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Impact of Corporate Governance Mechanisms on Firm Value Evidence from the Food Industry of Iran

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ABSTRACT

This research examines the effect of corporate governance on firm's value. The research has been carried out on the food industry of companies listed in the Tehran Stock Exchange (TSE) which is a major contributor to Iran's Exports for ten years from 2002 to 2011. There are several aspects and dimensions of corporate governance, which may influence a firm's value but this study focused on four aspects namely Ownership Concentration (*OWNCON*), Institutional Ownership (*INOWN*), Chief Executive Officer Duality (*CEO*) and Board's Independence (BOIN). Firm's value has been measured through Tobin's Q. Generalized Lease Square (GLS) was employed to examine these effects. Strong and positive impact of corporate governance on firm's value has been seen.
Keywords: Corporate Governance, Firm's Value, Tobin's Q, Food Industry .

INTRODUCTION

Corporate governance, and agency problems, may affect firm value in two different ways. First, good corporate governance may lead to high stock price multiples as investors anticipate that less cash flows will be diverted and a higher fraction of the firm's profits will come back to them as interest or dividends (La Porta et al., 2002;Jensen and Meckling, 1976). Second, good corporate governance may reduce the expected return on equity to the extent that it reduces shareholders' monitoring and auditing costs, leading to lower costs of capital (Shleifer and Vishny, 1997). However, it is not unequivocally clear that better governance is in fact related to higher company valuations as the costs associated with the implementation of stronger governance mechanisms may outweigh the benefits (e.g., Bruno and Claessens, 2010; Chhaochharia and Grinstein, 2007).

According to the Cadbury Report (U.K.), corporate governance is defined as the "system by which businesses are directed and controlled (Cadbury, 1992)." In other words, corporate governance is a general set of customs, regulations, habits, and laws that determine how a firm should be run. In a broader sense, "corporate governance is maximizing the shareholder value in a corporation while ensuring fairness to all stakeholders, customers, employees, investors, vendors, the government and the society-at-large. Corporate governance is about transparency and raising the trust and confidence of stakeholders in the way the company is run. It is about owners and the managers operating as the trustees on behalf of every shareholder large or small[1]."

"Corporate governance is a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (Hand, Isaaks, and Sanderson, 2004, p.229)."

Corporate governance is governing of corporations which focus primarily on the interactions among corporate managers, directors, and shareholders to minimize the potential agency problem of aligning interests of management with those of shareholders. And can broadly be defined as a mechanism which focuses on the combination of applicable laws, regulations, and listing rules that facilitate to direct and monitor corporations' affairs in attracting capital and performing effectively and efficiently to increase shareholders' value (Rezaee and Riley, 2009, p.122).

Corporate governance concerns and challenges are rising in modern society because of the increasing size and complexity of firms driving the need for increased separation between ownership and control, and millions of investors have been harmed in recent years by unusual and criminal behavior in large companies mostly in North America and Europe (Picard, 2005, p.v). The issue about corporate governance became

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more prominent in recent years as a result of corporate scandals and misconduct of executives. Firms, board members, and executives have been subject to criminal and civil actions over hidden debt, inflated earnings, insider trading, tax evasion, misuse of funds, and breaches of fiduciary duties. Firms such as Enron, WorldCom, and Tyco became well-known because of huge failures in governance (Garg, 2007, p.40). In addition to the scandals, nowadays, we can see that the financial crises have brought attention for today's debate of corporate governance issue as well.

Although the term corporate governance is susceptible to both broad and narrow interpretations, an important point to note is that there is an ongoing debate on the appropriate management and control structures needed to bring about more transparency in a company's functionality. In fact, good corporate governance, besides enhancing company's access to outside capital also contributes towards company's performance and sustainability. Corporate governance also serves a number of public policy objectives: it reduces vulnerability of the financial crises, reinforces property rights, reduces transaction cost and cost of capital, and leads to capital market development (Javed, A.Y and R Iqbal, 2007).

