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Examining the effect of corporate governance on the relationship between firm value of Firms Listed on the Tehran Stock Exchange

Hadi Rashedi *[1], Toraj Dargahi[2]

[1*] *Department of Accounting , Maragheh Branch, Islamic Azad University, Maragheh, Iran*

[2] *Department of Accounting, Maragheh, Iran*

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ABSTRACT

The purpose of this paper is to examine the effect of corporate governance on the relationship between the firm value for the listed companies in Tehran Stock Exchange during period 2013-2018. The corporate governance mechanisms include board size, board composition, institutional ownership, financial knowledge of the board, CEO duality, state-ownership and managerial ownership. The population is composed of the firms listed on the Tehran Stock Exchange. Filtering technique is used to select the sample. Furthermore, multivariate regression method, Analysis of Variance (ANOVA) and tree regression methods are used to test the hypotheses. The findings reveal that firm's value prediction is influenced by the two variables of managerial ownership and the non-executive members of the board. The findings of this research show that investors conceive earnings management negatively and earnings management has a negative effect on firm value. But in corporations with high quality corporate governance this effect is reduced. In other words, corporate governance mechanisms has a positive effect on the relationship between firm value and earnings management and firms with a higher corporate governance score face a less negative effect from earnings management..

1- Introduction

Undoubtedly, the industrial revolution, the emergence of corporations and separation of ownership and management were the most important changes over the eighteenth century. Before these changes, economic and business operations were accomplished by individuals. As a result, various stakeholders including shareholders, managers, creditors and employees gathered in corporations and formed organized financial markets in many countries. The managers held the responsibility of handling corporations because the whole stakeholders could not participate in the corporations. The shareholders and stakeholders aim to maximize the corporate benefits which is not necessarily aligned with the interests of the directors. This is the beginning point of conflict of interests (Esmaeilzadeh et al., 2010).

By communicating general policies of the Article 44 of the Constitution of the Islamic Republic of Iran, the corporations are trying to promote an economic situation focused on private ownership and economic growth. Clearly, the business owners play an essential role in making strategic decisions. The decisions which could whether increase or decrease the firms' value. The present

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*Corresponding Author: Hadi Rashedi, Department of Accounting, Maragheh, Iran
Email :Hadi rashedi97@gmail.com
phone: +98(922) 192 4606