The Relationship between State Ownership and Corporate Performance Evaluation Criteria Listed in the Tehran Stock Exchange

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Abstract

The establishment of appropriate corporate governance mechanisms of action for the optimal use of resources improves accountability, transparency, fairness and the rights of all stakeholders in the company. Each of the internal and external mechanisms processes and company activities are supervised and promote accountability and achievement of corporate strategic goals is. One of these mechanisms is the focus and ownership structure. The aim of this study was to investigate the relationship between state ownership and corporate performance assessment criteria according to the rate of return on assets and return on equity in companies listed on the Stock Exchange in Tehran. The sample includes 107 companies during the years 1392-1388 is. Also, multiple regression was used to test hypotheses of significance was performed using the t test and F. Finally, it was found that, between state ownership and Performance measurements based on the rate of return on assets, as well as between property management and performance evaluation criteria based on the rate of return on equity and a significant negative relationship exists.

Keywords: state ownership, property management, return on assets, return on equity

1.Introduction

Today, the company owned with variety of possible ownership become common by various stakeholders, with the increase in capital market activity has also more extensive the diversity of ownership. this case, the contrast between maximizing the benefits given to workers and brokers. Solving representing problem partly provide reassured shareholders that managers are trying to maximize their wealth (Ghalibaf Asl, 2009).

To ensure the accountability of corporations play in front of the public and beneficiaries should monitor and care enough to be taken. Supervision and care in this area is the existence of appropriate mechanisms.(Ghalibaf Asl, 2009).

In representing relation, aimed at owners of wealth maximization, so in order to achieve this objective and representative to oversee the work of his performance are evaluated. Thus, the relationship between ownership and performance of firms for better and more accurate assessment of the performance of managers, users need to appear (Namazi, 2009).

Also, many factors affect the performance of companies and a lot of research has been to determine the financial and accounting relationship between companies and their performance has been made, but the concentration of ownership as one of the mechanisms affects firm performance and still governance necessity.

Given that state ownership in all companies in our country is still high, the main issue of this study is whether there a significant relationship between state ownership and criteria for evaluating the company's performance? The aim of this study was to investigate the empirical relationship between the state and various performance measures such as return on assets (ROA) and return on equity (ROE) the company is listed on the Tehran Stock Exchange.

2.Literature review

Modern corporations face the issue of separation of ownership and control. It is desirable to monitor management to ensure it acts in shareholders' interests. While the biggest shareholder and block shareholders have the resources and incentives to supervise the work of management, a dispersed shareholding structure suffers from the "free-rider" problem. In general, the corporate governance literature has identified block ownership as an influential mechanism that mitigates the agency problem between managers and shareholders (Shleifer and Vishny, 1997; Claessens and Djankov, 1999). Large shareholders provide at least a partial solution to the free-rider problem of small investors, but blockholder ownership above a certain level may lead to the entrenchment of owner–managers that expropriate the wealth of minority shareholders (Fama and Jensen, 1983; Morck et al., 1989; Shleifer and Vishny, 1997).

The belief in public ownership inefficiency is underlined by the property rights perspective in economics (Martin and Parker, 1997; Villalonga, 2000) and the residual claimant theory (Rowthorn and Chang, 1993). The property rights theory claims that such rights in the private sector are more clearly defined than in the public sector, and thus, the incentive for seeking profits by private owners leads to more effective monitoring of management performance (Alchian, 1965; McCormick and Meiners, 1988).

In the US and UK, although ownership structures are dispersed, minority shareholders' rights are protected by a well-developed legal infrastructure, managerial labor market, and active takeover markets. A review of the literature on corporate governance issues in Asia by Claessens and Fan (2002) confirms the limited protection of minority shareholders' rights in Asia and the agency problems exacerbated by the low corporate transparency associated with rent-seeking and relationship-based transactions, extensive group structures, and risky financial structures. Chinese companies normally have a concentrated ownership structure, limited disclosure, poor investor protection, and reliance on the banking system. Law enforcement is quite weak. The large block shareholders for Chinese PLCs include private, state, or institutional shareholders. Because the Chinese government privatized small- and medium-sized SOEs and corporatized large SOEs during China's economic reforms, many Chinese public listed companies have high levels of state ownership. As the state is a major block shareholder of Chinese PLCs, this study identifies the role played by state ownership in firm

Performance. It explores whether state ownership hinders or improves firm performance for Chinese PLCs in the new millennium. The subject of state ownership has inspired many empirical studies. However, the empirical evidence for the relationship between state ownership and firm performance has been mixed. Table 1 summarizes a few key studies and their findings. Qi et al. (2000) examine a sample of Shanghai Stock Exchange-listed Chinese firms from 1991 to 1996 and conclude that state equity ownership is negatively related to operating performance.

