Investigating the Relationship between the Ownership Concentration and Board of Directors Structure in Listed Companies in Tehran Stock Exchange

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Abstract.

Existence a board of directors' structure is favorable regulatory purposes within the company and an improvement in the structure of the board of directors of these criteria will lead to a favorable assessment of investors. This is the most important criteria include the independence of the board of directors and size of the board of directors. The purpose of this study was to investigate the relationship between ownership concentration and board structure in the Company listed in Tehran Stock Exchange. To test the hypotheses, the number of 123 companies listed in Tehran Stock Exchange in the period from 2007 to 2013 was chosen. To test the hypothesis ordinary least squares regression with panel data techniques are used. The results of the study showed that the ownership concentration with the independence of the board of directors and size of the board of directors at the level of 5 percent has a significant relationship.

Keywords: ownership concentration, board of directors, independence of the board of directors

1. Introduction.

Companies that engage in business economy are born personal ownership of the development process. The process whereby different types of collective patterns of economic activity has been tested and pattern joint-stock company (in general) is that a legal framework has emerged as a superior species. Today, these companies are attracting a lot of resources into goods and services needed by society play an important role in the economy. The Company draws attention to two things. First, the owners have limited liability, but these patterns of risk accepted by the purchasers of the shares he owns are known, is not limited. Another point is that the holder of the shares in these companies is not customary and traditional rights associated with ownership of assets. What he owns a share or the external certificate that his relative share of the entire company. So, he has the right of an owner to control his assets and the assets of the company, does not have (Nekounam, 2011). In public companies recognized rights owners to control and the economic benefits will not be in a template. In other words, to varying degrees separation of ownership from control in these organizations are seeing. Gradually faded, giving owners the company's direct sovereignty, control is given to other groups that make up the board of directors and managers. Due to internal communication and interaction between their hierarchies between these three groups are formed from two aspects. First interaction and balance of power between them and practices governing the relationship between the components of this collection of texts called Corporate Governance Management have works that are a move in the direction and performance of these companies can be effective. Second, the interaction referred to in the form of a juridical construction is done in the name of joint-stock company that the use of texts in terms of organizational and financial costs associated with the called Agency Cost (Sarin et al., 2000). Given the above, it can be expected that any changes in the components of the corporate governance structure to redirect strategic move and their performance and also increase or decrease the lead agency costs. In recent years investors in shareholders of public companies have enjoyed significant growth. The quantity and quality of the investors in the owners of industrial enterprises in terms of impact on the ownership structure and also how to rule on the leaves is considerable. Because poor governance in companies not only does not reduce agency costs but with the rising cost of financing also reduces the competitiveness of companies. Therefore, the effect of equity investors in industrial companies point is worthy of attention. Given the above, the presence of multiple owners can lead to changes in the structure of the board of directors, because the managers' attitudes and associations can be a sign of an increase or decrease in agency costs (Nekounam, 2011). The presence of outside directors in the structure of the board of directors to monitor the performance and increase the number of directors required by managers in the structure of the board of directors will also lead to better decisions.

According to what was expressed in this research is to investigate the relationship between ownership concentration and the structure of the board of directors of companies listed on the Tehran Stock Exchange.

