



Evaluating the Effect of Corporate Governance on Free Cash Flows in Companies Accepted to Tehran's Securities Exchange Market

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ABSTRACT

The present study aims at investigating the effect of corporate governance on free cash flows in companies accepted to Tehran's securities exchange market. The study is an applied method in terms of the study objectives and it is a descriptive study of the correlation analysis type in terms of the information gathering procedures adopted herein. The study population includes 496 companies out of which 72 companies were selected based on systematic omission sampling method. The current research paper makes use of Kolmogorov-Smirnov tests to evaluate the data normality and variance consistency; Limer test, exponential smoothing and variance inflation factor test were used to determine the model estimation type and, finally, effects regression model was applied to test the study hypotheses. Also, Husman test was utilized in selecting the fixed effects pattern versus the random effects patterns. According to the results, there is a significant relationship between corporate governance and free cash flows in companies accepted to Tehran's securities exchange market. Institutional ownership, inter alia the corporate governance aspects, with a regression coefficient equal to 0.756 has shown the greatest effect on free cash flows and director's independence, with a correlation coefficient of 0.564, is ranked second followed by managerial ownership with a correlation coefficient of 0.516, in the third position, ownership concentration with a correlation coefficient of 0.490 in the fourth position and lastly the fifth position belonged to the collaborative ownership with a correlation coefficient equal to 0.248 which had the lowest effect on the free cash flows in companies accepted to Tehran's securities exchange market.

Keywords: corporate governance, managerial ownership, corporate ownership, directors' independence, free cash flows, companies accepted to Tehran's stock exchange market

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INTRODUCTION

Organization is a conjoined system of written and unwritten agreements between the proprietors, production agents and the customers and the separation between management from ownership has brought about a greater deal of attention to the management theories. Establishing limited companies and opening corporate ownership to general public during the second half of the 19th century in the US was followed by the segregation of ownership and control in the companies. The market system was orchestrated in such a manner that the company owners assigned managers to their companies' governance. This segregation caused the influence of the shareholders, the real company owners, on the managers, as their representatives in the companies, to go down and the interest conflicts between the owners and the managers showed up as "agency issue". The agency issue is not solely specific to the relationship between the shareholders and the managers rather it may be well stretched to the relationship between the shareholders and other stakeholders.

A topic that has emerged during the recent decades in financial markets is the "corporate governance" that has been addressed from various angles by many researchers and specialists from various fields of study such as accounting, commerce, economy, law and so forth who have dealt with the elaboration and

rendering of the issue from their own perspectives. On the other hand, there is no other topic more instigating than profit management among the research topics in accounting and financial realms. That is because such a topic is a potential area of violation, struggling, loss and secrecy and it is generally considered as a mysterious concept.

Assessing the financial position of a company is envisioned as a vital and essential issue in the process of decision making because a company's operations are largely dependent on its financial position. Financial ratios are scales by means of which a company's performance can be evaluated. One of the existent processes for measuring the companies' financial positions is that each set of the financial ratios evaluates certain aspect in such a way that a group of these ratios measures liquidity ability, another group evaluates the profitability, some others specify the investment competency of the company (business entity) and, finally, the last of them assesses the organizations' efficiency and operations.

Free cash flows are important in that they allow managers to be in search of opportunities that provide for increasing the companies' stock value. Without having access to cash funds, it is not feasible to develop new products, perform business acquisitions, paying cash dividends to the shareholders and lowering the liabilities. On the other hand, cash sums should be kept in levels that equilibrium could be drawn between the cash sums maintenance costs and insufficient cash sums costs. Furthermore, the effect and the choice of liability policies are

enumerated as highly important corporate decisions that influence their performance. That is because the growth and the continuation of the companies' activities requires financial resources the provisioning of which is usually faced with constraints. Therefore, in order to continue the process of resource absorption, the use of the resources should be in such a manner that it provides for an appropriate share of the value for the suppliers of the resources. It is the optimum profitability of the organizational activities that encourages the suppliers to utilize their resources in certain activities as a result of which the company value and, consequently, the shareholders' wealth will be increased. The company's ability in clarifying appropriate financial policies for the purpose of creating investment opportunities is an underlying factor contributing to the companies' growth and progress. Companies with negative free cash flows are unable to support profit and earnings' growth. Insufficient free cash flows can force the company into elevating their debts' level. Thus, in heightening the profit management the managers tend to exhibit a better performance.

