The impact of corporate governance on Cost of debt in the Companies Listed in Tehran Stock Exchange

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Abstract: Duo to determinant role of corporate governance mechanisms in affairs related to the companies. in this research the affect of some mechanisms on companies debt expense are determined. The purpose of this research is to determine the effect of governantial mechanisms like the structure of managing board auditing committee major share holder and institutional share holders. On companies borrowing expense. The research method is correlation and the collected data are examined by statistical methods such as T and PIERSON coefficient. Research hypothesis collected by information got from financial statements from accepted in Tehran Security Exchange from 2006-2010 and results extracted from research showed that there is not meaningful relationship between governantial firms mechanism and debt expense. This conclusion is anomalous from present theories. But in Iran economic milieu despite of imperative bank interest rate and lacking of other financing tools like debenture bonds, the mentioned result seems logical.

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1. Introduction

Undoubtedly one of the most important developments in the industrial world in the eighteenth century was the rise of corporations and the separation of ownership from management. As a result of these developments, corporate gathering place corporate interests of stakeholders, including shareholders, managers, creditors, employees and other stakeholders, and it was found that in most countries there was a structured finance market. Individuals and legal institutions, credit institutions and financial markets in the form of capital providers. Uptake and accumulation of savings and directing them toward short-term and long-term investments are the main goals of this market. The efficiency of these markets, encouraging public participation and legal protection of suppliers of capital is essential for economic prosperity and promote the cause has shareholdings in most countries. However, there a conflict of interest between stakeholders in corporate, agency problems associated with too many problems, and discuss several of the most that caused the issue of corporate governance has.

The primary focus of corporate governance was more on guiding corporation and shareholders and in future with newer views, it trend toward serious attention for the rights of all beneficiary and society. In recent years, many developments in corporate governance are performed and trial countries in this matter are reinforcing their system of corporate governance. In this matter, there are special attention to participant of corporate governance and subjects including shareholders and their relationship, responsibility, improving direct board performance, director board committee, audit and accounting system and internal control. On the other hands, accountant and audits, sub stakeholders and others in money and capital are informed of existence philosophy and the necessity of improving corporate governance.

Corporate governance is supposed for the market's integrity and correction in which all producers and supervisor, staff and shareholder should do their task for raising the culture the corporate governance. The purpose of corporate governance in many present societies is recognized as a national development and also a part of financial international culture. cadberry as one of the greatest pointer of views in this ground, introduce corporate governance as a system by which companies will control and guide.

Optimal system of corporate governance is to ensure that corporation will use in a good way from their capital and also they consider wide benefit if beneficiary and society in which they are acting and they are responsible for corporation and share holders. This kind of system is to ensure that totally corporations are working for society's benefit and they make confidence for stakeholders and long-term capitals (Mokarrami,2004).

2. Theoretical & Research Background

Pourzamani performed a research with title of the relationship of corporate governance and prediction the corporation broking. This research is consisting of investigation the effect of centralized ownership and the properties of direct board on the probability of occurrence of financial crisis. In this research, all hypothesis are tested by 4 pattern logic calculation. the first was including just financial variables, second including financial variables and ownership structure, third including financial variables, ownership structure and indecency of director board and fourth including financial variables, ownership structure, indecency of director board and audit point of view. In this research, after using regression test, it become clear that there is no meaningful results about relationship of ownership structure variables, properties of director board and audit point of view with probability of occurrence financial crisis and corporation broking. However, research finding show that financial proportion (cash ratio and benefit ratio) could be useful in differentiating successful corporation and broken one. (Poorzamani, 2007)

Rajabi performed a research in 135 with title of the survey of effect of corporate governance on corporation cost. In this research, the effect of some corporate mechanism like director board structure, ownership structure, the quality of financial information on capital of corporation are investigated. For this work, researcher selected all companies that was accepted in share exchange market from year of 131 and before it in Tehran as his statistic community. Relative test and analysis with this researcher's hypothesis show that there is no meaningful relationship between the properties of corporate governance and the amount of cot in corporation capital. (Rajabi Reza, 2007)

Ghanbari performed a research in 1386 with title of the investigating the effect of corporate governance mechanism on the performance of accepted corporation in Tehran share exchange. In this research, the effect of clarifying of information, existence of internal audits, and existence of stakeholders and also the ratio of members of director board as a merit of corporate governance on company's performance are investigated. The results of research show that just existence of institutional stakeholders and internal audits have effect on company's performance.

