Investigate the relationship between Corporate governance characteristics with Investment returns and liquidity of shares in Companies listed on the Tehran Stock Exchange

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ABSTRACT

In this study, has been done the effects of separate corporate governance characteristics including ownership concentration and type of ownership (state ownership and private ownership) on two factors, investment returns and liquidity of the shares of the listed companies in Tehran Stock Exchange. The research sample included 81 companies during the period 1386 to 1390. In this study, we have used the method of generalized least squares method to estimate static panel data to study the effect of each of the above mentioned factors on the efficiency and liquidity of the investment companies' shares. The findings suggest the existence of a significant linear negative correlation between the two factors, concentration of ownership and return on investment firms and there is a significant linear negative relationship between ownership concentration and liquidity of the stock. Also, the results of the test indicate a property of linear and significant negative correlation between the two factors private ownership and return on investment firms and there is a significant linear positive relationship between the state ownership and return on investment firms and the absence of any significant relationship between the type of ownership (state ownership and private ownership) and corporate stock liquidity.

Keywords: corporate governance, property type, concentration of ownership, return on investment, stock liquidity, consolidated data

INTRODUCTION

Resource allocation is one of the tools of the securities markets, so any problems that arise in the market, not only an economic issue but also becomes a social issue in which the public interest would be compromised. To solve this problem, one of the most important concepts introduced in the past two decades, the concept of corporate governance. Corporate governance mechanism to manage and control the company concerned and leads to relationships between stakeholders to maximize benefits and you can also avoid conflict of interest and violated the rights of another benefit (Yaghobnejad and et al., 1390); Indeed, corporate governance in the interests of all
parties to the transaction takes place and it is a win-win game benefit all members of society, the corporate governance characteristics, concentration and type of ownership.

Return on investment is a key role and, in fact, return on investment is the main reason. At present, limited access to finance further highlighted the need to pool resources to a scattered population, through public confidence towards achieving the economic benefits arising from the implementation of the plan; On the other hand, involves an extensive program of privatization of public interest and its success depends on the protection of investors and the security of their investments, on the other hand, the lack of a proper system of reliable and updated information provided to investors, public confidence is lost to the market and the market loses its efficiency. However, liquidity can decide to play an important role. In other words, some investors may quickly need to have your finances in such cases; liquidity strength can be important (Yahyazadeh-Far and Khoramdin, 1387). The importance of corporate governance for the success of companies not doubt, because this is due to the financial crisis and the events of recent years, companies have been more important. Close study of the causes and pathology of huge losses, especially for large companies that have shareholders, indicate that it has been caused by weak corporate governance.

Return on investment is very important for shareholders, indeed, the goal is to earn investment returns and therefore, the efficiency can be expressed as a function of the existing building stock companies. Liquidity is an important factor in the valuation of assets, investors have taken an interest if you want to sell your property, is there a good market for it? The lower the liquidity of a share, the share will be less attractive to investors and can cause investors to withdraw investments. Effect of concentration and type of ownership (corporate governance characteristics) on investment returns and liquidity of the stock, it is important for that it shows managers, investors and other decision makers so different types of ownership and the ownership concentration should be taken into consideration in investment decisions and financial due to the role that can be monitored and controlled corporations. In this study we investigated the relationship between corporate governance on investment returns and liquidity of shares, companies listed on the Tehran Stock Exchange.

Consequently, it is necessary to establish an appropriate system of corporate governance, as it provides the operational efficiency of enterprises, favorable investment returns and stock liquidity citizens. In this study we have tried to provide a set of guidelines for increase investment returns and liquidity of shares in listed companies on the Stock Exchange using corporate governance guidelines; In fact, this research seeks to answer the central question as: "Is there a significant relationship between corporate governance and liquidity of the investment in shares of companies listed on the Stock Exchange?"

