ORIGINAL ARTICLE Received 4 October. 2015 Accepted 18 December. 2015

Open Access Journal
ISSN: 2333-0783

ACADEMIC JOURNAL OF ACCOUNTING AND ECONOMIC RESEARCHES

Vol. 5, Issue 1, 11-21, 2016

Academic Journal of Accounting and Economic Researches

ISSN: 2333-0783 (Online)
ISSN: 2375-7493 (Print)

ajaer.worldofresearches.cm

The Effect of Corporate Governance on Financial Performance of Listed Firms in Tehran Stock Exchange

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A B S T R A C T

The main objective of the present study is to investigate the effect of corporate governance (including the duality of CEO, non-executive Board ratio, ownership concentration, institutional ownership, CEO influence and Board independence) on financial performance of listed firms on the Stock Exchange in Tehran. To achieve this purpose, a sample of 95 firms listed in Tehran Stock Exchange within the 5-year period from 2010 to 2014 is examined. To verify the hypotheses, multiple regression analysis is used. The results of the hypotheses testing indicate that there is a significant correlation between corporate governance (including the duality of CEO tasks, concentration of ownership, institutional ownership, and the independence of the Board) and financial performance (net profit after tax) of the firms. The results also indicate that there is a significant correlation between the corporate governance (including the ownership concentration, institutional ownership and CEO influence) and financial performance (return on investment) of the firms.

Keywords: Corporate Governance, Financial Performance, Return on Investment, Return on Equity.

INTRODUCTION

Scandals of Enron and WorldCom in 2002 led to a lot of research done in the field of corporate governance. Many researchers have found that a suitable corporate governance structure has a positive effect on corporate performance. Corporate governance includes a set of relations between shareholders, directors, auditors and other stakeholders to ensure the establishment of a control system to observe the rights of minority shareholders and proper implementation of the Assembly approvals and prevention of possible misuse. Corporates believe that good corporate governance facilitates the effective management and control of the business units and hence they are able to provide optimal return for all stakeholders. Research in the field of corporate governance is based on Agency Theory and focuses on the issue of conflict of interest. Agency Theory suggests that firms with better corporate governance structure, have better performance, and it knows due to the lower agency costs.

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To cite this article: Imani, Z., Homayoon, A., Zamani, E. (2016). The Effect of Corporate Governance on Financial Performance of Listed Firms in Tehran Stock Exchange. *Academic Journal of Accounting and Economic Researches*, 5 (1), 11-21.

Theory of Agency also states that the corporates are governed and supervised better when they have ownership concentration, because the major shareholders have sufficient motivation and ability to monitor the manager and increase the efficiency of the firm. In addition, it is expected that, if the CEO and Chairman of the Board of Directors is the same, this structure allows the CEO to effectively control the information available to other members of the Board. Therefore, the CEO may prevent effective monitoring[1]. Brown and Keillor[2], Dittmar and Smith[3] in their research showed that firms with better corporate governance mechanisms, have a better performance. Measuring the financial performance of firms is very important, because it is the basis for many decisions inside and outside the firm.

Decision-making related to investors, the firms' capital increase, agency relations and many other decisions are based on performance measurement. Before the appearance of agency problems, in order to protect the public interest, the information should be immunized and the interests of managers and owners should be aligned. Therefore, in this case, different mechanisms are used including the use of ethics theory in accounting, establishing theoretical framework and accounting standards, internal controls, internal audit and independent audit, the presence of non-executive directors on the Board, the practice of long-term procedures of rewards, and even regulation by the state. However, not only the problems did not become less but also became more complicated. Perhaps it was because of the lack of corporate governance mechanisms that can match all the above mentioned criteria, as well as achieve the firm's ultimate goal that is increasing the firm value. Corporate governance is a factor that can improve the performance of the firm and some of its mechanisms are institutional investors, non-executive directors, firm's independent audit, internal controls, audit committee, legal supervision and so on.

Corporate governance is a system by which business corporations are monitored and controlled. Corporate governance determines the distribution of rights and responsibilities between various partners in the firm, including the Board, managers, shareholders and other stakeholders and indicates the rules and decision-making procedures in the firm affairs. By doing so, some structures are provided, through which the firm's objectives are explained and means to reach these objectives and monitor the performance are also provided. Although the features of corporate governance play different roles in order to ensure the success of firms, at the end, it is only the role of accountability that affects business economy.

