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Review of corporate governance and payment policies for approved companies on the Tehran Stock Exchange

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ABSTRACT

The main purpose of corporations is to maximize shareholder wealth. One of the main factors affecting a shareholder's wealth is the company's dividend policy. For this reason, a company's dividend policy has been identified as one of the most important financial issues; therefore, this study investigates corporate governance and payment policies for listed companies on the Tehran Stock Exchange. The population of the study comprised 551 companies based on sampling and a systematic elimination of 73 companies. This study is applied in purpose and is descriptive and correlational in nature. In this study, data analysis has been conducted using SPSS 8 EVIEWS. The results span from 2009 to 2013 and indicate that there is a significant negative relationship between dividend policy and shareholders' rights as well as timeliness and being familiar with the auditor.

1. Problem statement

The Stock Exchange is the main arm of market, and it provides capital and attracts and directs financial resources and savings, leading to productive activities and employment. It also influences economic institutions and is a responsible financial institution. Listed companies benefit is multiple ways from accepting capital market development, promoting the national Q3 economy, contributing to the development of small and OTC stocks, and investing in financial assets. In the literature, the relationship between the structure of ownership and the operation of a company is studied by many researchers. Shareholders of the companies include people and institutions with interests, goals, and investment various horizons. Given the complexities that exist in corporate governance, shareholders are not expected to assume responsibility in corporate governance (Organisation for Economic Co-operation and Development, 2006). The dividend policy is the most important issue in financial management because cash dividends represent a major company; therefore, offering dividends is a major decision faced by managers today. The manager must decide how much of the profit to split and how much in the form of retained earnings should be reinvested in the company. Although dividend payments will directly benefit shareholders, they also influence the company's ability to accumulate profits in order to take advantage of growth opportunities (Baker and Powell, 2005). In addition, the policy of the stock market is changing its information for shareholders. Any investor considering buying a company's stock looks for a desirable dividend policy. The dividend proposed by the board usually contains information about a management's expectations about the future profitability of the company (Jahankhani and Parsaeian, 2005). Q4

Dividend policy is also one of the things that are affected by conflicts of representation (Harada and Nguyen, 2006, Jahankhani and Ghorbani, 2005). Although the literature has examined various aspects of dividend policy payments, further research on retained earnings and capital gains is needed.

This study is the first research topic in the field of corporate governance and payment policies of listed companies on the Tehran Stock Exchange. We question whether there is a significant relationship between corporate governance and payment policies of listed companies on the Tehran Stock Exchange?

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2. Research background

Tao Li et al. (2009) studied a sample of 643 non-financial companies listed in China and concluded that companies that have greater profitability have a significant negative relationship between state ownership and firm performance.

Driffield et al. (2007) examined the effects of ownership structure and the capital structure of companies that have been most affected by the East Asian financial crisis. In their research, the separation of ownership from control and management, and the interaction between family firms and non-family firms (or without a partner) were evaluated. They controlled removal of the liability cash flow, leverage and the limited impact on the value of the company without a partner in the family firm, while it seems that this will have a significant impact on family firms that have a partner.

In a study by Havang et al. (2013) entitled “Corporate governance and Pay Policies: Evidence of Korean Business Groups”, a positive correlation between corporate governance practices and the dividend payout ratio in the company was demonstrated. It also increases payments over time, resulting in improved corporate governance policies, and the terms are statistically significant.

Setayesh et al. (2010) in a study entitled “The Effect of Ownership Structure and Composition of the Board of Directors on Dividend Policy in Listed Companies in Tehran Stock Exchange” concluded that corporate ownership and the independence of the board's institutional ownership are positive, and the dividends of listed companies on Tehran Stock Exchange are negatively influenced.

Foroughi et al. (2009) studied the influence of institutional ownership as well as ownership and management and dividend policy from 2001 to 2006 of 106 companies listed on the Stock Exchange. Their results indicate that there is a significant and positive relationship with the firm's management shares of the dividends. However, institutional ownership does not have a significant and positive impact on corporate profits.

Sadeghi Sharif and Bahadori (2009) examined the ownership structure and the ratio of interest payments of companies listed on the Tehran Stock Exchange. They began their research findings using a sample of 41 companies and studied in the period from 2002 to 2008. Their research shows that the ownership of the largest shareholder has a positive impact on a company, but the company's real ownership has a negative impact on the ratio of interest payments.

3. Theoretical basis of research

3.1. Exchange

The economic financial sector is considered to be the provider of financial resources, and real economic activity is divided into two parts. The money market is mainly led by the banking system of a country, and its most important function is to provide short-term credit. The capital market's main function is to generate long-term financing required in the manufacturing and service sectors.

Stock, in terms of economics, is the place where the product is bought and sold, and securities pricing is done. The stock exchange is an organized entity including major institutions in the capital market, along with other institutions and organizations, that are responsible for multiple tasks.

The basic functions of the stock exchange include managing risk, transfer and distribution, information transparency, price discovery, and creating a competitive market; two of its most important functions are fundraising and providing funds for economic activities. Exchanges are generally divided into three major categories: stock markets, foreign exchange and stock exchange securities.

3.2. Exchanging financial assets

The exchange of financial assets (stocks, bonds, mutual funds, etc.) forms a transaction. Securities that are bought and sold on the market as “official” and “permanent” are said to be a part of the stock exchange. Official means that the market has received permission under the law. The order of perpetuity is that market activity is not limited to a particular time (Fanaei and Mojtaba, 2009).

3.3. Impact of the exchange on the economy of a society

Business and production firms invest their own funds instead of borrowing from banks, and they do this through issuing shares and selling bonds. This is one of the best ways to raise funds through the stock exchange. This important market, the stock exchange, the company needed funds by collecting minor and scattered provide capital and thereby make an important and large investments possible. These investments strengthen the country's economy and have a huge impact on the economy. Some of the highlights include the effects of:

a. Equitable distribution of income and building a sense of participation.
b. Creating a perfect market.
c. Optimal utilization of resources.

3.4. Benefits of the exchange for investors

a. Revenue.
b. Investing in a safe place.
c. Maintaining capital against inflation.
d. The ability of liquidity of financial assets.
e. Participation in decision making for corporate governance.
f. The protection of the law and regulations.

3.5. Stock benefits for recipients

a. Exemption tax.
b. Gaining public trust.
c. Finance easy to provide.

3.6. Division of the dividend (payout)

Much is written on the division of the dividend in the empirical research in the field of corporate finance. It has two very important aspects that are debatable. From a dividend perspective, the factors influencing dividend payout include the company's profits and the company's internal resources needed for the implementing investment projects that will require financial resources outside of the company, which can impact stock prices. On the other hand, many shareholders call for cash dividends. Therefore, the managers (with the aim of maximizing shareholder wealth) must always create a balance between the interests of shareholders versus the lucrative investment opportunities of the companies, which must not be lost simply because a cash dividend for some shareholders is required. The dividend decisions are taken by the directors of the company because it is very sensitive and important.

There is no doubt that managers, in deciding the question of dividend payouts, should consider the consequences because they may affect their profits. Corporate executives face limitations, such as lack of liquidity, tax considerations, and whether they will be forced to modify their decision in the future in order to follow their purpose and profit-sharing programme (Mehrani et al., 1997).

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