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Research Article

THE RELATIONSHIP BETWEEN THE CORPORATE GOVERNANCE MECHANISMS AND THE CAPITAL STRUCTURE OF HOLDING COMPANIES

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ABSTRACT
Holding Company is one of the main stimuli for economic progress and development in every country. Therefore, the proper financing of the companies must be carefully done and the capital structure appropriate with the company's goals should be determined. The capital structure of each company is under the influence of a variety of factors, such as corporate governance. Hence, the aim of this research is reviewing the impact of corporate governance mechanisms on the capital structure of holding companies of cement industry, basic metals, the construction and metal ore extraction accepted in Tehran stock exchange. For the evaluation of the corporate governance this paper focus on the criteria of ownership centralization, the ownership of institutional shareholders, the duality of the CEO task, the number of the director board members and the independence of the board, and for assessing the capital structure it uses the debt ratio. The statistical population of this work includes thirty three holding companies active in the cement industry, construction and basic metals accepted in Tehran stock exchange between the years 1387-1391. After sorting the data in the Excel software, the analysis of the data will be done using multiple and linear regression.

***Keywords**: corporate governance, capital structure, holding companies*

INTRODUCTION
Today, the corporate governance system in our country under the title of " corporate governance " also translated as" stock rule " is a very important category in relation to optimal management and administration of companies (shahrokhi, 2007). Corporate governance is one of the major topics that the developing countries has recently engaged with, because these countries do not have strong financial institutions and infrastructure to address this issue. Good corporate governance makes fundraising easier and increases the value of the stock. (McGee, 2009) Corporate governance is a multi- dimentional discussion that includes the different areas of law, economy, management, politic and tehnique. Good corporate governance for commercial stakeholders has exposed a fundamental role. Although the aim of corporate governance differs from a company to another company or from a country to another country but an important question is to provide the good law of mechanisms for a company administration. In order to strengthen the good capital markets and to support the investors, the formulation of the exact corporate governance procedures has become a globally important issue (Darman, 2005)
The framework of the governance system must provide the correct and timely detection about major issues of a company such as the capital structure. The capital structure puzzle is the most important financial management issue that has been even considered more complex than the profit management (Ahmadpour and Salami, 2007). One of the areas in which the process of the corporate governance system impacts on the decisions of companies is related to decisions about the capital structure (Karimi and Ashrafi, 2010). Hence, with regard to the items listed, it can be said that the corporate governance and capital structure are the basic topics in the field of management that require much attention. Therefore, evaluating the impact of corporate governance mechanisms on the capital structure is vey

important. The question we are facing with in this research is: what is the relationship between corporate governance criteria and capital structure in the holding companies of basic metals industry, cement, petrochemicals, and construction accepted in the Tehran stock exchange? Hence, the paper will first review the theoretical foundations and the existing literature in this field. Then, the research methodology will be expressed and at the end we will provide the analysis of data and the conclusions derived from.

THEORETICAL FOUNDATIONS

As stated, the aim of this research is to identify the impact of corporate governance mechanisms on the capital structure of the corporate holding company. So in this section, according to the scientific literature, we first examine the corporate governance concept, capital structure and holding companies and then we present the researches done in this area.

Corporate governance

Corporate governance is a multi-dimentional discussion that includes the different areas of law, economy, management, politics and techniques. This issue and its extensive dimension have caused numerous and varied definitions are provided by different national and international institutions, experts and practitioners of the various fields. Each of these definitions includes the environment features, structures and the interests in a society that the definitions have been presented for them. In some texts the definitions represent specialized field of the authors. In order to focus on certain parts of this extensive discussion, many other dimensions are ignored here. (Organization of economic development cooperation, 2004) AS a whole the concept of the corporate governance deals with the structures, the decision-making process, accountability and behavior in the organizations (including government, public, private, profit, non-profit, etc.). The purpose of corporate governance is to ensure the existence of a framework that provides an appropriate balance between action freedom of management, accountability and the interests of the various stakeholders.
Reviews of existing studies show that there is no agreement on the definition of corporate governance. The available definitions of corporate governance are in one spectrum. Limited means of corporate governance refers to relationship between the company and the shareholders. On the other side of the corporate governance definition spectrum, it can be considered a network of relationships that includes not only between enterprises and their owners (the shareholders), but between the company and a large number of stakeholders such as employees, customers, vendors and bond holders.
Generally, corporate governance is a set of relations between executive management, director board, shareholders and other parties concerned a company that follows two basic goal of reducing the risk for the long term and improving the efficiency of enterprise. The correct corporate governance is realized through the independent members of the director board and their committees and a company can achieve its goals ultimately by the promotion of executive management transparency and accountability. (Rasaiyan and Kashani pour, 2009)

