

The Role of Corporate Governance Elements in Creating Brand Value in Tehran Stock Exchange¹

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ABSTRACT

This research investigates the role of corporate governance elements in creating brand value in the stock market. In this regard, corporate financial information was reviewed for the period from 2012 to 2017. The results indicate a significant relationship between the variables studied.

Keywords: brand equity, corporate governance and Tehran Stock Exchange

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Introduction

In each financial market, due to the breadth and depth of the market, there are various tools for investing. Investors invest in returns and risk assets. Expected returns on each asset represent the loss of return under the same risk conditions as the result of the acquisition of that asset. One of the factors affecting asset risk is liquidity. The role of liquidity factor in asset valuation is important. Because investors consider that if they want to sell their assets, is there a good market for them? This is the crystallization of the risk of asset liquidity in the mind of the buyer, which can lead to the investor's withdrawal from investing. The less liquidity of a share is, the less attractive it will be to investors, unless it yields more returns. Empirical evidence suggests that the lack of liquidity in decision making can play an important role. In other words, some investors may need to quickly invest in their own investment funds, in which case liquidity power can be of great importance. Liquidity means the rate of conversion of investments or assets into cash. The securities traded in the stock exchange can be indicative of their liquidity rate. In fact, the lack of liquidity may have a negative effect on stock prices. The ratio of non-liquidity indicates the sensitivity of the share price to the variations of each unit in the trading volume that day. Lack of liquidity occurs when stock prices change in response to low transaction volumes (Yahya Zadeh Far and Kharaddin, 2008). Liquidity in secondary markets plays a decisive role in the success of public supply, and it reduces the cost and risk of adopting traders and market makers. Also, the cost of investing will be reduced by reducing the volatility and trading costs. From a macro perspective, therefore, the existence of liquid capital markets is essential to capital allocation. This also reduces the cost of publishing capital. From the perspective of micro, the liquidity market provides access to various investors with diversified trading strategies (Tehran Stock Exchange (Report of the Committee on Emerging Markets of the International Commission on Securities Commissions, December

2007). The securities traded in the stock exchange can be indicative of their liquidity rate. In fact, the lack of liquidity may have a negative effect on stock prices. The ratio of non-liquidity indicates the sensitivity of the share price to the variations of each unit in the trading volume that day. Lack of liquidity occurs when stock prices change in response to low transaction volumes (Yahya Zadeh Far and Kharaddin, 2008). Theoretical fundamentals and research background The growth and development of joint-stock companies over time has led to the emergence and increase of a cornerstone of the owners of capital that does not directly participate in the management of companies and direct and supervise the selection of the board of directors of the company. For many years in the past, economists assumed that all groups belonging to a joint-stock company would operate for a common purpose, but in the past years there were many conflicts of interest between groups and how companies were exposed to such Contradictions have been raised by economists (Jensen & McLing, 1976). Today's opinion makers see the best solution to this problem in improving corporate governance. Desirable corporate governance ensures that firms have effectively capitalized on their capital. In addition, it ensures that firms pay attention to a wide range of stakeholders and the community as a whole, and the board is accountable to shareholders and the company. Such a system, in turn, ensures that firms in general work for the benefit of the community, and that they are conducive to investor confidence and attracting long-term capital (Makrami, 2006). The securities traded in the stock exchange can be indicative of their liquidity rate. In fact, the lack of liquidity may have a negative effect on stock prices. The ratio of non-liquidity indicates the sensitivity of the share price to the variations of each unit in the trading volume that day. Lack of liquidity occurs when stock prices change in response to low transaction volumes (Yahya Zadeh Far and Kharaddin, 2008). Theoretical fundamentals and research background Today, different mechanisms of corporate governance have been proposed at the corporate level to enable them to meet the objectives

of accountability, transparency, fairness and respect for the rights of the stakeholders. But in the present research, only a few of these mechanisms are examined, which we will discuss in the following. The three corporate governance mechanisms developed by the Organization for Development and Economic Cooperation include: A) Transparency and disclosure of information B) the structure of the board (C) Shareholders' Rights and Principal Functions of Ownership One of the areas of finance that has not yet been completely answered is the relationship between ownership structure and liquidity. To investigate this, researchers consider two hypotheses that these two hypotheses include the hypothesis of undesirable choice and the transaction cost hypothesis. The undesirable choice hypothesis states that informed shareholders have better information than ordinary shareholders, which results in information asymmetry, which ultimately leads to a decrease in liquidity. The transaction cost hypothesis states that when investors change their portfolios consistently, transaction costs are reduced and, consequently, liquidity rises. Considering these two hypotheses, many empirical studies have been conducted to investigate the relationship between liquidity and ownership structure (Rubin, 2007).