Therefore, the present study seeks to examine the impact of corporate governance on financial performance of firms listed in Tehran Stock Exchange and it tries to examine to what extent the corporate governance affect the financial performance?

THEORETICAL BASES AND LITERATURE REVIEW

The issue of corporate governance was raised since the 1990s in the advanced industrial countries of the world such as England, Australia and some European countries. The history of this issue is related to a well-known report called Cadbury report that was published in 1992. The report put great emphasis on the presence of institutional investors and establishment of internal control system and internal audit. The report was reviewed by the Greenbury Committee and was finalized in 1998 by Hampel Committee. Most of the world countries, including the UK, China, Korea, Canada, and Australia and so on have such a system of governance as being codified. In addition, in America, due to the disclosure of Watergate election as well as fraud in the capital market of America in 2001, a law was ratified, called the Sarbanes-Oxley or Corporate Governance.

Makki and Lodhi on their study, investigated the effect of corporate governance on intellectual capital efficiency and financial performance using structural equation modeling. Corporate governance was evaluated through CEO duality, ratio of non-executive Directors, type of ownership, executive compensation and the number of shareholders. Intellectual capital was assessed by the coefficient of value added and financial performance through return on investment, return on equity and net profit after tax. The study suggests an important structural relationship between corporate governance, intellectual capital efficiency and financial performance. The results show that corporate governance does not improve financial performance directly, but Board members can significantly increase the financial performance through the utilization of intellectual capital resources. This study suggests that firms with strong corporate governance, intellectual capital efficiency increases and ultimately this increases the return on investment, return on equity and net profit[4].

Gompers et al conducted a study to examine the relationship between corporate governance and firm performance. The results show that firms with better corporate governance, have better performance, higher value and higher stock returns[5].

Arabsalehi et al examined the relationship between social responsibility and financial performance of listed firms on Tehran's Stock Exchange. Firms' social responsibility was measured through a questionnaire containing 53 questions about their social responsibility towards customers, employees, environment and institutions of the society (educational institutions, cultural institutions, sports organizations, health organizations, hospitals, charitable institutions, rehabilitation centers, etc.). The information of 59 firms during the years 2006 to 2010 were used. Regression analysis was also used to analyze the data. The results show that the financial performance is correlated with firm's social responsibility towards customers and institutions of the society. However, financial performance has no significant correlation with firm's social responsibility towards employees and the environment[6].

Vakilifard and Bavandpur examined the impact of corporate governance on the performance of listed firms on Tehran's Stock Exchange. In this study, a sample consisted of 94 firms in the five year period from the fiscal years 2004 to 2008 was investigating, considering the a single condition for all the sample's firms in the Tehran Stock Exchange, and with the help of panel analysis statistical method, research hypotheses have been analyzed. The results of this analysis indicate that there is a positive and significant correlation between funds of institutional investors and firms' performance. The presence of major shareholders in the ownership structure of firms has no significant impact on their performance. There is an inverse and significant relationship between the ratio of non-executive Board members presence in the Board of Directors' composition and firms' performance. In addition, quality of financial information is not associated with firms' performance[7].

Hasas Yeganeh examined the relationship between corporate governance and performance of listed firms in Tehran Stock Exchange. In this research, the rate of sample firms has been measured using a comprehensive questionnaire with 25 criteria of corporate governance criteria. These criteria are derived from the regulation provisions of governance system of listed firms in Tehran Stock Exchange in the three category of information transparency, board structure and its ownership structure. To achieve the purpose, the one-year information of 90 firms was evaluated and using regression analysis, research hypotheses were tested. The results showed that there is no significant relationship between corporate governance and firm's performance[8].

Research Hypotheses

According to the study topic, the hypotheses tested in this study are:

Main Hypothesis: There is a significant relationship between corporate governance and firms' financial performance.

First sub-hypothesis: There is a significant relationship between duality of CEO and firms' financial performance.

