

Studying the Relationship among the Type of Agency Costs and Corporate Governance with Liquidity of the Stock Exchange Companies

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Abstract

The main purpose of the present study is to investigate the relationship among the type of agency costs and corporate governance with liquidity in recognized companies in the Tehran Stock Exchange in 2014. The statistical population studied in this research includes enterprises recognized in the Tehran Stock Exchange and the systematic elimination method has been used to select the sample which 166 enterprises have been selected.

The information of research has been obtained through the collection of data from different companies by referring to financial reports and statements, explanatory notes, weekly and monthly reports of the stock exchange, websites, databases, journals and reports of bourse and finally the questionnaire is used to receive the views of managers and employees.

To describe as well as analyze and examine the data, the descriptive and inferential statistics methods respectively have been used which the SPSS software has been assisted for this purpose. The results obtained from this study showed that agency costs and corporate governance have the inverse and relationship with liquidity, respectively.

Finally, considering the support of hypotheses and results obtained in research, proposals have been prepared and presented.

Keywords: Agency costs, the corporate governance, liquidity.

1. Introduction

The complicated, changing and competitive atmosphere of modern organizations and companies demands which all institutions and establishments can adapt themselves with the present circumstances and activate in accordance with the competitive atmosphere. Nowadays, problem of agency costs has become one of the most important concerns of investors.

Problems of agency costs emanate from this fact that investors usually do not have the desire and or ability required to manage the affairs of company, therefore, assign this responsibility to managers.

If both groups of managers and investors seek to maximize their own interests and if monitoring the performance of agent is also required to spend money, it implicitly contains this message which agent may always attempt to provide interests of the owner and maximize the wealth. Agency costs arise from issues such as conflict of interests between shareholders and management (Amir Aslani, 2005).

On one hand, nowadays the corporate ownership has a dramatic effect on the method control of and performance of companies through ownership of shares. In this way, the owners delegated the corporate management to managers and the Stock Exchange markets were formed. One of the means for optimal allocation of resources is securities markets. Therefore any problem that arises in the said market is not only the economical problem but also turns to the social problem in which the public interests of society will compromise. To resolve mentioned problems, one of the important concepts discussed in the past two decades is the concept of corporate governance. Two major theoretical viewpoints including both agency and beneficiaries' theories are put forward in this case. Each of them differently regard to the issue of the corporate governance. Each of agency and beneficiaries' theories respectively regard to problem of broker and employer as well as broker and beneficiaries (Hassas Yeganeh, 2005).

Considering the above subjects in this study, we attempt to investigate the relationship among type of the agency costs and corporate governance with liquidity of exchange enterprises. In fact, the main research question is that the agency costs and corporate governance in line with improving liquidity status of recognized companies in the stock exchange what role can have.

2. The literature of subject

2.1 The corporate governance

Corporate governance issue was discussed in the world advanced industrial countries such as the UK, Australia and some European countries since the 1990s. The background of this issue dates back to the report in 1992. In this report, it had been much emphasis on the existence of institutional shareholders and establishment of the internal control system and audit.

This report was reviewed on 1995 by Committee of Green berry and finalized in 1998 by the Committee of Hample. Majority of world countries, including the UK, China, Korea, Canada, Australia and ... have such a code of guidance as codified. Also, disclosing the Watergate elections adventure as well as fraud in capital market in America in 2001 caused approval of law called Sarbanes Oxley or the same corporate governance.

Corporate governance in fact, a set of processes, customs, policies, laws and institutions is said that affects method of a company in terms of management, guidance and or control. Furthermore, corporate governance includes relationships among different actors (beneficiaries) and goals which based on them, company is administered. The main actors are the operating management, stockholders and board of directors.

Other beneficiaries include employees, suppliers of goods, customers, banks and other lenders, legislators, the environment and generally society. Corporate governance is a multidimensional issue. One of the important themes in corporate governance deals with accounting and financial management and supports from the implementation of policies and mechanisms fundamentally which ensure the right behavior and support stockholders.