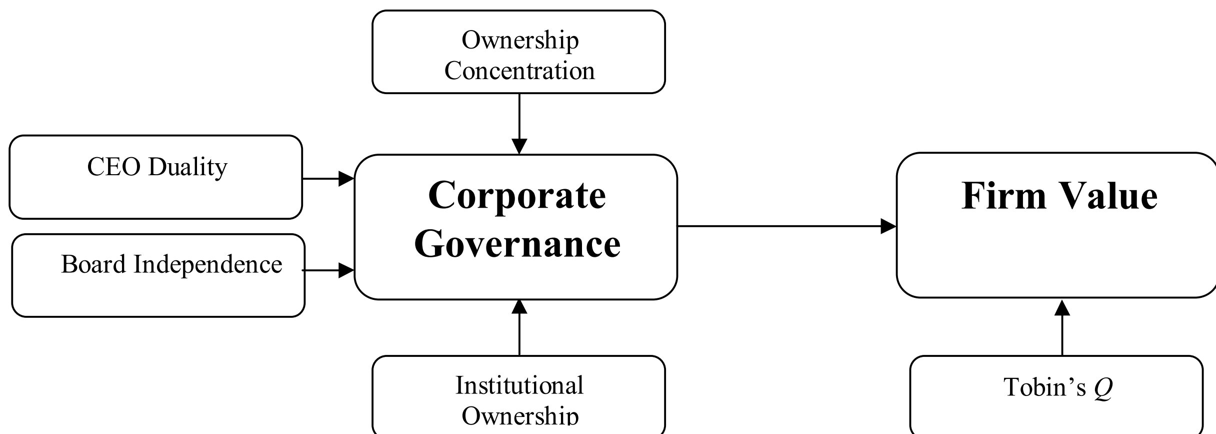
The literature generally distinguishes between internal and external governance mechanisms. The primary concerns of internal mechanisms are the boards of directors which monitors management operations and processes, while the external mechanisms include ownership structure, protection of minority shareholders, legal infrastructure, and market for corporate control (Gillan, 2006).

The food industry of companies accepted into the Tehran Stock Exchange (TSE) of Iran has been selected for this study due to its size and importance to Iran's economy. Food industry is one of the most important parts of the country where the population is closely linked with food security.Food industry in Iran, which provides 2,195 thousand tons and $ 2,302 million value of exports. It employs over one million people directly or indirectly. Further, the industry product and export HALAL brands in many countries, which makes it a good sample for subsequent generalization of the findings of this study over the entire industrial sector in Iran.

Theoretical Framework

The model shows the relationship of variables with each other. this model assumes that corporate governance is affected by ownership concentration can affect corporate governance which would have impact on to firm's value. The good corporate governance mechanism is expected to increase firm's value. There is ample evidence in the literature, that the more the ownership concentration the less would be the effective corporate governance. The relationship between the CEO duality i.e. the holding of both the top offices of the chairman and the CEO by the same person and corporate governance has also been shown. Moreover, the firm's value has been determined by Institutional Ownership, namely, Institutional investors have come to play an important part in the debate about shareholder value creation and the corporate governance of public companies (Hellman, 2005). The impact on another variable that would be seen on corporate governance is board independence. The fraction of Board's Independence is expected to maximize firm value .Weisbach (1988) provides evidence that the greater the number of outside directors on the board, the stronger the corporate governance of the firm. Helland and Sykuta (2005) suggest that boards with higher proportions of independent (outside) directors do a better job of monitoring management. Fama and Jensen(1983) argue that manager-monitoring activities of the board will be more effective when they are dominated by independent-outside directors. The positive relationship is expected because of the positive effect of monitoring function of the independent directors. The literature also supports the proposition that presence of more independent directors on the board leads to better corporate governance, which in turn would positively impact the firm's value. It has been shown in the model that firm's value would be measured through Tobin's *Q*.

Figure (1) – conceptual Framewok of the research



LITERATURE REVIEW

The majority of the prior literature on the relation between corporate governance mechanisms and firm value, documents that a stronger corporate governance is associated with a higher firm value (e.g., Bebchuk et al., 2009; Ammann et al., 2011; Cremers and Nair, 2005; Core et al., 2006;Gompers et al., 2003; Yermack, 1996). While much of this literature deals with specific aspects of corporate governance, such as ownership or board structure, part of the literature aggregates individual corporate governance attributes to corporate governance indices. For the U.S., a number of studies (e.g., Bebchuk and Cohen, 2005; Bebchuk et al., 2009; Gompers et al., 2003). However, number of studies has examined the relationship between corporate governance and firm performance. See, Shleifer and Vishny (1997), John and Senbet (1998), Hermalin and Weisbach (2003), Holderness (2003), Becht et al. (2003), Gugler et al. (2004), Denis and McConnell (2003), Khurram Khan et al., (2011).

