Indian Journal of Fundamental and Applied Life Sciences ISSN: 2231– 6345 (Online)
An Open Access, Online International Journal Available at www.cibtech.org/sp.ed/jls/2015/01/jls.htm
2015 Vol.5 (S1), pp. 2312-2321/Zahra and Anzabi
Research Article

THE EFFECT OF CORPORATE GOVERNANCE STRUCTURES ON CASH FLOWS RESULTING FROM INVESTMENT IN FIRMS

***Zahra Poorzamani and Elham Abbasnezhad Anzabi**
Department of Accounting, Central Tehran branch, Islamic Azad University, Tehran, Iran,
**Author for Correspondence*

ABSTRACT
Cash statement, as one of the fundamental financial statements, is considered an efficient report to reflect performance of business units regarding cash basis. The present research has been carried out to prepare some evidences regarding the effect of corporate governance structures on cash flows resulting from investment in firms. There has not been any research done regarding the relationship between corporate governance structures and cash flows resulting from investment activities before. To test this relationship we have used a multiple linear regression method. The statistical population for this research entails firms enlisted in Tehran Stock Exchange and the statistical sample consists of 193 firms enlisted during the time period between 2007 and 2012. Research findings showed that there has been a positive and meaningful relationship between main investors and institutional investors from among corporate governance structures and cash flows resulting from investment. Also there have not been any observed evidences regarding the existence of a meaningful relationship between the percentage of board members not in charge and board size and cash flows resulting from investment.

Keywords: *Corporate Governance, Main Investors, Institutional Shareholders, Board Structure, Cash Flows Resulting From Investment*

INTRODUCTION
The dissolution of big firms such as Enron, World com, Adelphi, Parmalat, Xerox, and some others led to losses for many investors and beneficiaries resulting from weak corporate governance systems caused more emphasis on the necessity of promoting and modifying corporate governance internationally. In America Sarbanes Oxely law was passed in July 2002 and was required to be administered from the start of 2004.
Firm leadership system which is known as corporate governance and share governance in Iran is considered as one of the most important issues regarding management and desirable control of firms. Economic co-operations and development organization has defined leadership system as: "a series of relations between administrative management, board, shareholders, and other beneficiaries".
The framework for firms' leadership system should necessarily prepare the grounds for promoting efficient and transparent markets to cope with law governance and also support shareholders to achieve their rights. Corporate governance framework of a company should recognize whether firm financing has been done to formally accept the benefits of all beneficiaries and absorb their attention to co-operate to succeed in the company in long-term or not. Transparency is one of goals in corporate governance and would be possible through studying financial results of a company by financial statements audited showing financial performance and financial positions of the firms. In this research we have chosen cash flows statements from among financial statements to study about the effect of cash flows resulting from investment.
Cash flow statement, as one of fundamental financial statements, is among most important reports to reflect the performance of business units in cash. It represents required information for creation and consumption of cash among users of financial statements. This report supplies foundations for assessing financial flexibility as a main tool and along with other financial statements. Cash flow statement is also used as a criterion to measure future cash flows. Also this report can be used to assess previous predictions of cash flows in business units realized, to analyze decisions made based on these predictions, probable deviations, and conclusions about the correctness and efficiency of previous decisions. In 1999,

No. 2 national accounting standard, cash flow statements, and international accounting standards were devised and were incorporated into basic financial statements (Moradzadeh, 2002).

Corporate Governance

Due to agency problems firm managers may prefer not to use firm resources in order to maximize shareholders' wealth and use these resources to follow certain goals and benefits. Several tools and strategies are used to achieve this goal but none of them has been able to avoid this problem efficiently. Today many researchers consider corporate governance improvement as the best resolution. Corporate governance includes strategies that can remove misuses of managers to preserve their personal benefits and result in firm performance enhancement. On the whole, corporate governance principles create a framework to direct economic entities effectively and efficiently in order to maximize shareholders' wealth (Rezaee and Piri, 2011). According to the definition in the draft prepared for leadership principles regulations in Tehran Stock Exchange, main stockholder is someone that can appoint at least one member for board of directors independently, where there are 5 members in board. The minimum amount of votes to select one of board members would be %20 (100/5) compared to the total votes. Thus, those shareholders who have more than %20 of the stocks are considered as large shareholders. In this research those shareholders who have had the required stocks to select at least one member in board were considered as large shareholders.

