Reviews of Impact Corporate Governance Practices on the Profitability in the Tehran Stock Exchange

Babak Jamshidinavid Ph. D[1], Fariba Ghobadian[2], Fereshteh Haidari.[3]

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Abstract

Capital formation and aggregation have a vital and pivotal influence on the economic growth and development of countries and continuous development involves winning the confidence of investors and sponsors. In the present days excessive limitations in accessing the financial sources highlights the need for the aggregation of the scattered financial sources of the society through gaining the public trust toward achieving the interests or profits out of operationalizing the economical projects as much as possible .On the other hand performing the privatization programs within the framework of the general policies of the 44th article involves a widespread stratum of the common goods(interest) and its success is contingent upon supporting the investors and their security .Our purpose in this research is to scrutinize the role of corporate governance(sovereignty) in the development of firms .This is a descriptive essay and its data is collected through library research. Findings of this research illustrate that the success of companies is contingent upon investment security and security of the investors and corporate governance meets the operational efficiency of the companies and proper yield of the citizens' investment and it has turned into a political and economical commitment.

Key words: Corporate governance, Development, companies.

[1]Department of Accounting, Kermanshah Branch, **Islamic Azad University**, Kermanshah, Iran. jamshidinavid@iauksh.ac.ir
[2]Department of Accounting, Ilam Branch, **Islamic Azad University**, Ilam, Iran.
[3]Department of Accounting, Ilam Branch, **Islamic Azad University**, Ilam, Iran.
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Introduction

In the 1990s, following the widespread financial scandals among the big firms, the subject of corporate governance was put for the first time. After the South East Asian financial crisis in the second half of 1997, some pivotal questions were put (posed) about the dependability of financial statements and the role of large international institutes in their own financial accounting. In this crisis, financial instability, sudden foreign capital flight , and weakness in the procedures of corporate governance in the large scale and small scale, leads to the collapse or breakdown of companies and the economy throughout the South East Asia. (Rahbari, 1384)

Corporate ownership by means of stock ownership has an outstanding influence on monitoring and controlling the companies. This way, the company owners abdicate the management of the company to the managers and the stock markets in this manner came into existence. One of the instruments or mediums for proper allocation of funds is the stock markets. So any problem which arises in the above-mentioned markets is not just an economical problem but it turns into a social issue which due to that, common goods will be endangered.(Giroud .X , Mueller .H.M, 2010) To resolve the mentioned problems, one of the key concepts posed throughout the recent years is the concept of corporate governance. Two main theories are posed about these issues which are Agency Theory and Stakeholder Theory. Each of these theories views the subject of corporate governance in a different manner. Agency theory views the problem of agent and employer and the stakeholder theory views the problem of agent and the stakeholders. (Hassas yeganeh, 1384) Corporate governance is like a controlling factor for the managerial behavior in the management of the company's sources. Inefficient investment which arises due to the weak corporate governance may influence the profiting of the company and as a result influences its value. (Giroud et al., 2010)

One of the most important aims that financial managers should take into consideration to maximize the wealth of the shareholders is determining the best possible combination for the sources of the company or the so-called capital structure. The riddle of capital structure is one of the most significant issues in the area of financial management which is even more sophisticated than the riddle of share profit. By means of capital structures it is possible to influence the total value of the company. The structure of capital is posed as the most significant parameter effecting the valuation of companies and for their orientation in the capital markets. Financing decisions and investment in companies are the kinds of decisions which are both taken with far-sightedness.(Badavar Nahandi,1389) Through financing decisions, the company considers the existing monitory sources until it can fulfill its pledges toward the suppliers of financial sources. In the company decisions for the investment, some present privileges are being ignored in the hope for achieving more privileges in future. Investment in the machinery and equipment can be an effect of farsightedness to gain the profit and the return of investment. The financing sources of companies based on their financing policies are classified into two groups of internal financial sources and external financial sources. In terms of internal financial sources the company goes for financing by means of earned profit; it means that instead of dividing the dividend among shareholders, the company uses the earned income in many operational activities to achieve more return and from among external financial sources it finances through debts and shares.(Bagherzadeh,1382)

In the present developing economy, the investor managers are always seeking proper choices or alternatives for investment until they can earn both the desired profit and also being able to increase their wealth in the long term.

