by Regression and Panel Data Model and the dependant variant is P/E proportion. The results show:

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Method: panel EGLS</th>
<th>coefficient</th>
<th>T</th>
<th>P – value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The coefficient C</td>
<td></td>
<td>19.33</td>
<td>12.55</td>
<td>0</td>
</tr>
<tr>
<td>Institutional investors</td>
<td></td>
<td>-0.01</td>
<td>-4.98</td>
<td>0</td>
</tr>
<tr>
<td>Board of Directors of shares owned</td>
<td></td>
<td>0.03</td>
<td>10.5</td>
<td>0</td>
</tr>
<tr>
<td>Separation of Chairman of Board of Directors</td>
<td></td>
<td>0.06</td>
<td>0.17</td>
<td>0.86</td>
</tr>
<tr>
<td>Members of the board shall</td>
<td></td>
<td>0.99</td>
<td>6.1</td>
<td>0</td>
</tr>
<tr>
<td>Company Size</td>
<td></td>
<td>-2.46</td>
<td>-16.48</td>
<td>0</td>
</tr>
<tr>
<td>F statistics</td>
<td></td>
<td>39.16</td>
<td></td>
<td>1.83</td>
</tr>
<tr>
<td>P-value</td>
<td></td>
<td>0</td>
<td></td>
<td>0.35</td>
</tr>
<tr>
<td>Homogeneity test statistic F</td>
<td></td>
<td>0</td>
<td></td>
<td>Hausman test</td>
</tr>
</tbody>
</table>

As you can see in the above table, because p-value=0.000 is less than 0.05, so the main hypothesis of research is accepted. Then there is Significant relation between the structure of corporate governance and performance of company. The mentioned meaningfulness, accepts total regression in 0.99% level of confidence. According to regulated R2 of model. About 0.35% of changes in the performance of company are defined by independent variants. The results of minor hypotheses show:

**Study of the significant relation between institutional investors in accepted companies of stock**

The results of research shows P-value=0.000 which there is a Significant relation between institutional investors and the performance of company and the coefficient is equal to -0.01 which shows negative relation between institutional investors and the performance of company. The statistic of t is equal to -4.98. As a result there is negative Significant relation between institutional investors and their performance with 0.95% level of confidence. This result is similar to the results of Schifer and Vishni (1987), Noisy and Niker (2006), Karatansis and Dracus(2004), Kerent et al (2007), and Moradi (2007) studies. But in the section of direct relation, it is in accordance with Ahmadzadeh et al (2005), Sellman and Sellman (2005) and Mokarrami (2006).

The reason why institutional ownership has negative Significant relation with performance of company is that institutional investors do not have enough motivation to improve the performance and gain profit. The goal of institutional investors is not gaining high profits, but it is to protect their society against external aggression, to establish order and security of society and presenting public services.

**Study of significant relation between the proportion of stock owned by members of the board of directors and the performance of company.**

The obtained P-value = 0.000 ≤ 0.05 indicates that there is a significant relationship between shares owned by board members the performance. t statistic value is 10.50, which is assumed to be in the acceptance region and a positive coefficient of 0.03 indicates that there is a positive relationship between two variables. So we can conclude that relationship between the performance and the shares owned by board members is a significant positive. In other words by increasing number of shares owned by board members, the performance will increase. This could be due to board of directors increased oversight control on managers which they are a part of them. It shows the need for rolling shareholders in decision-making related to the company especially active participation in public decision-making and selecting administrative units of company. This result consistent Shelfier & Vishney (1997) and Rajabi &Khodabakhshi (2006) as is opposite osliwyn & Sushka (1993) and McConnell & Servas (1990).

The relationship between numbers of non-responsible board members and performance in listed companies in Tehran Stock Exchange.