Second sub-hypothesis: There is a significant relationship between ownership concentration and firms' financial performance.

Third sub-hypothesis: There is a significant relationship between institutional ownership and firms' financial performance.

Fourth sub-hypothesis: There is a significant relationship between CEO influence and firms' financial performance.

Fifth sub-hypothesis: There is a significant relationship between Board independence and firms' financial performance.

METHODOLOGY

The methodology of present study is correlation in terms of nature and content. Correlation is a kind of descriptive research. In the present study we examine the correlation between variables and in the case of the presence of correlation between research variables, the multiple regression models are estimated. On the other hand, the study is an ex post facto study (quasi-experimental), which is conducted based on analysis of past and historical information (financial statements). This research studies the data associated with five consecutive years and specific time periods. Therefore, cross-sectional and time-series data is used in data analysis. Since the results obtained can be used in the decision-making process, this study is an applied research.

Research Model and Variables

$$FC_{i,t} = \alpha_0 + \beta_1 CG_{i,t} + \beta_2 Debt_{i,t} + \beta_3 Size_{i,t} + \varepsilon_{i,t}$$

Dependent Variable:

Financial Performance:

Return on Investment: It is equal to (net profit after tax and before unusual items divided by total assets) multiplied by 100.

Total assets are considered as the mean of beginning and end of the period.

Return On Equity: It is equal to (net profit after tax and before unusual items divided by firm's equity in the beginning of the fiscal period) multiplied by 100.

Equity of the firm is calculated in the beginning of the period, because profit and loss should not be effective in the calculation of equity, i.e. used capital to obtain it.

Net Profit after Tax

Independent Variable: Corporate Governance

CEO-Duality: If the CEO is the chairman of the Board, it is equal to one, otherwise it is equal to zero.

Concentration of Ownership: Total ownership percentage of those shareholders who hold at least 5 percent of firm's shares.

Institutional Ownership: Total percent of firm's stock owned by banks, insurance, financial institutions, holding firms, state-owned organizations and institutions and firms.

CEO Influence: If the chairman of the Board is an executive member, it is equal to one, otherwise it is equal to zero.

Independence of Board of Directors: The number of non-executive (independent) members in the composition of the Board divided by total number of Board members.

Control Variables:

Debt Ratio: It is equal to the ratio of total debts to total assets.

Firm Size: It is equal to natural logarithm of book value of total assets. The higher is this indicator, the larger is the desired firm.

Research Population and Sample and Period

The statistical population consists of all firms listed on Tehran Stock Exchange and studied sample includes 90 firms for the five - year period from 2010 to 2014. Statistical sample is selected using systematic removal method and in accordance with the following criteria:

1. The firms’ fiscal year end is March 19.
2. The firms are not among financial firms (such as banks, insurance institutes) and investment firms.
3. The firms have no change in their fiscal year during the study period.
4. The firms have presented revised annual financial statements at least once in the research time territory.

Research Population and Sample and Period

The statistical population consists of firms listed on Tehran Stock for the period from 2009 to 2014. In the present study, in order to estimate the sample size and select the sample, systematic elimination method is applied. In other words, those firms of the statistical population who have the following criteria are selected as the statistical sample and the other firms are eliminated:

- The firms’ fiscal year end is March 19, in order to increase comparability.
- The firms have no change in their fiscal year during the study period (2010-2014).
- The firms’ financial information is accessible.
- The firms are not among financial firms (such as banks, insurance institutes) and investment firms.

Due to the restrictions imposed, 95 firms are selected, whose information is collected from the Stock Exchange of Tehran and other database related to official organizations of Iran.

RESULTS

In a summary, with appropriate use of descriptive statistics methods, the characteristics of a bunch of information can be expressed exactly. Descriptive statistics are always used to determine and express the characteristics of studies information.