Another major element is the viewpoint of economic efficiency through which corporate governance system should improve the economical objectives with careful consideration of shareholders wealth. There also are other viewpoints in the field of corporate governance which including it can be noted to beneficiaries' view of that demands the greater audit and attention to beneficiaries.

Corporate governance is a fundamental element in increasing investor trust, promotion of a competitive sense and finally improvement of the economic growth. This element is located on top of the international development list. James Wolfenson, former president of the World Bank in this regard says:

"Corporate governance for global economic growth is of more important than sovereignty of nations." To better understand the concept of corporate governance, it can be described from two views: The macro (holistic) and micro (component-oriented).

From micro viewpoint, corporate governance involves a set of relationships among management of the company, its board of directors, shareholders and other beneficiaries. These relationships which include laws and obvious stimuli, form structure through the specified objectives and the means of achieving those objectives and monitoring on the implementation.

Therefore, the basic principles of corporate governance include transparency in corporate structures and operations, taking accountability of managers and board members towards shareholders as well as corporate responsibility towards employees, lenders, suppliers of goods and local societies that enterprise activates in there.

From the macro view, the appropriate corporate governance, in other words, the amount which enterprises in an open and truly space are managed, to gain the confidence of the market, capital efficiency, renew industrial structures of countries and finally the public wealth of society is of importance. It is noteworthy that in both the micro and macro definitions, the notion of transparency plays a major role.

In the macro-dimension, transparency in the level of enterprise among the suppliers of capital causes trust. In the micro-dimension, transparency causes the general trust in macroeconomic. In both cases, transparency will lead to allocating the efficiency of capital. Corporate governance is of very importance for the following reasons:

- It provides framework for establishing long-term trust among companies and capital external suppliers.
- By appointing managers who have new experiences and ideas, it gifts strategic thinking to the top of corporate.
- It makes logical managing and monitoring on the global risk in front of company.
- By dividing decision-making process, it limits relying on their senior managers and their responsibility (Sinai Gods, 2009).

A few different theoretical frameworks to explain and analyze the corporate governance have been proposed. For example, agency theory is arising from financial and economic field. While the transactions cost theory is caused by economics and organizational theory as well as the beneficiaries theory is induced by a social viewpoint about the issue of the corporate governance (Valipour, 2011).

Finally purpose of corporate governance includes as follow:

- a) Reducing enterprise risk through improving and promoting transparency and accountability.
- b) Improving of the organization long-term efficiency through preventing authoritarianism and lack taking responsibility of the executive management (Lee, 2013).

2.2 The agency costs

The agency costs are created by lack of alignment in the interests of companies' owners and managers and thus the separation of ownership and control. Model of representation identifies a series of guidance mechanisms that align interests of agents and owners and reduce agency costs (Mac King, 2009).

On the other hand, agency relationship includes a type of contract which based on one or a few individuals of the owner, agent or manager are commissioned to the operational implementation. By establishing an agency relationship, each of the parties follows maximizing their own personal interests. Because the utility function is not identical for managers with owners, therefore arises conflict of interests among them which by the formation

of the agency relationship and due to existence of conflict of interests, agency cost occurs (Taghavi et al., 2010). In addition, agency costs have a reverse effect on the value of the company, i.e., if the market expects occur such costs, value of the company will reduce (Almir and Saboo, 2008).

Type of agency costs generally is meant as follows:

- a) Direct and indirect costs employing and paying salaries and benefits of manager;
- b) Costs related to the control methods of the manager behavior (cost of auditing, cost creating the system of control, etc.);
- c) The remaining costs (difference between actual operations' manager and his operations expected which is related to follow personal interests).

2.3 Background of Research

Dooskar (2013) offered model for the behavior of stock price liquidity and volatility. In this model, investors predict the recent price changes for variations of an asset with risk. When changes in that asset are great, its risk expenditure is high and current efficiency of that asset goes down, efficiency rate of risk-free asset also is low and market encounters illiquidity.

Brocht et al (2012) found that the average absolute value of errors in the prediction for future cash flows when accruals as a predictor are added to operating cash flows is smaller than when cash flow obtained from operations lonely as a predictor is used.

