Journal of Novel Applied Sciences
Available online at www.jnasci.org
©2019 JNAS Journal-2019-8-5/106-110
ISSN 2322-5149 ©2019 JNAS

Reviewing the Effectiveness of Corporate Governance on Company Value in Companies Listed in Securities Exchange of Tehran

Mosa Beshruntan

MA Accounting

***Corresponding author*:** Mosa Beshruntan

ABSTRACT: The purpose of this research was examining corporate governance and company value in listed companies in exchange market of Tehran. In this research, variable cash profit, financial profit and size of the company were used. Therefore, the affect company governance on company value was reviewed through regression patterns with combined data of a 7 year period during 2012 to 2018 on companies listed in Tehran Stock Exchange. According to collecting data, this research is a descriptive research and the aim is applied. Research results represent that number of board of directors has a negative and independence of board of directors has a positive impact on company value.

***Keywords*:** Company governance, Company value, The independence of the board of directors, Institutional shareholders.

INTRODUCTION

The main subject of corporate governance literature was a deputation conflict between stockholders and management until the 1980s. Generally, this was accepted by everyone that ownership focus causes decline of deputation problems and this concept itself will cause recovery and function and value of company. Researchers vindicate this element in this way that increasing ownership will cause entering stockholders into ownership of companies. These stockholders have enough impetus and power to supervise managers. Supervising them will cause managers step towards long-term goals of company. Enron and WorldCom disgraces caused that many researches accomplish in the context of corporate governance and scrutinize the effect corporate governance on company value function in 2002.

Corporate governance as a making nearer element between management and stockholders is accomplished in declining revenue repugnance between management and stockholders. Hasan Yeganeh (2011) and also Sabli (2012) haven't found a relation between corporate governance and company value. Khodadadi (2012) and Hasan zadeh brothers (2012) in their research have deduced positive significant relationship between corporate governance and company value. According to mentioned points, this research intends to answer this question that does corporate governance have any effect on company value in securities exchange companies in Tehran? If there is an impact between variables, how much is the magnitude?

Research Literature

If corporate governance is accomplished effectively, it will account a remote control for management behavior in appropriation for organization resources and based on level of success, shareholders will maximize returns on capital. Therefore, inefficient enterprise that is the result of feeblish corporate governance, has an effect on company profitability and following that, company value (Isshaq et al, 2009). An idealistic governance system increases the possibility of freely and fortune decision for commercial unity and leads it towards company value recovery (Chen, 2008).

Chang et al (2013) accomplished a research titled "Proceeds, Institutional investors, Tax fund and Company value" during 2011 to 2015 in 336 Chinese and Taiwanese companies in Taiwan and got this result that operational income in country of origin and investiture income have a direct and significant correlation with company value. Tax disputes in Taiwan and china have caused creating transitional price and consequently, tax planning.

Abdul Wahab and Holland (2012) have accomplished a research regarding to tax planning subject, corporate governance and stock value that discovered a negative significant relation among tax planning and company value and absence of relationship between corporate governance and company value.

Bowman et al (2007) have worked on scrutiny of relationship between strategy level and increasing value in Britain and accounted tax management as one of five cases in company augmenting and this is against recent researches regarding to planning and managing tax (Abdul Wahab 2012).

Mashayekhi and Panah Sabri (2015) have worked on strategic effect on relationship between elude from tax and company value. For accomplishing his research, data of 96 listed companies have been studies in securities exchange as research sample. Research results represent a positive relationship or in other words, confirmation of value creation theory in correlation with elude from tax activities and company value.

Hasan Zadeh et al (2012) have worked on scrutiny of relationship among some corporate governance mechanism with created value for stockholders and economic value added and its results were discovered negative relationship between amount of dominance and ownership of government with company value and significant relationship among amount of free floating stock with company value and significant relationship among the three features of corporate governance (dominance and ownership of government, institutional stock holders and amount of free floating stock), negative significant relationship among amount of dominance and ownership government with economic and positive significant among amount of ownership of institutional stockholders and amount of free floating stock with economic value added.

Khodadadi et al (2012) have worked on a research titled "Effect of corporate governance structure on financial function and listed companies value in securities exchange of Tehran that they used data of 80 exchange companies during 2009 to 2010 and concluded that ownership focus and governance ownership have positive significant relationship with companies value and major institutional investor have a positive relationship with company value and negative relationship with company function.

Demuri et al (2011) have worked on scrutiny of relationship among three elements of coordinate profit, quality of profit and value of companies in accepted companies in securities exchange of Tehran that its results was without regarding to profit coordinating and positive relationship between profit quality and company value and without regarding to profit quality and positive relationship between coordinate and company value.