**Literature Review**

Damsetz and Lin (1985) found that ownership and performance are determined by special agents of the company and the key variables contract terms. One goal of this research was to find conditions that affect the level of ownership concentration. The findings showed that there was a significant relationship between variables, firm size and industry on the one hand and the concentration of ownership of shares of the other. The test measures the relationship between
accounting profit rate and the rate to 5% of the shares belongs to the shareholders. With regard to control variables, there was evidence of a relationship between the variables.

Himmelberg and et al. (1999) divided the stakeholders into shareholders, managers, families and individual shareholders and institutional investors, shareholder together with the data of 600 major U.S. companies examined the relationship between types of ownership and corporate performance the rate of return on equity and rate of return on common stocks and the regression method. The results showed that there is a weak positive relationship between types of ownership and firm performance.

Kapopoulos & Lazareto (2007) sought to find the relationship between ownership structure and performance of Greek firms. Their findings showed that highly concentrated ownership structure has a positive relationship with profitability. They also found that companies with high profitability are less dispersed ownership structures.

Hu & Izumida studied the relationship between ownership concentration and firm performance in the 666 companies listed on the Tokyo Stock Exchange from 2005 to 1980. Their studies showed that there is a u-shaped relationship between ownership concentration and firm performance in accordance with the regulatory function of the impact of large shareholders and the absence of such shareholders.

Cao and et al. in article examined the impact of ownership structure on CEO bonuses, and the link between pay and performance management using the 1129 bus companies listed in the Shanghai Stock Exchange and Shenzhen Stock Exchange in the six-year period between 2002 and 2007. They focus mainly public companies are owned by shareholders. CEO salaries are based on accounting performance (return on assets and return on sales) depends. But it does not have any sensitivity to market-based firm performance. Privately controlled firms, law firms, CEO's performance based on yield (the annual return on equity) depends but it does not have any sensitivity to accounting performance based company. Concentration of ownership and the right to an additional control, there is not the effect on the relationship between pay and performance, managers in firms with no institutional ownership.

Mohammadi et al (2009) in a research, which will focus on the role and effects of separate and simultaneous ownership of both performance and value companies listed on the Tehran Stock Exchange. The test results show that the effects of ownership type, unlike the inverse relationship between stock returns and the proportion of state ownership, the relationship between the proportion of individual ownership, corporate, private, efficient, direct and significant. Namazi and Kermani (2008) study examined the impact of ownership structure on performance of Iranian companies using a sample of 66 companies listed in Tehran Stock Exchange 5-year period between 2003 and 2007. The findings revealed a significant relationship between corporate ownership structure and function, respectively. Mashayej and Mahavarpoo (2009) examined in a paper the relationship between ownership structure and performance of the managers of listed companies in Tehran Stock Exchange, using data obtained from the 58 companies in the period between 2001 and 2004. The results show that there is a significant relationship between ownership concentration and earnings per share measures, and the relationship between ownership concentration and performance criteria depend on the type of
property and the factors affecting efficiency. With further investigation it was concluded that by combining a measure of earnings per share is a stronger relationship than terms of efficiency.

**MATERIALS AND METHODS**

The main question in this research is that is there a significant relationship between corporate governance and liquidity of the investment in shares of listed companies in Tehran Stock Exchange? This research aims to demonstrate the approach and the integration of application-oriented research is a descriptive. Independent variables include ownership concentration and ownership of corporate governance characteristics. In order to calculate the proportion of ownership concentration are used Herfindahl index - Hirschman (HHI). Vary according to the proportion of state ownership and private ownership of a company is calculated. The dependent variables include investment returns and liquidity of stock. Investment returns are achieved by components of net operating profit after tax divided by capital employed. Liquidity measure is calculated as a ratio of turnover (as a direct measure of liquidity). The control variables include firm size and changes the entire index is stock. In this study, in order of size, the natural logarithm of the market value of the shares issued in the company's fiscal year end. Index changes with changes in the stock price index and cash return on equity is calculated.