Liu et al (2011) analyzed the comparative power of operating cash flows and accounting dividend per share in describing the company shares assessments. In their all cases studied, earning forecasts per share was a more appropriate criterion for the value of the companies. Their study was one of the important and key principles in conducting present study so that the comparative power of cash flows versus accounting earning can also be discussed in explaining amount of the companies' dividend.

Chi et al (2009) in a study entitled "The relationship between corporate governance and conservatism" achieved to conclusion that in companies which the most shares have been provided institutional investors, requires less conservative accounting.

Lemma (2009) in a study under the title "Exploring the relationship between accounting conservatism and corporate governance" came to the conclusion that there is a positive relationship between the amount of the independent managers in the board of directors and accounting conservatism in a model from the three models studied.

Harford et al (2008) believe that increasing the quality of corporate governance causes reducing maintenance level of companies' capital and liquidity. Results showed that companies with more internal ownership and the percentage of institutional ownership have higher maintenance of capital and liquidity maintenance while companies with higher quality of corporate governance as well as the more independent and bigger board of directors possess less maintenance of capital and liquidity. Furthermore, they continue to investigate this issue that how problems of agency costs affect the willingness of American companies for maintenance of cash level and to measure problems of agency relationship used from corporate governance multiple criteria.

Ambi Dymtar and Mart Smith (2006) by investigating two criteria of corporate governance and their relationship to the market value of firm realized which in firms with poor governance, each dollar of change in cash causes change in market value about 42 to 88 percent will become while this amount is doubled in firms with good governance.

Ahmad Doelman (2005) showed that there is a positive relationship between the shares percent of foreign managers and conservatism and there is not a significant relationship between the amount of ownership of institutional shareholders and conservatism.

Joe (2003) found that in field of the company profitability, stronger corporate governance in Korean companies is associated with better performance.

Gampz, Isti and Metric (2003) in America found that the relationship exists between corporate governance and companies performance.

Klasnes et al (2002) also found when the sovereignty of macro shareholders from cash flow rights violates, corporate governance becomes poor and value of the company drops.

Mitton (2002) found that corporate governance which reduces the asymmetry of information and increases monitoring activities has a positive impact on value of the company (Baca et al, 2004).

Additionally, Lapoorta et al (2002) showed that value of the company in countries which shareholders are become better protection as well as the companies which cash flow has more ownership in the hand of observer shareholders, is higher.

Bernard Beck (2001) in a study in Russia found that there is between corporate governance and corporate performance. He by using the time series and regression found that a strong relationship exists between size of board and the stock market value.

By the same argument, Lapoorta et al (2000) have reached to this point that external investors have encountered this risk that their return on capital does not materialize because the individuals from inside firm (shareholders'

controller and managers) may expropriate them.

Therefore they stated that the corporate governance on a large scale is a set of mechanisms through which investors outside the company protect themselves against expropriation of individuals within the company. Protection of external investors is the profitable for company.

Resaeeyan et al (2010) also believe that there is a negative and significant relationship between percentage of non-bound board members and cash maintenance level in Tehran Stock Exchange, however, the significant relationship doesn't exist between the percentage of institutional investors and cash maintenance level. Obtained results indicate that there is a negative and significant relationship among the percentage of institutional investors ownership, the percentage of managers shares ownership, the percentage of the non-bound board members, ratio of debt as well as total debt and agency costs.

Bitam Mashayekhi, Mehdi Mohammad Abadi (2010) addressed a research entitled "the relationship of corporate governance mechanisms to dividend quality" and the findings of the study didn't indicate significant relationship among the qualities of accruals as one from the components of corporate governance.

John Yeganeh Hassas, Zohreh Raisi, Seyed Mojtaba Husseini, (2009) examined the relationship between corporate governance quality and performance of recognized companies in Tehran Stock Exchange that the results of their research indicate that there is no significant relationship between corporate governance and performance companies.

