The effect of ownership structure of corporate governance on agency cost

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Abstract: The main purpose of the development and implementation of corporate governance principles is encourage managers to take steps towards the interests of the company, instead of pursuing personal interests and build confidence among financial market participants. So we can expect that proper development and implementation of the above principles increases the confidence of owners and other interest groups, and ultimately reduces regulatory and agency costs. This study is carried out with the aim of determining the direction and extent of effectiveness of each mechanism of ownership structure corporate governance on agency costs. This study is a causal-post-eventual research in terms of method, and considering its application in capital market is an applied research, in terms of objective. Also test of variables in this study is multivariate regression of panel data. Overall, the results of data analysis of 124 companies listed in Tehran Stock Exchange during the years 1382-1389 shows that the percentage of free floats have a positive effect on agency costs, and the percentage of state ownership, the percentage of directorate ownership and institutional ownership has no effect on agency cost.

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1. Introduction

Companies and governments have alwayswanted the opportunity to be in the international financial scene, and do not tend to monopolize their limited local markets in domestic markets. International competition is very essential to make optimal use of the flow of capital transfers throughout the world. Investors' preferences increase with regard to innovations in global financial markets. Parallel to these developments, supervising on common problems an dissuesfacing financial markets is more complex. Due to increased competition by financial markets, countries are required to coordinate their lawswith international levels andadopta set ofrulesin order to sustain progress which isgenerated. Empirical studies how that internationalinvestors understand the importance of thecompany'scorporate governance procedures on financial performanceof those companies more than before, and take their decisions based on that. They believe that thismay bemore important for companies that need to be amended. Investors are willing to paymoremoneytoinvestin countries with good corporate governance. Owenet al.(2004) stated that Corporate governance isan example of regulatory mechanisms for the support of stakeholders, especiallyshareholders who in the case of bankruptcy will have claim only of the company's remaining value. Incompetitive markets, managers have an incentive to createmoreefficientuseof the funds at their disposal. Only appropriate corporate governance mechanisms can satisfy such a willing and consequently improve the performance ofthecompany. Due tofactors such asthe recent wave of corporate scandals including Adalfia, Enron and World Comin the United States, Carcani in Great Britainand the Royal Auld in the Netherlands, market activists have growing interest incorporate governance. The scandals clearly indicate the need to improve corporate governance and transparencyin accounting mechanisms. Inthis regard, the United States Congresspassednew lawssuch asthe Law Sarbanes-Oxley act, morestringent requirement simposed to the companies for entering the Stock Exchange, and Audit committees be came more powerful, andinternal control systems have been strengthened. The importance of corporate governance practices in improving the quality of financialand accounting information, improving thecompany's performance, and increasing the company's market value by reducing agency costs is now generally accepted (Elmir et al., 2008). Ownership structureof public limited companies is highly diversified. It seems that the quality of monitor ringmanagement activitiesis different indifferent companies. Finding effective knowledge of corporate governancesystemin Iran, and investigating the effect of ownership structure on agency costsarethegoals of thisresearch. This means that whether the ownership structure ofcorporate governance incompaniesin Tehran stock exchangewill havean impactonagency costs? Andif yes, to identify the effective factors and todetermine theeffectof eachfactor.

2. Theoretical Framework:

Corporate governancemeanstheprocessesandstructures thathas role in conducting andmanagement ofcommercial activities in a companyinorder to improveand increasethe value ofthe company. Its ultimate goalisto maximizeshareholder valuein the longterm while theinterests of otherstakeholderswill alsobe considered. Enlightened theory on shareholdersisleading toa newdefinition for corporate governance. According to theclassic definitionof Cadburyreport, corporate governancecomprises"implementing a system for how companiesaremanaged and controlled." This definition can bereplacedwith a new one: Thesystemconsists ofallinternalmechanisms,whichwill informthe share holder softheircompany'sperformance and control the companythroughannualgeneral meetings and the powers delegatedto thedirectorate, while guarantees thecompany'sstrategy by adhering thelaws forlong-termbenefit of the company (Hassas Yaganeh, 1390).