Based on the definition in part 27 of article 1 in bonds market regulation, institutional shareholders are: banks, holding, investment companies, pension funds, financing firms, and funds recorded by Stock Exchange, every real or legal person having more than %5 or more than 5 billion Rials of nominal value of stocks published by bourse, public and governmental organizations and foundations, governmental companies, members of board of directors, and publisher companies' managers or those who have a similar function. In this research banks, firms, or any real or legal persons who had had more than %5 of the stocks published were considered as large shareholders.

In corporate governance literature, there are two perspectives regarding institutional shareholders: efficient supervision theory and benefits' divergence theory. Efficient supervision theory states that if institutional shareholders invest more, there would be more efficient supervision on firm and many agency problems will be removed. Meanwhile, benefits' convergence theory states that the benefits of institutional shareholders are aligned with management's benefits. Frequent exchanges and concentration on short-term benefits on the part of institutions will result in creating an incentive for the management to avoid failure in earnings because it can result in sales of investment by institutional investors and a reduction of stock price will happen (Hassas-e-Yeghaneh, 2008).

According to the definition posed by bourse leadership regulations in Tehran Stock Exchange, not in charge manager is a part-time member in board who does not have an administrative post. In this research the ratio of managers not in charge was derived by dividing the number of not in-charge managers in board into the number of board members.

Board of directors is the highest post in an organization that plays an important role in strategic decisions of an entity. Article 107 of the reform in business law approved in March 1968 stated that the number of board members in corporate firms should not be less than 5 people.

Cash Statement

The main goal of investment by individuals and entities in business units is the hope to receive more cash in future. The achievement of this goal depends on the ability of the business unit in creating a suitable amount of cash that can repay the previous debts on time and supply operational cash needs. The needed cash is reinvested and cash earnings are paid. Thus, financial reports should pose information for investors, creditors, and others to help assessing the business unit and get information about how they work. This also will determine the amount of money, time, and risk related to cash inflows into business units related and determine the value of business unit.

The investment activities of profit units should be reported in a separate group within cash flow statement. These activities basically emphasize on events and exchanges related to assets and include input and output of cashes resulting from these events and exchanges.

Cash inflows resulting from investment activities can be defined as follows:
"A reduction in non-flowing assets and some current assets such as non-business documents receivable and the group of short-term investments not being considered as quasi-investment"
Cash outflows resulting from investment activities can be defined as follows:
"An increase in non-flowing assets and some current assets such as non-business documents receivable and the group of short-term investments not being considered as quasi-investment" (Alivar, 1994).

Research Literature

Lenuz *et al.,* (2003), used several criteria of corporate governance such as the number of managers not in charge in board that strong and effective corporate governance reduces information asymmetry regarding firm stock and results in financial and operational transparency. Thus, stock liquidation capability is enhanced through a reduction of price differences proposed to stock exchanges.

Vafeas (2005) showed that a board of directors that does more efficient activities in order to control the management results in increasing and publication volumes of information by management. Those firms who have stronger and more efficient boards carry out more and more appropriate predictions. In fact, a better quality of board of directors results in a reduction in information asymmetry.

Wang *et al.,* (2009) studied about the effect of corporate governance characteristics on performance of Chinese firms. They used two approaches of corporate governance in their research. They first studied the effect of each of corporate governance features on firms' performance and then studied the effect of all corporate governance characteristics on firm's performance. Results of their research showed that firms having a better corporate governance regime will have a better and more valuable performance.

Also there is a positive and meaningful relationship between ownership concentration, institutional investors, governmental ownership, and market value.

Francis *et al.,* (2013) studied corporate governance and cash flow sensitivity resulting from investment in newly emerged markets and concluded that cash flow sensitivity resulting from firm's investment increases to compensate for weak corporate governance and also showed that firms benefit from strong corporate governance through reducing financial limitations and appropriating more efficient investments.

