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Research Article

INVESTIGATING THE EFFECTS OF OWNERSHIP STRUCTURE ON THE VALUE OF PRIVATIZED STATE-OWNED COMPANIES

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ABSTRACT
The present research aims to study the effects of ownership structure on the value of privatized state-owned companies. The statistical population includes all 11 state-owned companies which have gone private or listed on the Tehran Stock Exchange in 2008, 2009 and 2010. They were studied in two time schedules of before and after privatization. Due to difficulty in having access to information and time restrictions after privatization, the research examined data available for two financial periods before and after the privatization time. Data were processed in Excel and analyzed in Eviews. Results revealed that there was a significant correlation between major stakeholders and distinguishing between managing director and members of the board of directors before and after privatization. Regarding tests carried out in this regard, no significant correlation was approved between the number of stocks owned by the board and the ratio of non-executive directors to institutional investors before and after privatization. At the end, the research offers some suggestions including speeding up the development and improvement of corporate governance principles and cooperating with companies listed on the Stock Exchange for supervising the execution of these principles.

Keywords: *Ownership, Privatization, Corporate Governance, Tobin's Q ratio*

INTRODUCTION
Recent financial scandals of companies such as Anron, WorldCom, Adelphi, Quest, and Wiuendy and the spread of financial crises and crimes and other similar matters around the world have involved researchers and public opinion in the matter of how publicly held companies make revenues. As to the growing number of publicly and privately held companies, the agency theory, and increased responsibilities and authority of the board, this question is raised that how can directors, who do not own the whole company, follow up stakeholders' interests (other owners)? And how does the company act in support of stakeholders' (including major and minor) and all beneficiary groups' interests? The research topics and contents encompass fundamental problems according to which the ownership structure has been developed on the theory of corporate governance:

- Conflict of interests between stakeholders and management
- Absolute controlling by major stakeholders
- Decisions exclusively made by directors
- Loss of stakeholders' rights (Hassass and Moludi, 2011).

Accordingly, several mechanisms should be developed in order to decrease the rate of financial crimes, improve companies' performance and build up companies' value. These mechanisms should narrow down the gap between ownership and governance. Therefore, primary principles for corporate governance were developed in Canada in early 1990s according to a report released by Codbury and Dey and Jenrals Motors and board regulations took shape in General Motors (Denis and McConnell, 2003).
To preserve their competitive power in an ever-changing world and satisfy their new needs and using fresh opportunities, companies have to innovate and proceed with corporate governance procedures. In creating an effective supervision framework, governments also play a key role in providing flexible markets with efficient power to respond to stakeholders' and other beneficiaries' expectations. Governments and market authorities have to make decision aligned with the cost and benefit of ruling over application of these principles to corporation governance frameworks. Corporation governance can be an important factor in enjoying competitive advantages and decreasing the vulnerability of developing

markets against crisis (Rahbar, 2004). Drobetz *et al.,* (2004) believe that the purpose of most corporate governance mechanisms was to create responsible, responsive, value-based management and finally controlling over companies. Put it differently, rules for corporate governance have been developed to ease probable conflicts between stakeholders, workers and managers in international markets. The value of companies' stock markets can be affected by different factors most of which have been studied in a wide range of studies and literature. Cyert *et al.,* (1998) looked at the important role of major investors on companies' value (Cyert *et al.,* 1998). Jensen (1993) stated that the stock ownership by directors and the board raised the value of companies. Karathanassis and Drakos (2004) found out that according to Tobin's Q ratio, there was positive and significant correlation between institutional investors and companies' value and the ownership structure had a strong impact on the effective value of companies. The company's value is calculated by Tobin's Q ratio, which is of the important indices for assessing companies' value. By studying the literature of Iranian companies' ownership structure which has a significant correlation with value, it is anticipated that it includes the following mechanisms: ownership concentration (major stakeholders), institutional investors, the dependence of the board members (the ratio of non-executive members), distinguishing between managing directors and other board members and the ratio of stocks owned by the board members. Given what was mentioned before, the main question is that how does the ownership structure affect the value of privatized state-owned companies?

Research Literature

Corporate Governance

Corporate governance relates not only to managing operations but to leading, supervising and controlling executive managers' performances and how they respond to all company's beneficiaries (Tricker, 1984).

Corporate governance is a process of supervising and controlling to guarantee the act of management according to stakeholders' interests (Parkinson, 1994).

Corporate governance means structures, processes, cultures, and systems which help companies have good performance (Keasey, 2005).

Corporate governance is a system by which companies are led and controlled. According to World Trade Organization, corporate governance structure determines rights and responsibilities among different partners (managing director, managers, stakeholders and other beneficiaries) and fairly divides rights and interests. Rules and procedures are also clarified to make right decisions. Accordingly, a structure is offered in which company's goals are defined and some goals are considered for supervising the company's performance (Gompers *et al.,* 2001).

