CORPORATE GOVERNANCE AND THE COST OF DEBT FINANCING (BORROWING) AT LISTED COMPANIES IN TEHRAN STOCK EXCHANGE

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Abstract
The main purpose of this study is the relationship between corporate governance and borrowing cost of listed companies in Tehran Stock Exchange. To study this main purpose, we developed four sub-goal for this research. The population of this study are the companies that accepted at Tehran stock exchange since 2008, we have selected 76 companies as sample. The sampling method of this study is probability - simple random sampling. In order to analyze the data resulted from collected from Institutional ownership (x_1), Ownership concentration (x_2), Non-bound executives (x_3) and CEO duality tasks (x_4) are used. Deductive and descriptive statistical methods. The results Durbin Watson Test shows the test distribution is Normal. So we can use Multi Regression to test the hypothesis of the research. Findings show the ownership concentration, percentage of institutional ownership, percentage of non-bound executives and CEO duality tasks variables have an impact on the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange. There is a significant relationship between corporate governance and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.
Keyword: ownership concentration, institutional ownership, non-bound executives, CEO duality tasks, cost of debt financing

INTRODUCTION

Decisions and judgment in selecting the most appropriate investment manner with the goal of shareholder wealth maximization as a very important issue in the field of financial management (Bae & Goyal, 2010). To achieve the above objective, increasing the income earned from investments and minimize the cost of financing is considered both appropriate. Internationally diversified firms create a more complex information environment, and investors generally are more informed about a firm’s domestic operations than about its foreign operations. Precisely because information is asymmetrical, external financing is more costly than internal free cash flows of investments (Chiang & Ko, 2009).
Corporate finance plays an important role in corporate management and financial decisions. Financing is considered as the most important factors affecting in Financial and management

decisions. Managers use the following financing: 1) adoption of capital budgeting, 2) to establish the optimal structure, 3) decisions regarding long-term lease, 4) Replacement of the bonds, 5) Working Capital Management and 6) and other similar cases (Ahmadpoor et al, 2011, p 20).
It is important for managers to assess the cost of financing because with this way, managers can evaluate investment projects and determine their capital budgeting. So investors are expected to pay assess the overall risks and benefits, thereby assessing the activities of the company (Klapper and Love, 2004, p 807). Financing concept is based on the assumption that the company's goal is to maximize shareholder wealth. In fact, there is a relationship between company's financing decisions and investment decisions (Stulz, 1999, p11).
Borrowing costs are interest and other costs incurred ban enterprise in connection with the borrowing of funds.
Borrowing costs may include:

a) interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
b) amortization of discounts or premiums relating to borrowings;
c) amortization of ancillary costs incurred in connection with the arrangement of borrowings;
d) finance charges in respect of assets acquired underfinance leases or under other similar arrangements; and
e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs (AS:16,1995, p 229).

The excess interest shall consume several ways:

1) The company paid more dividends, this amount is distributed to ordinary shareholders.
2) The company to invest reinvested profits and thereby increase the rate of return periods.
3) The combination of these two methods.

The result become utility common stock higher from point of shareholders and increased demand will led to an increase in the market price of the common stock and thereby increased the wealth of shareholders and the company is funded (Raymond, 1989).
Corporate governance refers to the system by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders (Tricker, 2009; Rezaee, 2002).
Contemporary discussions of corporate governance tend to refer to principles raised in three documents released since 1990: The Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 1998 and 2004), the Sarbanes-Oxley Act of 2002 (US, 2002). The Cadbury and OECD reports present general principles around which businesses are expected to operate to assure proper governance. The Sarbanes-Oxley Act, informally referred to as Sarbox or Sox, is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports.

Rights and equitable treatment of shareholders: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings (OECD, 2004).
Interests of other stakeholders: Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers (OECD, 2004).
Role and responsibilities of the board: The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment (Cadbury, 1992; OECD, 2004).
Integrity and ethical behavior: Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making (Cadbury, 1992; Sarbanes 2002).
Disclosure and transparency: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information (Cadbury, 1992; OECD, 2004).
The main purpose of this study is the relationship between corporate governance and borrowing cost of listed companies in Tehran Stock Exchange. To study this main purpose, we developed four sub-goal for this research. There are:

- Determine the relationship between ownership concentration and the cost of debt financing (borrowing),
- Determine the relationship between the percentage of institutional ownership and cost of debt financing (borrowing),
- Determine the relationship between the percentage of non-bound executives and the cost of debt financing (borrowing),
- Determine the relationship between CEO duality tasks and the cost of debt financing (borrowing).