2. Background Research.

Gedajlovic and Shapiro (2002) conducted a study to examine the relationship between concentrated ownership and financial performance of Japanese companies. The results of their study showed that there is a significant positive relationship between these two variables. Gompers and others (2003) conducted a study to examine the relationship between corporate governance and firm performance. The results showed that companies with better corporate governance regime has better performance, higher value and higher stock returns. Bai et al (2004) examined the relationship between corporate governance and stock market value in China. Their findings showed that significant negative relationship between state ownership and market value. Fleming et al (2005) in a study to examine the relationship between ownership structure and agency costs among companies stock Australia. The results showed that, agency costs are affected by conflicts of interest between managers and shareholders out of the company's owner, the managers reduced ownership increases. But conflicts of interest between shareholders and holders of debt securities is a little more complicated. High debt ratio, debt holders leads to increased regulatory activities and thus reduce agency costs. Mueller and Spitz (2006) studied the relationship between managerial ownership and private operation of small and medium sized companies in Germany. The results showed that the performance of companies with high management ownership percentage of 40%, is improving. Kapopoulos and Lazaretou (2007) examined the effects of ownership structure on firm performance using data from 175 Greek companies. The results showed that it has a significant positive relationship between concentrated ownership structure and profitability. Wang et al. (2009) in their study examined the impact of corporate governance on the performance characteristics of Chinese companies. They used in their study of corporate governance approaches. First began to evaluate the impact of corporate governance on corporate performance features and then began to review all the features of corporate governance impact on corporate performance. The results showed that companies with better corporate governance regime has better performance and higher value. There is also a significant positive relationship between ownership concentration, institutional investors, government ownership and operation of the market value. Citak and others (2012) conducted a study entitled "Is there a relationship between corporate governance and financial performance criteria on the basis of value?" An example of Turkey stock companies in 1998 to 2007 period. In total 41 companies were selected and test the model. Results showed that duality have a significant impact on the market and value added economic value. The ownership concentration has no impact on the market value. Property management has no impact on financial metrics and finally foreign investors to increase economic value and makes the reduced market value. Munisi and others (2013) study as the structure of the board of directors and ownership structure did. The period of their study was conducted between 2006 and 2009. The results showed that the ownership concentration, foreign ownership and property management have had a negative correlation with the size of the board of directors and state ownership has a positive relationship with the proportion of outside directors on the board. Namazi and Kermani (2008) examined the effect of ownership structure on the performance of companies listed on the Tehran Stock Exchange. The statistical sample includes 66 firms during 2003 to 2007. The results of their research showed that there is a significant relationship between ownership structure and their function. Hassas Yeganeh et al (2008) examined the relationship between institutional investors and corporate value. They used multiple linear regression to test your hypothesis. The results of their research showed a positive relationship between institutional investors and the value of the company. Baradaran Hassanzadeh et al (2012) conducted a study to examine the relationship between some of the mechanisms of corporate governance as the value created for shareholders and economic value. Their research was conducted on 69 companies between the years 2006 to 2010. The results showed that the penetration rate criteria and state ownership, institutional ownership, capital structure and free float had a significant relationship with the value created for shareholders. As well as the influence of variables and state ownership, institutional ownership, capital structure coping with economic value. Ghadrdan and Rashedi (2013) conducted a study entitled the relationship between corporate governance mechanisms and accounting criteria to evaluate the performance of companies listed on the Tehran Stock Exchange. Their research was carried out between the years 2006 to 2010 on 109 companies and research results showed that no significant relationship between the presence of outside directors on the board and corporate performance while there is a significant relationship between institutional investors and corporate performance.

3. Hypotheses.

1. There is a significant relationship between ownership concentration and the size of the board of directors.

2. There is a significant relationship between ownership concentration and independence of the board of directors.

4. Research Methodology.

Recent research in terms of purpose and the type of data collection is a quasi-experimental study. The target population in this study, all companies listed on the Stock Exchange in the period from 2007 to 2013 in

Tehran. In this study, to select any of the following conditions are prime examples of companies that have not been removed and then using a sample size of sample and then using random sampling, sample firms were selected. 1) Fiscal year ended March each year. 2) In the fiscal year has not changed during the period of investigation. 3) During the period of investigation is actively involved in the exchange. 4) The information is available to extract data. 5) They are not Investment Company or financial intermediation. Data to selected companies through data collection was performed by referring to the financial statements. In order to analyze the data and test hypotheses using panel data regression and application Eviews7 is used. Before testing hypotheses has been studied classical assumptions of the regression model using Heteroskedasticity, Co-linearity test of residuals, Chow test and Hausman test.

4.1. Model and Variables.

Bord $Structure_{ij}= \beta_1+\beta_{2p}Cons_{pij}+ \beta_3Size_{ij}+ \beta_4Growth_{ij}+ \beta_5Performance_{ij}+ \beta_6$Free cash $flow_{ij}+e_{ij}$

4.2. Independent Variables.

Ownership concentration (Cons): By dividing the number of shares in the hands of major shareholders the total number of shares of the Company will be achieved. Major shareholder who is said to be in possession of more than 5% stake in the company.