The capital structure

The capital structure of each company is the combination of its different financial sources. In the capital structure evaluation, the companies are trying to clarify the combination of different financial resources used in financing needed for activities and investing. In fact the purpose of determining the capital structure is specifying the financial resource composition of each company in order to maximize the wealth of its shareholders. A variety of theories raised in relation to the capital structure from point to the traditional approach, the theory of Modigliani and Miller, balance theory, static balance theory, dynamic balance theory and the hierarchy theory. (Khaleghi Moghadam and Bagoumiyan, 2006). It should be mentioned that comprehensive review of the opinions is out of this article framework.

Holding company

The holding company is one of the conventional forms of enterprise in many countries. Such companies are considered the main actors of emerging economies. The holding company is also one of the most important structures in order to fulfill the goals associated with the move towards market-based economies. But what appears important in these structures, is the existence of a primary and indicator unit as a mastermind and brain power to do the strategic tasks and the relative freedom for achieving the desired goals. When doing business in a country reaches somewhere that looks it must progress along with the elements of the industry, the need to transform organizational structures gets very tangible and sensible. On the other hand, you should not expect too much improvement in financial resources of the parent companies' structures, because there are also other factors that can work in every industry or business area, and transform the results. The nature of the holding companies is very different and varied. These companies before and also after World War II, came into being in some European countries that their most obvious form were in Italy and Australia. The holding companies began their activities in Iran before the revolution that some operated as practical and others as registration. There are many definitions about the holding companies. Some of the most important of them are submitted here.(Hanafizadeh and Shafie, 2009)

• Holding Company is a company formed for the purpose of owning the shares of other companies.
• Holding Company is a complex of different companies that operate in diverse fields and it is run through family ownership and management.
• The holding company is a company which includes a basket of independent units that get benefit from a slight central administration overhead, ease of indemnity units, release of risk and lack of concentration and limitation such as lack of access to the necessary skills and central control problems as well.
• Holding Company is the most effective way and tool that can be used to control and manage the combination of two or more units that have ever been independent .
• The holding company is a company that controls and supervises the main and key strategies of one or more companies in terms of the stock ownership percentage or
the choice of the majority of the administrators and determining of the policies.

In accounting standards, the holding company is deemed as the main business units to be holding one or more child business units and these subsidiary units are under the control of the main business unit. The main business unit seeks the economic interests from the child business units with the ability of strategically guiding the operational and fiscal policies of subsidiary units. (Hanafizadeh and Shafie, 2009).

Review of literature

Chen (2004) in a study reviewed the affecting factors of the capital structure in Chinese companies. To this end, he studied 88 companies during 1995 to 2000. The independent variables in this study include profitability, growth, asset structure, size, etc.. The results of this study indicated that there is a significant relation between size, profitability and growth and capital structure.

Boot and Hassan (2009) studied the impact of ownership structure and corporate governance on the capital structure of Pakistani firms. Therefore, they selected 58 companies listed in the Karachi Stock Exchange during the years 2005 to 2002. The independent variables in this study were: the size of the board, CEO duality responsibility and ownership of institutional shareholders. The research suggested that corporate governance plays an important role in determining the capital structure of these companies.