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Research History:

Domestichistory

Namaziand Kermani (1387) studied the effect of ownership structureon the performance oflisted companiesin Tehran stock exchange.Thefindings of 66 companies during 1382 to1386 provenegative relationship between institutionalownershipand firm performance, andpositive relationship between corporate ownership and performance of the company. Also managementownership has negativeimpacton the performance of company. In terms offoreign ownership, no information that states ownership of foreign investorsin the companies sampled has been observed. Furthermore, on rivateownership, it is better to delegate the ownership mainly to the company's investors.

Noravesh et al.(1388) examined the relation betweenthemechanisms ofcorporate governance andagencycosts of companieslistedon theTehran Stock Exchange. Results froma sampleof88firmsin theyears 1382 to1385 indicate that there is a negative relationship between theratio of non-required directoratemembers and thepercentageof ownership of institutional investorson the one hand and agency costson the other hand.However,the resultsof their researchdid not match the hypothesis on relationship between corporatedebtandagency costs.

Setayesh and Kazemzadeh(1389) examined the effect ofownership structure and directorate composition on dividend policy of firmslistedinthe Tehran Stock Exchange.Resultsshowed thatcorporate ownershipanddirectoratein dependence positively, and institutionalownershipnegatively affect the dividends of listed companiesinTehran Stock Exchange. However, there were no evidence of asignificant relationship between managerialownership and ownership concentrationwithdividend policy.

2.1. Foreign History:

Karachi,Jensen,Jahraand Raymond(1999), by studying United States firmsin the twothree-year period ending in1987 and1993, examined the impact ofbothfinancial decisionsbased ondebt,institutional ownership, management ownership anddividend policy ontheagencycosts.The resultsshowed thatin the three year sending in1993,theinfluence of institutional ownershiphas considerablyincreased. The results also found that in three-year periodending in1993the supervision exercisedbyinstitutionalowners is an appropriate replacement for other mechanismsfor of controlling agency costs, andreducing theproblem of effective agency.

Fleminget al(2005) in a study carried out on3800 small and medium sizedAustraliancompaniesduring the years1996-1997and1997-1998, examinedthe relationship between the ratio ofoperatingexpensesto sales, andalso theratio of sale totheproperties,as theagencycosts on the one hand,andthe ownership ofdirectors on the other one, and found that there is an inverserelationshipbetween the two; butthe strength of thisrelationshipin Australia was somewhat less thanthe results foundinsimilar studiesin the United States. Furthermore,by testingthelevelsof family governance, found that with the increase infamily ownership,the agency costsof the company are reduced.

Florackis (2008) selecteda sample of897English firmsduring the years1999 to 2003toexamine the impactof different mechanismsofcorporate governance on theagencycost. He used two factors as representations of agencycosts,the ratio of sales toassets and theratio ofoperational expensestosale. His findingsinclude the followings:

Ownership ofmanagers,directoratesremuneration, and ownership concentration,canrepresentasignificant relationship with the agency costs. The ration of borrowing fromthebanking system tototaldebtsandthe ratio of short termdebtstototaldebts, and alsothe non-required membersofthedirectorate werethe mechanisms for reducing agency costs. Effectiveness of Domestic mechanismsofcorporate governance on agencycosts will vary according to thegrowth opportunities. For example, the resultsshowed that managers' ownership incompanieswithhigh grow this considered as an efficient mechanismto solve the problemofagency.

Samiet al.(2011) evaluated theeffect ofcorporate governanceonperformance of Chinese (manufacturing) firms. Inthisstudy,acombination ofcriteriais introduced forcorporate governance that measures the correlation between corporate governance andfirm performance assessment. Becausetherepresentation theory isbasedon thee fact that corporatewhose governancestandardsare betteract better, theyassumed thatChinese companies withbetter governancehave also betterperformance. The resultsshowed that theprovided combinedindex ofcorporate governancehas apositive relationshipwith theassessmentand performance of the firms.

