



## **Relationship between Corporate Governance and CEO Compensation among Listed Firms in Tehran Stock Exchange**

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### **ABSTRACT**

This study aims to investigate the relationship between corporate governance and executives' compensation. This is semi-empirical study and statistical sample of research was 95 companies listed in Tehran stock exchange from 2010 to 2014. Variables ratio of non-executive board members, dichotomy of managing director responsibility, ownership of institutional shareholders and managerial ownership were considered as independent variables. Factors influencing executives' compensation were considered and the relationship between these variables was studied using multivariate regression. Findings show that there is significant relationship between duty of managing director, ownership of institutional investors and managerial ownership. However, there was no evidence for significant relationship between ratios of non-executive board members with executives' compensation.

**Keywords:** Executives' Compensation, Ratio of Non-executive Board Members, Dichotomy of Managing Director Responsibility, Ownership of Institutional Investors, Managerial Ownership

**JEL Classifications:** G34, J3

### **1. INTRODUCTION**

During two last decades, executives' compensation has been studied by academics, public, policy makers and investors in terms of corporate governance mechanisms. Empirical evidences indicate that compensation of executives during previous years not only has increased considerably but also this compensation is paid through different methods like cash, share and other stock options (Core, 2003). Granting stock or stock options as compensation of executives, provides opportunities for competition among managers of the firm for increasing income and preserving cash without extra costs or exiting cash (Denis, 2001). For compensation of executives, there is concerns that managers involve in manipulating internal transactions of companies that increase compensation. Managers are aware of compensation and evaluation of performance by stockholders and regarding this, they are more intended to manipulate the earnings. Board of directors is a guiding institution which has the control and monitoring role in order to improve performance of company and preserve interests of stockholders. One motivation for increasing efficiency, improving

performance and preserving interests of stockholders is paying compensation to board of directors. In fact, board of directors is integral part of company. Corporate governance is procedures or actions by which companies are run and respond to stockholders, employees and society.

Purpose of corporate governance is ensuring that activities of company and policies of management are in line with the interests of stockholders, particularly and all beneficiaries, generally (Rajabi and Ganji, 2010). Agency theory assumes that there is potential conflict between interests of stockholders and management and managers seek to maximize their profit through stockholders of company that these interests are in conflict with interests of stockholders (Micchal et al., 2002). Agency relationship, as an interaction between one or more stockholders or owner and one or more agents that agents accept the responsibility of some services (Jensen and Meckling, 1976). Generally, management compensation is the main solution of agency problem. Based on this belief, by establishing suitable model for paying compensation, managers will act in behalf of stockholders and

creditors. The main reason for compensation is that managers should be compensated for their organizational responsibilities and develop required motivation in them. Therefore, this research tries to find empirical evidences to answer this question that is there any significant relationship between corporate governance mechanisms with compensation of managers in firms listed in Tehran stock exchange? (TSE) Who is this relationship?

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Corporate governance is subject of many discussions in business world and financial markets during last 10 years such that development of corporate governance mechanism as a priority for developing suitable leadership procedures is considered for financial and economic policy makers. The basic problem in monitoring mechanism occurs when stockholders oppose the activities of managers. What is now considered as hidden activities of companies in scientific and professional circles is a new look to control mechanism of firms which is presented in corporate governance literature (Zamani, 2003). There are different definitions of corporate governance including limited and focused definitions on companies and stockholders to comprehensive definitions and responding to stockholders, individuals or beneficiaries. One comprehensive definition is:

“corporate governance is a set of systems, processes and structures which seeks to ensure equity, accountability, transparency and justice in business by using internal mechanisms like board of directors, internal administrative control and auditing, internal auditing, risk management and external mechanisms like regulatory monitoring, legal systems, capital market, monitoring of major stockholders, independent auditing and ranking institutions” (Rahmani et al., 2010). Generally, corporate governance is a multidisciplinary concept and aims to achieve four principles in the firms: (1) Accountability, (2) transparency, (3) justice (fairness), (4) observing rights of equity holders Board of directors is an important corporate governance mechanisms and plays important role in improving quality of financial reporting and reducing fraud. Based on the general definition, corporate governance is a system by which companies are guided and controlled. Here, position of board of directors as a guiding body which has monitoring role for executives, is more important. (Coffee, 1991).

