Indian Journal of Fundamental and Applied Life Sciences ISSN: 2231– 6345 (Online)
An Open Access, Online International Journal Available at http:// http://www.cibtech.org/sp.ed/jls/2014/01/jls.htm
2014 Vol. 4 (S1) April-June, pp. 2159-2164/Bagheri et al.
Research Article

INVESTIGATION THE EFFECT OF BOARD OF DIRECTORS SIZE AND DIRECTORS RESPONSIBILITY NONDUAL ON THE FINANCING COST, LISTED COMPANIES IN TEHRAN STOCK EXCHANGE

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ABSTRACT
For financing companies the quality of board of directors size and directors responsibility nondual are the important factors to financing, because they can have an effect on payment risk or an unpayment, hence, we can tell that the quality of board of directors size and directors responsibility nondual will influence on financing cost.
According agency theory, can be argue that the larger board of directors about agency problem are aware, because more persons pay attention management activities. If managing director to be boss of board of directors, this situation called directors responsibility dual and to this situation potentially managing director has more power.
The main purpose of this study is to investigate of the effect of board of directors size and directors responsibility nondual, on the financing cost of listed companies in Tehran Stock Exchange during 5 years (since 2006 to 2013).The population is 448 companies that 221 companies had been selected with Chochran method.
The result of this research indicate that, board of directors size and directors responsibility nondual have different effect on the companies financing cost.

Key words: *board of directors size, directors responsibility nondual, financing cost, company size*

INTRODUCTION
Many researchers have been done about companies financial decisions and the effective factors on capital structure, of course, the factors such a control shareholders existence, board of directors size, board of directors independence, directors responsibility nondual, major institutional shareholders and ect, are important factors to giving facilities to companies.
Since 10 years ago up to now the world witness important changes in private sector, economic growth and create job. Because many countries had followed the market-exist attitude, so awareness from the importance of private organizations in ground of people comfort increased. With economics pay attention to private sector in entirely world, to consider some characteristics of companies such as board of directors size, directors responsibility nondual, audit quality, major institutional shareholders have more importance from before.
Most of researches that have been done, pay attention to the role of board of directors size to increase the performance and they don't pay attention on the correctitude of financial reporting. With attention to this subject that the main role of board of directors is supervision on management; studies about board of directors size only investigated from supervision view. According agency theory, can be argue that the larger board of directors about agency problem are aware, because more persons pay attention management activities (Gul and Tsui, 2001).
The base of corporate governance, is the power of the board of directors, then it is better that the board of directors to be separates from executive board; on other hand, the principle of corporate governance suggest a structure for the board of directors of large companies and general corporation that provides the health efficiency and their responsibility to all beneficiaries.

Recently, financial crises in America, European and Asia clear for all countries in the world that why consider to these types of characteristics such as board of directors size, directors responsibility nondual, audit quality, major institutional shareholders are very important.
Financing, it is means provide financial recourse and cash to continue company activities and create initiation of development plans and to be profitable of economic parts plans, that generally do with issue of shares, sale of bond and loan.
Costs of financing of business activities are the concern of many of activists. Financing costs may be prepare with merchant or his/her partners personal properties and/or by bank loan and co-operation with active companies in the field of financial, that the successful merchant accepts the combination of both choose.(Raymond P.Neveu 1995). So, costs of financing can be calculated using debts such as bank loans and issuance of stock.

Problem Statement
The important factors that effect on financing are board of directors size and directors responsibility nondual; on the other hand, creditors in face with unpayment risk, generally pay attention to the board of directors size and directors responsibility nondual as the important components of corporate governance. Of course, others components such as control share holders existence, board of directors independence, major institutional share holders and the size of audit institution are the important components to giving facilities to companies.

Importance and the necessity of study
Studying in this aspect, with pay attention to this case that companies to giving credit often notice some components of corporate governance (board of directors size and director responsibility nondual) and audit quality, hence, it can cause that companies pay attention these components; on the other hand, these type of subjects have been noticed in other countries more than Iran, may it is help that these subject notices in Iran, this study helps that companies to receive facilities, notice these components.

