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Examining the Effects of Non-Bound Board Members and Ownership Structure as Corporate Governance Mechanisms on Firm Value

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Abstract

Corporate governance mechanisms were generated, due to a conflict of interest between owners and managers and to eliminate the problems of representation and assured shareholders that their funds will not be wasted because of investing on non-profit activities. Improving corporate governance is effective in reducing agency costs and leads to increase the value of the company. This study investigates the effects of corporate governance mechanisms of benefit sharing, different kinds of ownership structure and board on firm value. In this study, the role of the non-bound members moderating barrier with different ownership structure and their impact on the firm value is examined. In order to reach the mentioned goal, a 9 year period (1380-1388) was considered which ultimately 123 companies of Tehran Stock Exchange member firms were selected in this study. The type of this research is Descriptive – correlation study and statistical method which is used for testing the hypotheses of research is "panel data". The results show that governmental ownership, managerial ownership and non-bound members of the board have significant positive impact on the value of company. The results also show that increasing the number of non-bound board members companies cause to increase and improvement the relationship between the governmental ownership, managerial ownership and the value of firm.

Keywords: Corporate Governance, Firm Value, Ownership Structure, Non-Bound Board Members

Introduction

Establishing large corporations followed by the affairs related to the separation of the ownership from the management and its pros and cons were discussed globally at the end of the 19th century and the early years of the 20th century; however, the issue of corporate governance at its current form was first introduced in the decade of the 1990's in England, the US and Canada as a response to the problems arising from the issues related to the efficiency of the management board in large corporations. Shortly after, the financial crisis of the recent years has resulted in an increased

emphasis on establishing corporate governance mechanisms in the mentioned countries and all the other countries of the world (Omran, 2008).

The need to corporate governance arises from the conflict of interests between the participants of the corp. These conflict of interests are often related to the issues of the representatives, which itself has resulted from two main reasons: first reason is that different participants have different purposes and preferences and the second reason focuses on the fact that the participants have an incomplete and insufficient knowledge about one another's functions, knowledge and preferences. The issue of the separation of ownership from control has generally arisen from the separation of ownership from management, which in the absence of establishing corporate governance mechanisms causes the executive operations to be guided in favor of special groups such as managers instead of that of the investors. From an agency theory point of view, the presence of non-bound managers in the directors' board, and their supervising functions as independent individuals has a significant role in decreasing the conflict of interests between the investors and the managers of the company in the directors' board meetings. Of course it should be noted that the executive managers of the corporate play an important role in forming an appropriate combination of bound and non-bound managers among the board members. The presence of such a combination is considered as the main elements of effective board directors. Although bound managers present useful information about the firm's activities, the non-bound managers judge the aforementioned manners' decisions professionally and impartially. Therefore, the board of directors is considered a highly professional, independent, authoritative and potentially able corporate governance mechanism (Sulong and Mat Nor, 2010). Based on this, in recent years there has been much focus in academic discussions on the issue of agency and managers motivation in order to transfer the wealth and value of the firm toward their own benefits.

Corporate governance mechanisms were formed because of the conflict of interests, and in order to solve agency problems and to ensure the shareholders that their investments would not be wasted on non-profitable activities. Improving the corporate governance is effective on reducing the agency costs and makes the value of the firm to increase (Khodabakhshi, 2007). The aim of this study is to test the effects of some of the corporate governance mechanisms such as different kinds of ownership structure and the role of non-bound members of the directing board on the value of the firm.

Corporate governance is a series of controlling mechanisms inside and outside a firm which on one hand makes balance between the income of the shareholders and on the other hand sets the rights and provides the needs of the board of directors and ultimately these mechanisms provide a reasonable insurance for the shareholders, finance providers and all the profiting groups that they will receive their investments with a reasonable amount of interest.

During the past years there has been an increasing attention on the importance of different aspects of corporate governance as controlling mechanisms in order to control the managers' authority including voluntary financial reports. Many of investors and also principle compilers believe that some characteristics of corporate governance such as the existence of non-bound board members in the board of directors help save the benefits of the shareholders and prevent any conflict of interest between them and managers (Sulong and Mat Nor, 2010). The question under study in the present research is that what effect non-bound members of the directing board will have on the value of the firm.