Managers, by considering their personal interests, focus and invest in projects which have short term interests and pay no attention to long term interests of stockholders (especially, in cases where salaries, benefits and compensation of managers are related to financial profit). In large companies controlled directly by managers and indirectly by institutional investors, managers are constrained for short term earnings. In these conditions, managers are motivated to gain other earnings which reduce the value of stockholders' interests (Yeganeh, 2005). In other words, by increasing conflict between managers and stockholders of joint stock companies, those managers who seek the growth of company by the expense of stockholders' cost, make unprofitable

investments to increase their salaries. This will lead to agency costs and finally, reduces wealth of stockholders.

In order to compensate creativity and initiatives of management in finding and applying procedures and new work methods, organization often give rewards to management. Compensation is often paid for doing responsibilities in higher level than common standards. In sum, we can say that managers are aware of their compensation and performance appraisal by stockholders and for this purpose, they manipulate earnings to achieve compensation. If executive compensation was lower than given level, management transfers part of future years' earning to current period and in some cases, management transfers current year earnings to future years. Fama (2010) discusses about compensation and the role of accounting selections in executive compensation. Managers, in addition to their salaries, enjoy continuously extra compensation based on their performance. Data of financial statements, especially net profit, are used to measure the performance of managers (Maug, 1998). Therefore, managers have motivations for selecting accounting methods and authorities about accounting estimation to improve their compensation. Researchers have interpreted this issue as managers that their compensation is determined based on the profit, have motivation for selecting accounting methods that increase earning. Fama (2010) concluded that managers, in the case of determining bottom or ceiling in compensation plans, select accruals that reduce earning and when there is no bottom or ceiling, they select accruals that increase earning. A recent instance in which there is evidences of earning management. When stockholders of a company delegate decision making to management, managers have motivations for activities that maximizes their interests, even if these activities were not in line with interests of stockholders. Earning management occur when managers change financial reporting and structure of transactions in order to misguide some beneficiaries (stockholders, creditors, employees, investors) about the performance of the firm or even influencing the results of contracts which are dependent on the accounting figures. In fact, earning management is a deliberate act in order to pretend earnings of the company as natural to reach to a desired level. Among motivations for this act, we can refer to the influence on stock price, increase in salary and management advantages and prevention of violating loan contracts. Most of these motivations are related to the future interests like compensation.

### 2.1. Corporate Governance in Iran

Corporate governance in Iran is not yet well developed, but in the last few decades the government has taken some steps to make marginal improvements. The TSE was established in early 1967. The process of instituting and controlling firms is briefly addressed in the Iranian trade law, particularly in its April 1968 amendment. A modern concept of corporate governance was not recognized in Iran, however, until the government sought to improve the competitive position of Iranian companies in the world's capital markets in an attempt to attract foreign investment. In early 2000, the management of the TSE, the Islamic Parliament Research Center and the Economic and Finance Ministry, began efforts to improve at least on paper, corporate governance in Iran. Until recently, the Iranian government controlled the majority