3. TheResearch Methodology

This study isapositiveResearchof Accounting which is based onthe actual datafinancialstatements of companies. Alsoit is a casualand post eventual and applied research. Totestthe relationshipbetweenthe dependent and independentvariablesthepanel regressions isused. Geographicscope ofthe surveyis companies listed in Tehran Stock Exchange in the Islamic Republic of Iran. Time scope of research includes an 8-year period of 1382 to 1389fiscalyears of the sample firms. The studyuniverseconsistsof all companies listed on the Tehran Stock Exchange. Of thetotal universe, 124companiesrandomlyselectedfrom different industrieswiththefollowing conditions:

- ✓ Their financialyearendedthe date 29Esfand of theyear.
- ✓ Alltheir required data were available during the periodbetween theyears1382to 1389.
- ✓ They wereadoptedinTehran Stock Exchange till 1382.
- ✓ They have not beenremovedfrom companieslistedin Tehran Stock Exchange till 1389.
- ✓ Leasingcompaniesandfinancial institutionswere not included.

Financial statementsofabove companiesare fromtheStock ExchangeDatabases, and theirdata analysis and testing hypothesesare carried out byExcel, SpssandE _Viewssoftwares.

3.1. Research Hypotheses:

- ✓ The first hypothesis: the state ownership affects on agency costs.
- ✓ The second hypothesis: the institutional shareholders' ownership affects on agency costs.
- ✓ The third hypothesis: the directorate' ownership affects on agency costs.
- ✓ The fourth hypothesis: the free floats ownership affects on agency costs.

3.2. The research Variables:

The variables of this study and the way they were operationalized are listed in table 1.

Table 1: operational definition of variables

abbreviation	The way variables are operationalized	The label of variables	category
ROE	The ratio of annual sale to total properties	Agency cost	Dependant variable
FCF&Q	FCF-Q Tobin		
GOVOWN	$\frac{\text{capital belonged to the governmental sector}}{\text{total capital of the firm}} * 100$	Percentage of state ownership	Ownership structures (independent variable)
INOWN	$\frac{\text{capital belonged to institutional shareholders}}{\text{total capital of the firm}} * 100$	Percentage of institutional shareholders' ownership	
FREFL	The percentage of free floats published by Tehran Stock Exchange	Percentage of free floating ownership	
BOAOWN	$\frac{\text{capital beonged to the directorate}}{\text{total capital of the firm}} * 100$	Percentage of directorate' ownership	
SIZE	Natural logarithm for the firm's market value	Firm size	Control variables
FL	Total properties/total debts	Financial leverage	

3.3. Agency Cost:

In this study, two methods of efficiency ratio andinteraction between free cash flow and growth opportunities are used to measure the agency costs.

1 -Efficiencyratio: indicates thecriteria formanagers' efficiency in the firms which is derived from thefinancial statements.

1-1assetturnover ratio: indicates theratioofannual salestototalassets, and measures theproductivityand use of the company's assetsbymanagers in order to createmoresales.This ratiois used as aninversemeasure ofagency costs.Inthis studyto measure theagency cost, theassetturnover ratiois usedas an indexrepresenting theinverse of agency costs.

2 - Interaction between free cash flow and growth opportunities: Jensen in his free cash flow theory states thatmanagers tend to reinvest free cash flows in their companies instead of distributing them between owners, since payments to shareholders reduce the resources under control of managers, and thus their power is reduced.This is also probably due to the need to attract new capital by the Company, which will increase supervision of the capital market. In other words,accumulation of free cash flow can reduce the market surveillance on decisions taken by managers. Managers tend to firm's growth more than its optimum size. Since the firm's growthwill increase resources controlled by the company managers, and will increase the power and reward of the managers. Given the different goals of owners andmanagers, the cash flows generated by the Company in excess of the cash which is required for financing new projects with positive net present value, leads to the net present investment of these amounts in the project which have a negative current net value, which in turn willresult in the potential loss of these resources. As a result, firms with high growth opportunities and low cash free flows have high agency costs.