In agency relations, the aim of the owners is to maximize wealth, and they control the agent in order to achieve this goal and evaluate his performance (Namazi and Kermani, 2009). In this regard this question arises: Do different ownership structures affect the firm value? That is, if the owners are divided into different groups such as government, financial institutions, banks and other firms, how will the firm's value and efficiency change? And which of different ownership structures would be more effective in increasing the firm value?

Based on the above mentioned questions, in the current study we are trying to find out whether increasing the number of non-bound members of the directing board will increase the firm value with different ownership structures.

Corporate governance was considered as one of the most important issues of business and commerce at the beginning of the 21st century. Emphasis on the basic fundamentals of corporate governance paid more attention on corporate governance and the rights of the shareholders, and later, after discussing new aspects, it focused on the rights of all the benefiteres and the whole society. In recent years, there has been much improvements in the area of corporate governance in the world and the pioneering countries are still reinforcing corporate governance in the firms and in so doing, they pay great attention to the participants of corporate governance and issues such as shareholders and their relationship, being responsible, improving the performance of the directing board, directing committees, supervisors and accounting systems and internal supervision (HassasYeganeh and Baghumian, 2007).

The expansion of the investment market in Iran and the responsibility of keeping the shareholders rights safe necessitates much research on corporate governance and its instances. The main objective of this study is collecting proof of corporate governance in Iran and examining the relationship between ownership structure and the non-bound members of the directing board on firm value. The secondary objective of this study is to investigate the balancing effects of non-bound members of the directing board which may balance the different effects of the ownership structure on firm value. Providing useful information can facilitate the decision making in the investment market as well as provide a background for further financial studies in the academic fields of our country. It seems that the results of this study can be useful in helping the law makers and standard establishers in understanding the effects of corporate governance rules and putting these rules into practice.

Literature Review

Akimova and Schwodianer (2006) examined the effects of ownership structure on corporate governance and the efficiency of private institutions in Ukraine. The results of their study showed that ownership structure has a significant effect on efficiency.

Mashayekh and Esmaeili (2007) examined the relationship between some of the corporate governance principles and the amount of profit. In their study, the variable of corporate governance included the percentage of the ownership of the managers and the ratio of the number of non-bound members in the directing board. The results of their study showed that there was no relationship between the amount of profit and the ratio of the number of non-bound members in the directing board.

Ghanbari (2008) studied the relationship between efficiency and corporate governance. The results of his study showed that the ratio of the number of the non-bound members in the directing

board had no significant effect on efficiency; however there is a positive, significant relationship between organizational investors and efficiency.

Omran (2008) studied the effect of central ownership on the efficiency of investment market among Arab countries. The evaluation criterion in his study was Qtobin. The results of his study showed that central ownership has no significant effect on profitability and efficiency.

HasasYeganeg et al. (2009) examined the relationship between organizational investment and firm value among 61 firms which were accepted in Tehran Exchange Market and concluded that there is a positive relationship between firm value and organizational investors.

Fe'eli (2009) examined the relationship of corporate governance and firm value. His objective was to investigate the role of institutional investment and the percentage of non-bound members on firm value of 97 firms during a 4 year period. The results of his study showed that considering the fact that there are many institutional investments in Tehran Stock Market, there is no significant relationship between institutional investment and firm value. Also, considering the fact that in all of the selected firms there was at least one non-bound members in the directing board, there is a significant relationship between non-bound members and fm.

Bozec and Bozec (2010) studied corporate governance and firm value. The results showed that there is a positive significant relationship between corporate governance sources and Tobin's Q as criterions for firm value. In a similar study, Lee and Chi (2010) examined the relationship between conditional corporate governance and firm value. They measured the existence of conflict of interest in cash flow cycle and concluded that firm value would increase with improving the quality of corporate governance resulting from cash flow cycle.

Toshiyuki et al (2010) examined the relationship of corporate governance and the efficiency of Japanese firms. The results of their study showed that keeping and stabilizing the investment as the most important aspect of traditional corporate governance increases their operational efficiency.

Sulang and Matnur (2010) examined the effects of corporate governance mechanisms (different types of ownership structure and directing board) and the interest distribution policy on firm value. The results of their study indicated a significant positive relationship between central ownership, government ownership and the non-bound members of the directing board with firm value. Also by increasing the number of non-bound members in the directing board, the firm value increases. Another finding was that there was a negative significant relationship between management ownership and firm value.

Fazelzadeh et al. (2010) studied the effects of ownership structure on the efficiency of the firms accepted in Tehran Stock Market separately for each industry. The general finding of their research showed that central ownership has no significant effect on the firm's efficiency, but the effect of institutional investment and central institutional ownership is significant.