Further, Sun et al. (2002) examine a sample of Chinese listed firms from 1994 to 1997 and conclude that state equity ownership has an inverted U-shaped or concave relationship with market performance. They reason that government political support and business connections provided through state ownership are valuable and necessary to vitalize performance. However, Ng et al. (2009) and Hess et al. (2010), who examine Chinese listed firms from 1996 to 2003 and 2000 to 2004, respectively, both find a convex relationship between state ownership and market performance. This is inconsistent with the relationship found by Sun et al. (2002). Therefore, the relationship between state ownership and Chinese firm performance is unresolved. The mixed empirical results may be attributable to different model specifications, firm performance measurements, and sample selection techniques. While Jiang et al. (2008) apply OLS regressions to cross-sectional data from 2004, Hess et al. (2010) use two-stage least squares analysis on balanced panel data. Hovey et al. (2003) randomly select 97 Chinese PLCs, while Wei et al. (2005) include all non-financial PLCs. Most studies have used financial ratios or market-based indicators to measure firm performance. Wei and Varela (2003) also use share returns and Lin et al. (2009) use firm efficiency. The implications of state ownership on firm performance may vary, as the performance indicators measure different aspects of firm performance. Sun et al. (2002) and Wei (2007) use the market to book ratio (MBR) as a market-based indicator. Both studies find a concave relationship between state ownership and firm performance. Some researchers have used Tobin's Q to reveal a convex relationship (e.g., Wei and Varela, 2003; Ng et al., 2009; Hess et al., 2010). China's stock prices have been extremely volatile and contain a large noise component (Xu and Wang, 999).

Measures that incorporate share price information such as share returns, the MBR or Tobin's Q are problematic in China (Jiang et al., 2008). It is an issue of the construct validity of the market-based indicators in China. As it is less noisy, the Tobin's Q measurement is better than the MBR.

3.Hypotheses

In this study relationship state ownership and firm performance evaluation criteria is evaluated. For this purpose variable rate of return on assets (ROA) and return on equity (ROE) to reflect the company's performance is used. Therefore, the following hypotheses can be classified in two groups:

Group I: measure the performance of companies based on the rate of return on assets (ROA)

The main hypothesis:
  • There is a significant relationship between percentage of state ownership and return on assets.

Sub assumptions
  • There is a significant relationship between percentage of stock ownership and return on assets.
  • There is a significant relationship between firm size and rate of return on assets.
  • There is a significant relationship between Return on assets ratio and debt.

Group II: measure the performance of companies based on the rate of return on equity (ROE)

 The main hypothesis:
  • The percentage of state ownership and return on equity is a meaningful relationship.

Sub assumptions
  • There is a significant relationship between percentage of stock ownership and return on equity managers.
  • There is a significant relationship between firm size and rate of return on equity.
  • There is a significant relationship between debt ratio and return on equity.

4.Variable and model and how to measure them

In this study the dependent variable rate of return on assets (ROA) and return on equity (ROE) as a company's performance measurement. The independent variables include the percentage of state ownership and the percentage of share ownership of managers, company size and leverage as control variables. It should be mentioned dependent variables; independent control models are defined here to calculate relations.

5. Dependent variable

Company performance:

In financial literature, different criteria are used to measure company performance that include standards for accounting measure that is calculated based on the Company's financial statements such as return on assets and return on equity is. (Mojemder 1999, Aburi 2005, Mahmoudi 2009, Ebadi, 2009).

In this study, the variable rate of return on assets and return on equity as a measure of company performance measures that are used can be calculated as follows:

• *Return on Assets (ROA)*: the ratio of net income to total assets of the company

• *Return on Equity (ROE):* the ratio of net income to total equity of the company

6. Independent variables

Percent state ownership (SO): is equal to the percentage of shares and government institutions, and government agencies.

