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The relationship between corporate governance quality and performance of the companies in Tehran Stock Exchange

Leila lak

Department of Accounting , Andimeshk Branch , Islamic Azad University , Andimeshk , Iran

Corresponding author: Leila lak

ABSTRACT: Corporate Governance is the responsibility and practices used by executives and managers tasked with the goal of determining strategic direction to ensure the achievement of objectives, risk control, and resource consumption (Yeganeh, 2006). Tools high quality corporate governance in companies reduces costs-capital, increase liquidity and financial resources, potential.Facilitate the ability to overcome the crisis and prevent exclusion of companies with good management are become capital markets. Good corporate governance practices in the country to prevent the outflow of domestic funds, an increase in foreign investment,increase the competitive strength of the economy and capital markets, to overcome the crisis, efficient resource allocation and is achieve a higher level of development.(Cansizlar, 2003). The purpose of this study is the relationship between the quality of corporate governance and value and performance companies operating in the Tehran Stock Exchange. The sample consisted of 80 companies during the period 1385 to 1388. The findings indicated a significant relationship exists between the qualities of corporate governance corporate values but there is no significant relationship between the quality of corporate governance and firm performance.

Keywords: quality of corporate governance, corporate values, corporate performance, corporate governance index.

INTRODUCTION

Principles make corporate governance and shareholder communication between management and the board of the company. Also the structure that is specified goals and how achieve them.Proper implementation of these principlesshould provide incentives for managers to achieve the goals set and monitoring to explain how things shareholders.Expected to establish the effectiveness of corporate governance and board functions effectively help to meet statutory requirements. One of the main factors to improve the overall economic efficiency is corporate governance (corporate governance) which are involves a set of relationships between a company's management, board, shareholders and other stakeholders. Board provides strategic structural systemsthrough which firms set targetsand means to achieve objectives and monitoring performance are determined. This system creates an incentive to achieve the goals of the firm's management and provides effective monitoring. So the companies employ resources more efficiently (Mokaremi, 2006).

Corporate governance, more than anything, life, long-term enterprise, targeted and sought to protect the interests of shareholders against management.

The purpose of corporate governance is:

1 - Reduce business risk by improving transparency and accountability

2 - Improve the long term performance of the organization by preventing arbitrariness and lack of accountability of the Executive Management (Yeganeh, 2006).

This research seeks to the relationship between corporate governance quality and performance of the companies in Tehran Stock Exchange.

Theoretical and research background

Corporate Governance and critically discusslargely have been attracted a wide range of attention from the mid-80sby specialists and managers and groups such as the directors, shareholders, investors, regulatory bodies and other similar groups. International Federation of Accountants, (2004) defines corporate governance is:Corporate Governance is responsibilities and practices usedrequired by the board of directors and to determine the strategic directions that ensure the achievement of objectives, risk control and use of resources.Transparency, accountability and adequate disclosure of the three main elements of corporate governance.So we can concludecorporate governance is the set of mechanisms fair and just to confirm with all stakeholders and helps to strengthen the transparency and accountability (Yeganeh, 2006).In many countries, the ranking of the 90 companies in terms of corporate governance has begun.During the same decade after the Asian financial crisis in many countries, these countries have enacted laws to improve corporate governance. The question that now arises is whether the conditions have improved corporate governance rules and procedures? Experimental evidence suggests that many countries that have implemented good corporate governance standardsOverall, the company have experienced strong growth in various sectorsand the ability to have more funds than others.The link between the interests of good corporate governance and Alignment by increasing investor confidence in a company and helps companies reduce the cost of capital. Efficient procedures for the proper functioning of capital marketsWhole economy are vital and necessary to attract and retain public confidence. Poor corporate governance may be a loss of market confidencewhich is in turn could lead to the withdrawal of resources or liquidity crisis and the fall in stock prices. (Mokaremi2006)

Research conducted in this field are briefly presented below:

Da Silva, (2007) has study the factors influencing the quality of corporate governance in the country of Brazil. Period under review is from 1998 to 2004. Their results indicated that this was the market value of the quality of corporate governance; there is a significant positive relationship. Hamza, (2009) in a study has investigated of regulatory mechanisms of corporate governance, capital structure and firm value.