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Financial markets are circles which can actualize the incentive for investment in the investors. The mechanism of financial market is in the manner that the investor invests through exchanging or bargaining financial assets.(i.e. shares and bonds) In the present time Iran stock market pledges this enterprise; it means that investors due to the stock market can invest in the stock market shares of the listed firms and perform the necessary measures. The companies' managers as the representatives of shareholders should continuously make an effort to regulate the structure of the capital in the company in a way that the capital expenditure of the company become minimized and so it's worth and profiting become maximized.

Deciding about the capital structure in the sense of financing for the company like other decisions of financial managers influences the profiting and the worth of the company and this influencing on the one hand is possible by means of capital expenditure; in fact the capital cost determines the expected rate of return of the investment into the company and in this way it directly influences the value of company assets. On the other hand, any change in the structure of the capital which is followed by influencing the financial leverage of a company can increase or decrease the monetary risk of the company.(Smin.B, Smyth.R, 2013)

The issue of profit and profiting for the credit and financial institutes all over the world is the most important and the most prioritized key issue which always has been of the most considerable importance. Meanwhile, scrutinizing and taking the empirical and scientific factors influencing the value of profiting is a criterion and yardstick for the listed firms of the stock market and each year lots of field researches are being carried out in this area in order to assisting the managers for increasing the profiting in their financial complex.(Chen, 2005)

According to the above-mentioned issues in this research, we intend to measure the amount of the influence of the corporate governance methods on the profitability of Tehran stock market listed companies.

Review of Literature

(Ahmadi, 1380), considered the relationship between the structure of capital and different methods of short-term and long-term financing through returnable debts in the listed companies of Tehran stock market. In total, 50 companies are chosen from among 13 industries and by means of simple regression and correlation coefficient they came to this conclusion that there is no firm and absolute reasoning about the existence of a meaningful relationship between the structure of capital and the ratios of return, but it seems that the existence of such a relationship is not rejected totally.

A research was carried out by Bagherzadeh, (1383) which its results and evidence indicates that the pattern of the capital structure in the listed companies of Tehran stock market is mainly a direct function of variables such as the amount of fixed assets of the company, sales volume of the company and its resultant profitability. In other words, companies which are larger in terms of sales volume are more reliant on the debts than on the shares. Namazi and Shirzadeh(1384), according to the findings of their research stated that there is a positive relationship between the structure of capital and profitability of the company. Also the relationship between the structure of capital and profitability depends on the kind of industry.

Bagherzadeh khaje and Feizi (1386), went into scrutinizing the relationship between profitability and the structure of capital with the rate of stock return and as a result of it the research hypotheses were rejected and contrary to the similar researches carried out in the countries enjoying a developed capital market which no meaningful relationship was observed among the variables of the project, they expressed that the reason for this incongruence

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is factors which are classified in three groups as follows:

1-Actual cost of assets based on their historical value:

Various factors are caused the assets of the companies not to be actualized or be issued in their actual cost and caused factors or variables such as the yield or turnover of the assets and the fixed assets and the (Ω) not to have enough efficiency.

2-The quality of the company's profit:

Quality of the accounting profit depends on the rate of conservativeness of the companies in disclosing their profit and the low level of the quality of the profit lands the possibility of using some of the financial ratios into trouble.

3-Problems arising from capital increase:

Capital increase in some companies causes dilution and weakness of financed ratios and finally leads to some harm for them.

Arbabian , Safari and Gerayeli91388), based on the results of their research project express that there is a relationship between the capital structure and the profitability of the listed firms. Askari et al. (1388), in their research came to this conclusion that there is a relationship between the financial structure of a company and its profitability.

Hassas yeganeh et al.(1388), went to consider the relationship between the corporate governance and the performance of the listed companies in Tehran stock market. Their purpose was to rank the companies in terms of corporate governance and considering its effect on the performance of the company. In this research the ranking of the sample of listed companies was increased by means of a comprehensive questionnaire containing 25 criteria of the criteria of corporate governance. These criteria are taken from the content of the by-law of the navigation system of the listed companies of Tehran stock market and are classified into three classes of informational transparency, the framework of the board of directors, and the ownership structure. For this purpose, the yearly information of 90 companies was being scrutinized and by means of regression method research hypotheses were tested. The results of the research indicated that there is a meaningful relationship between the corporate governance and the performance of the company.

