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Duality of the CEOs in Governance Disclosure in The Corporates in Tehran Stock Exchange

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Abstract: *The main objective of this research is to study the duality of the CEOs of the corporates admitted to the Tehran stock exchange in governance disclosure. To do so, a sample consisting of 98 corporates among the corporates admitted to the Tehran stock exchange is selected. The number of sample corporates is obtained using Cochran and simple random sampling and they are studied from 2011 through 2015. The obtained results from variables test shows that CEO's duality in corporate governance disclosure has negative and significant impacts.*

Key words: *Corporate Governance Disclosure, CEO's Duality, Stock Exchange Corporates.*

INTRODUCTION

Since late 1970s, the corporate governance has been an important subject of discussion in the United States and throughout the world. Extensive efforts have been made to reform the corporate governance, partly through the needs and demands of the shareholders to enforce the corporate property rights and increase the value of its stock and wealth. In three decades, the duties of the corporate CEO is increased beyond their traditional legal responsibilities in loyalty to the corporate and shareholders. The corporate governance was of great interest among the press due to the wave of dismissal of CEOs by the boards of directors (Abdi, 2010). The main core of the agency theory states that the CEOs as the representatives of the shareholders, might act or take decisions which do not necessarily lead to maximizing the wealth of the shareholders. According to this theory, a sufficient controlling or monitoring mechanism should be considered for the protection of the shareholder against the conflict of interests. The issue of transparency and voluntary disclosure of financial statements has been considered as a practical approach. The separation of ownership from management raises the agency problem. This problem leads to the increase of agency costs as well. To prevent this from happening, disclosure of the information by the CEOs is carried out to ensure the shareholders. Proper corporate governance decreases the impacts of the agency problem. For instance, the lack of authority of the members of the board of directors, separation of the chairman of the board from the CEO, etc. are examples of proper corporate governance. On the other hand, some corporates refuse to disclose information based on specific ownership and management structure which could lead to the increase of agency costs. According to many theoreticians in the field of accounting and economics, information is a key factor in the efficiency of resource allocation and economic growth of countries. Therefore, the role of accounting information governance is equivalent to the use of reported information for controlling mechanisms that provide conditions for improving the corporate governance. Corporate governance entails the set of relationships between the shareholders, CEOs, accountants and other beneficiaries which ensures the establishment of a controlling system in order to respect the rights of shareholders and to ensure the proper implementation of the approvals of the assembly and to prevent possible abuses. One of the most important roles that corporate governance could take over is to ensure the quality of the financial reporting process (Kashanipour and Babazedeh, 2013).

Corporate governance:

Raif et. al (2012) defines corporate governance as the relationship between the board of directors, CEOs and shareholders. Corporate governance institutions are frequent mechanisms which divide the authority among these three groups and affect the decisions made in the organization and modify and control them. The term corporate governance refers to the Greek word for guidance or management, and has been converted from Greek to Latin and Old French; however, this word has been defined in different forms by organizations or committees according to their ideological interests (Ebu Tepanche, 2009). Due to different definitions of corporate governance, only a few of these definitions are stated here. The International Monetary Fund and Organization for Economic Co-operation and Development defined corporate governance in 2001 as follows: the structure of relationships and responsibilities in expressing a main core groups consisting of shareholders, board members, and CEO for better promotion of competitive performance required for obtaining the primary participation goals (Hassas Yeganeh, 2006). In the article on corporate governance in Iran by reviewing the definitions and concepts of corporate governance and reviewing the views of the experts, it states that:

Corporate governance is a series of laws, regulations, structures, procedures, cultures and systems which lead to obtaining the objectives of accountability, transparency, justice and respect for stakeholders' rights. Hype et al., in the research they carried out in Oxford, state regarding corporate governance, that: “corporate governance describes the internal organization and corporate power structure, how the board functions, the company's ownership structure, and the relationship between the shareholders and other beneficiaries, in particular the company's labor force and its creditors. Robert Mongz and Nel Mino, two experts who have carrier out various and extensive researches on corporate governance, defined corporate governance in 1995 as follows: A tool by which any community can determine the moving direction of the corporate or in other words, corporate governance consists of the relationships among different groups in determining the direction and performance of the corporate. The main groups are: shareholders, CEO and board members. Other groups consist of employees, customers, vendors, creditors, and the community (Hassas Yeganeh, 2006).

