The Effectiveness of Management in Free Zones on Attract Foreign Investment in the Free Zones of Iran

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Abstract: The purpose of this paper is the effect of the effectiveness of management in free zones on attract foreign investment in the free zones of Iran. New international developments create opportunities to develop the Iranian in competition the global market by free zones. The Iranian ranked first in attracting global capital markets and business development in this section, one of matters affecting the economy of the country. We used 60 company in during the years 2013 until 2015. The results show that there is a positive relationship between independence of the board and attract foreign investment and there is a positive relationship between performance and attract foreign investment. But, there isn't significant relationship between director's stock ownership and attract foreign investment.

Keywords: Free Zones Management, Effectiveness, Foreign Investment.

Introduction

The main purpose of creating free economic zones create the right conditions for increased production and log in global market. Historical background and evolution Free trade zones (FTZs), in the form of free harbors, were first established more than 2,000 years ago; over the course of time the concept of free trade zones has been dramatically transformed (Eghbal et al., 2009). Within the last half of the 20th century, free trade zones have undergone substantial changes and adaptations as the result of an exponential growth in world trade and improvements in transport efficiency, particularly in the port sector. As an instrument of commercial policy and development, free trade zones have been transformed and adapted to the realities and local conditions of each region. The concept will continue to evolve over time adapting to new needs and demands from private and public sector. The last 50 years, FTZs have become increasingly popular in both developed and developing countries as a policy instrument for the promotion of export-oriented FDI. While in 1970 only a small number of countries permitted the establishment of FTZs, in 1997 about 850 zones operated in both developed and developing countries and the number of FTZs continue to increase. Research has shown a strong correlation between the establishment of FTZs and strong export performance (Akinci and Crittle, 2008).

The separation between ownership and control is the result of the modern corporation and its capital requirements which generally requires multiple owners (shareholders), (Berle & Means, 1932). These owners contract executives to manage the corporation on their behalf. Agency theory's "model of man" is that of the rational actor seeking to maximize his or her individual utility (Jensen & Meckling, 1976). The owners (principals) employ the executives (agents) to maximize their investment in the corporation. The agent, while charged to maximize firm value, perceives opportunities to maximize his / her own utility. To protect owners' interests, minimize agency costs and ensure principal–agent interest alignment, agency theory prescribes compensation

schemes and governance mechanisms. One such governance mechanism is the board of directors whose main task is to monitor executives on behalf of the shareholders. Thus, the shareholders' confidence in the board's ability to fulfil its duties is an important measure of the success of this cornerstone of agency theory. The Board Shareholder Confidence Index (BSCI), published by the Clarkson Centre for Business Ethic and Board Effectiveness (CCBE) is one such measure of shareholders' confidence. (Conhendy et al., 2015). So, this research is trying to answer the following question: Is there a significant relationship effectiveness of management in free zones on attract foreign investment in the free zones of Iran?

Development of hypothesis

Based on the above study we consider the following hypotheses:

H1. There will be a positive relationship between independence of the board and attract foreign investment.

H2. There will be positive relationship between performance and attract foreign investment.

H3. There will be positive relationship between director's stock ownership and attract foreign investment.

Materials and Methods

Sample and Data

In terms of goal this research is applied and considering the nature is descriptive research. In this study independent variable is effectiveness of management. We used to measure this from three factor: 1. independence of the board (INDEPN-BOR) that is measured by division non-obliged to total members. 2. Performance (Tobin Q) that is measured by Tobin Q ratio (Model 1). 3. Director's stock ownership (D-OWN) that is measured by percent stock manager in company. Furthermore, dependent variable is attract foreign investment (AFC). And control variables are size and leverage. SIZE variable is defined as the natural logarithm of sales revenue and LEVERAGE variable is total debt divided by the total assets. We use the method to remove systematic for sample selection. In this research to collect data of Tehran Securities Exchange Technology Management Company website and the Tehran Stock Exchange website. Finally 60 company during years 2013 until 2015.

Models

$$Q_{i,t} = \frac{MVE_{i,t} + BVD_{i,t}}{BVA_{i,t}} \tag{1}$$

$MVE_{i,t}$: The market value of equity in firm i in year t,

$BVD_{i,t}$: The book value of debt in firm i in year t,

$BVA_{i,t}$: The book value of assets in firm i in year t,

We used the following regression models for test hypotheses. (Models 2, 3 and 4).

$$AFC_{it} = \alpha_0 + \beta_0 INDEPNBOR_{it} + \sum_{i=1}^{n} CONTROLS_{it} + \varepsilon_{it} \tag{2}$$

$$AFC_{it} = \alpha_0 + \beta_0 TOBINQ_{it} + \sum_{i=1}^{n} CONTROLS_{it} + \varepsilon_{it} \tag{3}$$

$$AFC_{it} = \alpha_0 + \beta_0 DOWN_{it} + \sum_{i=1}^{n} CONTROLS_{it} + \varepsilon_{it} \tag{4}$$

Results

Table 1 shows the descriptive statistics data 60 Firm. The results show that average AFC is 0.6563 and median is 0.576 and standard deviation in this variable is 0.235 and average independent board is 0.266 and median is 0.1350 and standard deviation is 1.037. Also, average Tobin Q is 0.7757 and median is 0.6650 and standard deviation in this variable is 0.149. Average firm size is 25.453 and median is 23.145 and standard deviation is 0.1880 and average leverage is 0.546 and median is 0.411 and standard deviation in this variable is 0.007.