Dung To Thi (2011) investigated the relation between corporate governance and firm value by using information taken from of Vietnamese Listed Companies on Ho Chi Minh Stock Exchange (HOSE) and Ha Noi Stock Exchange (HNX) at the year-end 2009. The empirical findings show that the dual position of CEO and Chairman has a positive relation with firm value. Besides, age of director and the number of directors meeting play important roles in firm value. However, no significant impact of board size, board gender diversity, top ten shareholders concentration and levels of state ownership on firm performance. Lastly, regression model of market performance shows that the duality of CEO and Chairman and the number of independent directors are significant impact on firm value.

Garcı´a Meca and Sa´nchez Ballesta (2011) examine the effects on Tobin's Q of various dimensions of the Spanish ownership structure likely to represent conflicting interests: ownership concentration, insider ownership and bank ownership. The results show that the main ownership structure mechanism that affects firm value is ownership concentration. The findings suggest that ownership concentration appears to influence firm value favourably, but at high levels a detrimental effect causes market valuation to be negatively affected by high levels of large shareholder ownership. These findings, which are different from the linear or non-significant relationships found in other countries, can be explained by the differences in corporate governance systems.

Khurram Khan et al., (2011) investigate the effect of corporate governance on firm's performance of the Tobacco Industry of Pakistan using data from 2004 to 2008. Multiple regression statistical technique was used to measure the relationships between dependent and independent variables. Ownership concentration, CEO duality & Board's Independence are independent variables. The results show that there is a strong and positive impact of the corporate governance on firm's performance.

Bruno and Claessens (2010) use data from Risk Metrics (formerly Institutional Shareholder Services (ISS)) and find that firm value depends on both country-level shareholder protection laws and firm-level corporate governance attributes. In addition, these relations are more pronounced in companies that depend on external financing. Aggarwal et al. (2009) also use ISS data and compare the governance of non-U.S. firms with a matched set of U.S. firms and find that the valuation of non-U.S. firms falls as their governance index value decreases as compared to the governance index of matching U.S. firms. Chhaochharia and Laeven (2009), also using the ISS database, distinguish between governance attributes that are legally required and attributes that are adopted voluntarily. They show that firms that voluntarily adopt a more rigorous corporate governance structure are rewarded with a higher firm value.

Sulong and Mat Nor (2010) carried out research into the examine the effects of governance mechanisms of dividend, types of ownership structure, and board governance on firm value. Their research utilises a panel data analysis of 403 firms listed on the Bursa Malaysia over a four-year period from years 2002 to 2005. A hierarchical regression analysis is used to test the hypotheses and the data is analysed using the generalized least square (GLS) estimation technique. Overall, the results highlight the importance of moderating role played by board governance variables with types of ownership structure to influence firm value. However, the benefits of better corporate governance through enhanced board governance are not the same across all firms since their incentives vary with respect to dividend and different types of ownership structure mechanisms.

Using a panel of 221 listed Taiwanese companies for the 1997-2006 periods, Feng-Li Lin (2010) seeks to determine whether or not institutional ownership affects firm value. To this end, He adopts an advanced panel threshold regression model to test whether there is an "optimal" institutional ownership, which causes threshold effects and asymmetrical relationships between institutional ownership and firm value. Tobin's Q is used as a proxy for firm value. The findings show that there is one threshold effect between institutional ownership and firm value, 81.2%. When the institutional ownership is less than 81.2%, there is no relationship between institutional ownership and Tobin's Q.When the institutional ownership is greater than 81.2%, the Tobin's Q increases by 1.25%, with a 1% increase in the institutional ownership. These results

are consistent with the effective monitoring hypotheses when the institutional ownership greater than 81.2% at which point the firm's value will start to increase.

