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## COMPARING EFFECT OF CORPORATE GOVERNANCE ON FIRM PERFORMANCE

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### ABSTRACT

*In this research, we compare and evaluate effect of corporate governance on performance of firms before and after issuing the audit committee's instruction. To test hypotheses, we used systematic deletion method and selected 128 firms from the firms listed on Tehran Stock Exchange during the period from 2011 to 2016. To investigate the research hypothesis, multiple regression method was applied on the related data and the results showed that institutional ownership, management ownership, and independence of the board have a positive and significant effect on the firm performance, while concentration of ownership and size of the board have no significant effect on firm performance. Institutional ownership, management ownership, independence of the board of directors and size of the board have a positive and significant effect on performance of firms before announcing instructions of the audit committee, while, ownership concentration on firm performance before announcing instructions of the audit committee has a negative and significant effect. In addition, institutional ownership and management ownership have a positive and significant effect on performance of firms after announcement of instructions of the audit committee, while ownership concentration, board independence and board size have no significant effect on performance of firms after announcement of instructions of the audit committee.*

**Keywords:** *Audit Committee, Corporate Governance, Institutional Ownership, Financial Performance.*

### INTRODUCTION

Corporate governance (trade union governance) means responsibilities and methods used by board of directors and executive managers with the aim of identifying a strategic route that ensures achievement of goals, control of risks and proper use of resources. Until 1980s, conflict between shareholders and managers was the major issue in corporate governance literature. In general, it was accepted by everyone that ownership concentration reduces agency problem and improves the firm's performance. To justify this issue, researchers claimed that increased ownership concentration results cause big investors to enter the corporate ownership structure. These investors have sufficient motivation and power to supervise managers and their monitoring cause managers attempt to get long-term goals of firm.

Braun and Kyler (2006) and Dietmar and Smith (2007) showed that firms having better corporate governance mechanisms have better performance and higher market value.

Most of the researches conducted on corporate governance are based on agency theory and they focused on problem of conflict of interest. Conflict of interest occurs when interests of managers and owners are not in the same direction. Agency theory states that firms through better corporate governance structure have better performance and higher value, which is due to low agency costs. Agency theory also states with concentrated ownership, firms are better

administrated and monitored, because major shareholders have sufficient motivation and ability to monitor managers and increase firm's performance. It is also expected that improving macroeconomic variables can value a positive impact on firms' values, because above indicators are among the factors that affect overall performance of market, and consequently can affect performance of firms (Jensen, 1993).

Now we examine whether implementation of instructions of the audit committee can increase or reduce this impact? Considering the above points, in this research we examine effect of corporate governance on firm's performance before and after implementation of instructions of the audit committee.

## RESEARCH LITERATURE

### *Return on assets (ROA)*

To measure firm performance, we used return on assets, which obtains from division of net earnings by total assets. Bernard Black (2001) in a research in Russia found that a relationship between corporate governance and corporate financial performance. Using time series and regression methods, he found a strong relationship between corporate governance and stock market value. Ditmar and Smith (2006) reviewing corporate governance and its relationship with firm's market value found that in poorly managed firms, every 1\$ change in cash causes a change about 42% to 88% in market value, while this amount in firms with better governance is twofold.

### *Factors affecting financial performance*

#### *a) Industry type*

Buzell and Gale (1987) argue that growth of an industry affect performance all the firms in that industry. Scherer & Ross (1990) believe that industry unions because of determining the product supplied to the market and determining policy of product pricing affect profitability of firms.

#### *b) Firm size*

Penrose (1959) believes that larger firms because of large volume of activities are more profitable than smaller firms. It is because, larger firms have specialized work forces that evaluate activities of firm's various sections and eliminates wasteful and non-economic activities. Shepherd (1986) states that large firms have a clear share of the sale market and in the case of imperfect market competition and because of their strength, they can play a decisive role in terms of price and quantity of product supplied to market.

#### *c) Firm lifespan*

Bhagwati (1993) and Bhoothalingam (1993) believe that increased lifespan of firm increases experience of firm's workforce and manpower's experience decreases the cost and the time needed to complete process of producing the product, which in turn result in greater productivity and higher profitability.