To formulate department Introduce theoretical models used in this study is used to information contained in the documents, including books, articles, publications, research reports and thesis related. Quantitative data needed to conduct the study was obtained by considering the variables multiple sources, including data released by the organizations and companies listed the New Deal Exchange software. The population of this research is all the listed companies. Territory since the beginning of 1386 and March of 1390 and is the location of Iran's capital market research, specifically, the Tehran Stock Exchange. In this study, we examine the effects of concentration of ownership and return on investment property, has been used as a model by the following relations:

\[
RI_{it} = \beta_0 + \beta_1Con_{it} + \beta_2Size_{it} + \beta_3Rm_{it} + \nu_{it} \quad (1-1)
\]

\[
RI_{it} = \beta_0 + \beta_1Gov_{it} + \beta_2Size_{it} + \beta_3Rm_{it} + \nu_{it} \quad (2-1)
\]

\[
RI_{it} = \beta_0 + \beta_1Pri_{it} + \beta_2Size_{it} + \beta_3Rm_{it} + \nu_{it} \quad (3-1)
\]

Where, \(RI_{it}\) represents dependent variable as return on investment, \(\beta\) is intercept, \(Con_{it}\) is Ownership concentration, \(Gov_{it}\) is State ownership, \(Pri_{it}\) private property, \(Size_{it}\) size, \(Rm_{it}\) changes and \(\nu_{it}\) Waste Exchange Index Model. To examine the effects of ownership concentration and liquidity of the ownership shares, the following equation has been used as the base model:

\[
Liq_{it} = \beta_0 + \beta_1Con_{it} + \beta_2Size_{it} + \beta_3Rm_{it} + \nu_{it} \quad (4-1)
\]

\[
Liq_{it} = \beta_0 + \beta_1Gov_{it} + \beta_2Size_{it} + \beta_3Rm_{it} + \nu_{it} \quad (5-1)
\]

\[
Liq_{it} = \beta_0 + \beta_1Pri_{it} + \beta_2Size_{it} + \beta_3Rm_{it} + \nu_{it} \quad (6-1)
\]
Where, Liq$_{it}$ is dependent variable as degree of liquidity of the stock, $\beta$ is the intercept, Con$_{it}$ ownership concentration, Gov$_{it}$ state ownership, Pra$_{it}$ private property, Size$_{it}$ size, Rm$_t$ changes and V$_{it}$ Waste Exchange Index Model. In this study, using a regression model and ANOVA were used to assess and measure the impact of ownership concentration on investment returns and liquidity and ownership companies in Tehran Stock Exchange based on the results (significant and its sign) has attempted to test the hypothesis and conclusion of the acceptance or rejection.

**RESULTS AND DISCUSSION**

In this study, to examine the effects of ownership concentration and ownership of investment returns and liquidity Tehran stock exchange and analysis of information and hypothesis testing, regression analysis, and is used by the software Eviews.

**Stationary Test**

In order to ensure that research results are not spurious significant relationships in the regression variables, stationary test was performed and the calculated unit root variables in the model EGLS (Table 1). The unit root test, the null hypothesis indicates the existence of a unit root, if the probability table is smaller than 0.05 probability of rejecting the null hypothesis of 95%.

Table 1: Results of stationary test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Method of test</th>
<th>Levin, Lin and Chu</th>
<th>Im, Pesaran and Shin</th>
<th>Fisher and Dickey Fuller</th>
<th>Fisher - Phillips - Perron</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI</td>
<td>-35.092</td>
<td>0.000</td>
<td>-7.337</td>
<td>0.000</td>
<td>231.18</td>
</tr>
<tr>
<td>LIQ</td>
<td>-24.869</td>
<td>0.000</td>
<td>4.906</td>
<td>0.000</td>
<td>219.31</td>
</tr>
<tr>
<td>CON</td>
<td>-1.3</td>
<td>0.000</td>
<td>-1.6</td>
<td>0.000</td>
<td>184.85</td>
</tr>
<tr>
<td>GOB</td>
<td>-1.6</td>
<td>0.000</td>
<td>-2.6</td>
<td>0.000</td>
<td>268.96</td>
</tr>
<tr>
<td>PRA</td>
<td>-8.3</td>
<td>0.000</td>
<td>-9.8</td>
<td>0.000</td>
<td>268.96</td>
</tr>
<tr>
<td>RM</td>
<td>-26.55</td>
<td>0.000</td>
<td>-6.313</td>
<td>0.000</td>
<td>235.54</td>
</tr>
<tr>
<td>SIZE</td>
<td>-30.38</td>
<td>0.000</td>
<td>-5.038</td>
<td>0.000</td>
<td>196.53</td>
</tr>
</tbody>
</table>