Heidarian (2009) studied the relationship between some corporate governance strategies and earnings quality. His results showed that there has been a meaningful relationship between the percentage of ownership of institutional shareholders in a firm, the isolation of managing director and board head positions, the ratio of managers not in charge to total managers, and earnings quality.

Bavandpour (2010) carried out a research entitled: "the effect of corporate governance on performance of firms enlisted in Tehran Stock Exchange". Results of this research showed that there has been a positive relationship between the ratio of institutional stockholder and firm performance. But there has been a meaningful relationship between large shareholders, the ratio of managers not in charge, and firm performance.

Khodadadi and Talker (2012) investigated about the effect of corporate governance characteristics including: ownership concentration, institutional investors, governmental ownership, managerial ownership, duality of CEO duty, and the percentage of managers not in charge in board of directors on performance and value of firms in Stock Exchange. They concluded that ownership concentration and governmental ownership have had a positive and meaningful relationship with performance and value of firms. The investor has had a positive relationship with firm value and a negative relationship with firm performance. Duality of CEO has had a negative and meaningful relationship with firm value but it did not have any meaningful relationship with firm performance. Also corporate governance structure including all structural characteristics investigated in this research had had a positive and meaningful relationship with firm value and its performance.

Significance of the Study

Today preserving public benefits, observing rights of shareholders, promoting information transparency, and obliging firms to be responsive towards social responsibilities are among the most important ideals noticed by different authoritative and administrative referents more than the past. The realization of these ideals requires the existence of strong regulations and appropriate administrative actions and economic unit leadership system is one of the most important items in this regard. Firm leadership system targets firm survival in long term more than anything else and thus tries to protect the benefits of shareholders against firm managers and avoid unwanted transfer of wealth among different groups and violating the rights of the public and minor shareholders. The presence of an appropriate leadership system can help the realization of independence of independent audits in reality and result in creating a transparent information atmosphere to make more conscious decisions by those who are active in economic fields.

Also corporate governance system is trying to make sure of finding a framework through which the balance between manager's freedom, responsiveness, and preserving the rights of beneficiaries can be guaranteed. Corporate governance system guarantees that principle goals of the organization will realize, benefits of all shareholders and beneficiaries will be preserved, organization operations and its reporting would be correct and the organization will be controlled and supervised based on legal laws and principles and the morals mentioned and other values and principles not clearly stated through rules (Rezaee and Piri, 2011).

The investors need information extraction related to cash flows and liquidity status analysis and financial flexibility of a business entity in order to make decisions in doing or avoiding new investments and also turnover or maintaining previous investment through a report containing all required information regarding cash flows. Due to structural limitations in balance sheet and income statements in showing information related to cash flows, supply of cash flows statements seems to be a complementary for the statements mentioned. Also audit organization has started to alternate cash flows statement for the changes in financial status from early February 1997 (Sanaatkar, 1997).

Studying the amount and type of corporate governance factors' effect on cash flows resulting from investment can be considered as an appropriate basis to make decisions about new investments, turnover or maintaining previous investments, activity continuation, or sales and firms' dissolution.

MATERIALS AND METHODS

Research Method

The present research is applied regarding research goal and it is past oriented regarding time, and it is descriptive and correlation type regarding data collection. Also we have used quantitative data here due to the nature and characteristics of data used to analyze hypotheses. In this research we have used a multiple variable linear regression model to test hypotheses. The statistical method used was panel data method. It should be noted that in this study we have used Eviews and SPSS software to analyze data.

The statistical population of this research entails all firms enlisted in Tehran Stock Exchange during the time period between 2007 and 2012. In this research we have used a systematic deletion method to have an appropriate representative of the statistical population. Thus, 193 firms have been selected as our samples.

Research Hypotheses

To achieve an answer to the research question, 1 main hypothesis and 4 minor hypotheses were devised as follows:

Main hypothesis: corporate governance structures affect cash flows resulting from investment.

Minor hypothesis 1: large shareholders affect cash flows resulting from investment.

Minor hypothesis 2: institutional ownership affects cash flows resulting from investment.

Minor hypothesis 3: the percentage of managers not in charge affects cash flows resulting from investment.

Minor hypothesis 4: board size affects cash flows resulting from investment.