The basic question of this research is whether corporate governance mechanisms (board composition and ownership structure) affect the brand value of companies, and if so, what impact and extent is this impact?

Explaining and expressing the subject

The Board of Directors serves as a corporate governance tool by combining, organizing, and decision-making processes to improve its effectiveness and thus improve company performance. Studies conducted in some countries show that the presence of non-executive members helps the board's ability to improve company performance (Ghalibaf and Rezaee, 2008). Institutional investors generally play two broad roles. The purpose of a group of these investors, in addition to

profit, is to provide financial rehabilitation to meet future commitments made to insurers, pensioners and other stakeholders in their organizations. The other group consists of institutions that are originally investment companies and pursue investments aimed at maximizing profits for their respective institutions. The number of these companies has also grown. Thus, it is seen that firms face changes in the structure and composition of shareholders, in other words, in their ownership structure (Rahman Sarsht and Mazlomi, 2005). Explaining and expressing the subject The Board of Directors serves as a corporate governance tool by combining, organizing, and decision-making processes to improve its effectiveness and thus improve company performance. Studies conducted in some countries show that the presence of non-executive members helps the board's ability to improve company performance (Ghalibaf and Rezaee, 2008). Previous studies have suggested that corporate governance has a significant positive correlation with improved disclosure (Aginca, Bujager, San Gupta, 2005; Caramano and Wafis, 2005) and reduce the cost of adverse selection (Brockman and Chang, 2008) and increases the follow-up of the analyst (Lang, Linnes and Miller, 2004). Indeed, improving information disclosure reduces the cost of bad choices and increases compliance with analysts, which increases liquidity (Brennan and Sabramanim, 1995; Volcker, 1995; Cooler & Jan 1997). Haley, Houghton and Palpa, 1995; Rawlston 2003). According to the above, the net effect of corporate governance on the brand value of the companies is unclear and depends on the two main effects of the "undesirable choice hypothesis" or "cost-effectiveness hypothesis" or "information efficiency" (price discovery). Previous research that explores the relationship between corporate governance and brand value has generally benefited from the two perspectives and has achieved different results. Therefore, this research seeks to explain the role and influence of corporate governance on the stock brand value in Iran, while investigating foreign investigative methods.

Hypotheses

In this research, six hypotheses are tested as follows:

Hypothesis 1: There is a significant and positive relationship between the ratio of non-executive directors and the brand equity of the companies.

Hypothesis 2: There is a significant difference between the liquidity of the shares of the companies with the combined role of management and the value of the company's brand equity with the role of non-mixed management.

Hypothesis 3: There is a meaningful and positive relationship between the ownership of institutional investors and the brand equity of the companies.

Hypothesis 4: There is a significant and positive relationship between the amount of ownership of the 5th largest shareholder and the brand equity of the companies.

Hypothesis 5: There is a meaningful and positive relationship between the ownership of the largest shareholder and the brand equity of the companies.

Hypothesis 6: There is a meaningful and positive relationship between the ownership of the stockholders and the value of the brand equity of the companies

Research variables and modeling and hypothesis testing methods

Variables:

In this research, the variable "corporate governance", which includes "shareholder combination" and "composition of the board of directors",

is considered as an independent variable and "brand value" as a dependent variable. The variable of its shareholder combination includes four indicators: institutional investors' ownership, ownership of the 5 largest shareholders, ownership of the largest shareholder and the ownership of the actual shareholders. The composition of its board of directors consists of two indicators: the ratio of non-executive members and the combined role (separation of the manager of the boss and the vice chairman of the board of directors) management. Ratio (percentage) of non-executive members of the board of directors: The number of non-executive members in the board of directors is calculated as the total number of members of the board of directors, the ratio of non-executive members of the board of directors, and we consider the BOARDC symbol for it. An unauthorized member of the board of directors is a member who has no executive position in the company. The combined role of the Managing Director: the CEO and the chairman or the head of the board of directors of a single person. If the CEO, the chairman or the undersecretary of the board is one, and otherwise, the number is given to this variable, and we consider the duality symbol for it. The amount of ownership of the largest shareholder is equal to the percentage of ownership of the largest shareholder of each company and for that BIGOL symbol. The amount of the ownership of the 5th largest shareholder is equal to the total amount of ownership of the 5 largest shareholders of each company and the FBIGOL symbol for it. Ownership of institutional shareholders: Equal to the total legal ownership of each company (institutional investors, large investors, such as banks, insurance companies and investment companies), and the symbol for INSTOL We take into account. Actual shareholders' equity: Equals the total ownership of the actual shareholders of each company and the INDVOL symbol for it. Dependent variable: Brand equity value of companies: Brand value (BRANDVALUE) In general, brand valuation methods fit into three forms of financial, trading, behavioral, and combination. From the pricing issues of branding, there are some