7. Control variables

• *The percentage of share ownership managers (BS)*: the percentage ownership of board members receives a fixed salary from the company and their family members in the company's stock. Responsibilities of board members are responsible for most or Managing Director or managing director is closely related.

• *Firm size (SIZE)*: Previous research indicates that company size and structure of the decision may affect the performance of firms (Blondren 1993, Ramasovy 2003, Frank 2003) Therefore, in this study firms as an in order to confirm the results of the control variable leaves no traces on the results. Logarithm of total assets in order to control the effects of company size on the dependent variable is not so hypothetical:

Function, company size is calculated logarithm of the total assets of the company.

• *Ratio of debt (DEBET)*: the ratio of total debt to total assets

According to the hypothesis multivariate regression model to test hypotheses used in the study is as follows:

The first group of hypotheses:

$$ROA_{it} = \beta_0 + \beta_1\ SO_{it} + \beta2\ BS_{it} + \beta_3\ DEBET_{it} + \beta_4\ Size_{it} + \acute{\varepsilon}_{it}$$

The second group of hypotheses:

$$ROE_{it} = \alpha_0 + \alpha_1\ SO_{it} + \alpha2\ BS_{it} + \alpha_3\ DEBET_{it} + \alpha_4\ Size_{it} + \acute{\varepsilon}_{i,t}$$

8.Population and sample:

For the present study, all companies operating in the Tehran Stock Exchange, the sample is extracted with the following restrictions:

1. The Company's fiscal year ended March each year.

2 companies during 2010 to 2014 fiscal year have not changed.

3. The company ended fiscal year 2010 in Tehran Stock Exchange is accepted.

4. Stock trading company is constantly on the Tehran Stock Exchange has taken place. And stop trading for over a month in the stock mentioned happened.

5. The financial information required in order to extract the required data is available.

6. The Company is not in financial intermediation category.

According to the terms of the agreement, the number of selected sample of the population consisted of 107 selected companies.

9.Methods and tools of data analysis:

In this study, using data collected from a sample which contains a number of companies are in the period 2010-2014, the research hypotheses will be tested. In this study, using panel data to test hypotheses that utilizes software SPSS and will be done. That data using software (Excel) after the reform and classification on the basis of variables into software SPSS version 22 and the final analysis will be performed.

10.Kolmogorov – Smirnov

Distribution variables with the *Kolmogorov - Smirnov* test, the results indicated non-normal distributions are variable. These results are shown in Table 4-1. And linear scatter plot of the relationship between independent and dependent variables of protection.

Table 4-1: Kolmogorov-Smirnov test

variables	test	probe
ROA	0.088	0.00
ROE	0.060	0.00

Table 4.1 shows that the level of significance K-S test for dependent variables rate of return on assets and return on equity is less than 5%. So these data are non-normal distribution. So using the software and statistical techniques and the transfer function has been trying to normalize the distribution of variables and since the dependent variable is the normal distribution of data analysis and parametric tests are used to test hypotheses.

11.Normalize the data:

In this study the normalized data using Minitab software Johnson transformation method. The results of normalize the data presented in Figure 4-1 and 4-2:
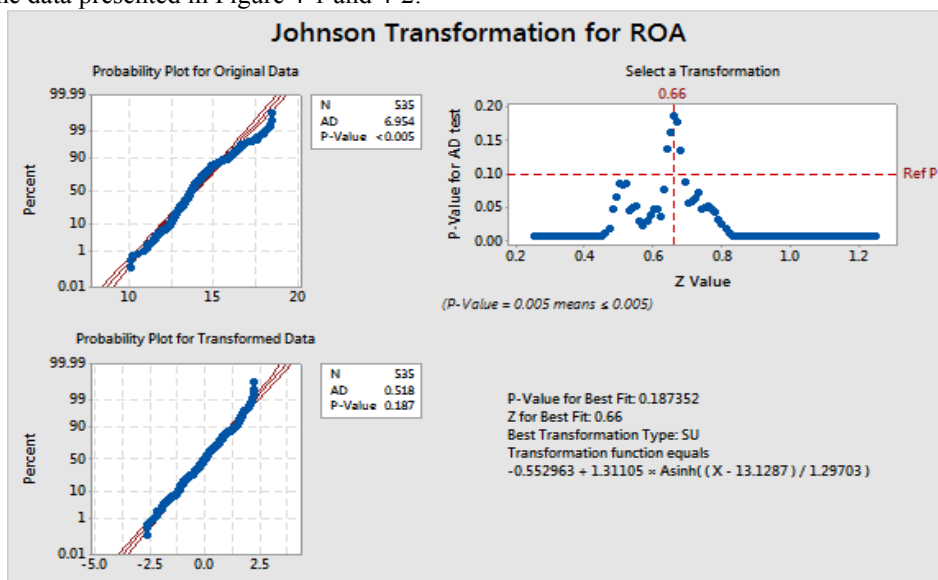