Husseini (2007) has examined the relationship between corporate governance and shareholders efficiency. The results indicate that the relationship does not exist between institutional shareholders and shareholder efficiency in Iran.

Qanbari (2007) has investigated the effect of the presence ratio of non-responsible members, transparency of information, the internal auditor and institutional shareholders presence as criteria from the corporate governance on firm performance. The results have shown that only the presence of institutional shareholders and internal audit affects performance of company.

Nowadays in neoclassical economics, companies and institutions merely are defined supplier firms of goods and services which their goal is to maximize profits caused by the activities. But nowadays due to discussing the welfare theories in economical topics and providing interests of all beneficiaries in the process of economic activities, companies and institutions encounters a wide range from targets beyond the maximizing benefit of the firm.

The agency problems are one from the concerns of corporate governance as well as corporate governance monitoring mechanisms are from important factors affecting investment maintenance level of capital and liquidity's companies.

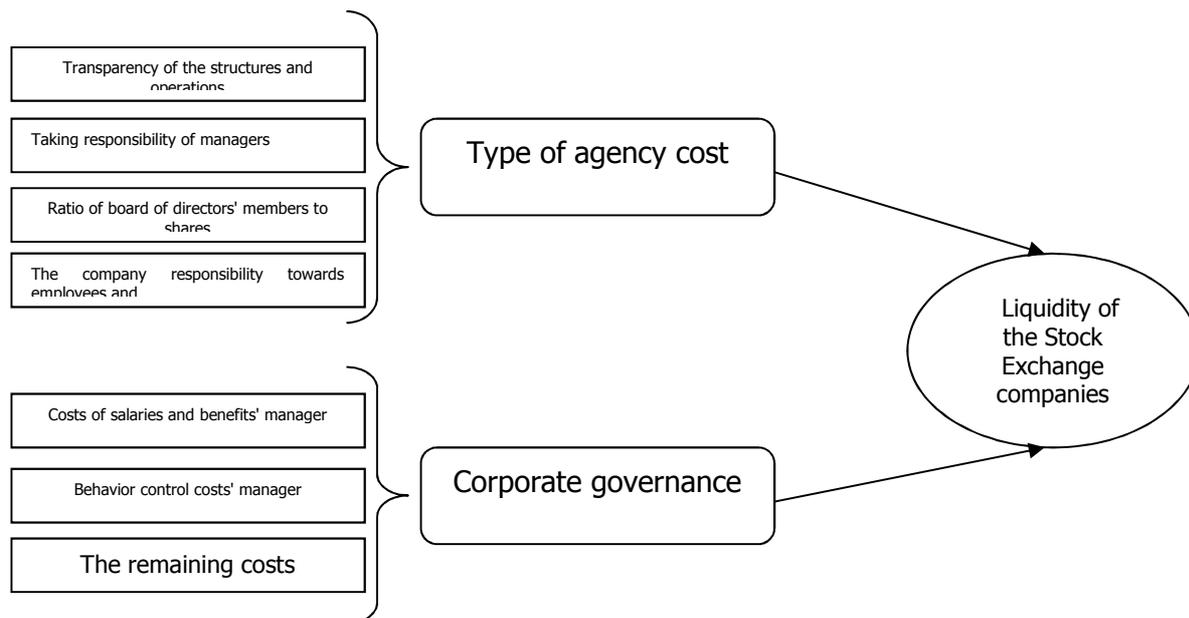
Therefore after reviewing the research conducted, it was determined that companies recognized in the Tehran Stock Exchange is also not excluded from said challenges especially with rapid qualitative and quantitative development which in recent years has occurred in this area and considering that in Iran, significant researches about the relationship among the type of agency costs and corporate governance with liquidity of companies has not been conducted.

Therefore this research attempts to examine present status of agency costs and corporate governance as well as its relationship with liquidity of the recognized companies in stock exchange and the main objective of this research is describing and explaining type of corporate governance and agency costs and providing a criterion for evaluating recognized companies in exchange as well as offering a sufficient criterion for analyzing the type of agency costs and corporate governance based on the companies' liquidity and financial decision making through the potential and de facto shareholders so that recognized companies in Tehran Stock Exchange can continue to their survival in this environment filled with turbulent and competitor and prepare themselves beforehand for prospective changes.

