Study the relationship between company's corporate governance and their performance

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Abstract:
The porpose of this research is to investigate the effect of companies corporate governance structure on their performance. In this research, the relationship between two internal mechanisms and four external mechanisms and performance of companies accepted in Tehran stock market was examined. Performance evaluation criterion is the variable "economic value-added". Percentage of non-executive managers of board of directors, ownership percentage of members of board of directors, authority concentration and presence of internal auditor were examined as internal mechanisms and audit institute size and ownership percentage of institutional investors as external mechanisms. 98 Companies were studied in this research during 2003 - 2007. Research hypotheses were examined temporary and compound data methods. Research findings reveal that there is a positive and significant relationship between the proportion of non-executive managers of board of directors and company performance. Also, findings show that there is no significant relationship between ownership percentage of institutional investors, ownership percentage of members of board of directors, existence of an internal auditor, size of audit institute and authority concentration and company performance.

Keywords: corporate governance, institutional investors, authority concentration, economic value added, company performance

1- introduction:

After industrial revolution and establishment of limited companies, companies have employed managers to control and guide their affairs. Since benefits of these managers don't correspond to those of shareholders, they sometimes take some actions which don't maximize shareholders' wealth but rather decreases it. Thus, if shareholders don't supervise managers completely, they can't prevent their costly activities. However, just few shareholders have the opportunity to supervise and control managers directly; moreover, the objective of shareholders is not to control and manage the companies. Since shareholders are concerned with managers' performances in making optimum use of economic resources, researchers are now trying to seek some mechanisms to increase the possibility of supervising and controlling managers' performance; we call these mechanisms "company corporate governance mechanisms".

While assessing efficiency of company corporate governance, some of the main issues which must be taken into consideration include combination of board of directors, ownership percentage of members of board of directors, combination of shareholders, authority concentration, existence of internal auditors and quality of independent auditing. Based on the existing theoretical fundamentals, the above-mentioned elements can affect managers' performance. Board of directors is one of the elements of company corporate governance which plays an important role in company corporate governance especially on managers' performance. (Daehene, 2001) states that supervisory duty of board of directors can be checked and made sure of using other mechanisms such as determining a committee of senior managers or increasing number of non-executive managers in the board of directors. In other words, from theoretical viewpoint, presence of non-executive managers in board of directors of companies and their supervisory performance as independent individuals will result in decreased conflict of interests among shareholders and managers. As a result, it can be said that a combination of board of directors can play an important role in improving the performance of

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