The primary question raised herein is that does the companies' difference in ownership structure influence the free cash flows? To put it differently, if the company owners are comprised of various groups such as financial institutions, banks and other companies, would there be made a difference in their free cash flows? And, which of these different ownership compositions are effective on improving the company performance? And, also, the current research paper explores the difference in the board of managers' composition and the effect it might have on the free cash flows. It is through finding an answer to the above question that more proper interventions can be taken in line with improving the company's performance and its higher rate of profitability and it will make the decision-makers and the investors pay a greater deal of attention to the composition of the owners as well as board of directors or more generally to the companies' corporate governance structure if they wish to achieve more optimum performance of their business entities. Therefore, the present study deals with the survey of the effect that corporate governance exerts on the free cash flows of the companies accepted to Tehran's securities exchange market.

2.4. Study Background:

Chris et al (2014) in a research tried to recognize the corporate governance features in companies accepted to the securities exchange market. They tried to realize the prominent characteristics of the process of utilizing corporate governance roles in administration methods of the today's companies. They figured out that there is little or no role played by women in board of directors. Also, it was found out that directors' independence is in an appropriate level in the majority of the companies. Bena et al (2015) conducted a study titled "the effects of long- and short-term investments by foreign investors on institutional ownership". They came to the conclusion that foreign investment can lead to higher productivity and innovation that result in managerial discipline in the entire world. Hani El Chaarani (2015) in their study called "the effect of legal and financial structures on companies' performance in Europe" dealt with the idea that how capital structure, considering the various supportive legal systems, influences the European companies' performance. The results of their study indicated that institutional and managerial owners in countries enjoying a lower level of legal investment are more likely to make use of their companies' capital structure to serve their own interests; moreover, debts are utilized as a disciplinary tool for limiting expropriation of personal interests in countries with higher levels of legal protection.

Setayesh and Salehiniya (2015) in a study entitled "the effect of ownership structure and capital structure on free cash flows" dealt with the two fundamental aspects of the companies' ownership structure, i.e. shareholders' composition and the

ownership concentration rate. Shareholders' composition has been evaluated through four variables, namely foreign ownership, corporate ownership, managerial ownership and institutional ownership. The study's findings show that corporate ownership is directly associated with frees cash flows and debts ratio is inversely correlated with free cash flows. But, no evidence was observed implying the existence of a significant relationship between institutional ownership, managerial ownership and ownership concentration with companies' free cash flows.

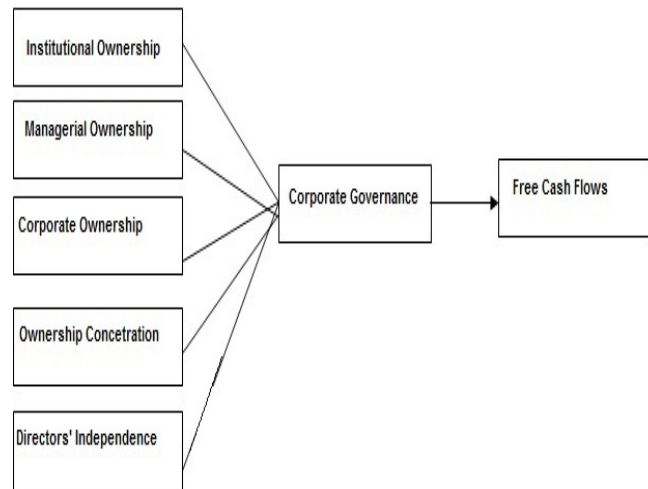
2.5. Study Conceptual Model:

For the first variable (corporate governance):

Corporate governance is defined as the constellation of the processes, regulations, policies and rules that influence the way the companies are led, administrated and controlled. Corporate governance is also specified as the process of making use of the companies' potentials as well as the way they are controlled in confrontation with corporate or trans-corporate issues. It is known to be composed of aspects such as institutional ownership, ownership concentration, directors' independence, managerial ownership and collaborative ownership (Hughes, 2007).