of businesses in Iran, either directly or indirectly, and has made significant efforts to expand the capital market. Its actions indicate an interest in enhancing the current system to include external governance structures. For instance, the Third and the Fourth Economic Development Plans place a great deal of importance on the privatization of governmental organizations. Recent policies have also been aimed at increasing the number of external control mechanisms in place. Currently, Iranian firms still have weak internal and external corporate governance when compared to companies in industrialized nations. The capital market in Iran is new and somewhat inefficient. Pension funds, mutual funds, and insurance companies now own more than half of the share value of publicly traded stocks on the TSE. Major shareholders, including institutional investors, exercise their supervision by controlling management decisions and by appointing executives according to their whims and fancies. Unlike that of majority shareholders, minority shareholders' interests are not protected in contrast to other countries where non-controlling shareholders sometimes exercise significant influence. No Iranian institution ranks firms based on such characteristics as revenue, income, total assets, number of employees, etc. Iran's internal control supervision mechanisms are also inadequate. In general, organizational roles and responsibilities are poorly defined and communicated. As a result, employees too often place personal gain and interest ahead of corporate interest. Nevertheless, and despite the noted inefficiencies, public companies registered on the TSE are required to have their financial statements reviewed by an external auditor. In late 2004, the TSE Research and Development Center published the first edition of The Iranian Code of Corporate Governance. This code consisted of 22 clauses, which included the following: Definitions of key terminology, an overview of the management board and shareholders' responsibilities, guidelines for financial disclosures, and a conceptual framework for accountability and auditing. The code was amended in 2005 to address issues of ownership structure, the capital market situation and the Trade Law. This second edition of The Iranian Code of Corporate Governance contains five chapters and 38 clauses. While the application of this code is not mandatory, many firms have implemented it.

## 2.2. Hypotheses Development

The key antecedents to non-executive directors' effectiveness include; economic incentives (which can be in the form of cash and equity based compensation), the need to maintain good reputation as business people and monitors, future career opportunities, potential loss of current board seat and loss of compensation, and avoiding litigation (Adams and Ferreira, 2008; Yermack, 2004; Fama and Jensen, 1983). Unlike all the other forms of compensation, equity based compensation is a performance-based pay and it ties the wealth of the non-executive director to the share price of the company (Deutsch et al., 2007; Fich and Shivdasani, 2005). Trends on the use of equity based compensation from developed countries, specifically the USA, show a significant increase over the past recent decade, which is higher than the growth in other forms of compensation (Lahlou and Navatte, 2014; Mkrtchyan, 2012; Farrell et al., 2008). Reasons cited for the growth in equity based compensation for directors include: Attracting and retaining qualified directors, aligning interests of non-executive

directors with those of shareholders to mitigate secondary agency problems (Ye, 2014; Boumosleh, 2009). The effectiveness of equity based compensation in aligning the of non-executive directors to the shareholders and to mitigating secondary agency problems has been investigated on a number of strategic decisions and situations, examples include; risky preferences, backdating of stock options, earnings management with the objective of inflating the share price to their advantage, value destroying acquisitions and poor company performance. The studies presented contrasting arguments, evidence and conclusions. The first group of studies view non-executive director equity-based compensation as an effective mechanism of mitigating secondary agency problems Ahmed and Duellman (2007); Fich and Shivdasani, (2005); Perry, (2000) view non-executive director equity-based compensation as an effective mechanism of mitigating secondary agency problems. The second group of scholars criticise the adoption of equity based incentive compensation for non-executive directors (Chen et al., 2013; Bebchuk et al., 2010; Cullinan et al., 2008; Byard and Li, 2004). Based on the above and Reddy et al. (2015), we propose our First and second, as follows:

H<sub>1</sub>: There is significant relationship between non-executive board members and executives' compensation.

H<sub>2</sub>: There is significant relationship between duty of managing director and executives' competition.

A number of good reasons exist to explain why long-term incentives are an effective pay component (Bryan et al., 2000; Goergen and Renneboog, 2011). First, they provide the most direct link between firm performance and pay. Therefore, they may incentivize directors to work hard and to make shareholder-oriented decisions. Second, long-term incentives may enable the firm to bring valuable human capital to the board and to ensure the loyalty of the incumbent directors. However, according to the European Commission variable pay schemes have become increasingly complex and have led to excessive remuneration and manipulation (EUCGF, 2009). This finding suggests that board-incentive pay is a two-edged sword: On the one hand, it can align the interests of controlling and minority shareholders; on the other hand, it can induce undesirable behavior and overly generous board pays (Shin and Seo, 2011). We posit that the incentives of institutional directors to monitor composition board pay depend on the conflicts of interest that the institutional directors face. These conflicts are more pronounced when institutional investors have business ties with the firm. Due to the lower conflicts of interests and their interest in aligning board interests with shareholder interests, we posit that directors appointed by pressure-resistant institutional investors will prefer long-term incentive plans than directors appointed by pressure-sensitive ones. A large stock-based component that ties board pay to firm performance is believed to increase board pay risk and help align the directors' interest with those of shareholders. Based on the above, we propose our Third and fourth hypotheses as follows:

H<sub>3</sub>: There is significant relationship between institutional ownership investors and executives' compensation.