Corporate governance is a system including rules, regulations and factors controlling operation (Gillan and Starks, 1998).

Advantages of Corporate Governance

Corporate governance can be helpful for the beneficiaries such as investors, creditors, the board, management, workers, and economic industries and sectors. Well-defined corporate governance can help the beneficiaries improve the company's performance and create a good return on investment for stakeholders. The advantages have direct (better return and lower capital expenditure) and indirect effects (more credit and investment opportunities). Companies with good governance have strong legal systems, efficient resource allocation system, financial and economic stability, and national and international growth. Corporate governance is a principal element in building up investors' trust, competitive advantages and finally economic growth. However, it is not a simple process and the advantages appear in long-term and impose short-term costs. Executive managers, concentrating on short-term results, just consider these costs not the advantages. Thus, they should be motivated to implement corporate governance purposes, including creating the culture of morality and abiding by rules and regulation, appointing internal auditors affecting the management of financial and operational matters (Chashmi, 2010).

Corporate Governance Principles

Corporate governance principles of Organization for Economic Co-operation and Development (OECD), issued by the ministers of member states in 1999, are still an international test for policy-makers, investors and corporation in global stage. They developed the corporation governance and provided a particular guideline for law-makers and forerunners of regulations both in OECD member states and others. In 2002, the principles were revised by OECD's authorities. The revision included a comprehensive review of challenges and considerably helped different groups. After that OECD continued developing these principles, aiming to help member states and other countries improve and evaluate the legal and organizational framework of corporate governance and to provide Stock Exchanges, investors, companies, and other groups having a role in developing corporation governance with needed suggestions and directions. These principles are not obligatory and do not contradict the states' internal laws. They just offer some methods for reaching defined purposes. To stay in competition stage, companies should take advantage of fresh opportunities by adjusting their conditions with the conditions of implementing corporate governance principles. Governments have an important role in shaping legal and administrative contexts to have the required flexibility for efficient performance of market and responding to stakeholders' expectations. Governments and market actors are obliged to make decision on how to implement these principles and assess the costs and available opportunities.

In April 22, 2004, OECD released the revised version of corporate governance principles, approved by 30 member states. In this version, responding in national level is considered as a way for drawing the general trust (Kirkpatrick, 2005). Corporate governance principles are as follows:

First Principle: creating the needed substructure for efficiently executing corporate governance principles

It should be put into practice in order to raise the transparency and efficiency of markets. It has to agree with internal laws and the responsibilities of law-makers, managers and the executives should be differentiated.

Second Principle: Major and minor stakeholders' rights (stakeholders' rights and the functions of ownership principle)

Corporate governance should defend all stakeholders' rights. To achieve this goal, the following points should be considered:

✓ Primary stakeholders' rights include a stable ownership system, stock exchange, receiving periodical information of invest taking companies, commenting and voting in general embassies, being able to select and change the board's members and receiving the company's dividend.

✓ Stakeholders have right to be informed of information and decisions fundamentally affect company's conditions and productivity. The information includes all amendments of the statute, capital growth, stock exchanges and fundamental changes in company's assets having effect on sale and productivity.

✓ Stakeholders should be able to participate and vote in general embassies. In this regard, they should be notified of the time and place of embassies. They should be able to ask the board on auditor's report and the performance of the board. Decision on rewards and the presence of the board should be confirmed by the majority stakeholders. The voting right, either in person or by proxy, should be preserved.

Third Principle: Equal Behavior with Stakeholder

Corporate governance should be in a way that all stakeholders, including minor and external stakeholders are treated as major stakeholders. All can prosecute for violating their rights. Accordingly, transactions based on final information and personal contracts, which can violate others' right, are forbidden. Also, transactions with affiliated persons and companies should be disclosed.

Forth Principle: The role of employees in corporation governance (the role of beneficiaries in corporation governance).

According to corporation governance, employees' and beneficiaries' legal rights should be recognized based on mutual contracts. A dynamic cooperation between the company and employees should be promoted for creating wealth and job opportunities, and improving financial states. So, employees should be able to protest against illegal performance of the board and this should not affect their status.

Fifth Principle: transparency in implementing information (disclosure of information)

Companies have to provide stakeholders with periodical financial information and the performance of the board. The disclosure of information should include financial statements, companies' activities and any change in the structures of stakeholders. The information should be based on financial and accounting standards.

Sixth Principle: the Board' Responsibilities

Corporation governance should demonstrate the way of management, supervision over members' activities, and their commitment. The board of directors has to do its best for promotion of the company. Decisions should be made based on respecting all stakeholders' rights. They are obliged to consider companies' approaches and act on to revise them. These principles include future ventures, annual budget, supervision mechanisms and the way of managing company's capitals. After announcing to the board members, the information relating to members should be totally disclosed. And these people should have access to periodical and accurate information to do their responsibilities (Davani, 2008).