Research Theoretical Foundation
Suitable corporate governance requires that the board of directs with any structural, focus on long-term issues and doesn't involve itself in the more daily operational responsibilities. In general the board of directs and its members should have predetermined and specific responsibilities and have good motivational stimulus in order to properly perform.(Hasass yeganeh and moradi 2006).
The size of board of directors is another component of the company policy that has been investigated in different studies.
Some researchers have been found, that the board of directors size, with two ways cause the improve of performance company;

1- more necessary of company to create a relationship by out of company
2- More executive responsibility in companies (kirovgorsky, 2006)

Lipton and Lorsuch , 1992 fund significant relationship between the structure of capital and board of directors size.
Yermack and Berger, 1997 have been shown that the companies with more members of board of directors had less liabilities ratio. But (wen rwegasia and Bilderbeek, 2002) and (Abor, 2007) Understood that there were positive relationship between board of directors size and capital structure.
Xin chang 2008, investigated the relationship between board of directors combination and companies performance. The population is 1252 companies during 10 years (since 1996 to 2006). In this study, he used assets return and stock return as an indexes of performance measure and used the board of directors size and the percents of nonexecutive director of board of directors to measuring the board of directors combination. The results have been shown that there were positive re relationship among board of directors size and percents of nonexecutive director with companies performance.

If the boss of board directors and managing director to be one person, the possible of corporate governance to be eliminated. If managing director to be boss of board of directors, this situation called director responsibility dual and in this situation, the managing director potentiality has more power. Also, double structure, gives more permit to managing director until he controls the information of board directors members, so it is possible that prevention the effective supervision (jenson. 1993).

A way to separated the decision management and decision control is the separate of managing director and board of directors boss duty (yermack. 1999). Nevertheless, the results of other researches about the relationship between director responsibility dual and the capital structure were different.

For example (Fosberg 2004) has been shown a negative relationship between director responsibility dual and amount of liabilities of companies . On the other side, (Abor , 2007) found that between the company liability ratio and directors responsibility dual were a positive relationship.

Literature Review

Mashayehk smaili,2006,investigated the relationship between profit quality and some aspects of guiding principles such as the percentage of board directs members and the number of nonexecutive directors in listed companies in the Tehran Stock Exchange profit quality has been tested with accrual items measure.

Anderson,(2004), As accounting report and financing cost, his research on 500 companies during 1993 to 1998 showed, that financing cost inversely relations with board of directs independence, Board of directs size, and nonexecutive directors members of audit committee and number and size of board of directs meetings.

Research hypothesis

Because of investigating the effect of board of directors size and directors responsibility nondual on financing cost, in this study we investigate that if the quality of board of directors size and directors responsibility nondual can effect on financing cost of listed company in Tehran Stock Exchange.

The hypothesis can be state as follows;

Hypothesis 1: There is a significant relationship between the quality of board of directors size and financing cost.

Hypothesis 2: There is a significant relationship between directors responsibility nondual and financing cost.

METHODOLOGY

This study, from data gathering method is descriptive, Causal comparative and the target is applied. This study directed towards practical application of know ledge. Also, from classification is based a method and nature is a kind of correlation research.

As noted above, this type of research is the investigation of events, it means, the research studied the possible cause and effect relationships through observation of existing conditions, and in this method the cases of study occurred in the past and they are not able to manipulated by researcher.

The population is all of Tehran Stock Exchange listed companies. To select the sample, the following criteria have been considered:

1. Before 2006 to be accepted in Tehran Stock Exchange and till the end of 2013 to be active.
2. In order, comparable information, companies during the study period didn't have any changes in fiscal period and their end of year to be (February).
3. In order to homogenize information, companies don't be investing companies or financial brokerages include insurance and bank.
4. Their stocks to be traded during the year.

After pay attention to above criteria, 221 firms were eligible for statistical community, that between population of research, 140 firms during 2006 to 2013 have been selected randomly.

Methods of data collection

In this study, the method of data gathering was library method hat essays and documents relating to study and audited financial statements of companies, financial reports and companion notes that published with Tehran Stock Exchange have been studied. These types of data are secondary data that are reliable and valid; the tools of data gathering in this study is document survey. Tools that used to gathering data included, observation, statistical tests, databases and Excel and EVEIWS software.

The information about literature and theoretical debates were collected from library resources such as books, Persian and English periodicals and internet sites.

Descriptive and inferential statistic.

Methods of data analysis and definition of variables in this study for data analysis have been used two methods.

In descriptive statistic, mean, variance and standard deviation and inferential statistic, Pearson correlation factor, T test, F test, in multiple regression method with Panal Data to examine research model have been used. In order to efficiently estimate, a regression model with Panal Data is needed that using appropriate tests, one of the common effects, fixed effects and random effects can be selected for this purpose, first, to choose between common effects models and fixed effects have been used F test. If we select fixed effects, we have to use Hasuman test to select between fixed effects and random effects. If the results of F test verify, using the common effects method, Hasuman test is not needed the model estimated with common effects.

In this research, to check the independence of regression model errors was used Watson test and to accept or reject the main hypothesis of research, the Student test was used.