For the second variable (Free cash flows):

The free cash flows theory was first developed by Jensen. In this theory, free cash flows include the cash flows residues after it being subtracted from the cash funds required for making investments in projects the current net value of which is evaluated positive. These projects are long-term investment plans for which the expected current value of their input cash flows exceeds the expected current value of their output cash flows. It is evident that capital expenditure is used as an interest rate in calculating the present value (Gholami et al, 2012).



(Source: Bena et al)

Institutional Ownership:

Institutional owners are large investors such as banks, insurance companies, retirement funds, investment companies and the other institutions that get involved in selling and purchasing a huge volume of securities and directly influence the managerial decisions of the investment-receiving companies by enjoying a high rate of voting right in companies' meetings.

Managerial ownership:

Managerial ownership is the amount of stock kept by the directors' family members. Corresponding to agency theory, the managers elevate their positions, fame and credibility as well as

their comfort and respect along with the increase in the companies' expenditures.

Corporate Ownership:

Corporate ownership includes the companies a great amount of whose stock is owned by the cooperating members and these individuals actively participate in the company's management. These are the companies possessed by 20% of their shares by family members in an individual or collective manner and/or have at least one close kin or affinity in the board of directors and/or as an executive manager who take parts in the board of managers.

Ownership Concentration:

Ownership concentration encompasses the way the stock shares are distributed between the shareholders of a company. The fewer the number of the shareholders the more the ownership is concentrated.

Directors' Independence:

Board of directors is the second important corporate tool in terms of having the power to govern the company. Directors' independence is more important than its monitoring power. Since the board of directors plays a considerable role in the process of financial reporting, independence is considered as an important mechanism of corporate governance.

2.6. Study Methodology:

The present study makes use of a descriptive method to investigate the corporate governance status. The present study has been implemented based on a descriptive method of the correlation analysis type. The study is a quasi-experimental research in terms of the study nature and methodology and it makes use of an ex post facto, past information, design. Such a design is used in the studies where the researcher takes account of the events happened in the past to investigate an issue. Additionally, there is no possibility to manipulate the independent variables in such research methodologies.

2.10. Study Variables and their Measurement Quality:

Variables are quantities that display various values within a certain range from an individual to another and from an observation to another. So, a thing, that is considered as an indicative variable under certain circumstances, changes if it can be assigned with numbers or values and the researcher can control, manipulate or observe it based on the objective s/he is seeking to accomplish in a study (Khaki, 2003).

Essentially, the determination of the variables is one of the most substantial stages of every research work. Variables can be categorized to several groups, namely dependent variables, independent variables, adjusting variables, intervening variables and control variables. There are dependent, independent and control variables in the current research paper. These variables are stated as below based on the theoretical framework of the study as well as according to the overall model of the experimental research:

$$FCF_{y-axis} = \alpha_0 + \beta_1 NSOWN + \beta_2 MAGOWN + \beta_3 CORPOWN + \beta_4 OWNCO + \beta_5 board\ Independent + \beta_7 DEPT + \beta_8 SIZE + \beta_9 AGE$$

NSOWN: is the institutional ownership and it includes the total legal ownership by certain companies (banks, insurance companies, etc). Also, it incorporates the legal persons who own more than 5% of the companies' stock shares (Izadiniya and Rasa'eiyani, 141, 2010).

MAGOWN: it denotes managerial ownership and it encompasses the percentage of the stock share held by the members of board of managers.

CORPOWN: it denotes corporate ownership and it embraces the total percentage of stock shares belonging to the other business and industrial companies.

Board Independence: it denotes the board of directors' independence.

OWNCO: it denotes ownership concentration and it incorporates the total stock shares held by the legal or real persons who own more than 10% of the company's shares (quoted from Astami and Tower, 2006).

DEPT: it denotes the company's financial leverage and it is indicative of the total debts to total assets ratio of a company.

SIZE: it denotes the company size and it is the total assets owned by a company.

AGE: it denotes the total years of a company's age since its establishment.

It is worth mentioning that the last three variables are control variables that are inserted in the model for normalizing the effects of independent variables.