Figure 4-1: normality of the dependent variable rate of return on assets
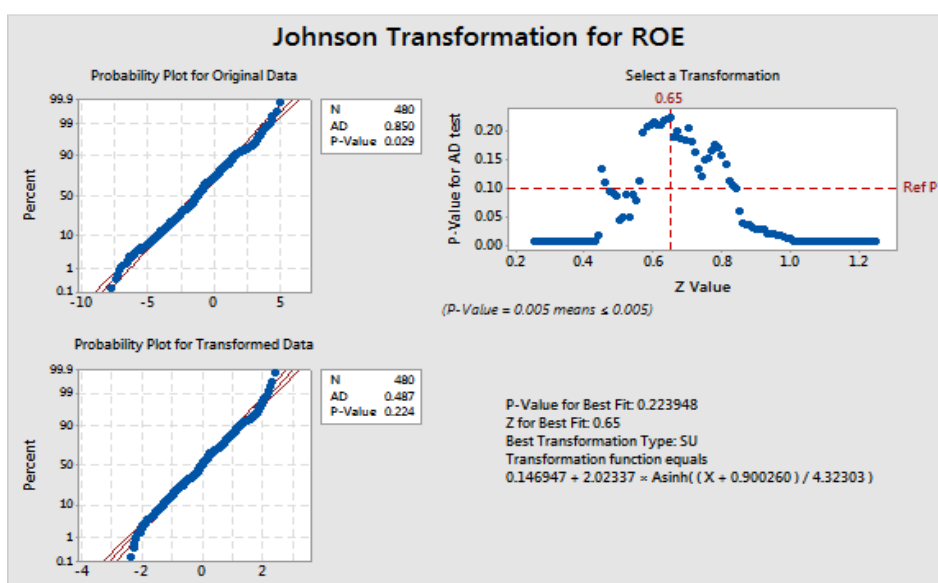

Figure 4-2: normality of the dependent variable rate of return on equity

Now re-normalize the data using the Kolmogorov- Smirnov review the results of the test which has been presented in Table 4-2.

Table 4-2: Kolmogorov-Smirnov test

variables	test	probe
ROA	0.518	0.187
ROE	0.4187	0.224

As can be seen from the table 4-2 Kolmogorov-Smirnov probability for each dependent variable is greater than 0.05 then it can be concluded that the dependent variable data is normalized.

12.Reliability Test Variables

Static tests, including the most important test is reliable for estimating a regression coefficient. To prevent the creation of artificial regression, static tests are used. In determining the static panel data, there are different tests. In the present study to investigate the static variable test *Im, Pesran,Shin* was used. This test has fewer restrictions from Levin and Lin Harris test. The results of these tests are presented in Table 4-3:

Table 4-3. IPS test

	BS	**SO**	**SIZE**	**DEBET**	**ROE**	**ROA**
W-stat	-9.6561	-12.395	-8.33	-10.27	-11.033	-11.299
p-value	0.00	0.00	0.00	0.00	0.00	0.00

As can be seen from the table 4-3 probability of all variables is less than 0.5. So we can conclude that all variables are static, strong reliability.

13.Heteroscedasticity test:

Heteroscedasticity means that the regression model estimate values are error terms with unequal variances. In fact, we estimate that using ordinary least squares regression is performed. We assume that all variances are equal, then the error terms have Estimation model. We then use a series of methods and techniques to examine the assumption discussed. White test results are provided below is dependent on two variables:

As can be seen from the table (4-4) F value and rate of return on the assets of the Company equal to 295.42 and the p-value equal to zero, which indicates that the null hypothesis that there is a dissonance between the variance not accepted

Table 4-4: white test for ROA

	ROA
F	295.42
p-value	0.00

Also, according to the table (4-5) F statistic value in relation to the rate of return on equity of 90.738 and a p-value equal to zero, this indicates that the null hypothesis that there is a dissonance between the variance is not accepted.