Table 1. Descriptive Statistics of Research Variables

Variable	Mean	Median	Standard Deviation	Min	Max
Net Profit after Tax	136759.751	67487	180992,310	-154488	868747,60
Return on Investment	11.564	9.88	12.939	-3188	56.92
Return on Equity	28.096	27.26	22.371	-4632	92.29
CEO-Duality	0.149	0	0.357	0	1
Ownership Concentration	83.140	87.64	15.591	14.05	100
Institutional Ownership	47.762	53.3	32.489	0	99.3
CEO Influence	0.084	0	0.278	0	1
Board Independence	0.690	0.8	0.183	0.2	1

As can be seen the descriptive results of research variables are presented in Table 1. The study on the mean of the variables of financial performance shows that the mean of net profit after tax is equal to 136759.751, return on investment is equal to 11.564 and return on equity is equal to 28.096.

Hypotheses Testing

Main Hypothesis: There is a significant relationship between corporate governance and firms' financial performance.

Part One: Net Profit after Tax

First sub-hypothesis: There is a significant relationship between duality of CEO and firms' financial performance (net profit after tax).

As can be seen, at 5% error level, the significance level of the t-statistic of CEO duality variable (0.685) is greater than 5% (sig = 0.494), hence H_0 hypothesis is not rejected at confidence level higher than 95%. This means that there is not a significant relationship between CEO duality and financial performance (net profit after tax) in the mentioned firms (Table 2).

Second sub-hypothesis: There is a significant relationship between ownership concentration and firms' financial performance (net profit after tax).

As can be seen, at 5% error level, the significance level of the t-statistic of ownership concentration variable (-4.149) is greater than 5% (sig = 0.000), hence H_0 hypothesis is rejected at confidence level higher than 95%. This means that there is a negative (inverse) significant relationship between ownership concentration and financial performance (net profit after tax) in the mentioned firms. Furthermore, regard to the negative regression coefficient of the independent variable, it can be expressed that the higher (lower) the ownership concentration in firms, the more the financial performance (net profit after tax) in the mentioned firms will decrease (increase) (Table 2).

Third sub-hypothesis: There is a significant relationship between institutional ownership and firms' financial performance (net profit after tax).

As it is observed, at 5% error level, the significance level of the t-statistic of institutional ownership variable (3.503) is smaller than 5% (sig = 0.001), hence H_0 hypothesis is rejected at confidence level higher than 95%. This means that there is a positive (direct) significant relationship between institutional ownership and financial performance (net profit after tax) in the mentioned firms. Furthermore, regard to the positive regression coefficient of the independent variable, it can be expressed that the higher (lower) the institutional ownership in firms, the more the financial performance (net profit after tax) will increase (decrease) in the firms (Table 2).

Fourth sub-hypothesis: There is a significant relationship between CEO influence and firms' financial performance (net profit after tax).

As can be seen, at 5% error level, the significance level of the t-statistic of CEO influence variable (0.026) is greater than 5% (sig = 0.979), hence H_0 hypothesis is not rejected at confidence level higher than 95%. This means that there is not a significant relationship between CEO influence and financial performance (net profit after tax) in the mentioned firms (Table 2).

Fifth sub-hypothesis: There is a significant relationship between Board independence and firms' financial performance (net profit after tax).

As it is observed, at 5% error level, the significance level of the t-statistic of Board independence variable (2.416) is smaller than 5% (sig = 0.016), hence H_0 hypothesis is rejected at confidence level higher than 95%. This means that there is a positive (direct) significant relationship between Board independence and financial performance (net profit after tax) in the mentioned firms. Furthermore, regard to the positive regression coefficient of the independent variable, it can be expressed that the higher (lower) the Board independence in firms, the more the financial performance (net profit after tax) will increase (decrease) in the firms (Table 2).

Table 2. Results of Testing the Regression Model of the Main Hypothesis (Dependent Variable: Financial Performance (Net Profit after Tax))

Variable	Regression Coefficient	Standard Error	t Statistic	Significance Level	Result
Constant	-4.534	0.381	-11.911	0.000	-
CEO-Duality	0.037	0.055	0.685	0.494	Lack of H_0 Rejection
Ownership Concentration	-0.217	0.052	-4.149	0.000	H_0 Rejection
Institutional Ownership	0.092	0.026	3.503	0.001	H_0 Rejection
CEO Influence	0.001	0.044	0.026	0.979	Lack of H_0 Rejection
Board Independence	0.144	0.060	2.416	0.016	H_0 Rejection
Debt Ratio	-0.515	0.052	-9.897	0.000	-
Firm Size	0.397	0.022	18.280	0.000	-
Determination Coefficient	0.940		F Statistic		58.101 (0.000)
Adjusted Determination Coefficient	0.924		Durbin-Watson		1.828

Part Two: Return on Investment

First sub-hypothesis: There is a significant relationship between duality of CEO and firms' financial performance (return on investments).