Free Cash Flows: Free cash flow is determined via the following formula based on a definition posed by Jensen:

$$FCF_t = CFO_t - Investment_t^+$$

Where,

FCF_t=free cash flows of a business entity during the period t

CFO_t = cash sums obtained from the business entity during the period t

Investment_t⁺= free cash flows required for making investment in projects with positive NPV expected from a business entity during the period t

2.11. Inferential Statistics:

The statistical tests applied in the inferential statistics section include correlation test, t-test and multivariate linear regression. Normal least squares regression method (OLS) is applied to determine the coefficients' accuracy as well as the importance of each of the independent variables. In this method, t-statistic is used to determine the significance level of each of the variables; F-statistic is used to determine the significance level of the total regression model and the determination coefficient, R², is utilized to determine the efficiency and the extent to which the dependent variable is explained by the selected independent variables. Based on the type of the data and the extant analysis method of the current research paper, combined/pooled data method is applied.

2.11.1. Investigating the Variables' Normality:

Table 2: Kolmogorov-Smirnov test output from variables' normality test

| | Kolmogorov-Smirnov statistic | Significance level | Result |
|-------------------------|------------------------------|--------------------|--------|
| Corporate governance | 0.45 | 0.83 | Normal |
| Cash sums | 1.022 | 0.239 | Normal |
| Institutional ownership | 0.824 | 0.506 | Normal |
| Managerial ownership | 1.04 | 0.222 | Normal |
| Collaborative ownership | 0.732 | 0.685 | Normal |
| Independence | 0.044 | 1.32 | Normal |
| Concentration | 0.789 | 0.563 | Normal |

(Source: Study Findings)

The results of Kolmogorov-Smirnov test, presented in table (2), demonstrate that the study variables enjoy a normal distribution. In other words, it can be concluded that the data are normally distributed in regard of these variables. Based on this, parametrical tests can be utilized as tests appropriate for testing the study hypothesis.

2.11.2. Investigating the Existence of Collinearity between the Variables:

Table 3: Variance tolerance index and variance inflation factor

| | Tolerance | VIF |
|-------------------------|-----------|-------|
| Corporate governance | 0.637 | 1.56 |
| Cash sums | 0.343 | 2.19 |
| Institutional ownership | 0.518 | 1.93 |
| Managerial ownership | 0.943 | 1.05 |
| Collaborative ownership | 2.89 | 0.315 |
| Independence | 2.81 | 0.345 |
| Concentration | 0.541 | 1.84 |

(Source: Study Findings)

As it is observed, the test significance level is smaller than 5% and this is suggestive of the idea that the studied data are of the panel type. Panel data can be divided into two sets, namely the random effects and the fixed effects for the determination of which Human's test is used. The results for the verification of the foresaid idea are given in the table. In case that the significance level for Human's test is found larger than 5%, then the fixed effects regression model should be used and as it is evidently observed from the table the results confirmed this same idea. First of all, Limer's test is used to clarify the model estimation type. F-Limer test was calculated equal to 0.037. Therefore, the assumption proposing the similarity of the y-axes was not rejected. So, the combined method was used to estimate the model. R² value was found equal to 0.51 and Durbin-Watson value was 2.1.

2.1.1.3. Model Selection Test:

To determine a model, there should be made use of Husman's test the results of which are presented in the corresponding table. If the significance level obtained for Husman's test is found larger than 5% then there is a need for fixed effects regression model to be used and the test results confirmed the same idea. Firstly, Limer's test is used to determine the model estimation type.

Table 4: Limer's test

| Significance level | Chi-square-df | Chi-square statistic | Husman test |
|--------------------|---------------|----------------------|----------------------|
| 0.657 | 9 | 9.40 | Random cross-section |

(Source: study findings)

To test the study hypotheses, regression model is used. To determine the idea that the studied data are of the pooled or combined data type, F-Limer's test is used. The results are given in table (2).

Table 5: Husman's test

| Significance level | Statistic | Effect test |
|--------------------|-----------|--------------------------|
| 0.0000 | 22.65 | Cross-section f |
| 0.00000 | 7.75 | Cross-section chi-square |

(Source: study findings)

12. Study Hypotheses Test

12.1. Primary Hypothesis Test:

There is a significant relationship between corporate governance and the free cash flows in the companies accepted to Tehran's securities exchange market.

