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The Structure of Financial Distress Voluntary Corporate Governance of Listed Companies in Tehran Stock Exchange

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Abstract: Corporate governance is one of the components of effective in any business. Therefore this study was examined to evaluate the effect of financial distress voluntary corporate governance of listed companies in Tehran Stock Exchange. In this review the financial statements of 189 companies listed in Tehran Stock Exchange were carried out during the years 2009 to 2013, Showed that companies that benefit from the independence of the board of directors as well as companies in which the Director is responsible duality, more are experiencing financial distress.

Keywords: Corporate Governance, Bankruptcy, Financial Distress, Tehran Stock Exchange.

Introduction

Today, the concept of corporate governance is a term that in recent years in the wake of massive financial scandals in the corporate interest to researchers as one of the most important issues have been raised for investors. There are several definitions of corporate governance on the one hand the limited range of definitions with an emphasis on companies and shareholders and on the other hand with a wide definition of accountability in relation to the people or interest groups. Corporate governance is a set of within the company and outside the company's control mechanisms that appropriate balance between equity on the one hand and on the other hand establishes the required and optional Finally, this mechanism is reasonable certainty to shareholders and providers of funds and other interest groups that investment provides them with a reasonable income return and mechanisms will be in terms of value creation.

Background research

Research for this study: Miglani et al (2015), in a study entitled "Voluntary corporate governance structure and financial distress" that the results of this study showed that there are some useful mechanisms for corporate governance and reduce financial distress these companies. Hassanzadeh brothers et al (2012) in a study entitled "The relationship between corporate governance mechanisms and value-added economic value created for shareholders," the results showed that eight corporate governance mechanism, four mechanisms (penetration and ownership of the state, the institutional ownership, capital structure and the free float) with the value created for shareholders relations.

Fakhari and Yusuf Ali Tabar (2010) in a study entitled "The relationship between dividend and corporate governance of listed companies in Tehran Stock Exchange" The results showed a significant inverse relationship between corporate governance and Share there is profit. As well as companies from the stock dividend to their reputation and the relationship between corporate governance and dividend, there is little impact on corporate governance. Roodposhti and Aslani (2008) study entitled "The relationship between corporate governance and methods of financing and profitability of companies, listed on Tehran Stock Exchange" The results showed that the concentration of ownership by size down more Iranian companies and firms to increase the size of their profitability will increase significantly. It was also found that the majority shareholder does not want to bring in new partners will lose control over the company.

Materials and Methods

This is a Descriptive and correlation study. A description of the conditions described for the deals and solidarity in the sense that it refers to the relationships between variables. The research time is a retrospective study, and the goal is an applied research. In this study, a representative sample of the target population is proper, systematic elimination method is used. For this purpose, four criteria were considered and if the company has met all the criteria, for example the research and the rest are deleted, the number of companies in the sample of 189 companies.

Experimental results: Due to variables and hypotheses, regression model used, derived from the study Miglani et al (2015) used to test the hypothesis.

The first hypothesis testing: First hypothesis considers that there is a negative relationship between the independence of the board and the company's financial distress. Chow test done to check the connection. Given that less than 5% probability value obtained is therefore not consolidated data. The Hausman test is done to check it is fixed or random effects. The results in Table 1 show that the probability of higher than 5%, so the null hypothesis is confirmed. The random effects are to do this test.

$$DISTRESS_{it} = \alpha_0 + \beta_1 OUTSIDERS_{it} + \beta_2 AUDITOPN_{it} + \beta_3 LEVERAGE_{it} + \beta_4 SIZE_{it} + \beta_5 BIG_{it} + \beta_6 MGTEFF_{it} + \beta_7 TANGASSETS_{it} + \varepsilon_{it}$$

That in the above model:

$DISTRESS_{i,t}$: The financial distress of firm i in year t,

$OUTSIDERS_{i,t}$: Divided by the total number of outside directors board of firm i in year t,

$BLOCKOWN_{i,t}$: The number of shares divided by the total number of shares outstanding institutional investors now i in year t,

$AUDITOPN_{i,t}$: Received an unqualified opinion firm i in year t will be 1 and otherwise zero.