Brown and Caylor (2004) looked at 2327 U.S. firms, and found that better governed firms are also more profitable, more valuable, and pay higher dividends. Similarly, Gompers et al. (2003) found that firms that have strong shareholders' rights have higher firm value, higher profits, and higher sales growth. Mitton(2001), in a cross-country study of the Asia-Pacific region, found that firm level differences in corporate governance have significantly influenced firm performance during the East Asian crisis. The study also showed that higher price performance is related to higher disclosure quality, higher outside ownership concentration, and with firms that are focused rather than diversified.

Baysinger and Butler (1985) and Rosenstein and Wyatt (1990) found that the market rewards firms for appointing independent directors. In a similar manner, Anderson, Mansi, and Reeb (2004) found that bond yield spreads, used as proxy for cost of debt, is inversely related to board independence. On the other hand, Fosberg (1989) found no relation between the proportion of independent directors and various firm level performance measures.

Hermalin and Weisbach (1991) and Bhagat and Black (2002) also found no link between the proportion of independent directors and value of the firm as measured by Tobin's Q. Thus, the evidence relating to board independence and firm value varies. However, Yermack (1996) and Brown and Caylor (2004) found that the separation of a CEO and Chairman's position in a company makes a firm more valuable.

Rahayu and Rashidah (2005) confirm that concentrated ownership has a tendency to increase firm value. The result from their study implies that concentrated ownership coincides with a lack of investor protection because shareholders who are not protected from controllers will seek to protect themselves by becoming controllers. Hence, the important implication of the significantly positively related between concentrated ownership and firm value is that large shareholders/investors have an incentive to monitor management and solve the free-rider problem.

Aggarwal and Williamson (2006) and Brown and Caylor (2006) use the ISS database to construct governance indices for U.S. firms only and both find a positive relation between corporate governance and firm value. McConnell and Servaes (1990) use a sample of 1173 firms listed on NYSE/AMEX in 1976 and another 1093 firms in 1986; find a positive relationship between institutional ownership and firm value .

In examining a sample of 867 acquisitions of publicly traded firms in the US between 1978 and 1988, Loderer and Martin (1997) find no significant relationship between institutional ownership and firm performance. By partitioning institutional investors into institutions that have appointed a representative to the board of directors of the firms in which they have a block investment and institutions with a similar holding but without a representative on the board of directors in the New Zealand, Navissi and Naiker (2006) find that institutions with board representation have greater incentives to monitor management. Therefore, their presence should have a positive influence on firm value. However, at high levels of ownership, institutional investors with board representation may induce boards of directors to make sub-optimal decisions. Finally, Mahoney and Roberts (2007) examine the relationship between corporate social performance and financial performance and institutional ownership for publicly held Canadian firms. They find a significant relationship between firms' corporate social performance and the number of institutions investing in firms' stock.

Research Hypotheses

In order to evaluate the effects of corporate governance mechanisms, on firm value, hypotheses are tested:

H1: There is a significant relationship between ownership concentrated and firm value in food industry accepted companies in Tehran Stock Exchange.

H2: There is a significant relationship between institutional ownership and firm value in food industry accepted companies in Tehran Stock Exchange.

H3: There is a significant relationship between Chief Executive Officer Duality and firm value in food industry accepted companies in Tehran Stock Exchange.

H4: There is a significant relationship between board's independence and firm value in food industry accepted companies in Tehran Stock Exchange.

DATA AND METHODOLOGY

To analyze the effect of corporate governance mechanisms, on firm value, independent and dependent variables are analyzed from two different aspects. From one, these variables are tested among various companies and from the other; they are tested in the period of 2002 to 2011. Therefore in this examination, we use panel data methodology.

Sample and Data Collection

In this study, a sample of food industry of companies accepted into the Tehran Stock Exchange over the period 2002-2011 is used. By doing so, our sample comprises data from 82 firms, and consisting of 820 year-firm observations. Each firm had to meet specific criteria to be included in the sample:

1. They must close their fiscal year on mid-March (end of Persian calendar).
2. They must also have data regarding the ownership concentration, percentage of ownership structure and board structure.
3. They must have full financial data for the whole period of investigation.