3.4. Descriptive statistics:

The descriptive statistics related to the research variables are listed in table 2. Considering the resulting values, it can be said that the firm size has the lowest coefficient of variation, and therefore is the most stable variable during the period of 8 years, and financial leverage variable has the highest coefficient of variation, and therefore is the least stable during the period of 8 years among all variables. The results show that all variables studied, including independent, dependent and control variables have a normal distribution according to statistics Jark-Bra statistics, since their significance level was more than 5%.

Table 2. Descriptive statistics

Financial leverage	Firm size	Percentage of free floats	Percentage of state ownership	Percentage of directorate's ownership	Percentage of institutional shareholders' ownership	Performance ratio	Growth opportunities and cash flow	
0.197	5.477	24.788	32.119	62.750	61.816	1.889	0.745	mean
0.148	5.420	25.000	0.05	64.300	70.910	1.420	0.680	median
0.727	7.820	90.000	88.000	99.200	98.210	10.540	2.580	maximum
0.006	3.980	5.000	0.001	1.080	0.001	0.340	0.050	minimum
0.155	0.592	14.791	23.451	16.945	25.012	1.471	0.377	Standard deviation
0.785	0.108	0.596	0.730	0.270	0.404	0.779	0.505	Change coefficient
253.937	186.322	231.511	468.587	68.923	183.169	818.470	1039.111	Jark - Bra
0.1307	0.0817	0.176	0.112	0.101	0.0596	0.177	0.154	significance level
196.363	5433.42	24590	31853	62248	61321.88	1874.25	739.59	total
992	992	992	992	992	992	992	992	Number of observations

3.5. Selecting an Appropriate Pattern for Regression Models

Since at present there are two dependent variables in this research, a separate model is represented for each. So choosing the right model, the Limer test was performed for each of the following models, which is provided in the table below.

First model:

$$ATQ_{i,t} = c + B_4GOVOWN_{i,t} + B_5BOAOWN_{i,t} + B_6INOWN_{i,t} + B_7FREFL_{i,t} + B_8SIZE_{i,t} + B_9FL_{i,t} + \varepsilon_{i,t}$$

Second model:

$$FCFQ_{i,t} = c + B_4GOVOWN_{i,t} + B_5BOAOWN_{i,t} + B_6INOWN_{i,t} + B_7FREFL_{i,t} + B_8SIZE_{i,t} + B_9FL_{i,t} + \varepsilon_{i,t}$$

Table 3. The results of Limer F test:

Probability	statistic	Degrees of freedom	test	model
				first
0.000	4.478	(123,859)	Limer F	
0.000	491.523	123	Chi-Score	
				second
0.000	11.951	(123,859)	Limer F	
0.000	989.46	123	Chi-Score	

As shown in the above table, the P.value value for F Limer and Chi score has thesignificance level of less than 5%.Therefore, it can be said that panel data methods should be used to test the research hypotheses. In the following, we useHassemantest in order to select different modes of panel method. Results are shown in Table (4).

Table 4: the results of Hausman test:

Probability	Chi Score statistic	Degrees of freedom	test	Model
				first
0.0001	49.321	9	Hausman	
				second
0.9895	2.115	9	Hausman	

Considering the values btained, since P. valueof Hausman testing for thefirstmodel (ATOi.t) is less thanthe significance levelof 5%, therefore, here issufficient reason toreject thefixed effects model, andtotestrelated hypotheses, the fixed effectsmodelis used. Due tothefact that P.valuevalues f Housemantestforthe second model ($FCFQ_{i.t}$) is greater thanthesignificance level of 5%, therefore, usinga random effects model is better thanusinga fixedeffectsmodel, andtotestrelated hypotheses, a randomeffectsmodelis used

3.6. Testing the research's hypotheses:

The research's general hypothesis:

H_0:Ownership structures of corporate governance do not affect on agency costs. H1: Ownership structures of corporate governance affect on agency costs.

Statistical hypothesis statement:

To investigate this hypothesis, agency cost is quantified by two different variables, and test with the model presented below.

$$AGENCYCost_{i,t} = c + B_1CG_{i,t} + B_2SIZE_{i,t} + B_3FL_{i,t} + \varepsilon_{i,t}$$

First hypothesis: the state ownershipaffectsonagency costs. H0: the state ownershiphas no effect onagency costs.