In this regard, after studying literature and background of research, its hypotheses were formulated as follows:

There is a significant relationship between the agency costs and liquidity of Stock Exchange companies.

There is a significant relationship between corporate governance and liquidity Stock



Exchange companies.

3. Research Methodology

The method used in this study depending on the purpose is from applied type and in terms of research methodology as well as the nature and attitude method addressing problem is descriptive from type of the survey. Furthermore, it based on the type of data collected is of quantitative type which in this regard, statements recorded from the interviewees, debates and discussions and ... and questionnaire has been distributed to receive managers and employees comments and the results have been inserted.

In this regard for implementing the present study, generally the following steps have been pursued. This research includes recognized companies (166 companies) in the Tehran Stock Exchange. The statistical population studied in this research includes companies recognized in the Tehran Stock Exchange and the systematic elimination method has been used to select the sample which criterion applied for the selection of the sample is as follows:

- Companies which during the period desired, their finances year have not changed.
- These companies aren't including investment firms and financial institutions.
- Required financial information includes financial statements and accompanying notes to calculate the variables of research in time domain desired is available.
- Financial year of companies is leading to the 19 March in each year.

Information of research through collecting data of the different companies by referring to financial reports and statements, explanatory notes, weekly and monthly reports of the Stock Exchange, websites, databases, journals and reports of exchange has been compiled.

After collecting many observations and data, they should be properly analyzed and reported by the statistical methods. Using from descriptive statistics with the aim of summarizing the information collected and further understanding studied population has conducted.

The purpose of descriptive statistics isn't justification but is description, extraction and realization of combining information with help of numbers language. It should be mentioned that in order to analyze data, it has been used from statistical softwares of SPSS and EXCEL.

4. Research findings

Because variables studied in this research are of spatial type, Kolmogorov-Smirnov test is the best option to determine normality of the variables.

Therefore assumptions are as follows:

The null assumption: variable under consideration is normally distributed.

The opposite assumption: the variable under consideration isn't normally distributed.

If the significance level of the test is less from number 0.05, we say that the variable under study is not normal and otherwise the variable is normal. As it is observed, all variables are abnormal.

Table 1- Results of Kolmogorov-Smirnov test for the variables of study

Row	Scale under consideration	Kolmogorov-Smirnov statistic	Level of significance
1	Type of agency costs	1.656	0.008
2	The corporate governance	1.728	0.005

The main findings of the hypothesis

The first hypothesis: there is the significant relationship between type the of agency costs with liquidity of stock exchange companies.

H0: there is no significant relationship between the type of agency costs and liquidity of stock exchange companies.

H1: there is no significant relationship between the type of agency costs and liquidity of stock exchange companies.

To investigate the relationship between agency costs and the liquidity of stock exchange companies, Pearson and Spearman correlation coefficients have been used. Results obtained from this test have been shown in the following table.

Table 2- Correlation coefficients between agency costs and of companies' liquidity

The variable	Liquidity of stock exchange companies						Existence of relationship	Type of relationship
	The Pearson correlation coefficient			Spearman correlation coefficient				
Type of agency cost	The correlation coefficient	The level of significance	Number	The correlation coefficient	The level of significance	Number	has	inverse
	-0.688**	0.000	166	-0.629**	0.000	166		

**In the level of significance 0.01

Results obtained from Pearson and Spearman correlation test show which there is a significant relationship between the agency costs with liquidity of stock exchange companies (The level of significance less than 0.01) and this relationship is placed as reverse in level of relatively strong.

Table 3- Summary of regression model

Model	R	R ²	Modified R ²	Standard error of estimation
1	0.688	0.473	0.470	0.16285

According to the above table and the modified-R², we find that the agency costs justify 0.470 (47%) equivalent to changes in the liquidity of stock exchange companies.

The second hypothesis: There is significant relationship between the corporate governance and liquidity of stock exchange companies.