Ghaemi and Shahriari (1388), in a research went to scrutinize the relationship between the components of the structure of the corporate governance including the arrangement of the board of directors, the structure of ownership and the disclosure of information with the performance of the companies. The considered sample includes 77 listed companies in Tehran stock market during the 3-year span of 1382 to 1384 0f Persian calendar. To test the hypothesis, the Spearman rank order correlation coefficient statistical method was used. The findings illustrated that there is a meaningful relationship between the disclosure of information and the financial performance of the companies.

Gholamhosseinzadeh (1389), considered the relationship between the corporate governance and the performance of Tehran stock market listed firms. The statistical universe of the research is all the listed companies that sixty of them are chosen through random sampling. The research span was from 1382 to 1388 of Persian calendar. The considered corporate governance characteristics were as follows:

The appropriateness of the board of directors, the two-fold management roles and the percentage of public or governmental performance.

Hassas yeganeh and Moazez(1389), considered the influence of corporate governance on the financial performance of Tehran stock market listed firms. In this research the relationship between the indices of financial performance and the percentage of institutional shareholders' ownership are tested as the mechanism of corporate governance in

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Tehran stock market listed companies from 1384 to 1388 of Persian calendar and to scrutinize the relationships the regression test and the panel data method were used. The obtained empirical evidence is indicative of the existence of a meaningful relationship between the institutional shareholders and the indices of financial performance such as sales return index, the index of assets return, and the index of the ratio of operational profit to the assets and the return of shareholders' rights.

Badavar nahandi et al.(1390), considered the relationship between the mechanisms of some corporate governance with the value predicted for the shareholders and the economic value added. Their statistical universe included the listed companies of Tehran stock market which through systematic omission method, 69 companies were included in its statistical sample. The span of the research was from 1385 to 1389.For hypothesis testing multiple regressions were used. The results of the research indicates that from among eight mechanisms of corporate governance, four mechanisms(the amount of power and ownership of the government, the amount of ownership among institutional shareholders, the structure of capital and the amount of free float share are related to the value produced for the shareholders. Also, from among the eight mechanisms of corporate governance scrutinized in this research the three mechanisms of the amount of state power and ownership, the amount of institutional shareholders' ownership and the amount of free float share are relevant to the economic added value.

External background

Feeny (2000) in a research tilted" the influential factors in the profitability of the industries", scrutinized the factors influencing the profitability of 142 Australian companies. Their study was in the form of temporary data and was based on an average of a three-year period from1992 to 1994.They studied and scrutinized the intensity of the influential power of capital on the profit of companies under the study by estimating the effects of factors such as size of the company, capital inventory, the amount of sales, management, and studied the quality of workforce on the profit, the intensity of the influence of capital on the profit of companies under study, and finally concluded that the intensity of the amount of capitals under study on the profit of different industrial activities is diverse. Also there is a meaningful relationship between the diversity of industrial activities and the influential factors on their profitability.

Kovenoch and Philips (2001), scrutinized the influence of the kind of diverse industries on the decisions of the capital structure and concluded that the kind of industry influences the use of debts and the performance of companies.

Tsaia and Gu,(2007), carried out a research about the relationship between the institutional ownership and the performance of the company in diverse industries in Japan from1993 to 2003.Institutional ownership equals the percentage of the share preserved by state-owned companies to the total capital share and these companies includes insurance companies, financial institutes, banks, state-owned companies and other components of the government. They illustrated that the institutional investment in companies can help the investors in this industry until they can decrease the degree of delegacy out of management and ownership segregation.

Bernotas (2005), in their research illustrated that there is a meaningful relationship between the ownership structure and the corporate governance and profitability. Lin and Rovou(2005), scrutinized the profitability of Chinese companies. By considering the factors such as the growth rates of companies out of the stock market, idle assets and the ratio of the debt to the international trade; they concluded that there is a positive relationship between the rate of growth in the out of stock market companies and the listed firms and the

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profitability in areas that out of stock market companies existed was more than areas which these companies were rare. Free trade which was measured by the share of exporting had a positive influence on the profitability. The ratio of idle assets to the total assets had a negative influence on the total assets. The relationship between the ratio of debt and profitability depends on the criterion of profit measurement but in total, the analysis showed that the high ratio of debt has a negative influence on profitability.