H1: the state ownershipaffectsonagency costs.

The results ofthe regression modelusinggeneralizedleast squaresGLSare presentedinTables5. With regard to the fact that significance leveloffirst hypothesistestis0.64 and greater than0.50 (acceptable errorlevel), the first research's hypothesis is rejected.In other words,the effectofstate ownershiponagencycosts (efficiency ratio) is not statistically significant.

Table 5 . 1.the results of testing the first research's hypothesis

The dependant variable: agency cost (efficiency ratio)				
Significance level	T tatistic	Standard deviation	coefficients	variable
0.641	0.465	0.009	0.0043	State ownership
0.168	1.37	0.0307	0.042	Firm size
0.001	-0.522	0.067	-0.354	Financial leverage
10.99	F statistic	0.032		Coefficient of determination
0.0001	Significance level	0.029		**Modified coefficient of determination**
	1/52	Durbin - Watson statistic		

With regard to thefact that significance leveloffirst hypothesistestis0.939 and greater than0.50 (acceptable error level), thefirstresearch'shypothesisis rejected.In other words,the effectofstate ownershiponagencycosts (interaction of growth opportunities) is not statisticallysignificant.

Table 5 . 2. the results of testing the first research's hypothesis

The dependant variable: agency cost (interaction between growth opportunity and cash flows)				
Significance level	T statistic	Standard deviation	coefficients	variable
0.939	0.076	0.003	-0.002	State ownership
0.001	-3.17	0.118	-0.46	Firm size
0.011	-1.68	0.318	-0.536	Financial leverage
5.567	F statistic	0.16		Coefficient of determination
0.0001	Significance level	0.13		**Modified coefficient of determination**
	1 48	Durbin - Watson statistic		

The modified coefficient of determination indicates that in the whole research period approximately 03% of the variations in total costs (efficiency ratio) and approximately 13% of the variations in total costs (interaction between opportunities and free cash flow) is explained by the variables.The results of the F statistic with the probability of (0.001) indicates that these models in general were considered statistically significant, and according to DurbinWatson statistics,do not havea serious self-association problem.

3.7. The Second Hypothesis: the institutional ownership affects on agency costs.

Statisticalhypothesisstatement:

H0:Institutionalownershipdoes not affectthe agency costs.

H1:Institutionalownershipaffectsthe agency costs.

The results ofthe regression modelusinggeneralizedleast squaresGLSare presentedinTables 6. With regard to the fact that significance levelofthe second hypothesistestis0.36 and greater than0.05 (acceptable errorlevel), the second research's hypothesisis rejected.In other words,the effectofinstitutional ownershiponagencycosts(efficiency ratio) is not statisticallysignificant.

Table 6 . 1. The results of testing the second research's hypotheses

The dependant variable: agency cost (efficiency ratio)				
Significance level	T statistic	Standard deviation	coefficients	variable
0.361	-0.91411	0.002011	-0.001838	institutional ownership
0.0001	-12.12215	0.071427	-0.86585	Firm size
0.0027	-3.007951	0.112386	-0.338052	Financial leverage
8.256	F statistic	0.41		Coefficient of determination
0.0001	Significance level	0.27		**Modified coefficient of determination**
	1/ 55	Durbin - Watson statistic		

With regard to thefact that significance levelofthe second hypothesistestis0.35 and greater than0.05 (acceptable error level), thesecondresearch'shypothesisis rejected.In other words,the effectofinstitutional ownership on agency costs (interaction of growth opportunities) is not statisticallysignificant.