As can be seen, at 5% error level, the significance level of the t-statistic of CEO duality variable (0.482) is greater than 5% (sig = 0.630), hence H_0 hypothesis is not rejected at confidence level higher than 95%. This means that there is not a significant relationship between CEO duality and financial performance (return on investments) in the mentioned firms.

Second sub-hypothesis: There is a significant relationship between ownership concentration and firms' financial performance (return on investments).

As can be seen, at 5% error level, the significance level of the t-statistic of ownership concentration variable (-2.162) is greater than 5% (sig = 0.031), hence H_0 hypothesis is rejected at confidence level higher than 95%. This means that there is a negative (inverse) significant relationship between ownership concentration and financial performance (return on investments) in the mentioned firms. Furthermore, regard to the negative regression coefficient of the independent variable, it can be expressed that the higher (lower) the ownership concentration in firms, the more the financial performance (return on investments) in the mentioned firms will decrease (increase) (Table 3).

Third sub-hypothesis: There is a significant relationship between institutional ownership and firms' financial performance (return on investments).

As can be seen, at 5% error level, the significance level of the t-statistic of institutional ownership variable (4.734) is smaller than 5% (sig = 0.000), hence H_0 hypothesis is rejected at confidence level higher than 95%. This means that there is a positive (direct) significant relationship between institutional ownership and financial performance (return on investments) in the mentioned firms. Furthermore, regard to the positive regression coefficient of the independent variable, it can be expressed that the higher (lower) the institutional ownership in firms, the more the financial performance (return on investments) will increase (decrease) in the firms (Table 3).

Fourth sub-hypothesis: There is a significant relationship between CEO influence and firms' financial performance (return on investments).

As can be seen, at 5% error level, the significance level of the t-statistic of CEO influence variable (-2.514) is less than 5% (sig = 0.012), hence H_0 hypothesis is rejected at confidence level higher than 95%. This means that there is a negative (inverse) significant relationship between CEO influence and financial performance (return on investments) in the mentioned firms. Furthermore, regard to the negative regression coefficient of the independent variable, it can be expressed that the higher (lower) the CEO influence in firms, the more the financial performance (return on investments) in the mentioned firms will decrease (increase) (Table 3).

Fifth sub-hypothesis: There is a significant relationship between Board independence and firms' financial performance (return on investments).

As can be seen, at 5% error level, the significance level of the t-statistic of Board independence variable (1.124) is greater than 5% (sig = 0.262), hence H_0 hypothesis is not rejected at confidence level higher than 95%. This means that there is not a significant relationship between Board independence and financial performance (return on investments) in the mentioned firms (Table 3).

Table 3. Results of Testing the Regression Model of the Second Main Hypothesis (Dependent Variable: Financial Performance (Return on Investment))

Variable	Regression Coefficient	Standard Error	t Statistic	Significance Level	Result
Constant	18.122	13.234	1.369	0.172	-
CEO-Duality	0.452	0.938	0.482	0.630	Lack of H_0 Rejection
Ownership Concentration	-5.456	2.523	-2.163	0.031	H_0 Rejection
Institutional Ownership	2.169	0.458	4.734	0.000	H_0 Rejection
CEO Influence	-1.356	0.540	-2.514	0.012	H_0 Rejection
Board Independence	1.482	1.318	1.124	0.262	Lack of H_0 Rejection
Debt Ratio	-26.324	1.802	-14.604	0.000	-
Firm Size	1.875	0.465	4.030	0.000	-
Determination Coefficient	0.926		F Statistic		46.382 (0.000)
Adjusted Determination Coefficient	0.906		Durbin-Watson		2.020

Part Three: Return on Equity

First sub-hypothesis: There is a significant relationship between duality of CEO and firms' financial performance (return on equity).