Model and research patterns:

In this research we have used the regression pattern (1) to analyze and test hypothesis 1 and its minor hypotheses in the form of panel data as follows:

Equation (1): $Investment_{i,t} = \alpha + \sum_{n=1}^{4} \beta_n Gov_{i,t} + \beta_5 FSize_{i,t} + \beta_6 Lev_{i,t} + \varepsilon_{i,t}$

Where,

$Investment_{i,t}$ = cash flows resulting from investment activities of firm i in year t

$Gov_{i,t}$ = variables of corporate governance structures including main investors, the ratio of institutional shareholders, the percentage of managers not in charge, board size in year t
$FSize_{i,t}$ = the size of firm i in year t
$Lev_{i,t}$ = leverage ratio of firm in year t

Research Variables

Dependent Research Variable

Cash flow Resulting from Investment Activities

This variable shows net cash flows resulting from investment activities of the firm that have been extracted from cash flows statement directly and were isolated from total assets.

Independent Research Variables

Large Shareholders (LSH)

According to the primary draft for the rules of leadership principles of Tehran Stock Exchange, large shareholder is the one who can appoint at least one member in board of directors independently. The minimum amount of votes to select one of board members would be %20 (100/5) compared to the total votes. Thus, those shareholders who have more than %20 of the stocks are considered as large shareholders. In this research those shareholders who have had the required stocks to select at least one member in board were considered as large shareholders.

Institutional Shareholders (ISH)

Based on the definition in part 27 of article 1 in bonds market regulation, institutional shareholders are: 1) banks, 2) holding, investment companies, pension funds, financing firms, and funds recorded by Stock Exchange, 3) every real or legal person having more than %5 or more than 5 billion Rials of nominal value of stocks published by bourse, 4) public and governmental organizations and foundations, 5) governmental companies, 6) members of board of directors, and publisher companies' managers or those who have a similar function. In this research banks, firms, or any real or legal persons who had had more than %5 of the stocks published were considered as large shareholders.

The Ratio of not in Charge Managers to Total Managers in Board of Directors (NED)

According to the definition posed by bourse leadership regulations in Tehran Stock Exchange, not in charge manager is a part-time member in board who does not have an administrative post. In this research the ratio of managers not in charge was derived by dividing the number of not in-charge managers in board into the number of board members.

Board Size

In this research the number of board members has been used as a criterion to measure board size.

Control Variables

Firm Size (FSize)

To measure firm size usually some criteria such as natural logarithm of market value of the firm, natural logarithm of total assets, and natural logarithm of sales can be utilized. In this research we have used natural logarithm of total assets of firms.

Leverage (LEV)

In this research we have used debt ratio to measure the effects of leverage in a way that total debt's ratio to total assets is calculated as follows:
Equation (2):

$$LEV_{i,t} = \frac{DEBT_{i,t}}{TA_{i,t}}$$

Where,
$DEBT_{i,t}$ = total debts of firm i at the end of year t

$TA_{i,t}$ = total assets of firm i at the end of year t

Analysis Method and Hypotheses Tests

Results of Testing Research Hypotheses

The goal of testing the main research hypothesis was to know whether corporate governance structures can affect cash flows resulting from investment activities or not. In this research corporate governance structures have been taken into consideration regarding the two perspectives of the ratio of institutional shareholders and the percentage of managers not in charge. Thus, the main research hypothesis and its minor hypotheses were tested through model (2-4) which was a regression model and it was estimated using panel data method.

Equation (3): $Investment_{i,t} = \alpha + \sum_{n=1}^{4} \beta_n Gov_{i,t} + \beta_5 FSize_{i,t} + \beta_6 Lev_{i,t} + \varepsilon_{i,t}$

In this model and in order to identify whether using panel data method would be efficient or not, we have used FLimer test and in order to identify which one (fixed effects or random effects) could be more appropriate to estimate, we have used Haussmann's test. Results of these tests are represented in figure 1.