To test the hypothesis research multiple regression model will be used.

$$DebtCost_{it} = \beta_0 + \beta_1 \mathrm{ResBrdsize}_{it} + \beta 2\mathrm{Dual}\ _{it} + + \beta 3 LnAssets_{it} + \varepsilon_{it}$$

Debt cost it: Cost of debt of i firm in t year
ResBrdsize: board of directors size
Dual: directors responsibility nondual
LnAsset it: size of i firm in t year
εit: the error for i firm in t year

Dependent variable

Costs of financing of business activities are the concern of many of activists. Financing costs may be prepare with merchant or his/her partners personal properties and/or by bank loan and co-operation with active companies in the field of financial, that the successful merchant accepts the combination of both choose.(Raymond P.Neveu 1995. So, costs of financing can be calculated using debts such as bank loans and issuance of stock. It seems that corporate governance can effects the cost of financing of companies.

Financing cost in this study equal the ratio of financing cost to total of long- term and short- term receivable facilities of companies.

Independent Variable

Board of director size

The numbers of board of directors members have to be a shape that possible to do very useful argue and logical decision making about companies activities. In this study, if the number of board of directors members to be more than 5 person we consider 1 and other wise we consider 0 (zero).

Director responsibility nondual

If the boss of board of director and managing director to be one person, the possibility of corporate governance eliminated. In this study, if the managing director does not to be boss of board of directors we consider 1 and other wise we to consider 0(zero).

Control Variable
LNASSETS, (size of company): calculated with natural logarithm of total assets of the sample.

RESULTS AND DISCUSSION

As the result of table (1) shows, the P-Value of F Limer test equal 0.000.As a result, the common effects method rejected. Results of F Limer test showed that the common effects method is not appropriate for estimating the regression models. So, the Hausman test uses to select estimate appropriate method. The P-value of Hausman test shows that fixed effects method is a better option for estimate model.

Table 1: The results of F test and Hausman test

Test Result	p-value	Degrees of freedom	Test statistic	Tests
Fixed effects method	0.0000	139.697	4.4103	F Limer test
Fixed effects method	0.0000	3	32.0401	Hausman test

RESULTS

The results of regression model that has been done with fixed effects method, showed in table (2). P-value statistic of F fisher test equal 0.000 and it means that model has overall adequacy.
Adjusted R-squared equal 0.8344, and it indicates that more than 83 percents of independent variable changes explained with independent and control variables. Statistic of Dorbin-Watson is (2.0462), indicates that there is no error in component of correlation.

DISCUSSION

The first hypothesis, Board of director size examined with financing cost; As Table 2 shows, The first hypothesis, the variable of Board of director size has a significant coefficient of 0.4103, and the acceptable error level is 5 percents, thus, Its represented that between Board of director size and financing cost of listed companies on Tehran Stock Exchange, there is no significant relationship. As a result, the first hypothesis is not confirmed.
The second hypothesis, the relationship between director responsibility nondual and financing cost is examined, according to table 2, the coefficient of significant level of director responsibility nondual is 0.0461, and the acceptable error level is 5 percents, thus, Its represented that between director responsibility nondual and financing cost of listed companies in Tehran Stock Exchange there is a significant relationship. As a result the second hypothesis is confirmed.
The result of control variables has been showed that between the variable of size of company (LnAssets) with financing cost has a significant positive relationship.

Table 2: Regression Results

Variables	Coefficient	t-Statistic	Prob.
C	-0.3859	-6.9999	0.0000
BRDSIZE	0.0048	0.8239	0.4103
DUAL	0.0214	1.9978	0.0461
LNASSETS_	0.0363	0.0035	0.0000
Adjusted R-squared	0.8344		
F-statistic	30.7796		
Prob (F-statistic)	0.0000		
Durbin-Watson stat	2.0462		

CONCLUSION

The results show that in Tehran Stock Exchange, the board of directors size does not influence on financing cost, on the other hand, can be state that there is not any significant relationship between the

board of directors members in companies and financing cost of listed companies in Tehran Stock Exchange. These results show that, if the number of executive and non executive members of board of directors increase or decrease, they cannot decrease the costs of financial resources of companies that provide with creditors.
There is not any relationship between the results of this study with (Anderson, 2004), as accounting report and financing cost, Anderson's research on 500 companies during 1993 to 1998 showed, that financing cost inversely relations with board of directs independence, Board of directs size, and nonexecutive directors members of audit committee and number and size of board of directs meetings.
To consider by earned results, can be state that , there are a positive and significant relationship among managing directors position nonexistence and boss of board of directors with one person and financing cost. These result show that, if the position of managing director and boss of board of directors to be separate it causes to increase the rate of companies financing cost.

ACKNOWLEDGEMENT
We are grateful to god that help us until we ready this essay.

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