Hoseini performed a research with title of the investigation of the effect on amount of institutional shareholding as a merit for corporate governance on the productivity of accepted company in Tehran share exchange in year of 1386. In this research with studying institutional shareholding and investigatingits effect on shareholders productivity, we try to calculate additional productivity in company with strong governance. The results show that there is no relationship between institutional shareholders and shareholder's productivity. (Hosseini, 2008)

Reisi performed a research with title of the relationship between corporate governance and company performance in year of 1387. The purpose of her research was upgrading company based on corporate governance and investigating its effect on company performance. In this research, the grade of sample member companies was measured by perfect questionnaire which was including 25 items of corporate governance. These items was earn from the articles of guidance system of accepted companies in Tehran share exchange and was in 3 categories of the clarifying information, the structure of director board and ownership structure. In this research, one year information of 90 companies were investigated and they tested by regression method of hypothesis. The results show that there is no meaningful relationship between corporate governance and company performance in Iran.

Aldamen et al, 2010 investigated the relationship between governance quality, evaluation the risk and cost by collecting data of 205 Australian public share Co. researcher stated that based on theory discussions, strong governance structure will decrease fluctuations and changes in cash, probability of disability in repayment of liability, increasing the quality of information (decreasing informational risk) and finally, decreasing liability cost. The results of these researches had harmony with theory discussion. Findings show that there is a positive relation between liability cost, the risk of lack of repayment and informational risk. They stated that increasing quality of governance activities will decrease the risk of no repayment and informational risk that will finally decrease the liabilities of company. But for small companies who want to get and perform higher level of governance activities, there is no decrease in liability cost. Therefore, documents show that in time of governance activities, large company in compared with small one, will make more benefits. (Aldamen, 2010)

Elyasiani et al 2010 studied the relation between institutional ownership stability and liability cost. After controlling and making other effective elements fixed, there were 3 important results as the research approach for them. They stated first, there is a negative relation between liability cost and the stability of institutional ownership. In other word, the stability of institutional ownership will decrease the liability cost by decreasing the conflict between shareholders and bond holders, share holders and managers and also decreasing the problem of asymmetry of information. Secondly, stability of institutional ownership toward the level of institutional ownership have more important role in determining the liability cost of companies and finally, the effect of stability of institutional ownership on liability cost on large company was remarkably more. (Elyasiani, 2010)

Lin et al, 2010 studied the effect of company's ownership structure on its borrowing. Researchers used relative dada for ownership elements and control of 3468 companies from 22 different countries for their hypothesis test in years of 1996-2008. In this research, researchers recognized elements based on them, controlling rights to share holders had effect on company's value. The results show the negative relation between main shareholders in company's ownership structure and liability cost. They show that divergence between cash rights and controlling rights of final owners and main shareholders will increase considerably the liability cost. They found that some infraction and other risky moral activities of main share holders will become easier. This kind of activities will increase supervised cost. In transaction with this kind of company, banks will have higher credibility risk and following it, the cost of borrowing for barrower will increase (Lin, 2010).

Vafeas 2000, investigated the relation between corporate governance and share productivity. In this research, the percentage of managers without commitment in director board and the size of director board was investigated. (Vafeas, 2000)

The research believed that it is possible the role of managers without commitment in increasing the content of informational benefit will be nonlinear and there is a optimal amount for them. The results show that the combination of independence managers in this board have no relation with the content of informational benefits but share holders value more to the content of informational benefit to companies with smaller director board.