The obtained P-value = 0.000 ≤ 0.05 indicates that there is a significant relationship between numbers of non-responsible board members and the performance. t statistic value is 6.10, which is assumed to
be in the acceptance region and 0.99 positive coefficient value shows a direct and positive relation between these two variables. So we can conclude that at 95% confidence level there is a significant positive relationship between the number of non-responsible board members and performance. This result indicates that by increasing in the number of non-responsible board members, the performance will improve because of more control on management decision and independence of board members. The result of this study is consistent with the findings of other researchers who found a positive relationship that includes Organ and et.al (2005), Yong and et.al (2000), and Clin (2002) as is unlike Rajabi & khodabakhshi (2006) and Ahamad pour and et.al (2007).

The relationship between the separation of the CEO and board members and performance in listed companies in Tehran Stock Exchange

The obtained P-value= 0.86> 0.05 indicates that there is no significant relationship between the separation of the CEO and board members and performance. T statistic value is 0.17 and calculated coefficient value is 0.06 that shows there is no significant relationship between the separation of the CEO and board members and performance. This is probably because that in the most companies in Iran, the manager is elected among board members. This finding is consistent with Rajabi & Khodabakhshi (2006) as is unlike Deco and et.al (1996).

According to the results, we can say that the performance will increase or improve as well as the company’s board member share increase. Also according to the representation theory, when the number of non-responsible board members increases the company performance increases as well through reducing the conflicts between shareholders and managers. Institutional Investors have a significant and negative relation with company's performance. In other words when the number of institutional investors increase the performance decreases.

The results indicate that by firm size extension, company's performance will be significantly weakened. Also we found that there is no relationship between the separation of the CEO and board members and performance. However the main hypothesis of this study is accepted and there is a significant relationship between company’s governance structure and performance. These results are reached by calculating F statistic for whole of the model and in consistent with other researcher’s findings.

The results of controlling hypothesis test

Study of the meaningful relation between institutional investors In accepted companies of stock.

With respect to P-value=0.000, there is a meaningful relation between the size of company and the value of that company. The statistic of t is -16.48 and the negative coefficient (-2.46) shows there is a negative relation between two variants, so with 95% level of confidence we can say: there is a negative meaningful relation between size of company and the function of it. So with increasing the size of company, the function becomes weaker.

With respect to results, with increase in the rate of each member’s stock, the function of company will be increased and improved, too. When the number of unobligated members of the board of directors rises, according to the theory of agency, presence of members lessens profit disparity between shareholders and managers, so the function of company increases. Institutional investors have meaningful but negative relation with function, so the increase in institutional shareholders, weakens the function of company. There is no relation in differentiation of CEO from members of the board of directors.

Final discussion and conclusions

With respect to findings of study it can be mentioned that there is meaningful relation between the structure of corporate governance and function. There is meaningful negative relation between institutional investors and the function of company so, in order to gain more profit and better function of companies, we should respect to owner’s viewpoint. If a company is in search of gaining profit and better function, the structure of ownership should be toward private investors. So PRIVITIZATION is suggested in many countries like Iran. The proportion of stock owned by members of board of the directors has positive and meaningful relation with function. There is no relation between differentiation of CEO from members of the board of directors and the reason why is that: in Iran’s companies mostly CEO is chosen among the members of the board of directors. The bigness of company has no influence on the function of company and small companies have better functions.

Research limitations

Scientific studies are usually faced limitations that should be considered when Interpretation and generalization of results are listed as follows:

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In this study we hired company’s governance standards in other countries for identifying company’s governance criterion because there is no obligation to adhere company’s governance procedures in Iran. Applying different criteria may affect the findings. Limitations that are ruling economic models and also statistical analysis, sampling and results generalization are limitations of the research. Due to the using historical data, the effect of inflation rate because of Iran’s economy situation is not included.

**Future Researches**

In order to make greater use of this research results and to help clarify the impact of company’s governance structure on corporate performance in the future, the following issues will be considered further: The impact of industry type on company’s governance structure relations and company’s performance. Using other dependent variables and performance appraisal variables. The impact of the company’s governance structure on company’s value. Repeating this study with regard to elections and political issues influence on corporate performance.

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