Research Hypothesis

Leading Hypothesis

There is a significant correlation between ownership structure and the value of privatized state-owned companies.

Secondary Hypotheses

1-1 there is significant correlation between the concentration of ownership and the value of privatized state-owned companies.

1-2 there is significant correlation between institutional investment and the value of privatized state-owned companies.

1-3 there is significant correlation between the stocks owned by the board members and the value of privatized state-owned companies.

1-4 there is significant correlation between the ratio of non-executive members (the board's independency) and the value of privatized state-owned companies.

1-5 there is significant correlation between distinguishing between managing directors and other members and the value of privatized state-owned companies.

MATERIALS AND METHODS

This is empirically an approval accounting research study based on real information of companies financial statements and is practical in terms of purposes.

Table 1: The names and dates of privatizations

Number	Company's Name	Company's Symbol	Date of Primary Offering
1	National Iranian Copper Industries Company	famali	2008.02.4
2	Isfahan Mobarakeh Steel Company	Steel	2008.03.11
3	Dashtestan Cement Industry Company	Sadasht	2009.07.16
4	Khouzestan Steel Company	Fakhur	2009.08.7
5	Iran Power Plant Projects Management Co.	Rampna	2009.08.26
6	Khorasan Steel Company	Fakhas	2009.11.5
7	Fanavaran Petrochemical Company	Shafan	2009.2.3
8	Islamic Republic of Iran Shipping Lines Co.	Hakshti	2010.05.19
9	Isfahan Oil Refining Company	Shapna	2010.06.30
10	Iran Telecommunication Company	Akhaber	2010.7.10
11	Melli Bank	Vebmlet	2010.02.19

This is also a descriptive ex-post factoand correlation research study. The researcher aims to concretely describe the real and regular features of a situation and a subject. Put it differently, whatever exists is reported without any mental interference or conclusion. In correlation studies, several variables and their inter-relation in a particular moment and in real time can be assessed and evaluated. In this method, the causal relations are not necessarily identified. The main purpose is to find that which variable positively

or negatively aligns with which other variable. Library method (in library section, the theoretical principles of books and Persian and English journals and theses) is first used for theoretic issues and the related literature. The gathered data, which have been entered into Excel spreadsheet and categorized by Eviews, are then econometrically analyzed. In the next step, the analysis is carried out by means of results and statistical indices.
The statistical population includes all 11 state-owned companies which was privatized by the end of 2010 (within three years, 2008, 2009, and 2010) and listed on Tehran Stock Exchange. The following table presents the name and the date of primary offering.

RESULTS AND DISCUSSION

Table 2 presents features relating to research variables such as dependent, independent and control variables. The statistical information and data of the research variable have been calculated by the special formula of each index. According to the research hypothesis, eight variables, including one dependent variable and five independent variables and two control variables are considered. The dependent variable is the value of companies which is measured by Tobin's Q ratio (Q). The independent variable is the structure of ownership encompassing five components of the concentration of ownership, institutional investment, stocks owned by the board members, the ratio of non-executive members and distinguishing between managing director and the board member. The statistical measures of central tendency and dispersion, including mean, medium, maximum, minimum, and the standard deviation, have been calculated. As the statistical population includes all state-owned companies listed on Tehran Stock Exchange during 2008, 2009, and 2010 (11 active companies), data are related to two years before and two years after privatization. For example, in case of National Iranian Copper Industries Company which has been privatized in February4, 2008, data relating to two years before and after privatization were used. Regarding data relating to before privatization, the company's hope letter information were adopted and for data relating to after privatization, financial statements were taken into consideration.

Table 2: A summary of descriptive statistics employed in the research

Statistical Quantity Variable	Observations	Mean	Maximum	Minimum	Standard Deviation
OWNCON(pre)	11	0.9882	1	0.90	0.306
OWNCON(post)	11	0.8428	0.96	0.66	0.1162
INOWN(pre)	11	0.2218	0.51	0	0.2424
INOWN(post)	11	0.3773	0.92	0	0.3202
BRDIND(pre)	11	0.5727	0.80	0	0.3165
BRDIND(post)	11	0.6291	0.80	0	0.2617
TOP (pre)	11	0.8973	1	0	0.2991
TOP(post)	11	0.6109	0.92	0	0.3138
ceo (pre)	11	0.187	1	0	0.0962
ceo(post)	11	0.227	1	0	0.1262
Q TOBIN(pre)	11	2.1811	4.1254	0.8715	1.2974
Q TOBIN(post)	11	3.3835	9.1542	1.2491	4.9747

