Extended Abstract

Firm and Ownership Characters and Corporate Governance
(in the Tehran Stock Exchange)

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Introduction

Both accountants and financial economists and financial management have devoted considerable attention to the impact of governance structures. The accounting literature documents that these factors have a substantial impact on earnings management, while the finance literature shows that they likewise affect financial performance. Consistent with past research, our paper is similar to Black (2001) and Garay & González (2008), who tested the relation between corporate governance and firm value in Russia and Venezuela as transition economies characterized by weak investor protection. The evidence we show here adds to the growing literature worldwide that indicates that firms can differentiate themselves by adopting better corporate governance practices and policies. That is, even in a weak investor protection environment, firms can increase their market value by adopting good corporate governance measures.

Hypothesis

Corporate governance practice has positive relationship with firm and ownership characters.
Methods

Most studies on firm-level evidence on corporate governance practices gather their information using questionnaires filled by the companies themselves. This methodology presents various potential problems, among others: a low response rate, especially from those companies whose corporate governance practices are poor (self-selection bias); and, for the firms that do respond to the questionnaire, there is a tendency to present themselves not as they are at the moment when the questionnaire is being completed, but as they want to see themselves in the future (self-report bias). In our paper we follow a different route to construct our CGS. In the same spirit of Garay & González (2008), we answer the questions ourselves using publicly available information. The Corporate Governance Score (CGS) was constructed based on 21 questions pertaining to different corporate governance practices. We answered these questions for each of the 125 Iranian firms that were listed in the TSE. The answer to each question is either “Yes” or “No.” If the answer is “Yes,” we add 1 and if the answer is “No,” we add 0. All answers are based on publicly available information. These 21 Questions were answered after reviewing each firm’s financial statements, bylaws, minutes of the boards of directors and shareholders’ meetings, and annual reports available at WWW.rdis.com.

Results, discussion and conclusion

Result show that role of non-executive managers is very weak in Iran and there is seemingly no concern about supervising organizational morality. The institutional stockholders have not been able to use their power utility and facilities to improve the governance indexes.

Keyword: Corporate governance score, Institutional Shareholder, Block Shareholder, Non-executive managers.

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