Table 4-5: white test for ROE

	ROA
F	90.738
p-value	0.00

14. Hypotheses test:

14.1. The first group of assumptions: that company's measure performance evaluation based on the rate of return on assets (ROA) is.

The main hypothesis:

• A significant correlation between the percentage of state ownership and firm performance there.

Table (4-6): The first group test statistical hypotheses

Variable name	coefficient Value	T	P-value
constant	-9.643	-102.990	0.000
BS	-0.001	-2.260	0.024
SO	0.00617	0.142	0.887
DEBET	0.023	0.456	0.642
SIZE	0.696	107.563	0.000
R Square	0.957	**F**	29.429
Adjusted R Square	0.957	*P-Value*	0.000
		Durbin Watson	1.562

As shown in Table (4-6) see that the value and significance level of the F statistic, statistics indicate that the null hypothesis that the meaningless of the whole model (all zero coefficients) is not accepted and models regression estimates, the total is significant. The coefficient of determination, the criterion for the strength of the relationship between independent variables and the dependent variable and describes control. In fact, it dictates

that percentage of the value of the coefficient of variability is explained by the independent and control variables. In this model, the coefficient of determination is equal to 0.957. I.e. 96% of the variance in the dependent variable explained by the independent and control variables. Also, the Durbin-Watson statistic model, which is equal to 1.562, between 1.5 and 2.5, and there is no indication that the errors of autocorrelation model. The results of the coefficients of the variables in the table (4-7) provided. As seen, the percentage of state ownership variable coefficients indicate that the negative correlation between the percentage of state ownership and return on assets of company there. However, given that the level of significance in the relationship between the percentage of state ownership and return on assets of the company (P-value = 0.024 <0.05). Therefore this relationship is significant. Therefore, the main hypothesis of the study is accepted. This is expected to increase the percentage of state ownership, return on assets as a proxy variable performance, decrease.

The first sub-hypotheses:
• There are significant correlation between the percentage of stock ownership and corporate performance management.

As can be seen from the table (4-6), variable coefficients percent equity ownership percentage of share ownership managers and executives indicate that there is a positive relationship between the rates of return on assets of the company. However, given that the level of significance in the relationship between the percentage of stock ownership and return on assets of company directors (P-Value = 0.887> 0.05). Therefore this relationship is not significant. Thus, the first sub-hypothesis research will not be accepted. The expected rates of return on assets as a percentage of stock ownership Site Proxy not affect the company's performance.

The second sub-hypotheses:
There is a significant relationship between firm size and firm performance.

As well as in the table (4-6) see that the coefficient of variable firm size indicates that there is positive relationship between firm size and rate of return on assets (ROA) as a measure of corporate performance assessment. Also, given that the level of significance in the relationship between firm size and firm performance is less than 5%, so this relationship is significant. Thus, the second sub-hypothesis is accepted. This is expected to increase the size of the company, as variable rate of return on alternative assets increased performance.

The third sub-hypotheses:
• There is a significant relationship between debt ratio and firm performance.

Finally, as shown in Table (4-6) see that the company's debt ratio indicate that the debt ratio and return on assets (ROA) as a measure of corporate performance assessment there is a positive relationship. Also, given that the level of significance in the relationship between debt ratio and firm performance is more than 5%, so this relationship is not significant. Therefore, the hypothesis third sub-study will not be accepted. This is expected to change in debt ratio; return on assets does not change.

14.1.2. Group two of hypotheses: that companies measure the performance of companies based on the rate of return on equity (ROE) is.
The second main hypotheses:
• There is a significant relationship between the percentage of state ownership and firm performance.

Table (4-7): Statistical results for second hypotheses

Variable names	coefficient Value	T	P-value
constant	5.170	15.771	0.000
BS	0.0	-0.282	0.778
SO	-0.004	-2.465	0.014
DEBET	1.127	6.631	0.000
SIZE	-0.405	-17.878	0.000
R Square	0.406	F	5.170
Adjusted R Square	0.402	*P-Value*	0.0
		Durbin Watson	2.235

As shown in Table (4-7) see that the value and significance level of the F statistic, statistics indicate that the null hypothesis that the meaningless of the whole model (all zero coefficients) is not accepted and models regression estimates, the total is significant. In this model, the coefficient of determination is equal to 0.402. Or 41 percent of the dependent variable explained by the independent and control variables. Also, given that the level of significance in the relationship between debt ratio and firm performance is less than 5%, so this relationship is significant. Therefore, the third sub-hypothesis is accepted research. The debt ratio is expected to increase the rate of return on equity as a proxy variable to increase performance.