As can be seen, at 5% error level, the significance level of the t-statistic of CEO duality variable (-0.873) is greater than 5% (sig = 0.383), hence H_0 hypothesis is not rejected at confidence level higher than 95%. This means that there is not a significant relationship between CEO duality and financial performance (return on equity) in the mentioned firms (Table 4).

Second sub-hypothesis: There is a significant relationship between ownership concentration and firms' financial performance (return on equity).

As can be seen, at 5% error level, the significance level of the t-statistic of ownership concentration variable 0.281) is greater than 5% (sig = 0.779), hence H_0 hypothesis is not rejected at confidence level higher than 95%. This means that there is no significant relationship between ownership concentration and financial performance (return on equity) in the mentioned firms (table 4).

Third sub-hypothesis: There is a significant relationship between institutional ownership and firms' financial performance (return on equity).

As can be seen, at 5% error level, the significance level of the t-statistic of institutional ownership variable (4.496) is smaller than 5% (sig = 0.000), hence H_0 hypothesis is rejected at confidence level higher than 95%. This means that there is a positive (direct) significant relationship between institutional ownership and financial performance (return on equity) in the mentioned firms. Furthermore, regard to the positive regression coefficient of the independent variable, it can be expressed that the higher (lower) the institutional ownership in firms, the more the financial performance (return on equity) will increase (decrease) in the firms (Table 4).

Fourth sub-hypothesis: There is a significant relationship between CEO influence and firms' financial performance (return on equity).

As can be seen, at 5% error level, the significance level of the t-statistic of CEO influence variable (-1.860) is less than 10% (sig = 0.064), hence H_0 hypothesis is rejected at confidence level higher than 90%. This means that there is a negative (inverse) significant relationship between CEO influence and financial performance (return on equity) in the mentioned firms. Furthermore, regard to the negative regression coefficient of the independent variable, it can be expressed that the higher (lower) the CEO influence in firms, the more the financial performance (return on equity) in the mentioned firms will decrease (increase) (Table 4).

Fifth sub-hypothesis: There is a significant relationship between Board independence and firms' financial performance (return on equity).

As can be seen, at 5% error level, the significance level of the t-statistic of Board independence variable (0.936) is greater than 5% (sig = 0.350), hence H_0 hypothesis is not rejected at confidence level higher than 95%. This means that there is not a significant relationship between Board independence and financial performance (return on investments) in the mentioned firms (Table 4).

Table 4. Results of Testing the Regression Model of the Third Main Hypothesis (Dependent Variable: Financial Performance (Return on Equity))

Variable	Regression Coefficient	Standard Error	t Statistic	Significance Level	Result
Constant	-82.821	36.019	-2.299	0.022	-
CEO-Duality	-2.900	3.320	-0.874	0.383	Lack of H_0 Rejection
Ownership Concentration	1.890	6.714	0.281	0.779	Lack of H_0 Rejection
Institutional Ownership	4.286	0.953	4.500	0.000	H_0 Rejection
CEO Influence	-3.385	1.820	-1.860	0.064	H_0 Rejection
Board Independence	3.278	3.503	0.936	0.350	Lack of H_0 Rejection
Debt Ratio	-9.589	4.092	-2.343	0.020	-
Firm Size	6.822	1.340	5.091	0.000	-
Determination Coefficient	0.851		F Statistic		21.064 (0.000)
Adjusted Determination Coefficient	0.810		Durbin-Watson		1.923

CONCLUSION

In this study, the effect of corporate governance on financial performance of listed firms in Tehran Stock Exchange is examined. The results obtained from multivariate regression analysis demonstrate that there is a significant correlation between corporate governance (including the duality of CEO tasks, concentration of ownership, institutional ownership, and the independence of the Board) and financial performance (net profit after tax) of the firms. The results also indicate that there is a significant correlation between the corporate governance (including the ownership concentration, institutional ownership and CEO influence) and financial performance (return on investment) of the firms. In addition there is a significant correlation between the corporate governance (including the CEO duality, institutional ownership and CEO influence) and financial performance (return on equity) of the firms. This means that corporate governance has a positive impact on the financial performance of firms.