Saad (2010) through a study examined the impact of the corporate governance on the capital structure of Malaysian companies. To this end, he chose 126 companies during the years between 1998 and 2006. His measures of corporate governance were variables such as the size of director board, duality of CEO task and the number of board meetings. The results indicate a significant relationship between corporate governance mechanisms and the capital structures in Tehran stock exchange. Therefore, they selected a

sample consists of 80 firms over the years 2008 to 2001. For the assessment, the researchers used the variables like the percentages of non-bound board members, separation of the CEO from the board members and the institutional ownership.
Saidi and others (2011) researched the relationship between the capital structure and the corporate governance standards in the listed companies of Tehran stock exchange. Their results show that about 84 percent of changes in the capital structure can be explained through the variables such as property output rate, firm size, the ratio of market value to book value of equity, net property and equipment and standard of corporate governance.
Hashemi and Bkrany (2011) studied the relationship between the ownership structure and the capital structure decisions and corporate governance of listed companies in Tehran stock exchange during the years 1381-1388. For measuring the corporate governance, these researchers used variables such as board size, percentage of non-bound directors, percentage of bound directors and CEO membership on the director board and for assessing the capital structure, they employed the ratios of long-term debt to equity, short-term debt to equity and total liabilities to total assets. The results of this study indicate that there is a significant relationship between capital structure and corporate governance system.
Akbari Moghaddam and Piri (2011) evaluated the impact of corporate governance mechanisms on the capital structure of listed companies in Tehran stock exchange. They examined 74 companies during 1383 - 1387. For measuring the corporate governance, these two researchers took benefit from the ratio criteria of non-bound members, institutional ownership shareholders, and CEO duality task. The results suggested that there is a significant and negative relationship between non-bound members of the director board and the capital structure but there exists no connection other two variables and the capital structure.
Ahmadpour and others (2012) in a research examined the impact of some of the corporate governance mechanisms on the capital structure of the automotive industry corporates accepted in Tehran stock exchange during 2005-2010. For assessing they used the criteria of the governance centerlization, the independence of the director board, the presence of institutional investor ratio, the duality role of the board chairman and the existence of internal auditor. The results of this study reveal that there is a reverse relationship between the governance centerlization, the presence of institutional investor ratio and the duality role of the Board chairman and the capital structure of the companies. However, There also exists a positive relationship among the capital structure with the internal auditor. In addition, the results of this study, does not indicate a significant relationship between board independence variable with the capital structure.

Research hypothesis
With regard to the results of the researches done in this field, the assumptions of this study are expressed as follows:

The main hypothesis:
•There is a significant relationship between capital structure
and corporate governance system.
The subsidiary hypothesis are:
• There is a significant relationship between capital structure and ownership
• There is a significant relationship between institutional shareholder ownership and capital structure.
• There is a significant relationship between the duality of CEO task and capital structure.
• There is a significant relationship between the number of the director board members and the capital structure.
• There is a significant relationship between the independence of the director board and the capital structure.

THE RESEARCH METHODOLOGY

Object of this research is functional and its method is descriptive and correlation.

Research variables

Independent variable of this research is the corporate governance. Along with reviewing the related literature we've used the following five criteria for the evaluation of the corporate governance:

• ownership of focus
• institutional shareholder ownership
• duality of board task
• CEO total members
•independence of the board

Dependent variable of this research is the capital structure that for its assessment we've used the ratio of total debt to total assets.

Research sample and statistical population

Statistical population of this survey consists of all holding companies of cement industries, basic metals, metal ore extraction and construction accepted in Tehran stock exchange before the year 2008 and their required information is available in the exchange. The number of these companies is 31. In this research, sampling is not done and it is equal with the population. Time zone of this research is the years from 1387 up 1391.

Data collection method

In this research, two library and field methods were used for collecting information and data. The theoretical foundations of the research were collected from the English and persian books and magazines in a library and numerous articles adapted from the Internet, and in the field section of research, the data related to the dependent and independent variables were gathered from the security and exchange reports and relevant Internet sites.