Hassan Yeganeh et al (2011) found out with regarding to relationship between corporate governance and created value for shareholders subject there is no significant relationship between corporate governance and stock value and they illustrated market inefficiency, problems in business law and institutional stockholders inactivity as their reasons.

In a research titled "Increasing chances effect on relationship among fund, dividend, and ownership structure with value company among 110 exchange companies during 2003 to 2008 Sinai et al (2011) discovered that there is significant relationship among fund structure (leverage) and dividend with company value and in the context of increasing opportunities, this relationship is negative and significant but, without it, it will be positive and significant.

Research Methodology

The purpose is applied and descriptive. Solidarity is accomplished usually by analyzing regression, in order to scrutinize relationship patterning among variables. Statistical community of this research is all the companies listed in securities exchange of Tehran during 2011 to 2015. In order to choose statistic sample, systematic method of knocking out has been used. By applying filters, 182 companies were capable of collecting data by putting this number into Morgan and Korjesi table.

Research Variables:

A: Independent variables: Corporate governance

1. The number of the board of directors: The number of present members in board of directors evaluate.

2. Independence of managers (non-executive managers): This variable represents proportion of non-obligated members of board of directors to total members of it. Non-obligated managers, is a part-time member who has no executive responsibility in company.

3. Institutional ownership percentage:

According description represented and used by Rubin (2007) and Cueto (2009) researches, in order to calculate amount of institutional ownership, the sum of stocks in possession of banks and insurances, stocks, investiture companies, retirement funds, capital supply companies and investment funds, governmental agencies and institutions and companies on total diffuse stock of company, percentage or amount of institutional ownership is obtained.

B: Dependent Variables: Company value

Kyoto Bin, is one of the assessment index of company value that is obtained from the following equation:

$$TOBINS\_Q = \frac{\text{Net current liabilities of the company + long-term debt value + stock market value}}{\text{Total value of corporate assets}}$$

C: Controlled Variables

Cash profit: Ratio of paid profit in annual assembly of company to all corporate assets.

Financial Leverage: Proportion of total liabilities divided into sum of assets at the end of session.

Size of the company: Sum of the current and non-current assets of company at the end of session.

Research Hypotheses:

First hypothesis: There is a significant relationship between the number of board of directors and company value in securities exchange companies of Tehran.

Second hypothesis: There is a significant relationship between independence of members of board of directors and company value in securities exchange companies of Tehran.

Third hypothesis: There is a significant relationship between institutional ownership percentage and company value in securities exchange companies of Tehran.

Experiential results and data analysis

In order to have a better understanding of matter of society which has been studied and more introduction with research variables, it's necessary to describe these data before analyzing statistic data.

Table (2) represents types of features owned by research variables. Statistic reported include indexes and central criteria including: Mediocrity, Median, Maximum, Minimum, and Deviation are consequently 0.94, 0.66, 7.66, 1.50, and 1.79.

Table 2. Descriptive statistic variables of research

Variable	Deviation	Minimum	Maximum	Median	Mediocrity	ervations
MVE :Company value(Kyoto Bin)	0.9486	0.6620	7.6658	1.5011	1.7995	595
NB : (Size of the board of directors)	0.5046	5.0000	9.0000	5.0000	5.1220	595
IND : (Independence of board of directors)	0.2127	0.0000	1.0000	0.6000	0.65	595
IOWN : (Institutional ownership)	0.3298	0.0000	0.9656	0.4433	o.4523	595
DPS : (Paid cash profit)	0.00208	0.0000	0.02264	0.00018	0.00086	595
LEV : (Financial leverage)	0.2276	0.1100	1.9400	o.5436	o.55	595
SIZE : (Size of the company)	0.6436	4.5000	8.3000	6.0883	6.1559	595

According to the results of this test, some decisions will be made about rejection or approval of equality hypothesis for specific fixed works of companies and eventually, about choosing classical or panel data method. Table (3) indicates Chow test results (F statistic) relating to mentioned hypothesis about research patterns:

Table 3. F-Limer test results for choosing combined method (Pooling) or integrative (panel)

Zero hypothesis (H0)	Statistic	Freedom degree	p-value	Test results
Company specific effects aren't significant (Pooling method is sufficient)	23.7878	117	0.0000	H0 is refused (panel data method is chosen)

As it is seen in table (3), in 95 percent confidence level research model for zero hypothesis is rejected; therefore we need to use data panel method. As a result discussion over choosing among stable and random effects models happens and for this purpose Hausman test is used.