H<sub>4</sub>: There is significant relationship between managerial ownership and executives' compensation.

### 2.3. Background Research

Steven et al. (2005) studied the relationship between characteristics of board of directors and compensation of executives in private sector. Research sample includes 80 companies listed in TSE in New Zealand. Results of research show that there is significant relationship between all variables with compensation of board, except non-executive members' variable.

Ozkan (2006) in a research titled "corporate governance and executive compensation in UK companies" studied the performance of companies and effect of corporate governance mechanisms and ownership structure and structure of board in determining amount of compensation for managing director. Research sample included 414 large UK companies during 2003-2004. Results of research show that firms with larger size and higher ratio of non-executive members have higher compensation.

Dong and Ozkan (2008) studied determinants in compensation paid to managers by emphasis on the modifying effect of institutional ownership. Research sample included 563 non-financial companies during 2000-2004. Results showed that ownership of institutional investors enhances the relationship between performance and compensation of managers.

Conyon and He (2011) studied the relationship between executives' compensation and corporate governance mechanisms in Chinese companies. In this research, log of compensation was used as dependent variable and institutional ownership, non-executive managers, size of board and dichotomy of managing director as independent variables of research and measures of corporate governance. Findings showed that company with non-executive managers and higher institutional ownership, pay lower compensation to managers.

Eekens et al. (2012) studied the effect of corporate governance on the financial performances of companies during crisis 200-2008. This study has used date of 296 financial companies from 30 countries in the center of crisis. They used variables independence of board, institutional ownership and major stockholders as criteria for measuring corporate governance. Findings of research indicated that firms with more independent board and higher institutional ownership during crisis experience lower return and higher loss. Reddy et al. (2015) in a research titled "effect of corporate governance on the executives' managers in firms listed in New Zealand stock exchange" by using sample consisted of 490 firm-year observation during 2005 to 2010, studied the relationship between these variables in capital market of New Zealand. They used variables non-executive members, dichotomy of managing director responsibility, managerial ownership and institutional investors' ownership as corporate governance measures. By using multivariate regression models, results of hypothesis testing indicates that compensation of managers has negative significant relationship with ratio of non-executive managers, ownership of institutional investors and

managerial ownership and positive significant relationship with dichotomy of managing director' responsibility.

Balenga (2012) studied the effect of ownership structure on the relationship of executive' compensation and performance. Findings of this research indicated that ownership focus has positive and significant effect of the relationship between compensation of board members and performance of firms. While in corporate ownership, the focus has positive and significant effect on the relationship between compensation of board and return of stocks, but there is no relationship in managerial ownership.

Ebrati (2013) studies the relationship between corporate governance index and performance and whether competition of product market can be an alternative governance mechanisms or supplementary of corporate governance. In order to test hypothesis, a sample consisted of 178 firms listed in TSE during 2008-2011. Research variables included corporate governance which is determined based on the ranking of firms based on the governing factors. Hierfeindal-Hirschman index is used for market competition and performance criteria Q-Tobin, assets return and efficiency. Results of research showed that product market competition can supplement corporate governance and improves the performance by corporate governance.

## 3. RESEARCH METHODOLOGY

This research is applied in terms of purpose and post event semi-empirical in terms of data acquisition in accounting research which has been conducted by using multivariate regression and econometrics models. Statistical sample of this research includes all firms listed in TSE during 2010-2014. Selected sample includes firms with following characteristics:

1. Firms listed in stock exchange organization before 2010 and are in this list until end of 2014.
2. In order to increase comparability, fiscal year is March.
3. They have not changed their activity or fiscal year.
4. They should not be investment or broker companies.
5. Lag in the transactions of these firms should not exceed 6 months.