#### *d) Capital to assets ratio*

Wei Fu et al. (2000) argue that the use of capital in firm's financial structure decreases risk of bankruptcy substantially. Reduced bankruptcy risk for many firms is useful in many aspects. Customers, suppliers of raw materials, creditors and shareholders in their decision makings pay special attention to the firm bankruptcy risk.

#### *e) Debt to assets ratio*



Regarding benefits of debt financing, it is the favorite choice of corporate executives in providing their financial need. However, debt financing leads to interest costs, which cause firms to spend part of their earnings in the coming years on financing the financing costs and, as a result, their future profitability will be decreases.

*f) Advertising costs*

Robinson (1996) says that purpose of advertising is to introduce products to customers and customers through advertisements become familiar with quality, prices and services of firm. This cause customers to purchase a product that they have seen before in advertisements. So, advertisements has a direct impact on sales and increased sales also affects firm's earnings.

**Ownership concentration (CONS):** ownership concentration means that a large part of shares belong to major shareholders and it shows that how many percent of the firm's shares is in the hands of a few. In this study, according to Rubin (2007), Mehrani et al. (2010) and Moradzadeh et al. (2009), ownership concentration is calculated as follows:

$$\text{COSN} = \frac{\text{Sum of the shares held by major shareholders}}{\text{All the shares issued}} \quad (1)$$

**Institutional ownership (INS):** an effective mechanism of corporate governance, which is of increasing importance, is emergence of institutional investors as owners of firms. According to Guilan and Starkes (2003), institutional ownership play a key role in formation of many changes in corporate governance systems. In addition, according to Woolley and Jenkins (2006), it stems from regulatory activities that owners according to the agency theory do to supervise management. According to the definition provided and used in research by Rubin (2007) and Queto (2009), institutional ownership level is calculated by division of the shares owned by banks and insurance; holdings; investment firms; pension funds; capital firms; pension funds; capital investment firms; investment funds and organizations; government institutions and corporations by all the shares issued by firm and percentage or amount of institutional ownership. In the present study, level of institutional ownership is calculated as follows:

$$\text{Institutional ownership} = \frac{\text{(all the shares owned by institutional owners)}}{\text{(all the shares issued by firm)}} \quad (2)$$

**Managerial ownership (MANAGE):** Jensen and Mackling (1976) argued that increasing percentage of managerial ownership increases firm value through reducing agency costs. This variable in the current research is equal to percentage of ordinary shares owned by executive and non-executives' managers.

$$\text{Managerial ownership} = \frac{\text{(all the shares owned by managers)}}{\text{(all the shares issued by firm)}} \quad (3)$$

**Board independence (INDEP):** another independent research variable is the independent members of the board of directors, which represents ratio of independent members of the board of directors to entire board of directors.

Inefficient board increases likelihood of fraud in the financial statements. When the chief executive does not pay attention to regulatory responsibilities, in choosing external members of



executive board to influence the board's supervisory responsibilities, to control meetings and orders of the board, and provide confidential information of firm only to specific members, then the board will lose its effectiveness.

**Board size (BSIZE):** another independent variable of the research is the board size, which represents number of the entire board of directors. Since responsibilities of the board members has close relationship with that of CEO, it expects that task of supervising management to be assigned further on non-executive members of the board; therefore, non-executive members of the board have an important place in solving the agency problem between managers and owners.

## RESEARCH METHODOLOGY

The research method in terms of nature and content is correlational. In order to collect the required data for calculating the research variables, RahavardNovin and Tadbirpardaz databases were used. The actual data needed for this research were collected from the actual information of the firms. To this purpose, it was necessary that two periods for comparison to be considered. So in this research, sampling is done using systematic deletion method. To test the research hypotheses, regression models were used. Using combined data, we can use combined and panel methods to estimate regression models. To determine the estimation method, F-test is used and in the case of using panel method, we can use either a fixed-effect model or random effects method and Hausman test can be used to identify the model type.

### *Research hypotheses*

**Hypothesis 1:** Corporate governance has significant effect on firm's performance.

**Sub-hypothesis 1.1:** Ownership concentration has significant effect on firm's performance.

**Sub-hypothesis 1.2:** Managerial ownership has significant effect on firm's performance.

**Sub-hypothesis 1.3:** Institutional ownership has significant effect on firm's performance.

**Sub-hypothesis 1.4:** Independence of the board has significant effect on firm's performance.

**Sub-hypothesis 1.5:** The board size has significant effect on firm's performance.

**Hypothesis 2:** Corporate governance has significant effect on firm's performance before issuing instructions of the audit committee.