4.3. Dependent Variables.

The size of the board of directors (Bsize): the natural logarithm of the total members of the Board of Directors at the end of the year, to get it from the list of board members be present before the financial statements can be used.

Independence of the board of directors (Indep): divide the number of outside directors on the board of directors on the board is obtained. Outside directors to those said to have been the only member of the board of directors and the executive in their company. To obtain it from the list of board members be present before the financial statements can be used.

4.4. Control Variables.

Company size (Size): the natural logarithm of total assets at the end of the year. Sales growth (Growth): changes in the company's revenues this year compared to last year divided by revenue last year.

Profitability (Performance): Earnings before interest and taxes divided by total assets at the end of the year.

Free cash flow (Free cash flow): the proportion of cash held on the balance sheet, the book value of total assets at year-end

4.5. Descriptive statistics of variables.

Descriptive statistics of the variables presented in this section. Is descriptive statistics are including mean, median, maximum, minimum, and standard deviation of variables. The results show that the independence of the board of directors that the division of outside directors on the board of directors on the board obtained an average of 21 percent. This is an example that shows only one in five managers in companies were non-executive. Ownership concentration in the hands of major shareholders is the sum of the stock indicates that 75% of the shares of the company. Sales growth rate of the difference between sales this year and last year divided by sales last year obtained shows that 21 percent of corporate sales growth and profitability of the company as a whole positive, with an average of 13 percent.

Table 1. Descriptive statistics of variables

Description	Mean	Middle	Maximum	Minimum	Standard deviation
Size of the board of directors	1.62	1.61	2.08	1.09	.07
Independence of the board of directors	.21	0	.80	0	.32
Ownership concentration	.75	.80	1	0	.17
Size of the company	13.61	13.53	18.36	7.96	1.31
Rate of sales growth	.21	.17	2.28	-.39	.38
profitable	.13	.11	.91	-.48	.17
Free cash flow	.04	.03	.42	.0009	.04

***4*.6. Pearson correlation coefficient.**

Table 2 shows the Pearson correlation coefficient between variables. The results show that there is a negative correlation between the independence of the board of directors and the size of the board of directors, in fact, with regard to the independence of the board of directors descriptive statistics can be said that whatever the size of the board of directors increase the independence of the board of directors is reduced, because new members will be obliged members in the board of directors. Ownership concentration with the size of the board of directors has a positive correlation between 4% and the independence of the board of directors (the ratio of outside directors on the board) has a negative 4% solidarity.

Table 2. The correlation coefficient between variables

Descrip-tion	Size of the board of direc-tors	Independence of the board of directors	Ownership concen-tration	Size of the company	Rate of sales growth	Profitable	Free cash flow
Size of the board of directors	1						
Inde-pendence of the board of directors	*-.14	1					
Ownership concentration	.04	-.04	1				
Size of the company	*.14	*-.08	.01	1			
Rate of sales growth	.05	-.01	*.09	*.11	1		
Profitable	-.05	-.05	.07	*.17	*.22	1	
Free cash flow	-.04	-.02	-.03	-.03	*.11	*.25	1

* Significant at the 5% level Source: Calculations of researcher

4.7. Classical hypothesis tests, regression.

In this study, to evaluate the assumptions of the classical regression analysis of variance inequality, co-linearity test using the test results confirmed the assumptions of the classical regression model was used to test hypotheses. Chow and Hausman test also tests for selection of mixed data, it was found that the first model with the dependent variable given the size of the board of directors of random effects and the dependent variable in the second model with fixed effects Outside Directors of the data used.

4.8. Testing hypotheses.

First hypothesis: There is a significant relationship between ownership concentration and the size of the board of directors. Results in Table 3 show that the F-statistic and significance level confirms the significance of the model to test hypotheses. Durbin-Watson test results also showed no correlation between the residuals is (should be between a half and two and a half).