Data Collection Method

The data needed for analysis taken in annual general meetings. In doing so, the main part of data is collected from the data base that belongs to the Islamic Research Management Center of the Tehran Exchange Market[1], and the remaining data are gathered from the second version of Tadbir Pardaz and Sahra and RahAvard Novin softwares (three Iranian software programs).

The empirical model

Multivariate regression analysis is employed to examine the panel data analysis of regression models in the full sample period, from years 2002 to 20011. Panel data analysis allows for the consideration of both cross sectional and time series effect in the sample, and helps in identifying the sources of possibly mingled effects. The panel generalized least square (GLS) estimated equation for analysing panel data is given by the following equation:

$$Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 X_{it} + ... + \beta_n X_{it} + e_{it} \quad (1)$$

Where i denotes the firm (cross section dimension) and t denotes time (time series dimension). Therefore, Y_{it} is the dependent variable of pooling N cross sectional observations and T time series observations, and X_{it} s are the independent variables pooling N cross sectional observations and T time series observations. β_0 is the constant term or intercept across cross sectional observations, and e_{it} is the error term.

GLS is the proper estimation method because it effectively standardizes the observations (see, Sulong and Mat Nor, 2010; Baltagi, 2001; Greene, 2000).Given that coefficients may be constant over time, estimating using panel regression becomes more efficient. Besides, panel estimation can be used to examine the sensitivity of the results to alternative specifications (Gujarati, 2003).

Research Model

Based on the empirical research previously described and the theoretical considerations discussed above, the researchers develop several hypotheses that relate corporate governance mechanisms, ownership concentration, institutional ownership, CEO duality and Board's Independence to firm's value in Iran. Thus, the regression models can be shown as follows:

$$Tobin\acute{s}q_{it} = \beta_0 + \beta_1 OWNCON_{it} + \beta_2 INOWN_{it} + \beta_3 CEO_{it} + \beta_4 OUTDIR_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + e_{it} \quad (2)$$

Where;

OWNCON= Ownership Concentration, INOWN= Institutional Ownership, CEO = Chief Executive Officer Duality, BOIN= Board's Independence, SIZE= Log of Total Asset, LEV = Total Debt divided Total Asset and e_{it} is the error term.

Measurement of Variables

A) Dependent Variable

As a proxy for firm value, the article uses, like many studies in corporate governance, Tobin's Q (the market value of equity plus book value of liabilities of the firm divided by the total assets) measured at the end of the accounting year.Tobin's Q is the most common measure in empirical corporate governance research (e.g., Morck et al., 1988; McConnell and Servaes, 1990; Chung and Pruitt (1994); Himmelberg et al., 1999; Banerjee et al., 2009; Sulong and Mat Nor, 2010) rather than accounting-based measures because it takes risk into account and is not as likely to distort the results as other measures, such as the return on assets (Lindenberg and Ross, 1981). According to Ma & Tian (2009), Tobin's Q has the advantage of

[1] . www.rdis.ir

reflecting the firm's current value and future profitability potential (Ma & Tian, 2009).We follow Chung and Pruitt (1994), Feng-Li Lin (2010) and use the sum of the market value of common equity, the book value of liabilities. We do not calculate replacement values, used by Lindenberg and Ross (1981), since there are few qualitative differences between those measures and the simplified version of Chung and Pruitt (1994).In Tobin's Q measure, the market value of equity exhibits the discounted present value of a company's expected future income stream. Therefore, Tobin's Q ratio takes into account the future prospects of the firm, and provides a measure of management's ability to generate future income stream from an asset base (Short and Keasey, 1999).Thus, a higher Tobin's Q indicates higher valuation by the market. In doing so, we used the multivariate regression analysis technique to empirically test the nature of relationship between corporate governance mechanisms and firm value, as measured by Tobin's Q. To calculate Tobin's Q, we use the following formulation:

$$Q.Tobin_{it} = \frac{MVE_{it} + BVL_{it}}{TA_{it}} \qquad (3)$$

Where i denotes the firm (cross section dimension) and t denotes time (time series dimension). Therefore, MVE_{it} is the Market Value of Equity firm i in the year t, BVL_{it} is the Book Value of Liabilities firm i in the year t and BVE_{it} is the Total Assets firm i in the year t.