Goroud and Mueller (2010), in a research scrutinized the influence of corporate governance on the performance of the company. They used the data obtained from 125 American companies from 1995 to 2005 and realized that the influence of proper internal governance on the performance of the company in the competitive industries is more or less meaningless and negligible while in the non-competitive industries this case is eminent and considerable.

Tian and Twit (2010), in a research scrutinized the relationship between the mechanisms of corporate governance and the efficiency in diverse industries in Australia. The span of this research was from 2000 to 2005.They used three variables of bonus for the board of directors, the independence of the board of directors, and the percentage of uncommitted managers as the mechanisms of corporate governance. They calculated the efficiency of the total company by means of Kab-Douglas production function. The results of their research illustrated that there is a positive and meaningful relationship between the corporate governance mechanisms and the efficiency of the company. They used the data obtained from Korean companies from 1999 to 2007.In this study they divided the influences of the variables on the efficiency into two types of direct and indirect. The results of the research illustrated that the positive influence of the rights of the shareholders in the efficiency of the company when the company improves its corporate governance is reinforced.

Gamlath, G.R.M & Rathiranee, Y(2014), in an essay titled as " considering the influence of working capital on the profitability get into the influence of capital management on the working capital of Srilankan banks about their profiting and came to the following conclusions:

Working capital management which was considered in their research included the management of connection between the short-term assets and short-term debts. They stated the aim of capital management as reaching certainty about the continuation of company’s activities and enough cash flow for the repayment of the debts as the aim of the capital management. Also, they stated that the management of working capital is one of the essential factors in the value and worth of the company in the market since it directly influences the profitability. The aim of this research is to consider the relationship between working capital management and its profitability and influence on profitability. To prove the hypotheses, correlation tests of Pearson and regression and variance analysis were used. The variables of working capital management include CR, LDR, and CSR and the profitability variables include NPM, ROA, and ROCE. The obtained results were indicative of this concept that the monetary ratio had a significant influence on the net profit margin(NPM) and the capital yield which is influenced by the variables such as profit rate and saving is influenced by variables of current ratio and the ratio of the loan to the deposit.

Research hypothesis

Main Hypothesis:

There is a meaningful; relationship between corporate governance and the profitability of Tehran stock market listed firms.

Premises:

There is a meaningful relationship between the ownership percentage of the institutional shareholders and the profitability of Tehran stock market listed firms. There is a meaningful relationship between the ratio of long-term debt to the total assets and the profitability of Tehran stock market listed firms.

Research Method:

The present research in terms of purpose is an operational research and attending to the essence of the subject in terms of research method is classified as descriptive and analytical researches; because on the one hand considers the status quo and on the other hand discovers and determines the relationship between diverse variables by means of regression analysis in a way that in order to collect the expected data as the research sample goes for scrutinizing and studying the financial statements. In this research the panel data is used and in order to determine the method of estimating the models(either the mixed or the tabular method), F-Limer test and in case of choosing the tabular method Hausman test is used to choose one of the methods of fixed effects or haphazard effects. In analyzing the results t-test and F-test and the determining coefficient and also the econometrics software, E views are used.

Research Variables

Independent variables

It is the variable which its influence on other variables is measured. The independent variables in this research are as follows:

Corporate governance including the variables of the percentage of the ownership of institutional shareholders and the amount of debt which the calculation method for each of them is as follows:

The Ownership of Institutional Shareholders: including the percentage of company shares which belong to the banks, insurance companies, financial institutes, Holding companies, state-owned organizations and companies. To calculate the percentage of institutional shareholders in each company at the beginning of the period.

Liability: including the ratio of long-term debt to the total debt.

Dependent Variable: profitability

Profitability of the general performance of the company illustrates the following financial performance: To measure the financial performance the rate of assets, return and the operational cash flows are used.

Asset return=net profit/total profits

The Regression Model used in the Research:

The model which is used to measure the research hypothesis is as follows:

$$\mathrm{ROE}_{i,t} = \beta_0 + \beta_1 IPC + \beta_2 Debt + \varepsilon_{i,t}$$

In this equation, $ROA_{j,t}$=profitability of the general performance of the company at the end of fiscal year (t).

IPC_{it} =the level of institutional ownership at the end of fiscal year (t).