After above limitations, 95 firms were selected as statistical sample in this research. Data were extracted from statistical archive CDs of TSE, database of TSE and other related databases and software Tadbirpardaz and Dena. Final analysis of data was done with Eviews.

### 3.1. Variables and Used Models

Study variables in this research include dependent variable, independent variables and control variables.

#### 3.1.1. Dependent variable

Dependent variable in this research is executives' compensation which is calculated through compensation of board to loss or gain of company.

#### 3.1.2. Independent variables

- Ratio of non-executive board members

It is calculated by dividing number of non-executive members of board on total number of board. By non-executive members, we mean a member who has not executive position in firm.

- **Dichotomy of managing director responsibility**  
This is a virtual variable that its value is 1 if managing director is president and vice-president of board; otherwise, it is 0.
- **Institutional ownership**  
For calculating ownership percent of institutional investors, sum of shares possessed by banks and insurances, investment firms, retirement funds, finance firms, investment funds and public organizations and institution is divided to number of issued shares of company.
- **Managerial ownership**  
Managerial ownership is sum of shares possessed by members of board.

### 3.1.3. Control variables

In this research, some of important variables which are known as effective factors based on the effective factors on executive compensation, were considered as control variables, including:

- **Size of company**  
In this research, similar to Alves et al. (2012) natural log of firms' annual sale was used for measuring size of firm.
- **Value of firm**  
According to Reddy et al. (2015) and Conyon et al. (2011) research, Q-Tobin was used in this study in order to measure the value of company that this ratio is calculated by dividing market value to asset substitution value. Value larger than 1 indicate optimal use of assets. Because it is difficult to estimate the market value of debt and asset replacement, simplified model was used for calculating Q-Tobin:  
$$Q_{i,t} = (BVA_{i,t} + MVE_{i,t} - BVE_{i,t}) / BVA_{i,t}$$

In which

$Q_{i,t}$  is Q-Tobin for firm i in year t,  $BVA_{i,t}$  is book value of assets for firm i in year t,  $MVE_{i,t}$  is market value of equity holders firm i in year t and  $BVE_{i,t}$  is book value of equity holders of firm i in year t.

In order to test hypotheses, we used model of Reddy et al. (2015) as following:

$$COMP_{i,t} = \beta_0 + \beta_1 IND_{i,t} + \beta_2 DUAL_{i,t} + \beta_3 INST_{i,t} + \beta_4 MAN_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 Q_{i,t} + \epsilon_{i,t}$$

$COMP_{i,t}$ : Ratio of executives' compensation to loss and gain of firm i in year t;

$IND_{i,t}$ : Ratio of non-executive board members of firm i in year t;

$DUAL_{i,t}$ : Dichotomy of managing director responsibility of firm i in year t;

$INST_{i,t}$ : Amount of institutional investors' ownership for firm i in year t;

$MAN_{i,t}$ : Managerial ownership in firm i in year t;

$SIZE_{i,t}$ : Size of firm equals with log of sale for firm i in year t;

$Q_{i,t}$ : Calculated value of firm based on the Q-Tobin for firm i in year t;

$\epsilon_{i,t}$ : Regression model error.

In order to estimate research model, we used pooled data method. Pooled data is obtained by combining time-series and cross-sectional data which is now widely used by researchers. In most cases, researchers use this method for cases where problems cannot be studied as time-series or cross-sectional or when data is low. Merging time-series and cross-sectional data and necessity of using it is due to increase in number of observations, higher degree of freedom, low heteroscedasticity and reducing collinearity between variables.

## 4. EMPIRICAL RESULTS

### 4.1. Descriptive Statistics

In order to study general characteristics of variables and estimating the model and careful analysis, familiarity of descriptive data is necessary. Table 1 is descriptive data of variables which includes central tendency and dispersion indices for a sample consisted of 95 firms-year observations during 2010-2014. Comparison of observations' mean with median and their slight differences shows the normality of data distribution.