$LEV_{i,t}$: The ratio of debt to total assets of firm i in year t,

$SIZE_{i,t}$: The natural logarithm of the total assets of firm i in year t,

$BIG_{i,t}$: Company auditors audit the members of the organization, the number will be 1, otherwise zero.

$MGTEFF_{i,t}$: Net sales divided by total assets of the company i in year t,

$TANGASSETS_{i,t}$: Tangible assets divided by total assets of the company i in year t,

$\varepsilon_{i,t}$ Error component regression model

Results

Table 1. Chow test hypothesis.

Test results	Possibility	Statistics	Null hypothesis
The null hypothesis is rejected	0.000	15.344124	Data Integration

Table 2. Hausman test the first hypothesis.

Test results	Possibility	Statistics	Null hypothesis
The null hypothesis is rejected	0.2893	0.10804889	Random effects

Results Table 3 shows that the coefficient of board independence is no less than 5% is achieved as well as the risk factors and other variables now also negative financial leverage. Given that the probability (prob) is less than 5%. So we can say that there is a negative relationship between these variables and financial distress. The coefficient of determination shows that the independence of the board of directors can cover 5.4% of financial distress. The F statistics show that the regression model is significant. Since the Durbin-Watson statistic is 1.584, so it can be concluded that there is no autocorrelation among the remaining components.

Table 3. Results of the first hypothesis estimate.

Variable name	Prob	t Statistics	Coefficient Factor
Fixed amount	0.0031	1.465486	0.920449
Independence of Board of Directors	0.0099	-0.163886	-0.032855
Auditor's report	0.0413	0.073631	0.004735
Financial Leverage	0.0106	-1.339869	-0.300414
Company size	0.0038	-0.783124	-0.032068
Company Enlargement	0.0010	1.009424	0.101357
Management efficiency	0.0033	0.008393	0.001088
Evident assets	0.0028	1.072516	0.297750
The coefficient of determination		0,0543	
Adjusted coefficient of determination		0,0525	
F Statistics		0,663	
Durbin-Watson		1,584	

Figure 1 also shows a histogram of the distribution of the remaining residual error is normal. While the value is greater than 5% for Jarek. Therefore distribution model remains normal.

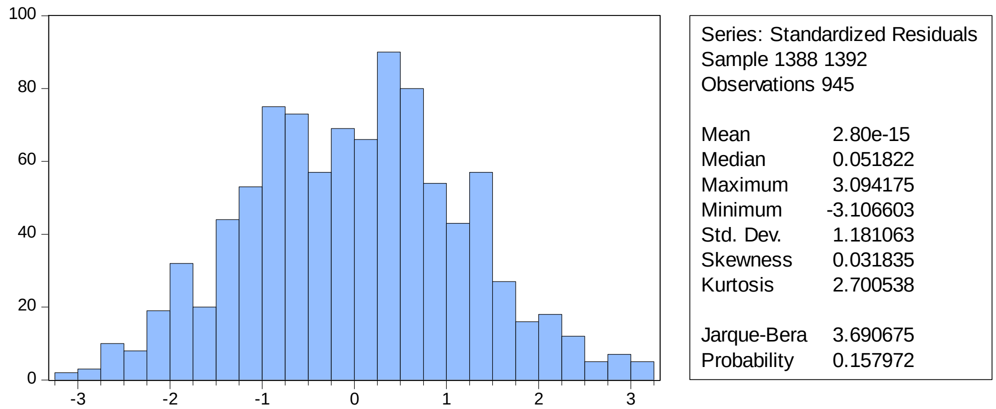

Figure 1. Diagram of the remaining errors in the first hypothesis.

The second hypothesis test: The second hypothesis suggests that there is a negative relationship between the ownership of major investors and financial distress.

$$DISTRESS_{it} = \alpha_0 + \beta_1 BLOCKOWN_{it} + \beta_2 AUDITOPN_{it} + \beta_3 LEVERAGE_{it} + \beta_4 SIZE_{it} + \beta_5 BIG_{it} + \beta_6 MGTEFF_{it} + \beta_7 TANGASSETS_{it} + \varepsilon_{it}$$

Table 4. Test the hypothesis Chow.

Test results	Possibility	Statistics	Null hypothesis
The null hypothesis is rejected	0.000	15.5538	Data Integration

Table 5. Hausman test the second hypothesis.

test results	Possibility	Statistics	Null hypothesis
The null hypothesis is rejected	0.5881	5.5923	Random effects

Table 6. Results of the second hypothesis estimate.