In above table:
OWNCON: major stakeholders in company i at time t
INOWN: institutional investors in company i at time t
BRDIND: the ratio of non-executive members in company i at time t
CEO: distinguishing between managing director and the board members in company i at time t
Q TOBIN: value assessment measures in company i at time t
Pre: data before privatization
Post: data after privatization

To do tests and select a good model among combined data models and to do the test for homogeneity, the model was first estimates as two methods of common coefficients and coefficients with constant effects:

- ***Test for Homogeneity***

In econometric literature relating to integrated models for comparing the models of common effects and constant coefficients, in which the first is called common y-intercepts and the second called variable y-intercepts, one of these models are selected for analyzing the hypothesis. F statistic is used to select each of these equations. If the p-value of F is larger than 0.05, the common y-intercepts is selected, and if it is smaller than 0.05, Hausmantest is employed to select a model of constant and random coefficients. The following table presents the research results.

Table 3: A summary of research results

Research Hypothesis	**Before Privatization**		**After Privatization**	
	Approved	**Rejected**	**Approved**	**Rejected**
Correlation between major stakeholder and the value of company	*			*
Correlation between the number of stocks owned by the board and the value of company		*		*
Correlation between the ratio of non-executive members and the value of company		*	*	
Correlation between institutional stakeholders and the value of company		*		*
Correlation between distinguishing between managing director and the board members and the value of company	*		*	

Discussion, Conclusions and Suggestions

Managers are now using new and efficient approaches to motivate good behavior, reach organizational goals and increase productivity. One of these approaches is to create a good organizational culture in order to lead the behavior of human forces and reflect a clear, attractive and pleasant perception of the company's products and services and management in consumers' mind. The organizational culture is virtually a general and shared image of organizational members and its origin is the insights of institutes, scientific and research centers, founders, and organizational managers which are gradually taught to members. In this case, besides presenting definitions, concepts and the characteristics of organizational culture, people would abide by it. In companies with a strong culture, common values and beliefs are created by an environment where people feel committed to each other and their missions. Such commitment would bring about raised productivity. Accordingly the management of organizational culture is considered as a necessity for managers. Considering the leading dimension of managers is one of the most important approaches for improving personnel's' quality. Many researchers have studied the relation between organizational culture, job satisfaction and organizational commitment and concluded that the fastest and most guaranteed method increasing job satisfaction and employees' commitment is effectively managing them in a good physical and job environment. The effect of organizational culture on these variables is different in terms of the professional language and the role of managers is so complicated regarding the necessity of placing traditional management beside a change-oriented management.

According to results, we can present the following suggestion about each of the studied hypothesis:

Involving in job:

1. Considering team creation inside the organization and doing jobs as teamwork;
2. Involving employees in matters relating to the organization and decision-makings;
3. Asking for employees to offer their suggestions about work procedures;
4. Fairly distributing tasks among employees;

5. Distributing the necessary information among employees;
6. Installing a comments and suggestions box especially for employees and praising excellent suggestions; and
7. Holding creativity sessions for solving problems and using new methods of creativity such as brainstorming.

Adjustment at work
1. Hearing customers' comments and considering their comments in production;
2. Holding monthly meetings with customers;
3. Establishing a marketing research team to identify the needs of each section and customers' interests;
4. Holding justification meeting with employees before making any change to prepare them for changes; and
5. Gradually making organizational changes.

Adjustment
1. Considering all employees' interests when making decisions;
2. Hearing all sides' comments when making decisions;
3. Asking for employees' comments when making decisions on macro problems;
4. Using strong directors or strong leaders at meetings for easily reaching a collective agreement; and
5. Not limiting employees in doing their tasks and not confining their works to a series of especial methods, in other words, there should be flexibility in doing works.

Prophecy
1. Selecting managers with strategic insights;
2. Giving time to managers to implement their strategic programs;
3. Developing long- and short-term strategic programs for the organization; and
4. Clarifying the strategic programs.

Job satisfaction
1. Training employees before starting their works;
2. In-service education of employees to be familiarized with new methods of work;
3. Sending people to successful organizations to be better familiarized with their work;
4. Inducing the sense of being important for the organization by managers and authorities;
5. Careful recruiting and selecting interested people;
6. Job rotation to prevent from repetition of work and familiarizing people with new tasks;
7. Giving new chances to people during work;
8. Praising marked employees to think that organization cares them and their works are important;
9. Providing new job opportunities for people; and
10. Rewarding good employees.

Organizational commitment
1. Enabling employees by presenting at training classes;
2. Involving employees in decision making and helping them develop their capabilities;
3. Considering justice among employees; and
4. Drawing people's attention to this issue that how much their work is important in the success of the organization.

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