$Debt_{it}$=the debt levels of the company at the end of the fiscal year(t).

The statistical universe, Sampling method, and the sample volume

The statistical universe of the research includes all the non-financial listed firms in Tehran stock market from 1388 to 1392 of Persian calendar.to choose the expected samples the following criteria are being considered:

1-Companies which their date of listing in the stock market is before 1380.

2-Companies shouldn't belong to the investment companies and financial brokerage.(investment companies due to the difference in their essence

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of activities from the rest of companies aren't inserted in the statistical universe).

3-For the comparability of the data the end of company's fiscal year is Esfand 29th.

4-For the homogeneity of the data the companies are of the productive type.

5-The required data of the company should be accessible during the investigation period.

6-The required data should be accessible.

According to the above-mentioned limitations the numbers of companies which are used in performing this statistical project which are chosen from the above-mentioned statistical universe are 118.

Methods and tools for Data Analysis

As it was mentioned, in the present research the mixed or tabular data is used. In the mixed data in order to choose from among the tabular data and the mixed data the F-liner test was used and based on this test the pooling data for the hypothesis testing was chosen. To estimate the parameters of the regression model, the classical hypothesis is of prominent importance. One of the most prominent kind of these hypotheses are the hypotheses which are relevant to scrutinizing the normality of the rest of models, lack of correlation, lack of co linearity, and lack of variance heterogeneity among the rest or residues of the model. To consider the normality of the residues the Kolmogorov-Smirnov test is used.

Research findings

In this analysis, the researcher classifies the collected data by means of descriptive data indices. In other words, in this kind of analysis the researcher uses indices of the descriptive statistics such as mean, median, etc.(Khaki, 1388).

For this reason, the descriptive statistics of the data including the measures of central tendency, measures of dispersion, and measures of skewedness presented in table No.1 will be analyzed.

Table1.Analysis and descriptive statistics

Variables under study	No. of observations	Mean	Median	Standard deviation	Maximum	Minimum
Ownership of institutional shareholders	50	0.58	0.38	0.16	o.96	0.29
The ratio of long-term debt to the total debts	50	1.21	1.138	1.74	1.95	0.11
Profitability	50	o.42	0.32	0.18	0.91	0.10

Inferential Statistics

As it was mentioned before, after data collection and measuring the ratio of the data and summarizing them by means of excel software, the researcher tries in this chapter to test the research hypotheses by means of proper statistical techniques which are compatible with the method of research, the kind of variables, and other parameters of the research. In this research instead of using methods such as periodical data, panel data method is being used. The mentioned method besides increasing the statistical power of the coefficients, causes a decrease in the co linearity of the variables and due to the increase in the degree of freedom a more efficient estimation is will be done. In the present research to study the effect of monetary function and functional flexibility two methods of panel data, that is static panel data and dynamic panel data will be used. In the static panel data method after doing the Hausman test and choosing the method of fixed effects, it comes to estimate the coefficient of the model by means of EGLS method. Also, in order to increase the amount of reliability to the obtained results in the mentioned model coefficients of the model will be re-estimated under a dynamic process and by means of the advanced method of GMM. On the one hand the GMM model due to lack of any need to exact data for the distribution of terms has no disruption and is based on the hypothesis that disturbance sentences in the equations are not correlated with the series of instrumental variable and on the other hand due to the existence of probable correlation between the wrong term and the descriptive variables in the fixed effects model, the GMM model has more validity. In this level we are going to consider the hypotheses of the research one by one and give our opinions in an expertise way about their approval or rejection.

The First Premise Test

In the first hypothesis as it was mentioned before the researcher intends to scrutinize the relationship between the percentage of ownership among institutional shareholders and the profitability of the companies under study. For this purpose the researcher goes to estimate the model by means of Eviews software after collecting and summarizing the data. To test these hypotheses two models of GMM and EGLS are being used which the summary of the results obtained from these two tests are presented in the following Table No.2.As it was mentioned before, to test this hypothesis the following model is used:

$$\mathrm{ROE}_{\mathrm{i,t}} = \beta_0 + \beta_1 IPC + \varepsilon_{i,t}$$

Table 2.the first premise test

	EGLS method		GMM method	
The independent variables under study	Coefficients	Meaningfulness level	Co eficients	Meaningfulness level
Constant C	3.659	0.001		
Percentage of institutional shareholders' ownership	o.3265	o.001	0.4251	0.001
Statistical value of F	8.2654			
Probability of the statistical value of F	0.000		-	
Modified coefficient of determination	0.62514			
Durbin-Watson test	2.012			