H0: There is not significant relationship between the corporate governance and liquidity of stock exchange companies.

H1: There is significant relationship between the corporate governance and liquidity of stock exchange companies.

To investigate the relationship between variables of the corporate governance and stock exchange companies' liquidity, Pearson and Spearman correlation coefficients have been used. The results obtained from this test have been shown in the following table.

Table 3- Correlation coefficients between the variables of the corporate governance and stock exchange companies' liquidity

The variable	Liquidity of stock exchange companies						Existence of relationship	Type of relationship
	The Pearson correlation coefficient			Spearman correlation coefficient				
The corporate governance	The correlation coefficient	The level of significance	Number	The correlation coefficient	The level of significance	Number	has	direct
	0.364**	0.000	166	0.296**	0.000	166		

**In the level of significance 0.01

Results obtained from Pearson and Spearman correlation test show that there is the significant relationship between corporate governance and stock exchange companies' liquidity (level of significance less than 0.01) and this relationship is placed directly and in a relatively weak level.

Table 4 - Summary of regression model

Model	R	R ²	Modified R ²	Standard error of estimation
1	0.364	0.132	0.127	0.20903

According to the above table and the modified R^2 amount, we find that the corporate governance justifies 0.127 (12.7%) equivalent of the changes in companies' liquidity.

5. Discussion and conclusion

Corporate governance is reoffered to collection of processes, customs, policies and laws which affect method of company administration. The importance of corporate governance in plain language is in it that governs the collective wisdom in the critical affairs. The main actors in the corporate governance are operating management, shareholders and board of directors.

Usually the word of governance is referred to monitoring the activities' board of directors on the goals, programs and general policies of the organization that includes the state of plans and policies, monitoring on the performance of senior executives, providing adequate resources for the organization, ensuring from the implementation of laws and regulations, agent on behalf of the organization against beneficiaries outside the organization and The board of directors is said to group from individuals who are legally responsible for the governance of organization.

In this research, relationship among the type of agency costs and the corporate governance with liquidity was studied. According to the literature of subject, as expected, relationship between the agency costs and the corporate governance with liquidity was proven and due to tests conducted, the significant relationship was observed among them.

The results of tests carried out indicate that agency costs and corporate governance respectively as reverse and direct are associated with liquidity of companies. In the third millennium, companies are being forced to survive and progress in the current competitive world, focus the major part of their own efforts on the processes and functions which play a fundamental role in the success and improvement of their performance.

Including the effective processes in improving performance is using from financing and liquidity means which in case of benefit from the effectiveness criteria, it can have a significant role in firm performance. According to the results obtained is specified which from the most important corporate governance mechanisms, the presence of institutional shareholders can be noted as an external mechanism. This criterion not only directly affects the performance and the liquidity of companies but also indirectly and through effect on utilizing other corporate governance mechanisms can improve the companies' liquidity status.

To achieve above objectives and improve corporate performance, fields of establishing the appropriate liquidity in companies by encouraging and even forcing the use of corporate governance mechanisms and agency costs should be provided by the Tehran Stock Exchange. Considering the results obtained therefore, it is suggest that:

- 1- Regarding the research evidences and results which indicate a relationship among the type of agency costs and corporate governance with liquidity in recognized companies in Tehran Stock Exchange, shareholders and investors are recommended which include factors obtained from this investigation in their own decision making. Financial investors and analysts always should consider category of liquidity and include analyses related to the difference between profit and operating cash flow in their own decision making model.
- 2- Users from financial reports should know which agency costs and corporate governance in a company do not provide sufficient assurance from the effective supervision on the cash maintenance level companies.
- 3- It is suggested that more disclosure about information related to the structure of the companies' board of directors is conducted because by increasing the percentage of non-responsible the board of directors' members, monitoring the efficiency is carried out on the level of liquidity and cash maintenance level decreases by firms.
- 4- The Stock Exchange organization is recommended that has more supervision toward providing desirable and transparent information of exchange companies and more considers factors influencing liquidity of companies.

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