The results show that the estimated coefficient ownership concentration below 3 percent and given that less than 5 percent significance level variables factor and the level of error in the survey 5% is considered with 95 percent. It should be stated that there is a significant relationship between the independent variable (ownership concentration) and the dependent variable (the size of the board of directors) as a result, the first research hypothesis is confirmed at 95 percent. As well as the control variables, firm size has a significant relationship with the size of the board of directors.

Table 3. Average of the first test results - dependent variable is the size of the board of directors

Description	Coefficient	T-Statistics	Significance level
C	1.49	48.76	*.000
Ownership concentration	.03	3.34	*.000
size of the company	.009	4.28	*.000
Rate of sales growth	.009	1.37	.17
profitable	-.03	-2.02	*.04
Free cash flow	-.02	-.48	.63
Adjusted R2	.31		
F test	3.76		
F test significant level	.000		
Durbin-Watson test	1.89		
Standard deviation Regression	.06		

* Significant at the 5% level, Source: Calculations of researcher

Second hypothesis: There is a significant relationship between ownership concentration and independence of the board of directors.

Results in Table 4 show that the F-statistic and significance level confirms the significance of the model to test hypotheses. Durbin-Watson test results also showed no correlation between the residuals is (should be between a half and two and a half). The results show that the estimated coefficient ownership concentration below 28 percent and given that less than 5 percent significance level variables factor and the level of error in the survey is considered 5% with 95% confidence it can be said that there is a significant relationship between the independent variable (ownership concentration) and the dependent variable (independence of the board of directors) as a result, the second hypothesis is confirmed at 95 percent.

Table 4. The second module test results - dependent variable independence of the board of directors

Description	Coefficient	T-Statistics	Significance level
C	69.	5.89	*.000
Ownership concentration	-.28	-4.31	*.000
size of the company	-.03	-4.05	*.000
Rate of sales growth	.01	.46	.63
profitable	-.16	-2.58	*.009
Free cash flow	-.04	-.19	.84
Adjusted R2	.32		
F test	5.97		
F test significant level	.000		
Durbin-Watson test	1.73		
Standard deviation Regression	.31		

* Significant at the 5% level, Source: Calculations of researcher

5. Analysis of results and conclusions.

In this connection it should be noted that the increasing presence of major shareholders in the ownership structure can lead companies to increase the number of the board of directors because data were collected in this study it was observed that majority shareholders often in the structure of the board of directors has been represented, in fact, is to protect the interests of investors in companies that this leads to a managed property, so we have seen that there are major shareholders in the ownership structure will lead to the creation of managerial ownership on the one hand and on the other hand has led to the existence of representative Investment Company (majority shareholder) in the structure of the board of directors which is leading to increased concentration of ownership. It was also observed that these people are mainly the companies also assumed the role of executive to directly affect the implementation of the activities and performance of companies. This leads to a reduction in the share of outside directors on the board. The relationship can be said that in countries where such laws and regulations protecting the rights of shareholders have been delivered and weaknesses, ownership concentration, often as a mechanism to monitor the decisions made by their managers and moral hazard, has emerged (LaPorta et al., 1998; Shleifer and Vishny, 1997) which of course can prove problematic, not only does not reduce conflict between managers and shareholders, but also on the increase because the majority shareholders are often pursue their interests in this direction might undermine the interests of minority shareholders who have rights and so they get to win and why there until the arrival of outside directors who oversee the activities of the board's role to bring prevention.

6. Suggestions for future research.

The relationship between the structure of the board of directors, including CEO duality, independence of the board of directors and the size of the board of directors with capital structure to be addressed.

The relationship between the independent audit quality criteria, including financial performance to be paid audit fees and audit expertise.

The relationship between ownership structures includes a focus of institutional ownership, institutional ownership, managerial ownership and state ownership should be an independent audit quality.

The relationship between the structure of the board of directors, including CEO duality, independence of the board of directors and the size of the board of directors be independent audit quality.

The relationship between ownership structures includes a focus on institutional ownership, institutional ownership, managerial ownership and state ownership capital structure to be addressed.

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