Figure 1: Results of pattern selection to estimate model (1)

test	Test statistic	Value of test statistic	Freedom degree	P-Value
F Limer test	F	2.796	(948.192)	0.0000
Haussmann test	χ^2	17.323	6	0.0269

Regarding the results of F Limer test, since the amount of P-Value of this test has been less than 0.05 (0.0000), the divergence of latitude from the base has been approved and it would be necessary to use panel data method in model estimation. Also regarding the results of Haussmann's test, since the amount of P-Value of this test is also less than 0.05 (0.0269), we should have used fixed effects method for the model. In figure 2, the results of model estimation, and results related to statistics and presuppositions of classic regression have been represented.

In studying the total meaningfulness of the model, regarding the fact that the amount of probability (P-Value) of F statistic has been less than 0.05 (0.0000), the total meaningfulness of the model was approved in an assurance level of %95. Also identification coefficient of the model showed that %64.69 of changes of cash flows resulting from investment activities in firms could be determined by variables entered into the model.

Figure 2: Results of model (1) estimation

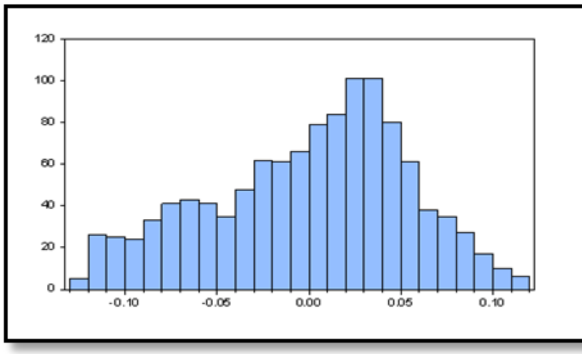
Dependent variable: Cash flow resulting from investment activities Number of observations: 1149 years- firm

	Coefficient	t statistic	P-Value
Constant	-0,0252	-0.740	0.4589
Main investors	0.0041	2.007	0.0450
Institutional shareholders	0.0162	3.806	0.0001
board size	-0.0035	-1.029	0.3034
the percentage of managers not in charge	-0.0011	-0.472	0.6370
Firm size	-.0019	-0.942	0.3462
leverage ratio of firm	0.0124	3.022	0.0026

coefficient of the model	0.6469		
F statistic of model	8.678	Jarque-Bera statistic	39.664
(P-Value)	(0.0000)	(P-Value)	(0.0000)
Breusch-Pagan statistic	5.748	Durbin-Watson statistic	2.05
(P-Value)	(0.0000)		

Research Article

Also in studying the presuppositions of classic regression, results of Jarque-Bera test showed that residuals of model estimation did not have normal distribution in an assurance level of %95, in a way that the amount of probability (P-Value) related to it was smaller than 0.05 (0.0000). Thus, regarding the high amount of observations and central tendency theorem we can ignore lack of normality of data distribution. Additionally, regarding graph 1, the distribution of residuals approximates normal distribution.



Graph 1: Frequency distribution of model (1) residuals

Also regarding that the amount of probability (P-Value) related to Bresch-Pagan test was less than 0.05 (0.0000), the existence of variance divergence of residuals was approved. In this research and to remove this problem in estimation we have used adjusted least squares method instead of ordinary least squares. Additionally, since the amount of Durbin-Watson statistic approximated 2 (2.05), the independence of model residuals was approved either.

Results of Testing First Minor Hypothesis

The goal of testing first minor hypothesis was to study whether large shareholders affect cash flows resulting from investment activities of firms or not.

Based on results presented in figure 2, the amount of probability (P-Value) of t statistic related to the variable 'the ratio of large shareholders' was smaller than 0.05 (0.0001). Thus, in an assurance level of %95 it can be stated that there has been a meaningful relationship between the ratio of large shareholders and cash flows resulting from investment activities. Therefore, regarding the positive amount of the variable of ratio of large shareholders' coefficient (0.0162), the results showed that there has been a direct relationship between the ratio of large shareholders and cash flows resulting from investment activities in a way that by increasing a unit of the ratio of large shareholders, 0.0162 unit is added to cash flows resulting from investment activities of firms. Thus, the first minor hypothesis was approved in an assurance level of %95 and this showed that in capital market in Iran, the increase of the ratio of large shareholders has had increasing effects on cash flows resulting from investment activities.