Regulatory mechanisms of governance in this study, has been the concentration of ownership. The purpose isComprehensive review of the relationship between ownership concentration and firm value, Concentration of ownership and financial leverage, and leverage the value of companies in Australia. The studies of 100 non-financial companies have been listed on the Australian Stock Exchange during the years 1993 and 2008. Ownership concentration is the dependent variable in this study that the major shareholder equity is used to measure therefore the shareholder who holds at least 5% of shares. Independent variables include the financial leverage of debt to equity is measured forand firm value using Tobin Q ratio is measured. The research hypotheses are:1 - between ownership concentration and firm value, there is a significant relationship. 2 - The concentration of ownership and financial leverage significant relationship exists.3 - Significant relationship between financial leverage and firm value there. To test these hypotheses using ordinary least squares regression (OLS) is used.After testing hypotheses, all hypotheses were confirmed.

colleagues and Bolbol et al, (2008) has examined the effect of sample concentration and ownership structure on the performance of companies on the Stock Exchange of Sri Lanka. The sample included 45 companies.The dependent variables for this study include ROA, Tobin Q ratio and the ratio of the market value of the cash that will be used to evaluate the Company's performanceand ownership concentration is the independent variable. Different 5 variables are used to measure the concentration of ownership.The main hypothesis of this study is that the effect of ownership concentration on corporate performance, this hypothesis in a model is defined and analyzed using correlation and regression. The results show that ownership concentration has a positive effect on firm ROA.

Kapopoulos and Lazaretous, (2007) the effect of ownership structure on firm performance using data from 175 Greek firms examinedand concluded that the concentrated ownership structure of such companies are associated with a higher profitand earn higher profits than is required by the dispersion. Drobetz, (2004) tried to explain that the quality of corporate governance can explain firm performance to. They contribute to the quality of the legal environment for better corporate governance systems were considered.Consideredand selecting a sample of German public companies showed there is a positive relationship between firm performance and the level of quality of corporate governance.

Yeganeh and colleagues, (2009) Relationship between Corporate Governance and performance quality companies at Tehran Stock Exchange were evaluated.The purpose of their study has been ranked companies in terms of corporate governance and its effects on firm performance. They have used an indicator of the quality of corporate governance.This index was based on a questionnaire containing 25 questions is yes - whether the provisions Governance Of Listed Companies in Tehran Stock Exchange.

The questionnaire covers the following 3 topics: Transparency, board structure and ownership structure and control. The answer is yes, a score adds to the index. The ranking will be determined by each company's corporate governance score is between 0 to 25.

Their results indicate that is not any significant relationship between the quality of corporate governance and corporate performance.(IzadiniaRsayyan, 2010) evaluated the relationship between economic standards of corporate governance and financial performance monitoring tools. In doing this research, Total 89 companies of the population, the information required for the six-year period studied (2002-2007) was available about them, was selected. Performance evaluation criteria that are considered as dependent variables are:
Rate of return on assets (ROA), return on equity annually, Q Tobin value-added market.

Their data, the independent variablesThe Company consists of two leadership criteria monitoring tools required by other members of the board of directors and institutional investors were studied.To test the hypothesis of multiple regressions statistical methods have been applied.Multivariate statistical models for each of the four evaluation criteria were done. This study suggests that measures of performance monitoring tools passionately corporate governance is a significant relationship.

Research hypotheses

Four main hypotheses have been developed to answer the main research questionthe hypothesis that the entire population was analyzed for member companies.These hypotheses are classified as follows:
1 - There is a significant relationship between the quality of corporate governance and firm value.
2 - The quality of corporate governance and the company's return on equity, there is a significant relationship.
3 - The quality of corporate governance and company assets and rates of return, there is a significant relationship.
4 - The quality of corporate governance and debt-to-equity ratio of the company, there is a significant relationship.