As this table shows, non-executive managers form %66 of board of directors in this study. In addition, ownership of institutional investors in sample companies fluctuates from 0 to 96% and its mean for these companies is %58 which indicates active participation of these investors in stock exchange. Size of company which is calculated by log of annual sale has mean 11.503 and

**Table 1: Descriptive data for research variables**

| Variable | Observations | Mean   | Median | Minimum | Maximum | SD    |
|----------|--------------|--------|--------|---------|---------|-------|
| COMP     | 95           | 0.014  | 0.011  | 0.000   | 0.062   | 0.103 |
| IND      | 95           | 0.661  | 0.637  | 0.2     | 0.714   | 0.351 |
| DUAL     | 95           | 0.168  | 0      | 0       | 1       | 0.283 |
| INST     | 95           | 0.579  | 0.562  | 0.000   | 0.961   | 0.413 |
| MAN      | 95           | 0.098  | 0.086  | 0.001   | 0.439   | 0.608 |
| SIZE     | 95           | 11.503 | 11.108 | 10.647  | 12.703  | 0.732 |
| Q        | 95           | 1.623  | 1.409  | 0.864   | 5.309   | 1.237 |

COMP: Ratio of board compensation to loss and gain, IND: Ratio of non-executive members, DUAL: Dichotomy of managing director responsibility, INST: Ownership of institutional investors, MAN: Managerial ownership of company, SIZE: Size of company, Q: Value of firm based on Q-Tobin

median 11.108 that its minimum and maximum is 10.647 and 12.703.

#### 4.2. Multivariate Hypothesis Test

Regarding pooled data modelling, we first should specify that which assumption should be imposed by assuming same or different intercepts for different cross-section. Therefore, we have used Limer F-test. In this test,  $H_0$  hypothesis indicates same intercept and hypothesis  $H_1$  indicates inhomogeneity of intercepts. If F-statistics was larger than critical F-value, null hypothesis is rejected and different intercepts are accepted for cross-sections. Results show that null hypothesis is rejected in different cross-sections. After specifying that intercept is not same for different cross-sections, we should determine used method for estimating model which is Hussmann test. In this test, hypothesis  $H_0$  indicates consistency of estimating random effect against  $H_1$ , indicates inconsistency of random effect estimations. Therefore, if  $H_0$  is accepted, random effect method is preferred to constant effects; otherwise, constant effects will be preferred to random effects' model. Results of Table 2 indicate that null hypothesis is accepted; therefore, model should be estimated by random effects' method.

In this research, for correlation test between residuals, Durbin-Watson statistics and for heteroscedasticity, generalized least squares will be used. In addition, in order to measure collinearity test was studied using variance inflation factor and tolerance. Generally, this problem occurs when variance inflation factor for exploratory variables is more than 10 or its tolerance is near 0. By looking F-statistics (9.621) in this table and comparing it F table, we can see that fitted regression model is significant in %5 level error. Adjusted determination coefficient indicates that independent variables explain about %56 of executive' compensation changes. Durbin-Watson statistics (2.081) indicates lack of auto-correlation between components of regression model. The reason for this is that Durbin-Watson statistics intends to 2. Regarding significance and suitability of fitted regression model,

**Table 2: Results of tests for estimating research model**

| Test          | Statistic value | Degree of freedom | Significant | Result      |
|---------------|-----------------|-------------------|-------------|-------------|
| F-Limer test  | 6.083           | (374,94)          | 0.000       | H0 rejected |
| Hussmann test | 10.535          | 6                 | 0.092       | H0 accepted |