Total assets and book value of Liabilities are collected from annual report and financial statements. Market value of equity is calculated by multiplying the number of outstanding shares to the market price of shares at the last trading day.

B) Independent Variables

1. Ownership Concentration (*OWNCON*): the proxy for ownership concentration is measured by Herfindahl-Hirschman Index that is the squared sum of shares in the hands of shareholders[1] above5% (Dickson, 1994; Santerre & Neun, 1993);
2. Institutional Ownership *(INOWN*): consists of the percentage of shares held by institutional shareholders;
3. Chief Executive Officer Duality (*CEO*): consists of a dummy variable comprised of sameness (1) and duality (0) of the CEO and chairman roles;
4. Board's Independence (*BOIN*): consists of the percentage of independent directors on board, i.e. the ratio of independent directors to total number of directors on board. Independent directors refer to those directors who have been explicitly and clearly announced as independent directors in a listed company's annual report.

C) Control Variables

This paper also includes two control variables into regression analysis to control for firm characteristics. A set of control variables employed means that this study is quite carefully controlled. According to studies such as McConnell and Servaes (1990), Chhaochharia (2007), Sulong and Mat Nor (2010), Log of total assets (SIZE) is employed as proxy for firm size effect. Leverage (LEV) is included as a control variable to proxy for financial leverage, and is defined as total debt divided by total assets.

RESULTS AND DISCUSSION

Descriptive analysis

Table1 provides the descriptive statistics for all variables used in the study over the period 2002 to 2011. An approximation of Tobin's Q, on average is 1.738, which is higher than the 0.88 average value reported by Feng-Li Lin (2010) using listed Taiwanese companies for the 1997-2006 periods. However, the value is relatively close to an average value of 1.85 reported in Emma Garcı´a Meca and Sa´nchez Ballesta(2011) in a study on the Spanish market. The average percentage of ownership concentrated measure, is 63.451 per cent, which indicates that firms in sample are tightly held among few individuals or families. Sulong and Mat Nor (2010) have reported that the average concentrated ownership is 31.8 per cent among 403 listed firms in Malaysia for the year 2010.

Furthermore, institutional ownership and board's independence, that is *INOWN* and *BOIN*, show the average (median) percentage of 54.463 per cent (49.152per cent) and 43.128 per cent (51.458 per cent), respectively. The maximum percentage for both institutional ownership and board's independence are 98.52

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[1] . $HHI = \sum_{i=1}^{n} (\frac{p_i}{p} \times 100)^2$

and 80 per cent, respectively. On average, about 36.4 per cent of the sample firms have a duality role. As such, Arlman(2004) document that majorities of the Chairman and CEO positions in sample of 486 S&P 500 companies, found that 24% (119 companies) had a different chairman than CEO. For the FTSE 100 companies 96% had a split between the function of CEO and chairman. In comparison with the results of Dalton and Kestner (1987), it seems that the amount of firms with a separate chairman from CEO has grown in the past years. However, while today the UK has almost complete separation between the office of chairman and CEO, the Americans still prefer to combine the two jobs in more than three out of four companies. This study uses the log of total assets (SIZE), to reduce the skewness problem since most of the assets controlled firms tend to have larger total assets.

Table (1): Summary descriptive statistics of all variables

Variable	Mean	Median	Max	Min	Std. Dev.	Skewness	Kurtosis
Tobin's Q	1.738	0.802	5.3450	.017	4.452	2.045	8.265
OWNCON	63.451	61.785	98.520	12.450	19.125	0.842	2.325
INOWN	54.463	49.152	88.647	2.670	18.547	-1.254	1.425
CEO	0.364	0.000	1.000	0.000	0.465	0.907	3.702
BOIN	43.128	51.458	80.00	0.000	27.465	1.458	2.458
SIZE	1.874	2.458	2.754	1.784	0.595	-0.664	3.749
LEV	7.847	7.548	16.854	4.554	2.147	0.568	1.854

Empirical results

This paper adopts the generalized least square (GLS) method of estimation instead of the ordinary least square (OLS) to estimate the panel data regression formed. Since a model with random effect displays autocorrelation problem(Gujarati, 2003), this paper estimates the model using panel generalized least square (GLS).Table 3 reports the regression results using generalized least square (GLS) estimation incorporating ownership concentration, institutional ownership, chief executive officer duality and Board's Independence on firm value.