Ammann et al. (2011) studied the effects of corporate governance in different levels on firm value internationally. The results of the study showed that there is a positive significant relationship between different levels of corporate governance and firm value. It also showed that better corporate governance is reflected in market value and significantly increases it both statistically and economically.

Vaez et al. (2011) examined the efficiency of the firm and corporate governance through ownership structure in firms accepted in Tehran Stock Market. The results of their study indicated that governance structure has no significant and systematic effect on the efficiency of the firm, and the effect of government ownership on the efficiency of the shares is positive and significant, central

ownership has a negative and significant effect and institutional and governmental ownership has a positive and significant effect on paying interest.

Research Hypotheses

H1. There is a significant relationship between ownership structure and firm value.

H 1.1.: There is a significant relationship between central ownership and firm value.

H 1.2.: There is a significant relationship between governmental ownership and firm value.

H 1.3.: There is a significant relationship between managers' ownership and firm value.

H2. There is a significant relationship between non-bound members of the board of directors and firm value.

H3. The more the number of non-bound members is in the directing board, the relationship between different ownership structure and firm value is stronger.

H 3.1.: The more the number of non-bound members is in the directing board, the relationship between central ownership and firm value is more.

H 3.2.: The more the number of non-bound members is in the directing board, the relationship between governmental ownership and firm value is more.

H 3.3.: The more the number of non-bound members is in the directing board, the relationship between managers' ownership and firm value is more.

Research Methodology

This research is descriptive-correlational and the methodology is post hoc, and as it can be used in the information processing, it is a practical study.

The statistical sample of the study is all the accepted firms in Tehran Stock Market during the period of 2001 to 2010 (a nine year period). In order to select the samples under study, among the mentioned samples, the firms with the following characteristics were selected as the samples:

1. They were accepted in Tehran Stock Market before the financial year of 2001.
2. In order to compare them, the end of their financial year is the end of Esfand (The last month of the year in Iranian Calendar).
3. In the period under investigation, they did not change their activities of financial years.
4. They are not insurance, banking, investing and financial brokers.

Finally, considering all these conditions, 123 firms were selected as the samples of this nine year study.

Because this is a field study, and it considers the real data of the firms, in order to collect the data of the accepted firms in Tehran Stock Market according to the variables of the study, different sources were used, including: The CDs of Tehran Stock Market, RahavardNovin and TadbirPardaz software, and the official website of the stock exchange marker. It should be noted that in order to ensure the accuracy of the data related to ownership structure and the combination of the investors such as the number of major investors in the general assembly meeting, the type of the major ownership and the number of non-bound members of the directing board, the related documents of the firms such as the annual report of the directing board to the committee was also used. After ensuring the accuracy of the data, Excel and Eviews software were used in order to analyze the data.

Statistical Models and the Variables of the Study

The variables of the study consist of 3 main independent variables which include ownership structure which is itself divided into co, governmental ownership and managers' ownership and the dependent variable is firm value. The third group of the variables of the study is controlling variables including company size, growth, axis and profitability.

The criterion variable for evaluating the firm value is Qtobin which is calculated by the sum of the income of the shareholders and total debts divided by clerical value of the total assets. Also the abovementioned variables of the ownership structure are defined as follows:

Central ownership is evaluated by Herfindal Hirschman index which is Second Square of the sum of the shares at hand by the top 5 shareholders. This is based on the minimum squares hypothesis which stated that more shares go to the investors having more shares (Sulang, Mattnur, 2010). The Herfindal Hirschman index is an economic index which is used to evaluate the monopoly in the market by squaring the percentage of the market share of each of the suppliers and adding them up. Then it is divided by the squared number of the shares of the firm. The result is between 0 and 1, and if the value is near 1, it shows the centralization, and on the opposite, if it is near 0, it shows de-centralization.

Governmental ownership (GOWN) includes the firms whose shares are held by the governmental. More specifically, governmental ownership is the percentage of the herd shares by the firms under the definition of Article 4 of the Public Accounts law, issued in Shahrivar 1366 (1988). Based on the mentioned law, a governmental firm is a specific organizational unit which has legally set up a firm or has become nationalized by the order of the court or which has been confiscated. Any commercial firm which is formed by governmental investment is considered a governmental firm as long as more than 50 percent of its shares are owned by the government. Managers' ownership (MOWN) is measured by the sum of the percentage of the shares held by dependent or internal bound managers. In this study, the some of the independent non-bound members in the directing board has been used in order to evaluate the variable of independent non-bound members (IND).