**Sub-hypothesis 2.1:** Ownership concentration has significant effect on firm's performance before issuing instructions of the audit committee.

**Sub-hypothesis 2.2:** Managerial ownership has significant effect on firm's performance before issuing instructions of the audit committee.

**Sub-hypothesis 2.3:** Institutional ownership has significant effect on firm's performance before issuing instructions of the audit committee.

**Sub-hypothesis 2.4:** Independence of the board has significant effect on firm's performance before issuing instructions of the audit committee.

**Sub-hypothesis 2.5:** The board size has significant effect on firm's performance before issuing instructions of the audit committee.

**Hypothesis 3:** Corporate governance has significant effect on firm's performance after announcement of instructions of the audit committee.



**Sub-hypothesis 3.1:** Ownership concentration has significant effect on firm's performance after announcement of instructions of the audit committee.

**Sub-hypothesis 3.2:** Managerial ownership has significant effect on firm's performance after announcement of instructions of the audit committee.

**Sub-hypothesis 3.3:** Institutional ownership has significant effect on firm's performance after announcement of instructions of the audit committee.

**Sub-hypothesis 3.4:** Independence of the board has significant effect on firm's performance after announcement of instructions of the audit committee.

**Sub-hypothesis 3.5:** The board size has significant effect on firm's performance after announcement of instructions of the audit committee.

## DATA ANALYSIS

**Hypothesis 1:** Corporate governance has significant effect on firm's performance.

In order to measure corporate governance, five criteria are used, which with respect to them, five sub-hypotheses are developed as follows:

**Sub-hypothesis 1.1:** Ownership concentration has significant effect on firm's performance.

In order to test this sub-hypothesis, estimation results of the model presented in Table (1) are used. Significant level of F-test is equal to 0.0000, which is less than 0.05 and, as a result, the null sub-hypothesis is rejected at the 95% confidence level and the model is significant. Durbin-Watson statistics is equal to 2.045, which shows the lack of autocorrelation of errors. Results of adjusted coefficient of determination explains approximately 68.28% of variations of the dependent variable by independent and control variables of the model.

The results show that at 95% confidence level, except ownership concentration and board size, the remaining variables of the model are significant. The results of the control variables show that firm size has a positive and significant effect on firm's performance, while the debt ratio has a negative and significant effect on firm's performance.

In general, the results show that coefficient of ownership concentration is -0.003152, but according to *t*-test, coefficient of ownership concentration at the 95% confidence level is not significant. Accordingly, sub-hypothesis 1.1 at 95% confidence level cannot be confirmed, and as a result, ownership concentration does not have a significant effect on firm's performance.

**Table 1: Results of estimating the research model over entire the study period**

$ROA_{it} = \beta_0 + \beta_1 CONS_{it} + \beta_2 INS_{it} + \beta_3 MANAGE_{it} + \beta_4 INDEP_{it} + \beta_5 BSIZE_{it} + \beta_6 SIZE_{it} + \beta_7 LEV_{it} + \epsilon_{it}$					
Dependent variable: Corporate financial performance					
Method: Generalized least squares regression					
Variable	Symbol	Estimated coefficient	Standard error	t-test	Probability
Fixed value (intercept)	C	0.108842	0.067436	1.614010	0.1070
Ownership concentration	CONS	-0.003152	0.013634	-0.231185	0.8172
Institutional ownership	INS	0.027011	0.010388	2.600292	0.0096
Institutional ownership	MANAGE	0.023063	0.007551	3.054353	0.0024
Board independence	INDEP	0.037443	0.018654	2.007225	0.0452
Board size	BSIZE	0.007672	0.006186	1.240164	0.2154
Firm size	SIZE	0.008095	0.003845	2.105149	0.0357
Debt ratio	LEV	-0.279379	0.016120	-17.33077	0.0000



Adjusted coefficient of determination	68.28%
Durbin-Watson	2.045
F-test	288.843
Probability (F statistic)	0.0000

**Sub-hypothesis 1.2:** Managerial ownership has significant effect on firm's performance.

In order to test this sub-hypothesis, estimation results of the model presented in Table (1) are used. In general, the results show that coefficient of managerial ownership is 0.027011, which shows positive effect of managerial ownership on the firm's performance and according to t-test, coefficient of managerial ownership at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 1.2 at the 95% confidence level, which show that managerial ownership has a positive and significant impact on firm's performance. In other words, with increasing managerial ownership, firm's performance also increases.