Disclosure:

In fact, corporate can decrease the information asymmetries and agency conflicts among the CEOs and investors by the disclosure of information and consequently affect the investing decisions. In other words, sufficient disclosure of information by the corporate helps the investors and creditors looking for investing opportunities (Mehrani et. al, 2011). Disclosure is considered as an accounting principle based on which, the whole information regarding the activities of the corporate should be delivered to different user groups in an appropriate and timely manner. In fact, the main objective of disclosure is to help the users in their decision makings associated with investment, changing the financial status of the corporates, management performance evaluation, forecasting the future cash flow. In this regards, all the important facts of the financial unit should be properly and completely disclosed to provide the possibility of decision making and prevent confusion. Disclosure should be done through legal reports including substantive financial statements which contain all important, relevant and on-time information. These information should be presented in a way to be understandable and somewhat complete to provide the possibility of informed decision making for the users (Malekian, 1997).

The relationship between the corporate governance features and disclosure level:

The main core of the agency theory states that the CEOs as the representatives of the shareholders, might act or take decisions which do not necessarily lead to maximizing the wealth of the shareholders. According to this theory, a sufficient controlling or monitoring mechanism should be considered for the protection of the shareholder against the conflict of interests. The subject of transparency of the financial statements is considered as a practical approach. However, the remaining issue is that the transparency of financial statements as a general and non-framework term which should be defined to determine what transparency is and where it belongs in financial statements. Meanwhile, it should also answer the fundamental question of transparency for whom and for what purpose? And what is the role of accountants in the transparency of financial statements? In a research carried out by Chong and Lessi Moya (2007), the relationship among the corporate governance and disclosure level was studied as follows:

1- The size of the board
2- Independence of the board
3- Dual responsibility of the CEO
4- Arrangement of the audit committee
5- Concentration of ownership

CEO’s Duality

It means that the positions of CEO and chairman are not held by one person. If these two positions are held by two different persons, the excess power will be out of one person’s hand and more powerful controlling and supervisory conditions will be present.

Research Methodology

In order to collect information about the variables, the audited financial statements at the end of the course of the stock companies and the company's board of directors' report have been used. The data analyses of this study and testing the assumptions are carried out using Excel and Eviews software such that the provided information is classified first using Excel and then they were transferred to Eviews to perform statistical tests for data analysis.

Statistical population and sample

The statistical sample consists of a limited number of individuals that represent the main features of society. The subject matter and statistical sample include all companies except for financial, service and investment companies, banks, insurance companies, etc. which are omitted from the statistical sample of the study due to their different method of reporting the information and the nature of their operations. The statistical population will first be filtered by systematic deletion method and the Cochran formula is used to determine the sample size. At the end, the sampling was performed using simple random sampling. Approximately, 98 companies were selected using simple random sampling from the sample.

Jarco-Bra normality test

One of the fundamental conditions for regression is for the independent and dependent variables to be normal. In this study, the normality of dependent and independent variables is investigated by Jarco-Bra test.

Table 1. Normality test of the model

Result	Probability	Jarco-Bra normality statistic
Not normal	0.0000	**230.19**

As shown in table (1), all variables are not at normal at level 0.000. When the study is carried out based on real data and restrictions are present in selecting the sample, this may result in data not being normal. However, when the number of observations are high, the lack of normality of the data is justified by central limit theorem.

F Limmer and Husman test

Although the data in this study are compositional data, the estimation method (pooling or panel) should be determined before the estimation of the models. To do so, F Limmer test is used. For the observations with test probabilities higher than 5%, i.e. with statistics lower than the statistics of the table, pooling method is used and for observations with test probabilities lower than 5%, panel method is used. Panel method could be performed using two models including random and fixed models. To determine which model should be used, Husmam test is performed. For observations with test probabilities lower than 5% and higher than 5%, fixed and random effects models are used, respectively.

H_0 is rejected when the probability is higher than 5%

H_0 is not rejected when the probability is lower than 5%

Table 2. F Limmer test

Result	Probability	statistic	Test
Panel	0.0000	**10.12**	**Constrained F**

Table 3. Husman test

Result	Probability	statistic	Test
Random	0.40	**8.30**	**Husman**

According to the obtained results from table 2 for F Limmer test, if the probability level is lower than 5%, H_0 is rejected and therefore, H_1 is approved, i.e. panel method is used. Also, according to the obtained results from table 3, since the probability level of Husman statistic is higher than 5%, H_0 is not rejected. Therefore, panel method and random effects are used for the final estimation of the models.