Table 6 . 2. The results of testing the second research's hypotheses

The dependant variable: agency cost (interaction between growth opportunity and cash flows)				
Significance level	T statistic	Standard deviation	coefficients	variable
0.351	-0.000707	0.000757	-0.934168	institutional ownership
0.142	0.045275	0.03083	1.468543	Firm size
0.0001	-0.350568	0.067684	-5.179513	Financial leverage
11.22	F statistic	0.03		Coefficient of determination
0.0001	Significance level	0.03		**Modified coefficient of determination**
	1 55	Durbin - Watson statistic		

The modified coefficient of determination indicates that in the whole research period approximately 27% of the variations in total costs (efficiency ratio) and approximately 3% of the variations in total costs (interaction between opportunities and free cash flow) is explained by the variables.The results of the F statistic with the probability of (0.001) indicate that these models in general were considered statistically significant, and according to DurbinWatson statistics,do not have a serious self-association problem.

3.8. The third hypothesis: the directorate's ownership affects the agency costs.

Statistical hypothesis statement:

H_0:the directorate's ownership does not affect the agency costs. H_1:

the directorate's ownership affects the agency costs.

The results ofthe regression modelusinggeneralizedleast squaresGLSare presentedinTables 7. With regard to the fact that significance levelofthe third hypothesistestis0.29 and greater than0.05 (acceptable errorlevel), the third research's hypothesisis rejected.In other words,the effectofdirectorate'sownershiponagencycosts(efficiency ratio) is not statisticallysignificant.

Table 7. 1. Results of testing the third research's hypothesis

The dependant variable: agency cost (efficiency ratio)				
Significance level	T statistic	Standard deviation	coefficients	variable
0.294	-1.04994	0.001819	-0.00191	Directorate's ownership
0.0001	-12.24258	0.06947	-0.850496	Firm size
0.0012	-3.25318	0.10821	-0.352025	Financial leverage
8.47	StatisticF	0.45		Coefficient of determination
0.0001	Significance level	0.38		**Modified coefficient of determination**
1 56		Durbin - Watson statistic		

With regard to thefact that significance levelofthe third hypothesistestis0.74 and greater than0.05 (acceptable errorlevel), thethirdresearch'shypothesisis rejected.In other words,the effectofdirectorate's ownershiponagencycosts(interaction of growth opportunities) is not statisticallysignificant.

Table 7. 2. Results of testing the third research's hypothesis

The dependant variable: agency cost (interaction between growth opportunity and cash flows)				
Significance level	T statistic	Standard deviation	coefficients	variable
0.7467	-0.323076	0.000974	-0.000315	Directorate's ownership
0.1658	1.386854	0.030732	0.042621	Firm size
0.0001	-5.21864	0.067715	-0.35338	Financial leverage
10.91	StatisticF	0.03		Coefficient of determination
0.0001	Significance level	0.03		**Modified coefficient of determination**
1 53		Durbin - Watson statistic		

The modified coefficient of determination indicates that in the whole research period approximately 38% of the variations in total costs (efficiency ratio) and approximately 3% of the variations in total costs (interaction between opportunities and free cash flow) is explained by the variables. The results of the F statistic with the probability of (0.001) indicate that these models in general were considered statistically significant, and according to DurbinWatson statistics, do not have a serious self-association problem.

3.9. The fourth hypothesis: the free floats affect the agency costs.

Statistical hypothesis statement:

H_0: the free floats ownership does not affect the agency costs. H_1:

the free floats ownership affects the agency costs.

The results of the regression modelusinggeneralizedleast squaresGLSare presentedinTables 8. With regard to the fact that significance levelofthe fourth hypothesistestis0.017 and less than0.05 (acceptable errorlevel), the fourth research's hypothesisis approved.In other words, the effectoffree floatsownershiponagencycosts(efficiency ratio) is statistically significant, and this effect is direct one.