Lafouand, Ashbaugh and kolinz,2004 performed a research with title of the effect of corporate governance on capital cost of company. Audit committee, main share holders and institutional stakeholders and the structure of director board was activities of corporate governance. Lafound et al investigated their effect on the capital cost of company. (Ashbaugh, 2004)

The results of this research show that existence of unusual commitment items will decrease the clarification of benefit and therefore will increase the capital cost of company. They stated that companies will higher indecency in audit committee have lower capital cost. Also companies with ownership structure including institutional stakeholders have lower capital cost and companies with high share holders block, have higher capital cost.

The findings show that there is a diverse relation between the capital cost with director board independency and the percentage of director board who own share. The results of this research show that companies with stronger corporate governance have lower risk of representative for their share holders so the capital cost of company will decrease.

3. Methodology of Research & Theoretical Framework

In this research, the method of research are deductive and inductive. It is Deductive for describing the research hypothesis with help of available theories and inductive for hypothesis test. This research is kind of descriptive ad among descriptive researches, this research is correlative and needed information for testing hypothesis of research are collected by after event approach and also previous in formation.

Under studied community in this research are accepted companies in Tehran share exchange whose financial bills will be investigated in a period of 5 years 1385-1389. The sample volume in this research was equal with 82 and the method of sampling in this research was no probability sampling.

4. Results And Discussion

4.1. Research hypothesis

Regarding the introduction and last discussion, questions and research hypothesis are as following:

Research questions: is there a meaningful relationship between the quality of corporate governance activities and liability cost.

For answering to above question, research hypothesis are as following:

First sub-hypothesis: there is a meaningful relation between the separation of chief in director board an liability cost.

Second sub-hypothesis: there is a meaningful relationship between the ratio of members without commitment in director board and liability cost.

Third sub-hypothesis: there is a meaningful relationship between the percentage of share under ownership of director board and liability cost.

Fourth sub-hypothesis: there is meaningful relationship between the existence of main share holders in company's ownership structure and liability cost.

Forth sub-hypothesis: there is a meaningful relationship between the percentage of institutional share holders in company's ownership structure and liability cost.

4.2. Statistical method and needed test for approving results:

4.2.1. chi- squared test

In this research 2 time chi- squared test are used and data are classified as frequency. The hypothesis ofchi- squared test is the independency of variables. Independency means that knowing the amount of one variable don't provide other thing in other amount. In this test, we measured the relationship between two variables and meaningfulness of the amount of this statistics is testes. Therefore, we will investigate the meaningfulness of this test statistically.

The formula of chi- squared test is as following:

$$x2 = \sum_{i-1}^{r}\sum_{j-1}^{c}\frac{(oij - eij)2}{cij} = x2(r-1)\,(c-1)$$

Oij: the observed amount in ijth cell of table

Eij: the desired amount in ijth of table

Freedom degree of chi- squared test is (r-1) (c-1). R is the amount of raw variable levels and c is the column variable level amount.

Statistical hypothesis in this test are as following:

Zero hypotheses: 2 variables are independent.

Opposite hypothesis: there is a relationship between variables.

There is a meaningful relationship between variables if x2>x2 0.05, (r-1) (c-1) or the amount of variability be lower than 0.05. as other word, zero hypothesis are not approved with confidence of 95%.

4.2.2. Findings analysis:

The results of analysis are submitted based on research design. Therefore with using statistical techniques which are accordance with the research method, variable kind and other, data are collected ad they are analyzed and finally research hypothesis are testes and if it is necessary they are submitted in tables. In this process, data are analyzed in conceptual and experimental kind and the role of statistical different techniques in exploiting the results are investigated.

descriptive investigation of data:

A: separation of director position from chief of director board:

Table1: frequency distribution based on separation of director position from chief of director board

Separation of position	Number	Percentages
Not have	4	4.9
Have	78	95.1
Total	82	100

With observing above table, it is clear that most companies (78 companies equal with 95.1%) have the separation of positions. also 4.9% have the lack of separation of positions.

B: the ratio of members without commitment in director board combination.