**Table 3: Results of research hypotheses**

| Variables               | Coefficients | Standard error | t-statistics             | Sig.   | Collinearity statistics |           |
|-------------------------|--------------|----------------|--------------------------|--------|-------------------------|-----------|
|                         |              |                |                          |        | VIF                     | Tolerance |
| C                       | 0.385        | 0.170          | 2.257                    | 0.0247 | -                       | -         |
| IND                     | -0.004       | 0.010          | -0.404                   | 0.6859 | 1.208                   | 0.827     |
| DUAL                    | 0.054        | 0.018          | 2.891                    | 0.0041 | 1.192                   | 0.837     |
| INST                    | -0.021       | 0.006          | -3.358                   | 0.0009 | 1.219                   | 0.820     |
| MAN                     | -0.006       | 0.002          | -2.567                   | 0.0107 | 1.203                   | 0.831     |
| SIZE                    | 0.025        | 0.008          | 3.005                    | 0.0011 | 1.148                   | 0.831     |
| Q                       | 0.041        | 0.020          | 2.003                    | 0.0460 | 1.172                   | 0.853     |
| F statistics            | 9.621        |                | F significance           |        | 0.000                   |           |
| Adjusted R <sup>2</sup> | 0.559        |                | Durbin-Watson statistics |        | 2.081                   |           |
| Model estimation method |              |                | Constant effects         |        |                         |           |

IND: Ratio of non-executive members, DUAL: Dichotomy of managing director responsibility, INST: Ownership of institutional investors, MAN: Managerial ownership of company, SIZE: Size of company, Q: Value of firm based on Q-Tobin

we can analyze research hypotheses as following.

First hypothesis indicates that there is significant relationship between non-executive board members and executives' compensation in firms. As above table shows estimated coefficient and t-statistics related to non-executive board members (IND) is negative but it is not statistically significant. Based on this,  $H_0$  hypothesis is accepted and first research hypothesis is rejected in %5 level error.

Second hypothesis indicates that there is significant relationship between dichotomy of managing director responsibility and executives' compensation. As Table 3 shows, estimated coefficient and t-statistics related to DUAL is positive and significant in %5 error level. Therefore,  $H_0$  hypothesis is rejected and second hypothesis is confirmed in %5 error level.

Third hypothesis states that there is significant relationship between ownership of institutional investors and executives' compensation. As table shoes, estimated coefficients and t-statistics related to INST is negative and significant in %5 error level. Based on the evidences,  $H_0$  hypothesis is rejected and third hypothesis is confirmed in %5 error level. Fourth hypothesis states there is significant relationship between managerial ownership and executives' compensation. As table shows, estimated coefficient and t-statistics related to managerial ownership is negative and significant in %5 error level. Therefore,  $H_0$  is rejected and fourth hypothesis is confirmed in %95 confidence level. Among control variables of model, only firm size variables and leverage have significant relationship with value of company.

### 5. CONCLUSION

Purpose of this research was studying the relationship between corporate governance and executives' compensation. In order to achieve this, a sample consisted of 95 firms listed in TSE during 2010-2014 is considered.

In first hypothesis, the relationship between non-executive members' ratio and executives' compensation was tested. Result of hypothesis testing indicates lack of significant relationship between non-executive members and executives' compensation. This is while based on the theoretical basics and agency theory,

it is expected that presence of non-executive managers in boards and monitoring performance as independent individuals reduces compensation of managers due to information asymmetry between managers and owners and agency issues.

Results of second hypothesis indicated that there is positive significant relationship between dichotomy of managing director responsibility and executives' compensation. This means that in firms that duties of head of board of directors is not separated from managing director, due to disturbance in monitoring role and independence of board, the motivation for personal interest and compensation increases. This result is consistent with findings of Reddy et al. (2015).

Results of testing third hypothesis indicates that there is negative significant relationship between ownership of institutional investors and executives' compensation. We can infer that by increase in the ownership, due to effective monitoring on the behavior of managers, the opportunity and deviation of resources by them is has been limited and compensation will decrease. Reddy et al. (2015) and Conyon and He (2011) obtained similar results and stated that by increasing ownership of institutional investors, compensation of managers decrease.

In fourth hypothesis, we studied the relationship between managerial ownership and executives' compensation. Result of hypothesis testing indicates that there is negative and significant relationship between managerial ownership and executives' compensation. This finding is consistent with results of Reddy et al. (2015) research. It is suggested to investors and activists of capital market that during investment decision-making, they consider structure of board as an effective factor on executives' compensation in their decision making models.

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