Table 6: Regression test coefficient regarding the effect of corporate governance on the free cash flows in companies accepted to Tehran's securities exchange market

| | Non-standardized Beta coefficients | Standard error | Standardized Beta coefficients | t-value | Significance level |
|----------------------|------------------------------------|----------------|--------------------------------|---------|--------------------|
| Fixed effect | 10.165 | 2.640 | | 3.851 | 0.000 |
| Corporate governance | 0.345 | 0.060 | 0.507 | 5.757 | 0.000 |

(Source: study findings)

The results obtained from the regression test indicate that the regression coefficient with a significance level of $\alpha=0.000$ has been calculated equal to $R=0.507$. Since the significance level obtained herein is lower than the level of interest for us $\alpha=0.05$, so there is enough evidence for rejecting our hypothesis. Thus the null hypothesis is rejected and the main hypothesis proposed in the current research paper is confirmed. Hence, it is concluded that free cash flows undergo variations by 0.507 for every unit of change in the standard deviation of the corporate governance.

12.2. Secondary Hypotheses Tests:

12.2.1. First Secondary Hypothesis Test:

There is a significant relationship between the institutional ownership and the free cash flows in the companies accepted to Tehran's securities exchange market.

Table 7: Regression test coefficient regarding the effect of institutional ownership on the free cash flows in companies accepted to securities exchange market

| | Non-standardized Beta coefficients | Standard error | Standardized Beta coefficients | t-value | Significance level |
|-------------------------|------------------------------------|----------------|--------------------------------|---------|--------------------|
| Fixed effect | 11.715 | 1.230 | | 9.524 | 0.000 |
| Institutional ownership | 0.494 | 0.044 | 0.756 | 11.332 | 0.000 |

(Source: study findings)

The results obtained from the regression analyses shows that the regression coefficient has been calculated equal to $R=0.756$ with a significance level of $\alpha=0.000$. Since the significance level is smaller than the significance level of concern to the current study that is $\alpha=0.05$, so there is enough evidence for rejecting the null hypothesis. Therefore, the null hypothesis is rejected and the first secondary hypothesis is confirmed. Thus, it can be concluded that free cash flows undergo variations by 0.756 for every unit of change in the standard deviation of institutional ownership.

12.2.2. Second Alternative Hypothesis:

There is a significant relationship between the managerial ownership and the free cash flows in the companies accepted to Tehran's securities exchange market.

Table 9: Regression test coefficient regarding the effect of managerial ownership on the free cash flows in companies accepted to securities exchange market

| | Non-standardized Beta coefficients | Standard error | Standardized Beta coefficients | t-value | Significance level |
|----------------------|------------------------------------|----------------|--------------------------------|---------|--------------------|
| Fixed effect | 11.525 | 2.348 | | 4.909 | 0.000 |
| Managerial ownership | 0.575 | 0.097 | 0.516 | 5.906 | 0.000 |

(Source: study findings)

The results obtained from the regression tests demonstrate that the regression coefficient is computed equal to $R=0.516$ with a significance level of $\alpha=0.000$. Since the significance level is found lower than the significance level intended for the current research paper, i.e. $\alpha=0.05$, therefore there is enough evidence for rejecting the null hypothesis. So, the null hypothesis is rejected and the second alternative hypothesis is subsequently affirmed. Thus, it can be concluded that free cash flows undergo variations by 0.516 for every unit of change in the standard deviation of managerial ownership.

12.2.3. Third Alternative Hypothesis Test:
There is a significant relationship between the collaborative ownership and free cash flows in the companies accepted to Tehran’s securities exchange market.