**Sub-hypothesis 1.3:** Institutional ownership has significant effect on firm's performance.

In order to test this sub-hypothesis, estimation results of the model presented in Table (1) are used. In general, the results show that coefficient of institutional ownership is 0.027011, which shows positive effect of institutional ownership on the firm's performance and according to t-test, coefficient of institutional ownership at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 1.3 at the 95% confidence level, which show that institutional ownership has a positive and significant impact on firm's performance. In other words, with increasing institutional ownership, firm's performance also increases.

**Sub-hypothesis 1.4:** Independence of the board has significant effect on firm's performance.

In order to test this sub-hypothesis, estimation results of the model presented in Table (1) are used. In general, the results show that coefficient of independence of the board is 0.037443, which shows positive effect of independence of the board on the firm's performance and according to t-test, coefficient of independence of the board at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 1.4 at the 95% confidence level, which show that independence of the board has a positive and significant impact on firm's performance. In other words, with increasing independence of the board, firm's performance also increases.

**Sub-hypothesis 1.5:** The board size has significant effect on firm's performance.

In order to test this sub-hypothesis, estimation results of the model presented in Table (1) are used. In general, the results show that coefficient of board size is 0.007672. Therefore, according to t-test, coefficient of board size at the confidence level of 95% is not significant. With regard to the above, we cannot confirm sub-hypothesis 1.5 at the 95% confidence level, which show board size has no significant impact on firm's performance.

**Sub-hypothesis 2:** Corporate governance has significant effect on firm's performance before issuing instructions of the audit committee.

In order to measure corporate governance, five criteria are used. In this line, five sub-hypotheses are developed and in the following, each of these sub-hypotheses are tested.

**Sub-hypothesis 2.1:** Ownership concentration has significant effect on firm's performance before issuing instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (2) are used. Significant level of F-test is equal to 0.0000, which is less than 0.05 and, as a result, the



null sub-hypothesis is rejected at the 95% confidence level and the model is significant. Durbin-Watson statistics is equal to 2.087, which shows the lack of autocorrelation of errors. Results of adjusted coefficient of determination explains approximately 75.85% of variations of the dependent variable by independent and control variables of the model.

The results show that at 95% confidence level, except variable of board size, the remaining variables of the model are significant. The results of the control variables show that debt ratio has a negative and significant effect on firm's performance.

In general, the results show that coefficient of ownership concentration is -0.018366, which indicates negative impact of ownership concentration on firm's performance before announcement of instructions of the audit committee, which according to t-test, coefficient of ownership concentration at confidence level of 95% is significant. Given the above, sub-hypothesis 2.1 can be confirmed at 95% confidence level, which shows that ownership concentration has a negative and significant effect on firm's performance before communicating instructions of the audit committee. In other words, before communicating instructions of the audit committee, with increasing ownership concentration, firm's performance decreases.

**Table 2: Estimation research of the research model for the period prior to announcement of instructions of the audit committee**

$ROA_{it} = \beta_0 + \beta_1 CONS_{it} + \beta_2 INS_{it} + \beta_3 MANAGE_{it} + \beta_4 INDEP_{it} + \beta_5 BSIZE_{it} + \beta_6 SIZE_{it} + \beta_7 LEV_{it} + \epsilon_{it}$					
Dependent variable: Corporate financial performance					
Method: Generalized least squares regression					
Variable	Symbol	Estimated coefficient	Standard error	t-test	Probability
Fixed value (intercept)	C	0.236617	0.116958	2.023096	0.0441
Ownership concentration	CONS	-0.018366	0.006124	-2.999304	0.0030
Institutional ownership	INS	0.023830	0.003361	7.090973	0.0000
Institutional ownership	MANAGE	0.053218	0.026190	2.032031	0.0432
Board independence	INDEP	0.016261	0.007424	2.190189	0.0294
Board size	BSIZE	0.008718	0.002162	4.033479	0.0001
Firm size	SIZE	0.001017	0.006616	0.153788	0.8779
Debt ratio	LEV	-0.238443	0.005055	-47.16849	0.0000
Adjusted coefficient of determination	75.85%				
Durbin-Watson	2.087				
F-test	737.019				
Probability (F statistic)	0.0000				