In order to determine the regression, the following equation is used:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \dots + \beta_n X_{nit} + \varepsilon_{it} \quad (1)$$

Where:

Y : Dependent variable;

β_0 : Latitude from the center;

X_{it} : Total variables employed in the study;

ε_{it} : Partial error.

Based on the definition of the above regression model, the following equations are used to test the first and second hypothesis.

First Model:

$$QRATIO_i = \beta_0 \pm \sum_{j=1}^3 \beta_j OS_j \pm \sum_{k=1}^2 \beta_k BG_k \pm \sum_{m=1}^4 \beta_m CV_m + \epsilon_i \quad (2)$$

In this model:

$QRATIO_i$: indicates the firm value for the firm i ;

$\beta_j OS_j$: indicates different ownership structure (central, governmental and managers' ownership);

$\beta_k BG_k$: indicates the directing board mechanisms including the number of non-bound members of the directing board (IND);

$\beta_m CV_m$: indicate controlling variables of the study including company size (LOGTA), growth (MTBR), axis (LEV) and profitability (EPS);

The variable of company size: the logarithm of the sum of the annual sales.

Growth variable: the ratio of the market value of the shares to the clerical value

Firm axis variable: the ratio of total debt to total assets

Profitability variable: the profit of each share

The regression equation which includes the balance variables is shown as follows:

$$Y = \beta_0 + \beta_1 X_{1.1} + \beta_2 X_{2.2} + \beta_3 X_{1.2} + \epsilon \quad (3)$$

Where:

Y is the dependent variable;

β_0 is the latitude from the center

$\beta_1 X_{1.1}$ is the linear effect of the first independent variable;

$\beta_2 X_{2.2}$ is the linear effect of the second independent variable;

$\beta_3 X_{1.2}$ is the balanced effect of the independent variable of X_2 on independent variable of X_1 .

According to the above regression, the following model is provided for testing the third hypothesis:

Second Model

$$QRATIO_i = \beta_0 \pm \sum_{j=1}^3 \beta_j OS_j \pm \beta_k IND_k \pm \sum_{j=1}^3 \beta_j (OS_j \times IND_k) \pm \sum_{m=1}^4 \beta_m CV_m + \epsilon_i \quad (4)$$

$\beta_j (OS_j \times IND_k)$ is the mutual reaction of the different kinds of ownership structure and the number of non-bound members of the directing board.

The explanations of the other variables of the second model are the same as the first one.

Analysis Method of the Data

The multivariate regression method was used in order to analyze the data. The regression method used, was a cross-cut regression and data panel regression. Since the data panel, from the observation point of view has a low probability of linear variables because it considers the individual effects of the non-homogeneous firms on cross-cut or time series, therefore the multivariate linear method with minimum squares of integrated expansions (PGLS) is employed. In examining the estimated models and all the hypotheses of the study, first the Chow test was used to choose between Panel model or Integrated data model, then the Housman test was done to determine the random effect model from the fixed effect model, and then the estimated models were provided according to Housman test.

In order to test the third hypothesis of the study and the role of non-bound members of the directing board and their balancing effects on different types of ownership structure and firm value, 2 indexes were defined as follows. The observations of the first index are related to 688 firms and the observations of the second index are related to 419 firms.

First Index: The number of the non-bound managers in the directing board of the sample firms with 0, 1, 2 and 3 people.

2- The number of the non-bound managers in the directing board of the sample firms with 4, 5, 6 and 7 people.

After determining the above indexes, all the above mentioned statistical tests were done separately for each model and appropriate models were estimated. Then by using the estimated coefficient (R^2) the statistical results were analyzed.

The Finding of the Study

Descriptive Statistics

The information concerning the descriptive statistics of the study is presented in Table 1. Comparing the observed means with their means and the small difference between them indicate a normal distribution.