Sampling of research and how it

The population in this study consists of all the companies that are listed on the Tehran Stock Exchange on 2009.Sample of systematic exclusion method and applying the following conditions are:
fiscal year end is March 19or 20
- among the group companies and banks not to finance investment
- The data are available

Finally, after applying the above condition is equivalent to 320 years, 80 companies were selected to evaluate and test hypotheses

The data collection and data

Variables in this study to collect data from financial statements provided in the Securities Exchange website (www.rdis.ir) and the database is used to devise a new processor and outcomes. Excel software was used for data preparation. The following variables were extracted information from the sources listed. The data in the worksheet created in the software and then perform the calculation of the parameters is necessary to achieve.
Then ¬ set of variables and calculations using Excel software necessary to access the variables needed to conduct research, econometric models are estimated using data - collected and Stata 11 using the Eviews 7 software.

Statistical models and variables

After data collection and the research sample, the dependent variable is the rank of the research model, to estimate a sequential logit regression model was used to test the research hypotheses.The method is described in the next section. The model used to test the research hypotheses are presented as follows:
CGMit = a1P/B it + a2ROEit + a3ROAit + a4DEBT/Eit + aSIZEit + εit (1)

In which:

CGM :The corporate governance score between zero and 20, the variable index provided by Dasylvrya, (2007) is calculated.
The index contains 20 questions relating to corporate governance matters, and each question is a rating.
P/B:Ratio of market value to book value of shares of stock that is represents a company's value.
ROE:Return on equity, which is equal to the ratio of net income to equity.
ROA: Return on assets is the ratio of net income to total assets of the company.
DEBT/E:This represents the ratio of debt to equity capital structure.
SIZE: Control variable as the logarithm of the market value of the Company's shares.
Eit: Such as residual or error model.

Data Analysis Method

Descriptive statistics for the study focused overview of the status and distribution of the observations is usedalso check for correlation between observations and the Spearman correlation test (the dependent variable is ordinal) is used.

Given that the dependent variable is the rate ofin this paper a sequential logit regression was used to estimate the model and test the research hypotheses. The value of the dependent variable, the dependent variable is ordinal responses can be observed with regard to the hidden variable yi * xi linearly correlated with the explanatory variables, the model.

$y^* = x'_i \beta + \varepsilon_i$ (2)

The actual values of the dependent variable yiyi * and using the following rule set is-(Green ,2003)

0 if $y^*_i \le \gamma_1$
1 if $\gamma_1 < y^*_i \le \gamma_2$
2 if $\gamma_2 < y^* \le \gamma_3$ (3)
yi=
M if $\gamma_m < y^*_i$

Hence, the probability of observing each value of i is calculated as follows:

$P\gamma(y_i = 0 \mid x_i , \beta , \gamma) = F (\gamma_1 - x'_i \beta)$
$P\gamma(y_i = 1 \mid x_i , \beta , \gamma) = F (\gamma_2 - x'_i \beta) - F (\gamma_1 - x'_i\beta)$
$P\gamma(y_i = 1 \mid x_i , \beta , \gamma) = F (\gamma_3 - x'_i \beta) - F (\gamma_2 - x'_i\beta)$
…..
$P\gamma(y_i = M \mid x_i , \beta , \gamma) = 1 - F (\gamma_M - x'_i\beta)$ (4)

Where I is a characteristic function.When is the correct value of the function 1 and is zero otherwise.

Findings

In this study, a questionnaire of 20 questions used to assess the quality of corporate governance.This index is composed of four main parts: Access to information, content, structure, and ownership structure and control board.