Results of Testing Second Minor Hypothesis

The goal of testing second minor hypothesis was to study whether institutional investors affect cash flows resulting from investment activities of firms or not.

Based on results presented in figure 2, the amount of probability (P-Value) of t statistic related to the variable 'the ratio of institutional shareholders' was smaller than 0.05 (0.0450). Thus, in an assurance level of %95 it can be stated that there has been a meaningful relationship between the ratio of institutional shareholders and cash flows resulting from investment activities. Therefore, regarding the positive amount of the variable of ratio of large shareholders' coefficient (0.0041), the results showed that there has been a direct relationship between the ratio of institutional shareholders and cash flows resulting from investment activities in a way that by increasing a unit of the ratio of institutional shareholders, 0.0041 unit is added to cash flows resulting from investment activities of firms. Thus, the second minor hypothesis was approved in an assurance level of %95 and this showed that in capital market in Iran, the increase of the ratio of institutional shareholders has had increasing effects on cash flows resulting from investment activities.

Results of Testing Third Minor Hypothesis

The goal of testing second minor hypothesis was to study whether the percentage of not in charge managers affect cash flows resulting from investment activities of firms or not.

Based on results presented in figure 2, the amount of probability (P-Value) of t statistic related to the variable 'the percentage of not in charge managers' was bigger than 0.05 (0.6370). Thus, in an assurance level of %95 it can be stated that there has not been a meaningful relationship between the percentage of not in charge managers and cash flows resulting from investment activities and the third minor hypothesis was rejected.

Results of Testing Fourth Minor Hypothesis

The goal of testing fourth minor hypothesis was to study whether board size affects cash flows resulting from investment activities of firms or not.

Based on results presented in figure 2, the amount of probability (P-Value) of t statistic related to the variable 'board size' was bigger than 0.05 (0.3034). Thus, in an assurance level of %95 it can be stated that there has not been a meaningful relationship between board size and cash flows resulting from investment activities and the fourth minor hypothesis was rejected.

Interpretation of Results of Testing the Main Research Hypothesis

Regarding the results of testing first to fourth minor hypotheses it can be concluded that the main research hypothesis was approved in the large shareholders and the ratio of institutional shareholders and it was rejected in the percentage of not in charge managers and board size. In other words, from among corporate governance structures, only the presence of large shareholders and institutional shareholders have affected increasing the amount of cash flows resulting from investment activities in firms and the independence of board size has had an important effect on cash flows resulting from investment activities.

RESULTS AND DISCUSSION

Research Findings and Discussion and Conclusion

Based on results gained it can be stated that there has been a meaningful relationship between the ratio of large shareholders and cash flows resulting from investment activities. Regarding the positive amount of the variable of ratio of large shareholders' coefficient (0.0162), the results showed that there has been a direct relationship between the ratio of large shareholders and cash flows resulting from investment activities in a way that by increasing a unit of the ratio of large shareholders, 0.0162 unit is added to cash flows resulting from investment activities of firms. Thus, the first minor hypothesis was approved in an assurance level of %95 and this showed that in capital market in Iran, the increase of the ratio of large shareholders has had increasing effects on cash flows resulting from investment activities. When the amount of investment by large shareholders increases, the role of large shareholders in firm issues, ownership structure, and firm's leadership system are improved and information asymmetry is reduced. This group of investors has a high control and supervision on decisions made by management and the results of them due to the high amount of their shares and therefore they affect firm's performance directly. Increasing large shareholders means a decrease in ownership concentration and since the higher amount of ownership concentration has a positive effect on firm's performance, it can be said that by increasing large shareholders their supervising role on managers' performance is reduced. Thus, managers can sell investment and issue bonds for other business units or firm assets in order to increase their own benefits, to increase short-term earnings, and to manipulate it and use the earnings gained by sales of investments increase firm's earnings and this will cause increasing cash flows resulting from investment.