Table 10: Regression test coefficient regarding the effect of collaborative ownership on the free cash flows in companies accepted to securities exchange market

| | Non-standardized Beta coefficients | Standard error | Standardized Beta coefficients | t-value | Significance level |
|-------------------------|------------------------------------|----------------|--------------------------------|---------|--------------------|
| Fixed effect | 16.712 | 3.409 | | 4.902 | 0.000 |
| Collaborative ownership | 0.342 | 0.137 | 0.248 | 2.504 | 0.014 |

(Source: study findings)

The results obtained from the regression tests signify that the regression coefficient was acquired equal to $R=0.248$ with a significance level of $\alpha=0.000$. Since the significance level is found smaller than the significance level of interest to the present study, there is enough evidence for rejecting the null hypothesis so the null hypothesis is rejected and the third alternative hypothesis is confirmed. Hence, it can be concluded that free cash flows undergo variations by 0.248 for every unit of change in the standard deviation of collaborative ownership.

12.2.4. Fourth Alternative Hypothesis Test:
There is a significant relationship between directors’ independence and free cash flows in the companies accepted to Tehran’s securities exchange market.

Table 11: Regression test coefficient regarding the effect of directors’ independence on the free cash flows in companies accepted to securities exchange market

| | Non-standardized Beta coefficients | Standard error | Standardized Beta coefficients | t-value | Significance level |
|-------------------------|------------------------------------|----------------|--------------------------------|---------|--------------------|
| Fixed effect | 13.284 | 1.848 | | 7.189 | 0.000 |
| Directors’ independence | 0.456 | 0.069 | 0.564 | 6.653 | 0.000 |

(Source: study findings)

The results obtained from the regression analysis indicate that the regression coefficient was computed equal to $R=0.564$ with a significance level of $\alpha=0.000$. Since the significance level is found lower than the significance level of concern to the current study there is enough evidence for rejecting the null hypothesis, so the null hypothesis is rejected and the fourth alternative hypothesis is confirmed. Hence, it can be concluded that free cash flows undergo variations by 0.564 for every unit of change in the standard deviation of directors’ independence.

12.2.5. Fifth Alternative Hypothesis Test:
There is a significant relationship between ownership concentration and free cash flows of the companies accepted to Tehran’s securities exchange market.

Table 12: Regression test coefficient regarding the effect of ownership concentration on the free cash flows in companies accepted to securities exchange market

| | Non-standardized Beta coefficients | Standard error | Standardized Beta coefficients | t-value | Significance level |
|-------------------------|------------------------------------|----------------|--------------------------------|---------|--------------------|
| Fixed effect | 16.120 | 1.727 | | 9.337 | 0.000 |
| Ownership concentration | 0.300 | 0.055 | 0.490 | 5.476 | 0.000 |

(Source: study findings)

The results obtained from the regression tests exhibit that the regression coefficient was acquired equal to $R=0.490$ with a significance level of $\alpha=0.000$. Since the significance level is found smaller than the significance level of interest to the current study so there is enough evidence for rejecting the null hypothesis. Thus, the null hypothesis is rejected and the fifth alternative hypothesis is confirmed. Hence, it can be concluded that free cash flows undergo variations by 0.490 for every unit of change in the standard deviation of directors’ independence.

GENERAL CONCLUSION

According to the results it was made clear that the corporate governance is an essential and key variable and concept in the literature on the organization theory and design. The entire relationships were confirmed based on the test results through making use of model estimation and structural model tests in the present study. In other words, there is a significant relationship between corporate governance and free cash flows in companies accepted to Tehran’s securities exchange market. From the various aspects of corporate governance, institutional ownership with a regression coefficient of 0.756 exerted the highest

influence on the free cash flows, followed by directors' independence with a correlation coefficient of 0.564 and then managerial ownership with a correlation coefficient of 0.516 in the third place and ownership concentration with a correlation coefficient of 0.490 which took the fourth position and finally the fifth rank belonged to the collaborative or joint ownership with a correlation coefficient of 0.248 which was shown to have the smallest effect on the free cash flows in the companies accepted to Tehran's securities exchange market.