Comply with any of the standards of a rated companies ranked by total points earned will be added to the corporate governance, the company has set out its corporate governance. Number of years of study 4 years for a total maximum score of 80 points is calculated to be 6,400 member companies.4386 is equal to the total scores of companies. Average rating companies is 68%. 68% of the companies have adhered to the rule of criteria.Table privileges acquired by the Company are as follows:

Table 1

Rating in each category	Average rating Total Floors	Rating Companies	The number of questions	Classes
84%	22%	1356	1600	Access to information
49%	12%	790	1600	Content
81%	20%	1301	1600	Board Structure
58%	14%	939	1600	Ownership and control structure
	68%	4386	1600	Total

The values obtained can be concluded from Table that average rating categories were 68% of companies rated lowest mean total information content of the classes have obtained 12 percent and this suggests a lack of information on the content of the member firms. Highest rank among all classes belonging to the first category of information availability can measure up to 22 percent of the main reasons ittop quality reports and forecasts taken by the financial condition and operating companies in the sample. Rate of structure board is 20%Managing Director and Head of the class resolution enhancement factor why rule out the majority of the board members are not required toand Ownership and control structure is 14 percent. 84% of the class accessible from member companies met the standards of corporate governance;Observed on the second floor of 49%,Third floor and fourth floor of 58 percent is 81 percent.Segmentation based on the ratings of the quality of corporate governance score is between 15 and 20 strong corporate governance, it is considered.If a rule is 9 to 15 and the average rating is relevant under Rule 9 of the enterprise is weak. According to 63 percent of corporate governance scores of sample firms with strong governance and 37 percent average corporate governance.

Overview of the state of research Descriptive statistics of the survey data will provide, in figure (1) are presented.The results presented in table (1) shows that the total period of, the average (median) corporate governance score 13/67(14/00), the ratio of market value to book value 0/58(0/48) , return on equity of 0/33(0/32), return on assets 0/14(0/12), debt to equity ratio of 1/72 (1/67) and size 5/38(5/26).

This suggests that the majority of companies funded through debt (and not equity owners) have provided.Also, the maximum (minimum) corporate governance score of 16/00 (11/00), the ratio of market value to book value 2/05(00/0), return on equity 07/1 (00/0), return on assets 0/49(00/0), debt to equity ratio of 4/42(0/78) and size 7/29 (1/67).

Table 2. Descriptive statistics for the study period 2006-2009

Standard deviation	Minimum	Maximum	Middle	Average	Variables
36/1	00/11	00/16	14/00	67/13	CGM
48/0	0/00	05 /2	0/48	58/0	P/B
0/17	0/00	07/1	0/32	0/33	ROE
10/0	0/00	0/49	0/12	0/14	ROA
91/0	78/0	42/4	1/67	72/1	DEBT/E
96/0	67/1	29/7	5/38	26/5	SIZE

Definition of variables:

CGM: The corporate governance score between zero and 20.
P / B: ratio of market value to book value of equity.
ROE: return on equity is equal to net income of equity companies.
ROA: Return on assets is the ratio of net income to total assets of the company.
DEBT / E: ratio of total debt to capital
SIZE: The size of the log of the market value of the Company's shares

The correlation test

To assess the magnitude and direction of the linear correlation between variables, Spearman correlation test has been executed and the results in table 2 are presented. The results presented show that the correlation between corporate governance variables and asset returns (0/17), the ratio of debt to equity (-/014) and size (0/11), respectively, at 1% level , 5% and 10% significant.

Table 3. Spearman correlation coefficients for the period 2006-2009

SIZE	DEBT/E	ROA	ROE	P/B	CGM	Variables
					1	CGM
				1	09/0 (11/0)	P/B
			1	***42/0 (00/0)	08/0 (13/0)	ROE
		1	***86/0 (00/0)	***48/0 (00/0)	***17/0 (00/0)	ROA
	1	***58/0- (00/0)	***19/0- (00/0)	***31/0- (00/0)	**14/0- (01/0)	DEBT/E
1	05/0- (37/0)	***24/0 (00/0)	***26/0 (00/0)	***56/0 (00/0)	*1/0 (06/0)	SIZE

* ،** و*** Significant at the 10%, 5% and 1%

Correlation coefficient of market value to book value of equity and efficiency variables (0/42), return on assets (0/48), the ratio of debt to equity (-0/31) and size (0/56) is significant at the 1% level.The correlation coefficient between the variable and the variable return on assets return on equity (0/86), the ratio of debt to equity (-0/19) and size (0/26) is significant at the 1% level. The correlation coefficient between the variable debt to equity ratio Return on assets variables (-0/58) and size (0/24) is also significant at the 1% level.