**Sub-hypothesis 2.2:** Managerial ownership has significant effect on firm's performance before communicating instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (2) are used. In general, the results show that coefficient of managerial ownership is 0.053218, which shows positive effect of managerial ownership on the firm's performance before communicating instructions of the audit committee and according to t-test, coefficient of managerial ownership at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 2.2 at the 95% confidence level, which show that managerial ownership has a positive and significant impact on firm's performance before communicating instructions of the

audit committee. In other words, before communication of instructions of the audit committee, with increasing managerial ownership, firm's performance also increases.

**Sub-hypothesis 2.3:** Institutional ownership has significant effect on firm's performance before issuing instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (2) are used. In general, the results show that coefficient of institutional ownership is 0.023830, which shows positive effect of institutional ownership on the firm's performance before communicating instructions of the audit committee and according to t-test, coefficient of institutional ownership at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 2.3 at the 95% confidence level, which show that institutional ownership has a positive and significant impact on firm's performance before communicating instructions of the audit committee. In other words, before communication of instructions of the audit committee, with increasing institutional ownership, firm's performance also increases.

**Sub-hypothesis 2.4:** Independence of the board has significant effect on firm's performance before issuing instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (2) are used. In general, the results show that coefficient of independence of the board is 0.016261, which shows positive effect of independence of the board on the firm's performance before communicating instructions of the audit committee. According to t-test, coefficient of independence of the board at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 2.4 at the 95% confidence level, which show that independence of the board has a positive and significant impact on firm's performance before communicating instructions of the audit committee. In other words, before communication of instructions of the audit committee, with increasing independence of the board, firm's performance also increases.

**Sub-hypothesis 2.5:** The board size has significant effect on firm's performance before issuing instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (2) are used. In general, the results show that coefficient of board size is 0.008718, which shows positive effect of board size on the firm's performance before communicating instructions of the audit committee. According to t-test, coefficient of board size at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 2.5 at the 95% confidence level, which show that board size has a positive and significant impact on firm's performance before communicating instructions of the audit committee. In other words, before communication of instructions of the audit committee, with increasing board size, firm's performance also increases.

**Hypothesis 3:** Corporate governance has significant effect on firm's performance after announcement of instructions of the audit committee.

In order to measure corporate governance, five criteria are used. In this line, five sub-hypotheses are developed, which in the following, each of these sub-hypotheses are tested.

**Sub-hypothesis 3.1:** Ownership concentration has significant effect on firm's performance after announcement of instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (3) are used. Significant level of F-test is equal to 0.0000, which is less than 0.05 and, as a result, the null sub-hypothesis is rejected at the 95% confidence level and the model is significant. Durbin-



Watson statistics is equal to 1.941, which shows the lack of autocorrelation of errors. Results of adjusted coefficient of determination explains approximately 72.77% of variations of the dependent variable by independent and control variables of the model.

The results show that at 95% confidence level, except variables ownership concentration, board independence and board size, the remaining variables of the model are significant. The results of the control variables show that firm size has a positive and significant effect on firm's performance, while debt ratio has a negative and significant effect on firm's performance.

In general, the results show that coefficient of ownership concentration is -0.018366, which according to t-test, coefficient of ownership concentration at confidence level of 95% is not significant. Given the above, sub-hypothesis 3.1 cannot be confirmed at 95% confidence level, which shows that ownership concentration has no significant effect on firm's performance after communicating instructions of the audit committee.

**Sub-hypothesis 3.2:** Managerial ownership has significant effect on firm's performance after announcement of instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (3) are used. In general, the results show that coefficient of managerial ownership is 0.065922, which shows positive effect of managerial ownership on the firm's performance after communicating instructions of the audit committee. According to t-test, coefficient of managerial ownership at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 2.3 at the 95% confidence level, which show that managerial ownership has a positive and significant impact on firm's performance after communicating instructions of the audit committee. In other words, after communication of instructions of the audit committee, with increasing managerial ownership, firm's performance also increases.