Stationary test results show that all study variables, with all the methods are static. According to the results, the null hypothesis that a unit root variables will not be accepted.

**Select a Model in a static panel data**

In order to determine the type of model used in the compilation of data, various tests have been designed. The choice between the regression model compilation (Pooled) or fixed effects model commonly used Chow test. Therefore, to test hypotheses, the fixed effects model - when it is estimated then to see the intercept in terms of statistically significant differences have been used to determine whether the Chow test. According to the P-Value obtained in this study, the null hypothesis will be accepted based on the equality of the intercept. Therefore, at this stage, the fixed effects model is chosen as the preferred model for all research hypotheses.

**Hausman test**
Chow test all hypotheses are based on a fixed effects model. However, fixed effects model, the random effects model should be tested. Hausman test is used for the job. Hausman test, we first need to estimate the random effects model. According to the results obtained in this study, P-Value obtained for the second and third hypothesis is greater than 0.05, as a result, the H1 hypothesis that there is a correlation between individual effects and explanatory variables cannot be recognized, so to estimate the random effect model is applied. Hypotheses P-Value obtained for the first, fourth, fifth and sixth R is less than 0.05 the resulting model is used to estimate the fixed effects method.

**Testing hypotheses**

The first main hypothesis: There is a significant relationship between corporate governance characteristics and return on investment.

Sub-hypothesis 1: There was a significant relationship between concentration of ownership and return on investment.

Sub-hypothesis 2: There is a significant relationship between type of ownership and return on investment.

**Table 2: The results of main first hypothesis and its Sub-hypothesis**

<table>
<thead>
<tr>
<th></th>
<th>Main hypothesis 1</th>
<th>Sub-hypothesis 2 (State ownership)</th>
<th>Sub-hypothesis 2 (Private Property)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>P-Value</td>
<td>Coefficient</td>
<td>P-Value</td>
</tr>
<tr>
<td></td>
<td>0.995</td>
<td>0.000473</td>
<td>0.0082</td>
</tr>
<tr>
<td>(CON) ownership concentration</td>
<td>0.0224</td>
<td>0.006</td>
<td>-</td>
</tr>
<tr>
<td>(GOV) Property Type (governmental)</td>
<td>-</td>
<td>-</td>
<td>0.0343</td>
</tr>
<tr>
<td>(PRI) Property Type (Private)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(SIZE) firm size</td>
<td>0.0015</td>
<td>0.0089</td>
<td>0.001</td>
</tr>
<tr>
<td>(Rm) market returns</td>
<td>0.0000</td>
<td>0.026</td>
<td>0.0001</td>
</tr>
<tr>
<td>Ar (1)</td>
<td>0.6904</td>
<td>0.0399</td>
<td>-</td>
</tr>
</tbody>
</table>

According to the test results and the p-value, it can be seen that the sub-hypotheses are accepted. This means that there is a significant relationship between concentration of ownership and return on investment and the type of ownership and return on investment. According to the results of secondary research hypotheses, the main hypothesis is accepted. In conclusion we can say that there is a significant relationship between corporate governance characteristics and return on investment.

The second main hypothesis: There is a significant relationship between corporate governance characteristics and liquidity of shares.

Sub- Hypothesis 3: There is a significant relationship between ownership concentration and liquidity.

Sub- Hypothesis 4: There is a significant relationship between ownership and liquidity.