Table 1. Descriptive statistics of the research variables for all the firms during the period of study

Variable	Abbreviation	No. of observations	Mean	Median	Max.	Min.	SD
firm value	QRATIO	1107	33.35	1.28	2935	0.63	106.6
central ownership	HI5	1107	0.581	0.585	2.96	0	0.27
governmental ownership	GOWN	1107	0.20	0	1	0	0.4
managers' ownership	MOWN	1107	0.49	0.50	1	0	0.25
The no. of non-bound members	IND	1107	3	3	6	0	1.34
Company size	LOGTA	1107	5.53	5.49	7.22	2.70	0.57
growth	MTBR	1107	5.51	1.73	2327	0.24	76.62
axis	LEV	1107	66.69	67.26	99.97	16.89	15.90
profitability	EPS	1107	931.9	637	9196	-2978	1117

Inferential Statistics

Table 2 presents the results of Chow and Housman in estimating the regression models. As it can be noted, in the entire applied model with a significant level of 5 percent, the statistics is less than 0.05. The appropriate model for these tests is not a collective model; therefore, the data panel model was used. According to the statistics of the Housman test, the model with constant effects was selected for all the regression models.

Table 2. The results of Chow and Housman Tests

Hypothesis	Index	Chow Test		Housman Test	
		P- Value	The selected model	P- Value	The selected model
Hypothesis 1-1		0.0000	Panel Data	0.0000	model with constant effects
Hypothesis 1-2		0.0000	Panel Data	0.0000	model with constant effects
Hypothesis 1-3		0.0000	Panel Data	0.0003	model with constant effects
Hypothesis2		0.0000	Panel Data	0.0000	model with constant effects
Hypothesis3-1	1	0.0000	Panel Data	0.0037	model with constant effects
	2	0.0007	Panel Data	0.0008	model with constant effects
Hypothesis3-2	1	0.0000	Panel Data	0.0000	model with constant effects
	2	0.0000	Panel Data	0.0003	model with constant effects
Hypothesis3-3	1	0.0000	Panel Data	0.0000	model with constant effects
	2	0.0000	Panel Data	0.0011	model with constant effects

Table 3 shows that the results of the estimations of the first and second hypotheses are constant with the model. In order to analyze the first hypothesis, three sub-hypotheses were made based on each of the independent variables. In hypothesis 1.1.the dependent variable of firm value was examined with the independent variable of central ownership along with the controlling variables. As it can be seen in Table 3, the coefficient of correlation of the central ownership (HI5) in the above model is more than 0.05, and is not significant, therefore it is concluded that central ownership is not effective on firm value and hypothesis 1.1 is rejected. Theoretically speaking, central ownership has its own special advantages and disadvantages. Controlling effects can be mentioned as the positive ones and wasting the rights of small shareholders by bigger shareholders is one of the disadvantages. It seems that the integration of the positive and negative aspects is the reason of the results obtained in this study. The result of this study is in line with that of Omran (2008), who also

concluded that central ownership does not have any significant effect on the profitability and firm value. Also in a similar study in Iran, FazlZadeh et al (2010), and SadeghiShrif and PanjehShahi (2010) found that central ownership has no significant effect on the efficiency and value of the firm. The results of this study differ from that of Sulang and Mat Nur (2010). They found that there is a significant relationship between central ownership and firm value in Malaysian firms.

Table 3. Estimated Model with constant effects of the first and second hypotheses

variables	H1						H2	
	H 1.3.		H 1.2.		H 1.1		t-statistics	
	t-statistics		t-statistics		t-statistics		t-statistics	
	Coefficient Variable	P-Value	Coefficient Variable	P-Value	Coefficient Variable	P-Value	Coefficient Variable	P-Value
Constant amount	931.5	0.000	13.70	0.000	15.54	0.000	14.22	0.000
central ownership	1.27	0.0931						
governmental ownership			0.84	0.000				
managers' ownership					0.89	0.007		
No. of non-bound members							0.19	0.000
Company size	-155.68	0.000	-2.32	0.000	-2.76	0.000	-2.5	0.000
growth	-0.005	0.878	0.0001	0.781	-7.66	0.859	-1.57	0.970
axis	-0.946	0.0001	0.007	0.0094	0.011	0.0001	0.008	0.0032
profitability	-0.0003	0.910	0.0002	0.000	0.0002	0.000	0.0002	0.000
Balanced R ²	0.18		0.60		0.61		0.59	
Watson Binoculars	1.90		1.75		1.91		13.28	
Fischer Statistics	2.94		13.97		13.69		1.82	
Result of the Hypothesis	Rejected		accepted		accepted		accepted	