**Table 3: Estimation research of the research model for the period after announcement of instructions of the audit committee**

$ROA_{it} = \beta_0 + \beta_1 CONS_{it} + \beta_2 INS_{it} + \beta_3 MANAGE_{it} + \beta_4 INDEP_{it} + \beta_5 BSIZE_{it} + \beta_6 SIZE_{it} + \beta_7 LEV_{it} + \varepsilon_{it}$					
Dependent variable: Corporate financial performance					
Method: Generalized least squares regression					
Variable	Symbol	Estimated coefficient	Standard error	t-test	Probability
Fixed value (intercept)	C	-0.091241	0.084714	-1.077057	0.2821
Ownership concentration	CONS	-0.003917	0.012738	-0.307464	0.7587
Institutional ownership	INS	0.037119	0.012905	2.876425	0.0043
Institutional ownership	MANAGE	0.065922	0.021986	2.998342	0.0029
Board independence	INDEP	0.030412	0.024520	1.240332	0.2156
Board size	BSIZE	0.009020	0.006832	1.320253	0.1876
Firm size	SIZE	0.019087	0.004721	4.042786	0.0001
Debt ratio	LEV	-0.278912	0.015639	-17.83417	0.0000
Adjusted coefficient of determination	72.77%				
Durbin-Watson	1.941				
F-test	230.9112				
Probability (F statistic)	0.0000				

**Sub-hypothesis 3.3:** Institutional ownership has significant effect on firm's performance after announcement of instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (3) are used. In general, the results show that coefficient of institutional ownership is 0.037119, which shows positive effect of institutional ownership on the firm's performance after communicating instructions of the audit committee. According to t-test, coefficient of institutional ownership at the confidence level of 95% is significant. With regard to the above, we can confirm sub-hypothesis 3.3 at the 95% confidence level, which show that institutional ownership has a positive and significant impact on firm's performance after communicating instructions of the audit committee. In other words, after communication of instructions of the audit committee, with increasing institutional ownership, firm's performance also increases.

**Sub-hypothesis 3.4:** Independence of the board has significant effect on firm's performance after announcement of instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (3) are used. In general, the results show that coefficient of independence of the board is 0.030412. According to t-test, coefficient of independence of the board at the confidence level of 95% is not significant. With regard to the above, we cannot confirm sub-hypothesis 3.4 at the 95% confidence level, which show that independence of the board has no significant impact on firm's performance after communicating instructions of the audit committee.

**Sub-hypothesis 3.5:** The board size has significant effect on firm's performance after announcement of instructions of the audit committee.

In order to test this sub-hypothesis, estimation results of the model presented in Table (3) are used. In general, the results show that coefficient of board size is 0.009020, which according to t-test, coefficient of board size at the confidence level of 95% is not significant. With regard to the above, we cannot confirm sub-hypothesis 3.5 at the 95% confidence level, which show that board size has no significant impact on firm's performance after communicating instructions of the audit committee.

## CONCLUSIONS

The results of the first hypothesis indicate a significant relationship between estimated coefficients of variables institutional ownership, managerial ownership and board independence. F-test indicates that estimated model is in general valid. Overall, at 95% confidence level, results show that institutional ownership, management ownership and board independence have positive and significant effects on firm's performance, while ownership concentration and board size has no significant effect on firm performance. Findings of this hypothesis are consistent with results of Toobrerizi (2014), Malekian et al. (2015) and Wang et al. (2015).

Results of the second hypothesis indicate that estimated coefficient of variables ownership concentration, institutional ownership, managerial ownership, board independence and board size are significant. F-test indicates that the estimated model is overall valid. Findings of this hypothesis are consistent with results of Toobrerizi (2014), Malekian et al. (2015), and Wang et al. (2015).

Results of the third hypothesis indicate that estimated coefficients of variables institutional ownership and managerial ownership are significant. F-test indicates that the estimated model is overall valid. Overall, at 95% confidence level, results show that institutional ownership and



managerial ownership have a positive and significant effect on firm's performance after communicating instructions of the audit committee, while ownership concentration, board independence and board size have no significant effect on firm's performance after announcement of the audit committee's instructions. Findings of this hypothesis are consistent with results of Toobrerizi (2014), Malekian et al. (2015) and Wang et al. (2015).

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