Variable name	Prob	t Statistics	Coefficient Factor
Fixed amount	0.0141	0.465486	0.920449
Independence of Board of Directors	0.0399	-0.163886	-0.032855
Auditor's report	0.0413	0.073631	0.004735
Financial Leverage	0.0106	-1.339869	-0.300414
Company size	0.0038	-0.783124	-0.032068
Company Enlargement	0.0010	1.009424	0.101357
Management efficiency	0.0033	0.008393	0.001088
Evident assets	0.0028	1.072516	0.297750

As Table 4 shows the results of the Chow test result with less than 5% probability of the null hypothesis is rejected. So are the data of the panel. Coefficients of determination obtained show that independent variable dependent variable was able to cover 4.93 percent. Moreover, the Durbin-Watson statistic 1.78, so there is no correlation between the remaining components. As well as histograms Figure 2 shows the distribution of residuals is normal. While Jarek statistics for more than 5%, so the normal distribution of residuals.

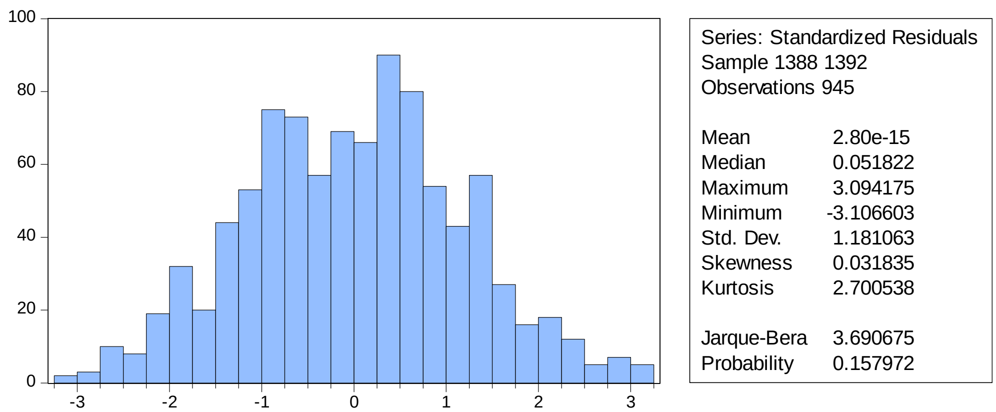

Figure 2. Diagram of the remaining errors in the second hypothesis.

Conclusion

The purpose of this paper is to examine the impact of the financial distress of voluntary corporate governance of listed companies in Tehran Stock Exchange were examined. In this review the financial statements of 189 companies listed in Tehran Stock Exchange during the years 1388 to 1392 do accepted hypothesis testing showed that significant negative relationship between the variables of financial distress and independence of the board is established. Since a significant negative relationship between leverage and firm size also can be said that companies that are in financial distress do not have the independence of the board. And perhaps is a greater presence of outside directors in the companies. The company also due to their low liquidity and small size companies do not have the ability to deal with frustration greatly. However, a significant positive relationship between the variables of financial distress and large, the auditor's opinion, management efficiency and tangible assets can be observed. Thus it can be seen that these factors could have affected the company's financial distress. In other words, the financial distress caused by the lack of liquidity in such circumstances, the small size and the presence of outside directors.

Test results showed the assumption of ownership of major investors and financial distress, there is a negative relationship. So we can say that ownership is a major cause of preventing financial distress. Because in these major investors that owns a greater percentage of the company's shares are the most affected in terms of financial distress, you see. So this group tends to reduce the company's financial distress. This event happened in the absence of financial leverage and variable-size companies have a significant negative relationship with financial distress. It can be interpreted that small growth companies and property companies as well as non-cash reduction of major investors could affect the company's financial woes. According to the results of the first hypothesis suggests that companies outside directors in the company further. The companies that are experiencing financial distress usually have low liquidity and small size of the company. The results of the second hypothesis suggest that major property investors can avoid financial distress. Because in these major investors you see that owns a greater percentage of the company's shares are the most affected in terms of financial distress. Therefore this group tends to reduce the company's financial distress.

Conflict of interest

The authors declare no conflict of interest

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