Results of logistic regression model and test research hypotheses

To test the research hypotheses, the model (1) is estimated using ordered logit.

Using sequential logit model estimation results

The estimation results of model (1) the method of sequential logit in table (3) is presented. The results presented show that the ratio of market value to book value ratio variables (0/58), the ratio of debt to equity (-0/27) and size (-0/23) at the 1% level and the coefficient of the variable return on assets (0/84) is significant at the 5% level. This exclusion does not imply rejection of the second hypothesis and research hypothesis is ¬ ¬-R. Significant Wald statistic (652/09) showed a significant overall model. The coefficient of determination equal to 0/18 and the log likelihood statistic is -20932/33

$$CGM_{it} = a_1\ P/B_{it} + a_2\ ROE_{it} + a_3\ ROA_{it} + a_4 DEBT/E_{it} + a_5\ SIZE_{it} + \varepsilon_{it} \qquad (6)$$

Table 4. The results of research for the period 2006-2009

Result	Significant	StatisticsZ	Coefficient	Variables
The first hypothesis is not rejected	0/00	33/13	***58/0	P/B
The second hypothesis is rejected	13/0	1/53	21/0	ROE
The third hypothesis is not rejected	01/0	2/51	**84/0	ROA
The fourth hypothesis is not rejected	0/00	11/89-	***27/-	DEBT/E
	0/00	81/11-	***0/23-	SIZE
		***09/652 (00/0)		Wald statistic (significant)
		018/0		The coefficient of determination Mac Fadn
		33/20932-		Logarithm of the likelihood

** و*** The significance level%5 و%1

This low value of the dependent variable in the model is common to two or more values.

CONCULSION AND DISCUSSION

According to the results of the first hypothesis, the correlation between corporate governance qualities has a positive and firm value.Considering that this assumption is confirmed by the cry that there was a strong relationship between these two variables. The results obtained from this study, Drobetz, (2007) is consistent. In the second and third hypotheses about the function of governance quality hypothesis that a significant relationship between the quality of corporate governanceand ROE, which represents the company's performance has been rejected.These results indicate that there is no significant relationship between the qualities of governance practice. The results obtained from the study, Roberts and colleagues, (2004) do not match. But the results of research only sensitive and colleagues, (2009) are consistent.These results indicate that firms with strong corporate governance are less likely to use debt to finance.According to research done by the company in order to improve corporate governance at workthis could be a positive impact on firm value and performance status of board members, the proportion of non-executive directors are obliged to charge, separate the duties of Chairman and Managing Directo. Terms of transparency and access to informationShareholders' rights and enhance the quality of their reporting and improve shareholder rightsand have Internal auditors and the audit committee of the company, certainly the long-term can be improvement in performance. An optimal system of corporate governance will cause the sustainable development of economicthis system can improve the performance of companies and increasing their access to resources outside of the company. The establishment of this system, as well as increased confidence in the financial system and thus will increase investmentthat's definitely part of the economic growth will can even increase the efficiency of resource allocation.

Research Proposals

In order to make greater use of research resultsand also help to clarify the quality of corporate governance on corporate performance in the future, we will examine the following topics:

1 - The study of the relationship of the quality of corporate governance and profitability growth.
2 - to measure market participants' knowledge of the concepts and requirements of corporate governance
3 - The effect of ownership structure on corporate governance quality.
4 - The relationship between governance quality on liquidity ratios and capital structure
5 - Use of indicators in assessing the quality of corporate governance
6 - The relationship between quality of governance and corporate performance according to the type of industry.

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