As it has been observed in the above table, according to the amount of obtained P-value (meaningfulness level), all of the correlation coefficients of the model are meaningful and the statistical value of Durbin-Watson by an amount of 2.01 illustrates the lack of correlation among the errors. The obtained results also illustrate this point that the coefficient of the variable of ownership percentage among the institutional shareholders is positive and meaningful in a way that these variables altogether explain %62 of the behavior of the dependent variable.in this manner, by attending the

Above-mentioned results the Hovel hypothesis in this research about the existence of a meaningful relationship between the percentage of ownership among the institutional shareholders and the

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profitability is being approved. By paying attention to the coefficient of leverage ratio, (0.3265), this relationship has an approval level of acceptability.

The Second Premise Test

In the second premise the researcher intends to assess the relationship between the ratio of long-term debt to the total assets and the profitability of the listed companies in Tehran stock market. For this test as it was mentioned before the following model will be used.

$$\mathrm{ROE}_{i,t} = \beta_0 + \beta_1 Debt + \varepsilon_{i,t}$$

After collecting the required data we go for testing this hypothesis which its result is illustrated in Table No.3

Table No.3 The second hypothesis results

	EGLS method		GMM method	
Independent variables under study	Coefficients	Meaningfulness level	Coefficients	Meaningfulness level
Constant C	0.07859		0.00000	
The ratio of long-term debt to the total assets	0.167	0.013	0.241	0.012
Statistical value of F	4.6251			
Probability value of F	0.001			
Modified coefficient of determination	0.3821			
Durbin-Watson test	2.10			

As it has been observed in the above table the meaningfulness level of long-term debt ratio to the total assets is less than 0.05. So we can conclude that there is a meaningful relationship between the ratio of long-term debts to the total debts and the profitability of the companies under study in this research. The amount of this relationship equals 0.167 that according to the modified coefficient indicates that the independent variable as the ratio of long-term debt to the total assets justifies about %38 of the behavior of the dependent variable that is a considerable amount. The amount of Durbin-Watson test (2.10) is also indicative of the lack of correlation among the errors.

The main hypothesis test

In the main hypothesis the researcher intends to assess the relationship between the corporate governance and the profitability in Tehran stock market listed firms. For this test as it was mentioned before, the following model will be used.

$$\mathrm{ROE}_{i,t} = \beta_0 + \beta_1 IPC + \beta_2 Debt + \varepsilon_{i,t}$$

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After collecting the required data the mentioned hypothesis was being tested which its results are illustrated in table No.4

Table No.4 the results of second hypothesis test

	EGLS method		GMM method	
Independent Variables under study	Coefficients	Meaningfulness level	Coefficients	Meaningfulness level
Constant C	0.15866			
Percentage of institutional shareholders' ownership	0.402	0.0001	o.274	o.ooo
Ratio of long-term debt to The total assets	0.428	0.0023	o.541	0.002
Statistical Value of F	0.001			
Modified Coefficient of Determination	0.4282			
Durbin-Watson Test	2.14			

As it has been observed in the above table, the meaningfulness level for the percentage of the ownership of the institutional shareholders and the ratio of long-term debt to the total assets is less than 0.05 and so we can conclude that there is a meaningful relationship between the ownership of institutional shareholders and the ratio of long-term debt to the total assets and the share price of the companies which have been studied in this research. The ratio of this relationship is also 0.402 and 0.528 that according to the coefficient of modification which indicates that the independent variables that are the ownership of the institutional shareholders and the ratio of long-term debt to the total assets is about %42 of the behavior of the dependent variable, this rate is considerable. Also, the rate of Durbin-Watson test (2014) is indicative of the lack of correlations among the errors as well.

Conclusion from the hypotheses

In this research the researcher intended to scrutinize the relationship between the corporate governance methods and profitability in Tehran stock market listed firms. To sum up, based on the findings of the present research it can be concluded that according to the amount of transparency in the capital market and the supportive laws that exist at present, proper methods of corporate governance can lead to an increase in the profitability. Proper methods of the corporate governance include on-time and

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proper tools to change the framework of the shareholders or the financial leverage to increase or decrease the profitability.