First sub hypothesis:
•There is a significant relationship between the percentage of stock ownership and corporate performance management.

As can be seen, according to the table (4-7) coefficient of percentage of share ownership manager's variable and

ROE, indicate that there is a negative relationship between them. Also, given that the level of significance in the relationship between the percentage of share ownership and return on equity managers (P-value = 0.014<0.05). Therefore this relationship is significant. Thus, the first sub-hypothesis is accepted research. The expected increase in share ownership managers, the rate of return on equity as a proxy variable performance decreases.

The second sub hypothesis:
• There is a significant relationship between firm size and firm performance.
Also, as shown in Table (4-7) see indicate that the variable coefficient between firm size and ROE as a proxy variable to assess the company's performance, there is a positive relationship. Also, given that the level of significance in the relationship between firm size and firm performance is less than 5%, so this relationship is significant. Thus, the second sub-hypothesis is accepted. This is expected to increase the size of the company, the rate of return on equity as a proxy variable to increase performance.

The third sub-hypothesis:
• There is a significant relationship between debt ratio and firm performance.
Finally, as shown in Table (4-7) see that the company's debt ratio indicate that the debt ratio and return on equity as a proxy variable to assess the company's performance in a positive relationship exists. Also, given that the level of significance in the relationship between debt ratio and firm performance is less than 5%, so this relationship is significant. Therefore, the third sub-hypothesis is accepted. The debt ratio is expected to increase the rate of return on equity as a proxy variable to increase performance.

15.Conclusion and suggestions

Since the separation of ownership from management, monitoring managers have been very difficult. The establishments of appropriate corporate governance mechanisms of action for the optimal use of resources promote accountability, transparency, fairness and the rights of all stakeholders in the company. Each of the mechanisms within and outside the organization, the process of monitoring corporate activities and promote accountability and achieve other strategic objectives of the company. One of these mechanisms, focus and structure of ownership. In this study, the effect of ownership structure on performance evaluation criteria based on the rate of return on assets and return on equity have been studied. Based on these findings, the first group of hypotheses that the company's performance was evaluated based on the percentage of government ownership rate of return on assets and a significant negative impact on the company's performance based on the rate of return on assets.

This indicates that increasing the amount of outside ownership (state) ownership of the company's performance is reduced and the percentage of internal (management) does not affect the performance of the company. According to these findings, it is better not state ownership to investors because it is between state ownership and corporate performance and significant negative correlation was observed, state ownership cannot be conducive to enhancing the performance of the company. The ownership of a significant relationship management cannot be pointed out, that is not to say that In general, property management leads to improved corporate performance or not?

The second group also of hypotheses that the company's performance was evaluated based on the rate of return on equity, the percentage of government ownership is not a significant effect on firm performance. And percentage of ownership and significant influence of management on the company's performance this indicates is that by increasing the amount of internal property management of the company's performance based on the rate of return on equity is reduced. . According to these findings also provide a better property investment inside (management) not as a negative and significant relationship between managerial ownership and firm performance. But so are investment management companies' ownership structures, poor performance is more. Also, test the same hypothesis seems that firm size has a positive impact on firm performance, which indicates that the larger companies improve corporate performance.

16. Recommendations for future research

In order to make greater use of the results and also help clarify the effects of ownership structure on corporate performance in the future one can be considered the following topics:
1. Impact of Institutional Ownership on the performance of the firm partnership with institutional owners of commercial and institutional owners who do not have a relationship with such company must be examined individually.
2. The role of property management on the performance also included as a control variable in the model.
3. Study the influence of industry on the relation between ownership structure and firm performance.
4. The use of other related variables row definitions and other performance variables, examination of the impact of ownership structure on corporate performance.
5. Check and test the structure-property relationships and the performance of companies on a short term less than a year.
6. Repeat this research with regard to political issues and the impact on firm performance.

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