According to the results of testing the research hypotheses that there is a significant relationship between corporate governance and financial performance and in accordance with theoretical foundations and previous research, it can be stated that corporate governance can help investors to reduce the problems of agency derived from management and ownership separation. In other words, the stronger the corporate governance is, the better the management monitoring will take place. This is a direct correlation and subsequently firms' financial performance will increase.

According to the results of the test hypotheses about the relationship between institutional ownership and financial performance, it is concluded that institutional investors are professional investors who have long-term focus. Due to the volume of investment and the expertise of institutional owners, their presence would lead to monitoring the management. Instead of focusing on the objective of short-term profitability, this could cause the attention to maximize long-term performance of the firm. According to the theoretical foundations and previous studies in this area, it can be said that institutional investors are potentially considered as a source of external influence on business strategy and performance. Institutional ownership is a mechanism for the institutionalization of power in the organization. Type of ownership is effective on the strategy and performance of the organization.

The test results of the second main hypothesis of the research, with the exception of the first sub-hypothesis, are consistent with the results of research carried out by Makki and Lodhi[4], based on a significant structural relationship between governance and financial performance. In addition, in firms with strong corporate governance, intellectual capital efficiency increases and ultimately this leads to the increase in return on investment, return on equity and net profit. The present study results are consistent with the findings of research conducted by Gompers et al[5] based on firms with better corporate governance, have better performance and higher value. The results show that there is a significant positive correlation between concentration of ownership and financial performance, which are in accordance with the results of the studies carried out by Maug[9] and Gedajlovic and Shapiro[10] that there is a significant relationship between institutional ownership and firm performance. However, the research findings are not consistent with the results obtained from the study carried out by Hasas Yeganeh et al.[8] based on there is no significant relationship between corporate governance quality and firm performance.

Recommendations Derived from Research Findings

According to the results of research hypotheses, the following recommendations are presented:

With regard to the presence of a significant relationship between corporate governance mechanisms (including concentration of ownership, institutional ownership, Board independence and CEO influence) and financial performance (including the criteria of net profit after tax, firms' return on equity and firms' return on investment), it is recommended to investors when investing in firms' stocks, pay attention to corporate governance mechanisms, because according to the results of this study, mechanisms of corporate governance are effective on financial performance of firms. Investors should invest in shares of those firms that have stronger corporate governance structure, because the stronger is the structure of corporate governance, the less the managers' opportunistic behavior will be. This will lead to economic boom and increasing financial performance of firms.

With regard to the presence of a significant relationship between the concentration of ownership and financial performance (including net profit after tax and return on investment of firms), investors are recommended that when investing in firms' stocks, pay attention to the percentage of ownership concentration in the firms, because in accordance with Agency Theory, firms are controlled and monitored better when they have ownership concentration, because major shareholders have sufficient motivation and ability to monitor the firm's management and increase firm's efficiency.

With regard to the presence of a significant relationship between institutional ownership and financial performance (including net profit after tax, firms' return on investment and return on equity of firms), investors are recommended that when investing in firms' stocks, pay attention to the percentage of institutional ownership in the firms, because according to the findings of the present research, the percentage of institutional ownership affects the efficiency of intellectual capital and financial performance of firms. In accordance with previous studies, the higher the level of institutional ownership is, the better the management monitoring will be done. This will lead to the improvement of firm's performance.

With regard to the presence of a significant relationship between Board independence and CEO-duality and CEO influence and financial performance (including net profit after tax, firms' return on investment and return on equity of firms), it is recommended to investors when investing in firms' stocks, pay enough attention to Board independence and CEO-duality and CEO influence, because according to the results of present study and previous research firms that have independent Board and independent (non-executive) chairman of the Board of directors, have better performance, in comparison with firms which are under the influence of CEO.

Thematic Suggestions for Future Research

The topics that can be suggested in the context of the present study for doing future research include:

- Evaluation of the effect of corporate governance on financial performance of listed firms on Tehran Stock Exchange in various industries, comparatively.
- Evaluation of curve (nonlinear) relationship between corporate governance and financial and non-financial performance of listed firms on Tehran Stock Exchange.
- Evaluation of the effect of the characteristics of the Audit Committee on the financial performance of listed firms in Tehran Stock Exchange.

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