methods that determine the final number for the brand value (commercial-financial approach), and in others it's not possible (behavioral approach). In brand valuation with financial approaches, brand value By stock trading on the market and determined by traders. In this research, we used the Tobin method used by Haydarpoor and Mostofi to value the brand. To do this, the Q Tobin Q is simple to calculate, as follows. In this way, the Q index divides the market value of the firm by the book value of the company's assets:

$$Q = \frac{COMVAL+PREFVAL+SBOND+STDEBT}{SRC}$$

In the above relationship, COMVAL is the value of the ordinary stock market at the end of the year, PREFVAL is the preferred stock market value at the end of the year, SBOND is the long-term debt issuer's value at the end of the year, STDEBT is the book value of debt maturing less than one year at the end of the year, and SRC represents the value The bookkeeping of the total assets of the company at the end of the year. If $Q > 1$, then the brand value is positive, if $Q < 1$ is the negative brand value, and if $Q = 0$, then the brand value will be zero. Control variables: The control variables in this research are: debt ratio, firm size and volume of transactions. Debt ratio: Equal to debt ratio to company assets that is considered as the LEV symbol. Company size: Equal to the natural logarithm of the company's market value, which is the SIZE symbol for it. Trading volume: Equal to the total trading volume of the company with the VOLUME symbol for it. In this research, regression analysis was used to test the relationship between variables and also the significance of the proposed model to explain the dependent variable.

For this purpose, the following multiple regression model is fitted:

$$BRANDVALUE_{it} = \alpha + (\beta_1 * BOARDC_{it}) + (\beta_2 * BIGOL_{it}) + (\beta_3 * FBIGOL_{it}) + (\beta_4 * INSTOL_{it}) + (\beta_5 * INDVOL_{it}) + (\beta_6 * DUALITY_{it}) + (\beta_7 * LEV_{it}) + (\beta_8 * SIZE_{it}) + (\beta_9 * VOLUME_{it}) + \varepsilon_{it}$$

The variable ε_{it} is an unknown part (error).

In this research, t-test was used for each of the partial regression coefficients and Fisher's statistic (F) was used for statistical significance

at 95% confidence level. To test the second hypothesis, the t-test was used to compare the two tests. Also, to test the meaning of the main hypothesis, the test (F) has been used.

Results from data analysis

Descriptive Statistics

In order to study the general characteristics of the variables, as well as to estimate the model and its exact analysis, descriptive statistics about the variables are required to be familiar with. Descriptive statistics are used to compute the parameters of society, including the central indicators and the distribution of society and ... Not. In the descriptive statistics table, the variables of the research are average, average, maximum, minimum, standard deviation and....

Descriptive statistics of variables research

	<i>BRANDV ALUE</i>	<i>BOARD C_{it}</i>	<i>BIGOL_{it}</i>	<i>FBIGOL_{it}</i>	<i>INSTOL_{it}</i>	<i>INDVOL_{it}</i>	<i>DUALIT Y_t</i>	<i>LEV_{it}</i>	<i>SIZE_{it}</i>	<i>VOLUM E_{it}</i>
Average	0.191	0.236	0.657	0.457	0.242	13.322	0.741	0.449	1893	1.4286
Middle	0.0100	0.242	0.742	0.7000	0.3240	14.9100	0.823	0.571	2428	1.9732
MAX	0.683	0.751	1.000	1.000	1.000	24.056	1	0.753	3375	2.3452
MIN	0.009	0.0000	0.125	0.0000	0.0000	4.3820	0	0.234	1283	0.3567
Standard deviation	0.0074	32.3749	18.0467	0.0279	31.2842	0.6723	0.352	0.119	0.341	0.511

Summary of statistical results of the model test

sig	Statistics t	Standard deviation	Coefficients	Variable
0.0000	-10.8523	0.8963	-9.7266	α_0
0.0111	2.5511	0.0023	0.0059	<i>BRANDVALUE</i>
0.0183	2.3677	0.0004	0.0010	<i>BOARDC_{it}</i>
0.0481	0.4567	0.0855	0.0391	<i>BIGOL_{it}</i>
0.0081	1.3182	0.0486	0.0640	<i>FBIGOL_{it}</i>
0.0302	2.1743	0.0276	0.0601	<i>INSTOL_{it}</i>
0.0389	0.442	0.0255	0.0492	<i>INDVOL_{it}</i>
0.0411	0.5467	0.0255	0.0832	<i>DUALITY_t</i>
0.0321	0.551	0.0465	0.0189	<i>LEV_{it}</i>
0.0466	0.6754	0.0751	0.0333	<i>SIZE_{it}</i>
0.0291	0.4132	0.0821	0.0211	<i>VOLUME_{it}</i>

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