METHODOLOGY

The population of this study are the companies that accepted at Tehran stock exchange since 2008 and had this characteristics:

- At least 5 years from the last activity on the stock exchange.
- It is member of TSE now.
- The composition of their board has not changes in the last three years
- The companies did not have a trading halt during the years 2008 to 2012.
- Fiscal year is end March 19.

So, with considering this situation, 76 companies were selected as sample.The sampling method of this study is probability - simple random sampling. Table 1 shows the sample characteristics:
.Table 1: the sample characteristics

Sampling procedures	Number of Company	Removed	The remaining
Active companies at Tehran stock exchange	430		337

since 2008		93	
Fiscal year is end March 19.	337	112	225
They have not changed their fiscal year 2008 to 2012	225	38	187
The composition of their board has not changes in the last three years	187	48	140
The companies did not have a trading halt during the years 2008 to 2012	140	64	76

In order to analyze the data resulted from collected from Institutional ownership (x1), Ownership concentration (x2), Non-bound executives (x3) and CEO duality tasks (x4) are used. Deductive and descriptive statistical methods. The results Durbin Watson Test shows the test distribution is Normal. So we can use Multi Regression to test the hypothesis of the research. In order to determine the relationship between the variables of the study, the SPSS tool has been used.
Our Regression model is:

$$Debt\ cost = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6$$

RESULTS

In this paper we have four hypotheses. The statistical way of analysis of hypotheses is two ways, H_1 is acceptance of hypothesis and H_0 is rejecting of hypothesis. In other words, it means that H_1 has positive meaning and H_0 has negative meaning. Our hypotheses were:

1. There is a significant relationship between ownership concentration and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.
2. There is a significant relationship between percentage of institutional ownership and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.
3. There is a significant relationship between percentage of non-bound executives and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.
4. There is a significant relationship between CEO duality tasks and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.

Durbin Watson test is 1.981, it is bigger than 1.50 and little than 2.5. So the test distribution is normal. We can use Multi Regression to test the hypotheses of the research.
Table 2 shows the correlation coefficient (R) results for independent and dependent variables relationship.
Table 2. The correlation coefficient (R) variables

Model	R	R Square	Adjusted R Square	Durbin Watson
1	.648	.420	.369	1. 981

a) independent variables: ownership concentration, percentage of institutional ownership, percentage of non-bound executives and CEO duality tasks
b) dependent variable: cost of debt financing

The R is 0.648 and shows the relationship between independent and dependent variables and R^2 is 0.420. It means that 42 percent variability in dependent variables (cost of debt financing) significantly is expressed by independent variables (ownership concentration, percentage of institutional ownership, percentage of non-bound executives and CEO duality tasks).

Table 3 shows the ANOVA results

Model	Sum of squares	Degrees of freedom	Mean square	f	sig
Regression	0.022	6	.004	8.322	.000
The remaining	0.030	69	.000		
Total	.052	75			

Variance analysis results show that the significant level is smaller than 0.05, it confirmed assume linearity of the model.

To study of independent variables effects on cost of debt financing was used liner multi egressions. The results can be seen in Table 4.

Table 4. The results of multiple liner regression

Coefficients [a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.022	.056		.390	.697
Ownership Concentration	.128	.018	.115	4.430	.001
Institutional Ownership	.127	.012	.102	-3.597	.007
Non-Bound Executives	.227	.015	.208	5.457	.000
CEO Duality Tasks	.114	.006	.109	-2.348	.019
a. Dependent Variable: cost of debt financing					

According to significant coefficients (sig), ownership concentration, percentage of institutional ownership, percentage of non-bound executives and CEO duality tasks significant coefficients have been less than 0.05. Therefore, we can conclude that the ownership concentration, percentage of institutional ownership, percentage of non-bound executives and CEO duality tasks variables have an impact on the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange. Thus with 95 percent confidence level all hypotheses have confirmed. And say that:

a) There is a significant relationship between corporate governance and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.
b) There is a significant relationship between ownership concentration and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.
c) There is a significant relationship between percentage of institutional ownership and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.
d) There is a significant relationship between percentage of non-bound executives and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.
e) There is a significant relationship between CEO duality tasks and the cost of debt financing (borrowing) at listed companies in Tehran Stock Exchange.

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