Table2: frequency distribution based on the ratio of member without commitment in director board combination

Member relation	Number	Percentages
50 or lower	20	24.4
50 -80	17	20.7
80 or more	45	54.9
Total	82	100

With observing above table, it become clear that most companies (45 co equal with 54.9%) have the relation equal or more than 80 which are the members without commitment in director board combination. Also 20 co equal with 24.4% have the relation of member without commitment equal or lower than 50 and 17 co equal with 20.7% have relation with members without commitment equal 50-80.

C: the percentage of share under ownership of director board:

Table3: frequency distribution based on share under ownership of director board:

Share percentage	Number	Percentages
Not have	70	85.4
20 SHARE OR LOWER	7	8.5
More than 20 share	5	6.1
Total	82	100

With observing above table, it become clear that most company (70 one, equal with 85.4%) have not share under ownership of director board. Also, 7 co equal with 8.5% have 20 or more share and 5 co equal with 6.1 % have more than 20 share.

D: the existence of main share holders in structure of company's ownership:

Table4: frequency distribution in companies based on main share holders in companies' ownership structure

Main share holders existence	Number	Percentages
Not have	2	2.4
Have	80	97.6
Total	82	100

With observing above table, it become clear that most company (80 Co equal with 97.6%) have main shareholders. also 2 company (equal with 2.4%) have not main share holder.

E: percentage of institutional share holders in company's ownership structure:

Table5: frequency distribution of companies based on institutional share holders percentage in company's ownership structure

Institutional share holders percentage	Number	Percentages
45% or lower	17	20.7
45-65%	14	17.1
65-75%	17	20.7
75-85%	15	18.3
85% or more	19	23.2
Total	2	100

With observing above table, it become clear that most companies (19 co equal with 23.2%) have 85% of institutional shareholders. Also 17 co equal with 20.7% have 45% of institutional shareholders or lower. 14 company equal with 17.1% have 45-65%, 17 company equal with 20.7% have 65-75% and 15 companies equal with 18.3% have 575-85% of institutional share holders.

F: liability cost:

Table6: frequency distribution in companies based on liability cost:

Liability cost	Number	Percentages
Lower than 3000	11	13.4
3000-8000	10	12.2
8000-15000	15	18.3
15000-25000	11	13.4
25000-50000	12	14.6
50000-90000	9	11
More than 90000	14	17.1
Total	82	100

With observing above table, it become clear that most company (15 co equal with 18.3% have liability cost of 8000 -15000. Also 11 companies equal with 13.4% have liability cost lower than 3000, 10 companies equal with 12.2% have liability cost of 3000-8000, 11 companies equal with 13.4% have liability cost of 15000-25000, 12 co equal with 14.6% have liability cost of 25000 -50000,9 company equal with 11% have liability cost of 50000- 90000, 14 company equal with 17.1% have liability cost more than 90000.

4.2.2.1. deductive investigation of data:

In deductive investigation, research hypothesis are investigated. Research data was qualities. Therefore for testing hypothesis, chi- squared test non parametric are used.

First sub-hypothesis: there is meaningful relation between separation of director position from chief of director board and liability cost.

Hypothesis H0: there is no meaningful relationship between separation of director position from chief of director board and liability cost.

Hypothesis H1: there is meaningful relationship between separation of director position from chief of director board and liability cost.

Table1: investigating the meaningful relation between separation of director position from chief of director board and liability cost:

Meaningfulness level	Probability amount	Critical chi-squared test	Freedom degree	Calculating chi-squared test
0.05	0.244	12.591	6	7.914

With observing the information of above table, as calculating chi- squared test (7.914) is lower than critical chi- squared test (12.519) with freedom degree of 6 and meaningful level of 0.05. in other word, the amount of probability is more than 0.05. therefore, hypothesis H0 is approved and the relation between the separation of director position from the chief of director board and liability cost is not meaningful.

Second sub-hypothesis: there is a meaningful relation between the relation of members without commitment in director board combination and liability cost.

Hypothesis H0: there is no meaningful relation between the relations of members without commitment in director board combination and liability cost.

Hypothesis H1: there is meaningful relation between the relations of members without commitment in director board combination and liability cost.