In total, on each level of operational risk, a commercial unit which enjoys the proper methods of corporate governance in comparison with the commercial unit which has improper corporate governance faces the probability of an increase in the profitability and the rate of shares; since the performance of financial statements can present information in order to aid to assess the power of the commercial unit for decreasing the costs when the revenues shrink. It submits the informational statement to assess the financial flexibility through determining the essence of the existing sources and the rate and time of existing claims on these sources.

The results of the main hypothesis of the research indicates that there is a meaningful relationship between the corporate governance methods and the profitability of the listed companies of Tehran stock market. This result is compatible with the researches carried out by Tsaia and Gu(2005), Bernotes(2005), Giroud and Mueller(2010), and S.Min and S.Myth(2013).Also, the results of the premises of the present research illustrates that there is a meaningful relationship between the percentage of ownership of the institutional shareholders and the ratio of long-term debt to the total assets with the profitability of Tehran stock market listed companies and it can be stated that this result is compatible with the result of the research carried out by Mueller(2010), S.Min and S.Myth.(2013)

Conclusion

According to the beliefs of some experts, legislation for corporate navigation is vital. In spite of this, some other experts believe that the efficiency and also the cost of law enforcement and limiting the creativities make the legislation in this field to seem less profitable. The view of Allen Green Spin, the ex-president of the U.S. Federal Reserve in this area is significant. "Market economy requires formal regulations such as regulation of contracts, trade regulations, and bargaining regulations. But regulations can't be a substitute for the personality. In almost all of our bargaining's we have no choice but to count on the pledge of persons whom we bargain with. If this thing won't be possible, the exchange market will not work out. Companies which are administered by high ethical factors or criteria don't have any need to elaborate regulations to be sure about the observation of the consumers 'rights in the long-term but unfortunately in practice they do not perform as it is necessary and so legislation of a series of regulations for corporate navigation seems to be fruitful. These regulations should embrace all the beneficiaries and this is an enterprise to legislate in a way that a proper amalgam of rewards and punishments govern and dominate the market. legislation and updating such regulations is a big challenge. The framework of ownership in a joint stock in the present situation of Iran to a large extent is compatible with the situation and the internal power or capability. The hegemony of the main shareholders (either state or quasi-governmental) on the joint stock companies of Iran is evident. Even by attending to the present trend of privatization it doesn't seem that any change in this system happens in the near future. Large state-owned companies which their share during these years has been issued in the stock market and are bestowed to people are still under the control of the government directly or indirectly. Thus, up to now it can be

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concluded that at least from this point of view joint stock companies in Iran are not so efficient. On the other hand, the general policies of the Islamic Republic of Iran puts emphasis on the elements of justice. Paying attention to the centrality of justice in the regulations and policies among the various viewpoints of the corporate governance system is more compatible with the stakeholder theory. Attending to the two above-mentioned characteristics, it seems that the stakeholder theory which is a proper navigation system for the economic environment of Iran is more close to the widespread views about corporate navigation. In this manner, the present text suggest an orientation in the regulation relevant to corporate navigation system to go toward the observation of the rights of all the beneficiaries; although the priority of the shareholders' rights is still taken into consideration. The other important point is considering the specific characteristics of the industrial section such as banking industry, in terms of the issues posed in the corporate navigation, the structure of capital is not compatible with its content. The arte of the depositors' sources to shareholders' sources puts the depositors in stance of dominant beneficiaries as the main supporter of the financial sources of the bank and due to this; the issues of corporate governance in the banking industry are pioneering. Attempts of the observatory and directory organizations such as the BAL committee in this area is of great importance. In any case, according to the legal voids existing in the developing countries, legislation of a series of coherent rules in the field of corporate navigation seems to be urgent. Toward this aim, the key foundation of a corporate navigation system which is proper for the economic environment of Iran which mainly addresses the companies' board of directors is suggested as follows:

1- Auditing and accountability.
2- Creation of value and the effective use of the companies' sources and on-time and transparent reporting.
3- Observation of equity and justice toward all the beneficiaries.
4- Fulfillment of a social role and citizenship role of the company.

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