Table (2): Regression results for GLS estimation

Dependent Variable: Firm Value (Tobin's Q)

$$Tobinsq_{it} = \beta_0 + \beta_1 OWNCON_{it} + \beta_2 INOWN_{it} + \beta_3 CEO_{it} + \beta_4 OUTDIR_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + e_{it}$$

Independent Variables	Hypotheses	Direct effect
Constant	-----	2.186*** (0.037)
OWNCON	H1	0.648*** (0.011)
INOWN	H2	0.021*** (0.001)
CEO	H3	0.145** (0.036)
BOIN	H4	0.084*** (0.012)
SIZE	-----	-0.475*** (0.013)
LEV	-----	0.750*** (0.016)
R-squared	-----	0.8945
Adjusted R-squared	-----	0.8642
F-statistic	-----	45.425
Prob(F-statistic)	-----	0.0000
Durbin-Watson stat	-----	1.8075
S.E. of regression	-----	2.4629

Note: The asterisks ***, **, and * denotes significant at 1 per cent ($p<0.01$), 5 per cent ($p<0.05$), and 10 per cent ($p<0.1$) confidence levels, respectively.

As shown in Table 2, the ownership concentration on firm value, that is H1, is statistically significant and the coefficient is 0.648 on firm value. The result supports the predicted hypothesis H1. Result from effect of institutional ownership coefficient on firm value is positive and statistically significant at 1 per cent level ($p<0.01$), and thus, the result supports the hypothesis H2. As can be seen, chief executive officer duality, has a significant positive effect on firm value with $p<0.05$. Thus, the result implies that separating the roles of the CEO and Chairman positions seems to be inapplicable to Iranian food industry firms. As for the coefficient of board independence, is 0.084 and significantly positive ($p<0.01$). The coefficient for firm size is significantly negative, and thus it is inconsistent with conjecture that firm size has a significantly positive

effect on firm value. On the other hand, the coefficient for leverage, LEV, is statistically significant and positively related to firm value. Therefore, the result is inconsistent with the conjecture that highly leveraged firms are found not perform well.

Conclusion & Discussions

This paper, based on the data of Food Industry of Iran and using panel data methodology, has proved the hypothesis that,” Better the corporate governance mechanisms of the firm the better would be firm’s value”. The study is based on corporate governance mechanisms identified in the literature namely, ownership concentration, institutional ownership, chief Executive officer duality and board’s independence to examine their effectiveness, to reduce the agency costs and enhance firm value in the Iranian food industry firms.

The results from the first hypothesis test reveal a positive and meaningful relationship between ownership concentration and firm value. This result is in line with the research findings of Mitton (2001), Rahayu and Rashidah (2005) and Garcı´a Meca and Sa´nchez Ballesta (2011).The results from the second hypothesis test show a significant relationship between the institutional ownership and firm value. This result is in line with the findings of Feng-Li Lin (2010) and Navissi and Naiker (2006) study. Furthermore, this study provides evidence that shows no non-linear relationship between institutional ownership and firm value. The findings from the third hypothesis test of the study shows a positive and meaningful relationship between chief executive officer duality and firm value, which proves the active monitoring hypothesis. This result agrees with the findings of Dung To Thi (2011); Chang and Shazali (2005) have argued that a strong dominant CEO may be essential for a developing economy where the system may be dependent on a few power corporate players to push performance. In a more developed economy, a dominant CEO may be less important. The findings of the fourth hypothesis test show a positive and meaningful relationship between board independence and firm value. This finding is in line with the findings of Dung To Thi (2011), Hermalin and Weisbach (1991) and Bhagat and Black (2002).

Further Research

A further study may be carried out including more factors in corporate governance mechanisms and by expanding its scope to other industries of Iran for better understanding and generalizing of the findings. We focused on corporate governance and firm’s vale. We recognized that better corporate governance is advocated for reasons aside from enhancing firm’s value. It is plausible that governance factors unrelated to firm value are important for other purposes. Future research should examine corporate governance in these and in other contexts.

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