Table2: investigating the meaningful relation between relation of members without commitment in director board combination and liability cost

Meaningfulness level	Probability amount	Critical chi-squared test	Freedom degree	Calculating chi-squared test
0.05	0.867	21.026	12	6.857

With observing the information of above table, as calculating ◦chi- squared test (6.857) is lower than critical chi- squared test (21.026) with freedom degree of 12 and meaningful level of 0.05, the amount of probability is more than 0.05. therefore hypothesis h) is approved and the relation between members without commitment in director board combination and liability cost is not meaningful.

Third sub-hypothesis: there is a meaningful relationship between the percentage of share under ownership of director board and liability cost.

Hypothesis H0: there is no meaningful relationship between the percentage of share under ownership of director board and liability cost.

Hypothesis H1: there is a meaningful relationship between the percentage of share under ownership of director board and liability cost.

Table3: investigation the meaningful relation between the percentage of share under ownership of director board and liability cost

Meaningfulness level	Probability amount	Critical chi-squared test	Freedom degree	Calculating chi-squared test
0.05	0.013	21.026	12	25.516

With observing the information of above table, as calculating ◦chi- squared test (25.516) is lower than critical chi- squared test (21.026) with freedom degree of 12 and meaningful level of 0.05, the amount of probability is lower than 0.05. therefore hypothesis h0 is denied and the relation between percentage of share under ownership of director board and liability cost is meaningful.

Fourth sub-hypothesis: there is a meaningful relation between main share holder existence in companies ownership structure and liability cost.

Hypothesis H0: there is no meaningful relation between main share holder existence in companies ownership structure and liability cost.

Hypothesis H1: there is a meaningful relation between main share holder existence in companies ownership structure and liability cost.

Table4: investigation the meaningful relation between main share holder existance and liability cost

Meaningfulness level	Probability amount	Critical chi-squared test	Freedom degree	Calculating chi-squared test
0.05	0.426	12.591	6	5.973

With observing the information of above table, as calculating ◦chi- squared test (5.973) is lower than critical chi- squared test (12.591) with freedom degree of 6 and meaningful level of 0.05, the amount of probability is more than 0.05. therefore hypothesis h0 is approved and the relation between main share holder existence and liability cost is not meaningful.

Fifth sub-hypothesis: there is a meaningful relation between the percentage of institutional share holder in company's ownership structure and liability cost.

Hypothesis H0: there is no meaningful relation between the percentage of institutional share holder in company's ownership structure and liability cost.

Hypothesis H1: there is a meaningful relation between the percentage of institutional share holder in company's ownership structure and liability cost.

Table5: investigation the meaningful relation between the percentage of institutional share holder in company's ownership structure and liability cost

Meaningfulness level	Probability amount	Critical chi-squared test	Freedom degree	Calculating chi-squared test
0.05	0.165	36.415	24	30.628

With observing the information of above table, as calculating ،chi- squared test (30.628) is lower than critical chi- squared test (36.415) with freedom degree of 24 and meaningful level of 0.05, the amount of probability is more than 0.05. therefore hypothesis h0 is approved and the relation between the percentage of institutional share holder in company's ownership structure and liability cost is not meaningful.

5. Conclusion And Suggestions

5.1. Training the concept of corporate governance by Iran formal accountant community during continuous training for optimal decision making in company's activities.

5.2. More attention to qualities features of manager without commitment who is in director board. These features as controlling merits should be in a direction that increases the effectiveness of corporate governance performance.

5.3. Raising knowledge and information of market actives like banks in relation with concept and necessities of corporate governance.

5.4. Suggestions for future work:

- Investigation the relation between other governance mechanism including audit committee, ownership of members in director board, audit independency with audit decision including risk and planning.
- Investigation the relation between governance mechanism quality and audit salary.
- Decision making about accepting work owners with focus on the level of corporate governance.
- Investigation the relation between the quality of corporate governance mechanism and the probability of cheating in financial bills.
- The effect of company corporate governance situation on user's investment decision making.
- Investigation the relation between quality of corporate governance mechanism and amount of stated derivation fro accounting principle in financial bills.
- Investigation the relation between corporate governance and the kind of report of independent audits.

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