14. Study Suggestions:

14.1. Suggestions Inspired by the Study Hypotheses Tests:

1. According to the results obtained from the study hypothesis indicating the existence of a positive and significant relationship between the institutional ownership and free cash flows in the companies accepted to Tehran's securities exchange market, it was made evident that industry is a significant factor in the effect of ownership structure on the relationship between the free cash flows and optimum use of assets.
2. Based on the results obtained from the study hypothesis suggesting a positive and significant relationship between the managerial ownership and free cash flows in the companies accepted to Tehran's securities exchange market, the investors who are seeking to acquire higher returns on their investments should pay attention to the shareholders' ownership in a company as well as the way the shareholders' ownership is scattered or concentrated and they should make their investments in the stocks of the companies featuring fewer governmental ownership layers but higher ownership concentration.
3. Considering the results obtained from the study hypothesis test indicating the existence of a positive and significant relationship between the collaborative ownership and free cash flows in the companies accepted to Tehran's securities exchange market, the managers are recommended to more strongly take into consideration the factors which were found effective in the present study on the cash sums maintenance in the companies in order to achieve the cash sum level of concern. Also, the managers can control liquidity to the maximum extent possible through creating a balance between the short-term financial liabilities and obligations and long-term investment and minimize the risk resulting from bankruptcy due to the shortage of cash amounts or the lack of appropriate investment which are usually followed by losing the market position in certain sections and excessive existence of cash sums invested on other sections and this way managers can cause the profitability to increase.
4. As for the results obtained from the study hypothesis tests indicating the existence of a positive and significant relationship between the directors' independence and free cash flows in the companies accepted to Tehran's securities exchange market, it is necessary to offer solutions to enhance the performance of non-executive managers in the composition of the board of directors because these non-executive managers play considerable roles in strengthening the board of directors' performance effectiveness.
5. In regard of the results obtained from the study hypothesis test showing the existence of a positive and significant relationship between the ownership concentration and free cash flows in the companies accepted to Tehran's securities exchange market, one

of the active and important institutions in the financial sector of economy is the stock exchange market that plays a considerable role in actualizing the economical-financial functions including collecting the stagnant savings, supplying huge investments and allocating the capitals in its best and most effective way possible as well as facilitating the companies' finance supplies through easing and provisioning the transaction opportunities for the participators taking part in the stock exchange markets to buy and sell securities and stock shares. Due the same reason, the availability of the information and up-to-date research can assist the Securities Exchange Market Organization.

6. Localizing the concepts associated with corporate governance and matching them to the cultural and economical issues in Iran is a very important task that should be shouldered by the professional experts including the securities exchange market organization, auditing organization. Any sort of copying the guidelines and similar domestic regulations, without taking the managerial structure, culture-building and transformation in administrating the companies' affairs, especially separating the strategic tasks from the executive ones, is not either helpful nor will it resolve the numerous problems that might come along.
7. According to the low efficiency of the governmental ownership, it is necessary for the government and the associated systems, as state companies' shareholders, to speed up the process of privatization and correct the companies' ownership structure and codify systematic and competent structures to efficiently administrate the institutions and companies; furthermore, they government should enact supportive rules to back up the nongovernmental sectors so as to contribute to the improvement of the performance and enhancement of the business and economical entities' value.

14.2. Suggestions to the Future Researchers:

Based on the study constraints, some of the cases and areas that are deemed appropriate to be investigated in future researches are stated as below:

1. Making use of other indices as the objectives of the users and investigating the information content based upon them.
2. It was not possible to extend the temporal domain of the study in the current research paper, so the future researchers are suggested to extend the time duration of their studies and consider larger study sample volumes.
3. The relationship between the corporate governance mechanisms' structure and profit management efforts' mitigation including by the independent auditors, auditing committees, legal supervisions and so forth.
4. The effect of the other characteristics of the board of directors on the profit management reduction including the directors' independence, board of directors' displacement, knowledge level and board of directors' competencies and so forth
5. The effect of corporate governance principles on the reduction in frauds and increase in the financial reporting quality
6. The effect of the companies' corporate governance status on the investment decisions made by the users.
7. Making use of entropy coefficient and/or the stock ratios belonging to the biggest owners for the

determination of the major shareholders' ownership rate and investigating its effect on the performance scales.

8. The role of the banks as the country's institutional investors in corporate governance of the companies.
9. Surveying the components of accrual items for the determination of the profit stability by making use of the other variables of discretionary accrual items and cash flows in transactions for evaluating the profit smoothing.
10. In regard of the profit smoothing, it is suggested that the means of stock dividend smoothing as well as the profit and loss of currency conversion rate should be considered.

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