Table 1. Descriptive Statistics.

Statistics	AFC	INDEPN-BOR	Tobin Q	D-OWN	SIZE	LEV
Average	0.6563	0.266	0.7757	22.311	25.453	0.546
Median	0.5769	0.1350	0.6650	20.115	23.145	0.411
Maximum	0.8875	0.4522	0.887	23.570	30.214	0.693
Minimum	0.1175	0.000	0.4559	14.870	19.117	0.118
Std.	0.235	1.0373	0.149	1.5294	0.1880	0.007
Skewness	2.175	1.7655	1.099	0.5471	1.17889	1.601
Kurtosis	3.147	3.1772	2.260	3.3730	2.537	2.014
Number	180	180	180	180	180	180

Chow test applied to panel data set or combination. The results show that (Table 2) in model 1 F-statistic is 2.40 and probe is 0.000. So, the null hypothesis is rejected and data is pooled and finally results show in model 2 F-statistic is 2.433 and probe is 0.000. Then, the null hypothesis is rejected and data is pooled.

Table 2. Chow- Test.

H_0	Model	F-statistic	Prob	Result
Pooled data	Model 1	2.401713	0.000	Rejected
Pooled data	Model 2	2.432787	0.000	Rejected
Pooled data	Model 3	2.410544	0.000	Rejected

Hausman test will determine use of the fixed effects model or random effect. According to the probability of less than 5%. So the hypothesis H0 (Random effects model) is rejected. Table 4 shows model 1 p-value is 0.000 and x2 6.540. So, the null hypothesis is rejected. Also, model 2 p-value is 7.009 and prob is 0.000. So, the null hypothesis is rejected and finally results show in model 3 p-value is 0.000 and x2 is 5.815. So, the null hypothesis is accept.

Table 3. Husmuns Test.

H_0	Model	p-value	X^2	Result
Random effects model	Model 1	0.000	6.5403	Rejected
Random effects model	Model 2	0.000	7.9003	Rejected
Random effects model	Model 2	0.000	5.8151	Rejected

Table 4 shows R2 in model is 0.587 and adjusted R-squared is 0.561 and F-statistic is 17.382. So, 58 percent of the dependent variable depends on the following variables. Also, the estimated coefficient for attract foreign investment variable is positive correlation with independent board. Furthermore. Size and leverage have positive correlation with attract foreign investment. Thus, there is positive significant relationship between AFC and independent variable.

Table 4. Results hypothesis 1.

Variable	Coefficient	SD	F-statistic	Sig.
C	2.068887	0.26124	7.916942	0.0000
INDIPEN-BOR	0.000251	0.01755	1.021006	0.02133
SIZE	0.012320	0.14571	3.964702	0.03145
LEV	0.058361	0.42521	1.408954	0.01587
R-squared	0.587512			
Adjusted R-squared	0.56122			
F-statistic	17.382638			
Durbin-Watson stat	1.626			

Table 5 shows R2 in model is 0.51 and adjusted R-squared is 0.47 and F-statistic is 10.3. So, 51 percent of the dependent variable depends on the following variables and hypothetically rejected. Thus, there is significant relationship between tobin Q and attract foreign investment.

Table 5. Results hypothesis 2.

Variable	Coefficient	SD	F-statistic	Sig.
C	2.646419	0.895901	2.682632	0.0000
Tobin Q	0.045771	0.244754	1.804679	0.0481
SIZE	0.042562	0.0744215	1.151904	0.0152
LEV	0.005255	0.314557	2.185642	0.0163
R-squared	0.515095			
Adjusted R-squared	0.478396			
F-statistic	14.2457			
Durbin-Watson stat	1.723			

Table 6 shows R2 in model is 0.38 and adjusted R-squared is 0.334 and F-statistic is 15.16. So, 38 percent of the dependent variable depends on the following variables and hypothetically rejected. Thus, there isn't significant relationship between director's stock ownership and attract foreign investment.

Table 6. Results hypothesis 3.

Variable	Coefficient	SD	F-statistic	Sig.
C	2.622519	0.986501	2.682632	0.0000
D-Own	0.694263	0.384225	1.800887	0.0721
SIZE	0.052931	0.006017	1.025904	0.0123
LEV	0.072470	0.004955	2.185642	0.0296
R-squared		0.38755		
Adjusted R-squared		0.33458		
F-statistic		15.1667		
Durbin-Watson stat		1.671		

Conclusion

In this study mentioned the effect of the effectiveness of management in free zones on attract foreign investment in the free zones of Iran during years 2013 until 2015. The results show that there is a positive relationship between independence of the board and attract foreign investment and there is a positive relationship between performance and attract foreign investment. But, there isn't significant relationship between director's stock ownership and attract foreign investment. Influential presence of managers in the free zones of the most important factors in attracting foreign investors. This managers using targeted programs and effective policies able create effective changes in free zones. Important limitation to this study is:
1. In this study not considered industry and product type.
2. Due to limitations of the study the sample is low.
At the last the following suggestion is addressed for the future studies:
3. The effect of the effectiveness of management in free zones on other economic markets.
4. The effect of female managers in performance in free zones.
5. The effect of other special occasions and same period on attract foreign investment in the free zones

Conflict of interest
The authors declare no conflict of interest

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