**Table 3: The second main hypothesis and sub hypothesis test results**
<table>
<thead>
<tr>
<th></th>
<th>P-Value</th>
<th>Coefficient</th>
<th>P-Value</th>
<th>Coefficient</th>
<th>P-Value</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-2.352</td>
<td>0.0000</td>
<td>-1.492</td>
<td>0.0000</td>
<td>-1.509</td>
<td>0.0000</td>
</tr>
<tr>
<td>(CON) ownership</td>
<td>-0.00006</td>
<td>0.0000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>concentration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(GOV) Property Type</td>
<td>-</td>
<td>-</td>
<td>-0.000172</td>
<td>0.0869</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(governmental)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(PRI) Property Type</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.000172</td>
<td>0.0869</td>
</tr>
<tr>
<td>(Private)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(SIZE) firm size</td>
<td>0.0905</td>
<td>0.0000</td>
<td>0.0599</td>
<td>-</td>
<td>0.05994</td>
<td>0.0000</td>
</tr>
<tr>
<td>(Rm) market returns</td>
<td>0.01997</td>
<td>0.0000</td>
<td>0.0199</td>
<td>0.0000</td>
<td>0.01993</td>
<td>0.0001</td>
</tr>
<tr>
<td>Ar (1)</td>
<td>0.1847</td>
<td>0.0000</td>
<td>-</td>
<td>0.0001</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

According to the test results and the p-value can be seen that the first sub-hypothesis is accepted. This means that there is a significant relationship between ownership concentration and liquidity however, no significant relationship between type of ownership and return on investment. In all sub-hypotheses with respect to the p-value can be seen that control variables SIZE and RM have a significant relationship with stock prices.

Conclusion

The results of the first sub-hypothesis of the first main hypothesis, suggests that there is a significant negative relationship between concentration of ownership and return on investment. It means that increasing concentration of ownership, return on investment firms reduced so as to correspond with the results of the investigation Lyman and Jurgen (2000), Vaez and et al (2010) and partly by the results of research and Ho and Izomida (2008), Mashayekh and Mah Avarpoor that there is a significant relationship between these two variables and not consistent with the results Mohammadi et al (2009), Zaho (2009), Kapopolus and Lazarito (2007) and Parariny et al (2008).

The results of the second sub-hypothesis suggests that it is the first major hypothesis there is a significant positive relationship between state ownership and return on investment i.e. with increasing state ownership, increase return on investment in companies so as to correspond with the results of the investigation Hymelberg et al (1999) and partly with the results Zaho (2009) and Babai and Ahmadvand (2009) that there is a relationship between these two variables and not consistent with the results Koki and Govizany (2009) and Caw and et al (2011). The results of the second sub-hypothesis suggests that it is the first major hypothesis the relationship between private property and the return on investment is a significant negative relationship i.e. with increasing private ownership of companies reduced investment returns so that they correspond with the results Nasrallah and et al (2009) until somewhat Zaho (2009) that there is a relationship between these two variables and not consistent with the results Hymelebrg and et al (1999), Kosenda and Asojnar (2002) and Caw et al (2011).

Overall, the results of the first main hypothesis and sub-hypothesis, it means that use of corporate governance characteristics and the level of shareholder dispersion to predict the return
on investment for companies. In fact, it can be stated that the distribution of property causes an increase in return on investment and the companies whose shares are owned by the public sector, will get a greater return on investment. The results of the first sub-hypothesis suggest that it is the second main hypothesis there was a negative relationship between ownership concentration and liquidity. In other words, with increasing concentration of ownership, reduced corporate liquidity so as to correspond with the results of the investigation Yaghobnezhad and et al (2011), Haflin and Shaw (2000), Jakby and Zheng (2010), Gergity Sansoren and Wang (2006) and Rubin (2007). The results of the second sub-hypothesis (impact of public and private property, including ownership of stock liquidity) implies that there is no significant relationship between the type of ownership (public and private) and liquidity and it does not match the results Fongakoa (2005), Bertoloy and et al (2002), Na (2002), Bochkova and Magginson (2000), Jafari Seresht (2010) and Tehrani and et al (2011).

Resources