The dependant variable: agency cost (interaction between growth opportunity and cash flows)				
Significance level	T statistic	Standard deviation	coefficients	variable
0.395	-0.849427	0.001532	-0.001301	Free floats ownership
0.173	1.36205	0.030725	0.041849	Firm size
0.0001	-5.246876	0.067756	-0.355508	Financial leverage
10.89	statisticF		0.03	Coefficient of determination
0.0001	Significance level		0.03	**Modified coefficient of determination**
		1 73	Durbin - Watson statistic	

Table 8. 1. Results of testing the fourth hypothesis

The dependant variable: agency cost (efficiency ratio)				
Significance level	T statistic	Standard deviation	coefficients	variable
0.017	1.359746	0.003219	-0.004378	Free floats ownership
0.001	-12.34657	0.068377	-0.844221	Firm size
0.001	-3.206093	0.106232	-0.340589	Financial leverage
0.001	16.68466	0.387917	6.472266	The intercept
8.57	statisticF		0.42	Coefficient of determination
0.0001	Significance level		0.38	**Modified coefficient of determination**
		1.76	Durbin - Watson statistic	

With regard to thefact that significance levelofthe fourth hypothesistestis0.395 and greater than0.05 (acceptable errorlevel), the fourthresearch'shypothesisis rejected.In other words,the effectoffree floats ownership onagencycosts (interaction of growth opportunities) is not statisticallysignificant.

The modified coefficient of determination indicates that in the whole research period approximately 3% of the variations in total costs (efficiency ratio) and approximately 3% of the variations in total costs (interaction between opportunities and free cash flow) is explained by the variables.The results of the F statistic with the probability of (0.001) indicate that these models in general were considered statistically significant, and according to DurbinWatson statistics,do not have a serious self-association problem.

Table 8. 2. Results of testing the fourth hypothesis

The results of testing hypothesis	**The hypothesis text**	Table 9.summary of the testing results
rejected	State ownership affects the agency costs.	1
rejected	Institutional ownership affects the agency costs.	2
rejected	Directorate's ownership affects the agency costs.	3
approved	Free floats ownership affects the agency costs.	4

4. Discussions

The firsthypothesistestedinthis studysuggests that state ownership has no effectonagencycosts, while from a theoreticalpoint of view, privatization and reduction in state ownershipleads toincreasednumber of shareholders and the necessity ofthe separationof ownership and managementand agency problem, so thatcompaniesare controlledby majority shareholders, andthere ispotential for their abuseof therights of minority shareholders. These two problems make designing and modifyingthe appropriatemechanism to protect shareholdersagainst managers (problem representation) and therightsof allstakeholders necessary. The second hypothesis suggests that the effect of institutional ownership on agency costs is not a significant one, while from the theoretical perspective, supervision exercised by institutional owners reduces the agency cost (Karachi, 1999; Noravesh et al, 1388). The third hypothesis tested in this study suggests that Directorate's ownership does not affect the agency costs, while from the theoretical perspective,increased directorate's ownership makes the directorate members to participate in the profits and losses of the company more, and then reduces the agency cost (Lukas et al, 2011; Bake, Jensen and Kim, 2009). Perhaps the reason for this result is that the corporate governance mechanisms affect the agency costs together not alone (Bojan et al, 2006). Test results for the fourth hypothesis indicate that the percentage of free floats affects the agency costs in a positive way. It means increasing the free floats percentage will increase the firms' agency costs. Based on current theoretical resources, existence of major investors reduce agency costs, because managers tend to take a step in the interests of shareholders increasingly, and consequently,cheating in financial reporting through the manipulation of accounting profits will be reduced dramatically.

Roy Kouwenberg(2006) argues that the most effective way to ensure proper management of a company in emerging markets may be the ownership concentration. Therefore, these results are consistent with existing theories.

5. Research limitations:

One of themajor problemsinthis study was lack of corporate governanceratingagenciesthat provide grants to companies. Wehope thattheeconomic growth and development ofthe capital marketinIran create such organizations even in a limited number, for the future research.

6. Applied suggestions:

According to the results, anddetermine theimpactof free floats on the agency costs, it can be said that the companies listed on the Stock Exchange take further regulatory measures(such as information disclosure) in their agenda in order to reduce agencycosts, inagenciesthathavea highpercentage offree floats. Also the Stock Exchange, by considering these results and enacting the related rules andtaking preventive measures to avoid conflicts of interest between owners and managers, can helpto improvethe organization's overall trend and process ofthese companies, toalignthe interestsof differentstakeholder groups.

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