Table 4. Hausman test results for choosing between stable effect model and accidental effects

Zero hypothesis (H0)	Freedom degree	X^2 statistic	p-value	Test results
The deviations are the same	7	70.6116	0.0000	H0 is refused (There is inequality of deviations

The results of the above table represents that in research model stable effects method should be used. In this research, for scrutinize existing variance inequality problems Breusch Pegan-cook and Weisberg test were used. According to the results of this test that were presented in table number (5), there is variance inequality for problem research model (because accounted possibility or p-value is less than 0.05).Therefore, the last estimation model is accomplished by using GLS test so that variance equality assumption in analyzing regression remains stable and variance inequality problem is solved consequently.

Table 5. Breusch Pegan-Cook and Weisberg test for discovering variance inequality

Zero hypothesis (H0)	X^2 statistic breusch pagan-kuk and weisberg	p-value	Test results
The variances are the same	1100.56	0.0000	H0 is refused (There is variances inequality)

The results of research model calculation as are follows:

MVEit=B0+B1NBit+B2INDit+B3IOWNit+B4DPSit+B5LEVit+B6SIZEit+Eit

Variable	Factors	Deviation	T statistic	Significant level (p-value)	VIF TEST
B0 (width from origin)	-2.8434	0.2787	-10.2040	0.0000	-------
NB(Size of board of directors)	-0.2162	0.0744	-2.9037	0.0038	1.04
IND(Independence of the board)	0.8842	0.0889	9.9433	0.0000	1.07
IOWN(institutional ownership)	0.0003	0.0003	1.1788	0.2389	1.13
DPS(Paid cash profit)	0.5547	0.1435	3.8651	0.0001	1.13
LEV(Financial leverage)	-0.4897	0.0405	-12.0917	0.0000	1.11
SIZE(Size of the company)	0.5522	0.0542	10.1888	0.0000	1.09
F-Fisher statistic	69.0422	**Significant level**	**of F statistic**	0.0000	0.0000
The coefficient of determination	0.6537	**Camera-Watson statistic**		1.5538	

The results of hypotheses:

Results of the first hypotheses: Stable calculation variable factor of size of the board in the above table is representation of negative and significant effect of size of board of directors on company value in error level of 0.05.

So, H0 assumption is rejected and H1 assumption is accepted. Therefore, it can be said that size of the board have %95 negative significant effect on certainty level.

The results of the second hypothesis:

Coefficients estimated for independent variables of members of board of directors in table above shows positive and significant effect of independence of them on company value is in 0.05 error level; because the amount of calculated p-value for this stable research variable, has obtained less than 0.05. Therefore, H0 assumption is rejected and H1 assumption is accepted. So, it can be said that independence of board members on company value has %95 positive and significant effect on certainty level.

The results if the third hypothesis:

Calculated coefficient of independent variable of institutional ownership in the above table is a representation of significant inefficiency of institutional ownership on company value that is 0.05 on certainty level. So, H0 assumption is accepted and H1 assumption is rejected. Therefore, it can be said that institutional ownership on company value has no %95 significant effect on certainty level.

Also, coefficient estimated for controllable variable of financial leverage in %95 level has negative and significant effect on company value and coefficient of controllable variables in company size and cash profit paid indicated significant and positive effect on company value that has 0.05 error level.

Conclusion

This research was reviewed through regression model fitness by means of panel data during a five-year-period from 2011 to 2015 on productive companies listed in Tehran Stock Exchange and the effect of corporate governance on company value was examined that eventually the results are as follows.

Results showed that members of board of directors on company value in confidence level of 95% has a negative and significant effect which is -0.21, this means that if members increase to %100, company value will reduce to %21. The effect of members of the board effected (-0.21) on company value shows that this effect is reverse; it means that the number of the board of directors causes declining of company value. The results of the research confirm with research of Poor Hashem et al. (2013). Also, independence of members of the board has %95 positive and significant effect on company value on certainty level and factor of this affection is very forceful and %88%. It means that if independence of members of the board increase to 88%, company value will increase to %88; this means that independence of members of the board causes increasing the company value. The research results confirm research of Hassan Zadeh brothers (2012) and Sediqi (2012). Also institutional ownership percentage on company value in 95% confidence level has no significant effect.

According to discoveries of this research and negative affection of members of the board on company value it is suggested to use only a fewer board of directors according to business law. Also, stable and non-obligated managers supervise on processes and company activities, they need to improve their responsibly and to achieve other corporate governance goals which consequently leads to increase of company value. It's recommended to deploy more non-obligated and non-executive managers in the board of directors.

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