Data analysis and hypothesis test

For measuring the variables, first the required data was collected and entered in Excel program to do the necessary calculations. Then, in order to test the research hypothesis, the results of the variable measurement were used in the EVIEWS software. Since the research method is correlation, the linear regression has been used for testing the hypothesis. It should be noted that the significant tests were occured at the level of 95% (5% error level). Before coming to run the regression model, it was required to review if the research variables were static or mana. The review showed that all variables were mana.

Research model

In this research, we implemented the model using simple regression and the output is as follows:

Prob.	t-Statistic	Std. Error	Coefficient	Variable
0.0004	3.624203	0.200593	0.726990	C
0.0034	2.978382	0.001363	0.004060	X1
0.3370	-0.963401	0.001594	-0.001535	X2
0.0504	-1.973467	0.044899	-0.088606	X3
0.0701	-1.824496	0.032297	-0.058925	X4
0.6192	-0.498096	0.087831	-0.043748	X5

0.472267	Mean dependent var	0.128296	R-squared
0.241975	S.D. dependent var	0.098029	Adjusted R-squared
-0.063960	Akaike info criterion	0.229809	S.E. of regression
0.056465	Schwarz criterion	7.604942	Sum squared resid
-0.015035	Hannan-Quinn criter.	10.79700	Log likelihood
1.663783	Durbin-Watson stat	4.238755	F-statistic
		0.001263	Prob(F-statistic)

$$Y=0.726989869345+0.00406044468544*X_1-0.00153548160037*X_2-0.0886061289206*X_3-0.0589249709888$$
$$0.043748344061*X$$

The above model shows the overall relationship between the capital structure and the corporate governance. Here, we will examine the hypothesis.

Hypotheses test

The main assumptions: There is a significant relationship between the capital structure and the corporate governance.

According to the statistics of " F " and the probable value resulting from the regression that is under 5 percent, the first hypothesis is proved, namely, there is a significant relationship between the corporate governance and the capital structure.

The first subsidiary hypothesis: There is a very significant relationship between the capital structure and the ownership centerlization.

According to the value and the statistic possibility of " **t "** resulting from the model output, the authenticity of the second hypothesis is verified and it means that there is a positive and significant relationship between the ownership centerlization and the capital structure.

The second subsidiary hypothesis: There is a significant relationship between the institutional shareholder ownership and the capital structure.

According to the value and the statistic possibility of " **t "** resulting from the model output, the authenticity of the third hypothesis is not verified and it means that there is not a positive and significant relationship between the institutional shareholder ownership and the capital structure.

The third subsidiary hypothesis: There is a significant relationship between the duality of CEO task and the capital structure.

According to the value and the statistic possibility of " **t "** resulting from the model output, the authenticity of the fourth hypothesis is verified and it means that there is a negative and significant relationship between the duality of CEO task and the capital structure.

The fourth subsidiary hypothesis: There is a significant relationship between the number of the director board members and the capital structure.

According to the value and the statistic possibility of " **t "** resulting from the model output, the authenticity of the fifth hypothesis is not verified and it means that there is no significant relationship between the number of the director board members and the capital structure.

The fifth subsidiary hypothesis: There is a significant relationship between the independence of the director board and the capital structure.

According to the value and the statistic possibility of " **t "** resulting from the model output, the authenticity of the sixth hypothesis is not verified and it means that there is no significant relationship between the independence of the director board and the capital structure.

CONCLUSION

This research reviews the relationship between the corporate governance mechanisms with the capital structure in the holding companies of cement industry, basic metals, construction and metal ore extraction accepted in Tehran stock exchange during the years from 2008 to 2013. The results of this research suggests that there exists a positive and significant relationship between the corporate governance and the capital structure of these companies. Among the corporate governance mechanisms, only two criteria of the ownership centerlization and the duality of CEO task had a significant relationship with the capital structure that the relationship of the first criterion was positive but the relationship of the second one was negative. The main results of this research are consistent with the research results of Butt and Hasan (2009), Saad (2010) and other internal researches. At the end, in order to complete the research, we propose the holding companies of other industries are also entered in the model.

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