Durbin–Watson test

In econometric studies based on time series, the assumption of the lack of auto-correlation between the error terms, which is one of the most important assumptions of the classical model, is often violated. Therefore, it is necessary to examine the correlation between the perturbation terms before the interpretation of the results. This is due to the fact that in the case of auto-correlations among the components of the perturbation, the OLS estimators are no longer effective, that is, they do not have the minimum variance, and thus the statistical inference cannot be trusted. For this purpose, Durbin-Watson auto-correlation test is usually which is shown in the following figure:

Table 4. Durbin-Watson test results

Status	**Durbin-Watson**	**F statistic**	**Adjusted coefficent**	**Coefficient of determination**
Exists	0.82	**4.75**	**0.5**	**0.7**

Table 5. The results of auto-correlation test after adding score (-1) variable

Status	**Durbin-Watson**	**F statistic**	**Adjusted coefficent**	**Coefficient of determination**
Does not exist	1.79	**58.6**	**0.57**	**0.58**

The results obtained in table 4 imply that variance auto-correlations exists and its value is 0.76. This value should be between 1.5 and 2.5 for the variance auto-correlation to exist. In this regard, the dependent variable (-1) is used for resolving the auto-correlation with one idle period after which the Durbin-Watson statistic changes. Therefore, assumption H_0 implying the lack of auto-correlation among the error terms is confirmed. Hence, one could conclude that the data are not auto-correlated and the obtained results are illustrated in table 5 confirming the lack of variance auto-correlation with statistic value 1.84.

Variance heteroscedasticity test or the test for error term constant variance (White)

One of the important issues which is addressed in econometrics is the issue of heteroscedastic variance. The heteroscedastic variance means that in estimating the regression model, the values of error terms have unequal variances. In fact, in regression estimation where ordinary least squares method is used, it is first assumed that all the error terms have equal variances and after the estimation of the model, this assumption is examined using a series of methods and it is examined whether or not there is indeed a heteroscedasticity of variance in the mode. One of the test to determine the existence of variance heteroscedasticity is White test which determine whether the variance of the error terms is constant or variable. To check if the variance is constant, the following assumptions are made:

H_0: The variance of the error is constant.

H_1: The variance of the error is not constant.

Table 6. The results of variance heteroscedasticity test (White)

Results	**Significance level**	**F statistic**	**Dependent variable**
Not heteroscedastic	0.13	1.65	SCORE

Investigating the results of the heteroscedasticity test of the variance on the research hypotheses shows that since the significance level of the F statistic is greater than 5%, the H_0 hypothesis which is based on the heteroscedasticity of the variance of the error terms is approved. Therefore, it can be argued that the data are not heteroscedastic, as shown in Table (6). As a result, the use of these variables in the model does not result in false regression.

Results

CEO's Duality affects the corporate governance disclosure

The results of the statistical tests and analyses show that there is a negative and significant relationship between the independent variable coefficient of CEO duality in the regression model on the disclosure of corporate governance. Considering the fact that the probability (significance level) of 0.00 is less than 5% and the T-statistic is -2.54 in the model, this information suggests the rejection of the H0 hypothesis and the acceptance of the H1 hypothesis, which implies the acceptance of the fourth hypothesis. Therefore, the fourth hypothesis of the research is confirmed. This hypothesis seeks for the impact of CEO's duality on the disclosure of corporate governance. Since the significance level of the hypothesis test is less than 5%, the second hypothesis is confirmed. In this regard, this results is consistent with the research by Ben Amé and

Bojenoie (2008) and Cheng and Cortinay (2006). However, the results of some studies, such as Suhair and Chemo (2016), Label (2002), Samaha et al. (2012), and Gol Lung (2004), were not consistent with this study.

Suggestions based on the finding of the research:

Based on the findings of the fourth hypothesis which implies the existence of a negative significant relationship between the CEO's duality and corporate governance disclosure, i.e. corporates in which the CEO and the chairman of the board are held by two different persons, more action is taken on the disclosure of the corporate governance. Subsequently, the analysts and market activists, particularly potential investors are advised to take the following important points into account:

Suggestions for future works:

1- Since the longer the data period, the more accurate the final estimation of the equation is, therefore, it is suggested that this research be investigated in other seasons.

2- This research is carried out for the stock corporates. Thus, it is suggested to study the off-exchange (OTC) corporates as well to be able to compare the results.

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