In hypothesis 1.2.the dependent variable of firm value was examined with the independent variable of governmental ownership along with the controlling variables. As it can be observed from Table 3, the coefficient of the dependent variable is positive and is less than 5 percent, which means that governmental ownership has a direct effect on firm value. Therefore, hypothesis 1.2. is accepted. The explanation about the interference of the government in the ownership of the shares of the firms accepted in Tehran Exchange Market is that it is expected that this fact causes the firms to have a better supervision and efficiency. Furthermore, the managers of the firms that are indirectly controlled by the government can control the efficiency of the firm. On the other hand, the results of the present study support the results found by Sulang and Matt Nur (2010) who stated that there is a positive significant relationship between governmental ownership and firm value in Malaysian firms. Vaez et al. (2010) also concluded that there is a positive significant relationship between governmental ownership and firm value. In other words the more the shares of the government in a firm, the value of its shares increases more. The results of the above hypothesis are different from that of Khodabakhshi (2007). He found that the firms owned and controlled by the government or governmental organizations and institutions have a negative relationship with firm value.

In hypothesis 1.3. the dependent variable of firm value was analyzed using the independent variable of managers' ownership along with the controlling variables. As it can be seen in table 3, the coefficient of the dependent variable is positive and the statistics is less than 5 percent, which means that managers' ownership has a positive effect on firm value. Therefore hypothesis 1.3. is accepted. The result of this hypothesis is in accordance with the hypothesis of mutual interest which supports the positive relationship between managers' ownership and firm value. According to this hypothesis, when the managers' ownership increases, the costs of the agencies decrease. Because the managers will be responsible for much of the costs which decrease the firm value. By the reduction of the agencies' costs, firm value increases. The results of this study are in line with that of Khodabakhshi (2007). The results of his study indicated that the average of the shares held by the high ranking managers (members of the directing board) have a positive effect in increasing the firm value among Iranian firms. Managers whose main shareholders are the members of the directing board that is the firms whose managers are selected among the main shareholders have a higher firm value. This shows that the managers who are owners as well, put more effort into the appropriate corporate governance of the firm and therefore will increase the firm value. The results of this study are different from those of Sulang and Mattnur (2010), Vaez et. al. (2011), Namazi and Kermani (2009). They concluded that the centralization of the ownership by the managers has a negative significant relationship with firm value. That is, the more ownership is held by the executive managers or members of the directing board, the firm value decreases more.

In the second main hypothesis, the dependent variable of firm value was analyzed using the independent variable of the number of non-bounding members of the directing board, along with the controlling variables. As it can be seen in table 3, the coefficient of the dependent variable is positive and the statistics is less than 5 percent, which means that the number of non-bounding members of the directing board has a positive effect on firm value. The results of this study are in line with those of Khodabakhshi (2005) and Fe'eli (2008). The results of their study also showed that in all the firms having at least one non-bound member in the directing board, there was a significant relationship between the presence of the non-bound member and the firm value. The findings of the study are different from that of Ghanbari (2008). The findings of his study showed that the ratio of the presence of non-bounding members in the board of directors had no significant effect on firm value.

In order to analyze the third hypothesis, three separate hypotheses were analyzed based on each of the independent variables including the number of non-bounding members of the directing board along with the controlling variables. In this regard, it should be noted that each of the hypothesis were analyzed separately according to the discussed indexes. Table 4 is the estimated results of the third hypothesis with the fixed effect model.

In the analysis oh hypothesis 1.1., it was found that there is no significant relationship between central ownership and firm value. Therefore in hypothesis 3.1.the relationship between the dependent variable of firm value with the independent variable of central ownership was analyzed using the number of non-bound members of the directing board. According to Table 4, the results obtained from the estimated regression model show that in the firms where there are 0, 1, 2 or 3 non-bound members in the directing board, there is still no significant relationship between firm value and central ownership. Whereas, in firms where there are 4, 5, 6 or 7 non-bound members in the directing board, there is a positive, significant relationship between firm value and central

ownership. Based on the above mentioned explanations, and because it was not possible to compare the estimated coefficient (R^2), hypothesis 3.1. was rejected.

In hypothesis 3.2., the dependent variable of firm value was analyzed with the independent value of governmental ownership and the number of non-bound members of the directing board, along with controlling variables. The results obtained from the estimated regression model using the fixed effect model indicate that there is a direct relationship between firm value and governmental ownership because the coefficient of the independent variable of the governmental ownership is positive and significant in both models. Also, based on the values of R^2 in both models and the above mentioned indexes, it can be claimed that the more the number of non-bound members in the directing board there is, the relationship between firm value and governmental ownership increases. Therefore hypothesis 3.2. is accepted.

Table 4. Estimated Model with constant effects of hypothesis 3

variables	Index	H3					
		H 3.1.		H 3.2.		H3.3.	
		T statistics		T statistics		T statistics	
		Variable coefficient	P-Value	Variable coefficient	P-Value	Variable coefficient	P-Value
Constant	1	2.17	0.000	2.30	0.000	2.45	0.000
	2	7.97	0.000	7.68	0.000	8.24	0.000
central ownership	1	0.05	0.60				
	2	0.73	0.005				
governmental ownership	1			0.50	0.000		
	2			1.03	0.000		
managers' ownership	1					0.37	0.007
	2					1.25	0.002
Company size	1	-0.211	0.000	-0.21	0.000	-0.29	0.000
	2	-1.25	0.000	-1.13	0.000	-1.34	0.000
growth	1	0.05	0.000	0.04	0.000	0.047	0.000
	2	0.0004	0.48	0.0004	0.46	0.0002	0.68
axis	1	0.001	0.56	-0.0009	0.58	0.002	0.30
	2	-0.002	0.69	-0.003	0.48	-0.001	0.85
profitability	1	0.0002	0.000	0.0002	0.000	0.0002	0.000
	2	0.0005	0.000	0.0005	0.000	0.004	0.000
Balanced R^2	1	0.51		0.57		0.51	
	2	0.56		0.59		0.57	
Watson Binoculars	1	1.64		1.81		1.80	
	2	2.14		2.17		2.23	
Fischer Statistics	1	9.86		12.40		9.06	
	2	11.59		12.73		10.35	
Result		rejected		accepted		accepted	

In hypothesis 3.3., the dependent variable of firm value was analyzed with the independent variable of managers' ownership, considering the number of non-bound members of the directing board. The results obtained from the estimated regression model with constant effects indicate that the dependent coefficient of managers' ownership is positive and significant in both models, therefore in general there is a positive significant relationship between firm value and managers' ownership. Also, according to the values of R^2 in both models with the above indexes, it can be claimed that the more the number of non-bound members in the board of directors, the relationship between managers' ownership and firm value increases. Therefore, hypothesis 3.3. is accepted.

Results and Suggestions for Further Research

The objective of the study was to find the relationship between corporate governance mechanisms with firm value in accepted firms in Tehran Stock Market. In so doing, the present study analyzed the efficiency of controlling and supervising mechanisms on the firm value by the number of non-bound members of the directing board and ownership structure.

According to the findings of the study, the suggestions of the research are as follows:

1. According to the findings of the research it is suggested that investors should consider a firm's financial reports and ownership structure and ownership combination, when they want to make a decision. Further, the managers of the firms should consider the ownership structure as an effective factor and should try to improve it.

2. Based on the findings of the research, it seems that generally speaking, there is no systematic and logical relationship between central ownership and firm value. However, there is a significant positive relationship between governmental and managers' ownership. It is expected that the government considers the findings of the research as valuable and in addition to selecting ownership structure instead of corporate governance, should reinforce its global characteristics such as compiling, issuing and practicing supervisory rules, respecting the rights of small shareholders, authorizing the supervision of small shareholders as well, necessitating independent auditing, making facilities for the activity of ranking institutions, and it should consider the investment market as one of the fundamental basis of the economy so that foreign and local investors eagerly participate into the market.

3. As the findings of the study reveal, there is a significant relationship between the average shares of the members of the directors' board and the firm value index, that is, firms whose managers are selected from the shareholders, possess a higher firm value; therefore, this fact indicates the importance of the significant role of the shareholders in making decisions for the firm, active participation in general assembly meetings, and running the firm.

4. Due to the important role of non-bound members of the board of directors in corporate governance, it is suggested that the number of non-bound members of the board of directors increases, and the shareholders and other board members know about the role of these members, and these members also know more about their own responsibilities, in order to have a more effective role in corporate governance. Also these non-bound members should also do their duties regarding the related committees (such as auditing and appointing committees) and should provide special reports of their respective committees such as the firm stability report.

5. The results showed that having a higher standard of corporate governance of the firms of the active firms in the investment market will result in higher firm value. In fact, firms which are

governed (managed) better, do have a higher firm value, therefore this is recommended to be done so that the firm value increases.

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