Regarding a meaningful relationship between the ratio of institutional shareholders and cash flows resulting from investment activities and the positive amount of the variable of ratio of large shareholders' coefficient (0.0041), the results showed that there has been a direct relationship between the ratio of institutional shareholders and cash flows resulting from investment activities in a way that by increasing a unit of the ratio of institutional shareholders, 0.0041 unit is added to cash flows resulting from investment activities of firms. Thus, the second minor hypothesis was approved in an assurance level of %95 and this showed that in capital market in Iran, the increase of the ratio of institutional shareholders has had increasing effects on cash flows resulting from investment activities. There are two perspectives about institutional shareholders in corporate governance literature: efficient supervision theory and convergence theory. Institutional shareholders in Iran (such as Foundation for the Oppressed and self-sacrifice, Insurance Organization, and firms depending on governmental banks) depend on government and this may reduce their incentives in effective supervision on activities of firms accepting investments. Therefore, results of the first minor hypothesis accord with convergence theory and the dominance of this theory in capital market in Iran was approved.

Regarding that such shareholders have capabilities in receiving final information, they can react to bad news before market. Thus, they may sell investments to increase short-term earnings and cause an increase of cash flow resulting from investment. Based on results gained it can be stated that there has not been a meaningful relationship between the percentage of not in charge managers and cash flows resulting from investment activities. Not in charge managers judge about decision makings by managers regarding a professional and unbiased outlook. The presence of not in charge managers prevents misuses by in charge managers of their posts and it has a positive effect on supervising structure. They supervise decisions through controlling in charge managers.

Therefore, the composition of board members can affect financial performance of firms and the efficiency of board. Regarding the results of third minor hypothesis the percentage of not in charge managers does not affect cash flows resulting from investment activities. This means that by increasing or decreasing the number of not administrative managers, the activities of administrative managers in exchanging investments are not affected. We can present the following reasons to approve this result:

- It seems that in Iran the role of not in charge managers does not accord with agency theory and the supervision ability of it is very weak in improving the financial disclosure especially earnings' prediction. Based on business rule, the number of board members in corporate firms should not be less than 5. It seems that in Iranian companies, not in charge managers are seen as a tool to complement and enhance the number of board members and there has not been much concern about their supervising role.
- Not in charge managers may not have much financial knowledge. On the other hand, they may not have access to related information in time and sufficiently. Also due to the fact that they do not have big benefits, they are not interested in precise and effective supervision on firm's activities. Lack of presence of financial or accounting experts in the composition of board makes not in charge managers inefficient in preventing irregularities, mistakes, frauds, incomplete disclosure, and biased traits.
- There is not an efficient workforce in Iran found out that the incentives of not in charge managers to supervise management is determined by managerial workforce market. Thus, it can be stated that in Iran not in charge managers do not have any stimulus to supervise management in firms.
- The concurrent membership of not in charge members in several firms in Iran may result in a reduction of their efficiency.

The goal of testing fourth minor hypothesis was to study whether board size affects cash flows resulting from investment activities of firms or not. Based on results presented in figure 2, it can be stated that there has not been a meaningful relationship between board size and cash flows resulting from investment activities and the fourth minor hypothesis was rejected.

There are two controversial viewpoints regarding board size: smaller board is privileged due to lack of communication problems and also more co-operations among the members. On the other hand, bigger board is important because there is a probability of presence of more scholars among the members and also more individuals will supervise management's actions.

Results of testing fourth minor hypothesis showed that big or small number of board members does not affect the amount of cash flows resulting from investment. Regarding the data collected, in %98 of sample firms the board size consisted of 5 members and the average number of board was 5.02. Thus, lack of effectiveness of this factor can be due to lack of variety in board size.

Research Article

REFERENCES

Alivar A (1994). Cash flow statement, *Journal of Accountant* **9 & 10** 105-106.

Bavandpour L (2010). The relationship between the effect of corporate governance on performance of firms enlisted in Tehran Stock Exchange, MA Dissertation, Islamic Azad University, Science and Research Branch.

Francis B and Hasan I (2013). Corporate Governance and Investment-Cash flow Sensitivity: Evidence from Emerging Markets. *Journal of Emerging Markets Review* **15** 57-71.

Hassas-e-Yeghane Y, Moradi M and Eskandari H (2008). Studying the relationship between institutional shareholders and firm value. *Journal of Accounting and Auditing* period 15, **52** 107-122.

Heidarian Chali R, Seyyed Jarrahi H and Ghord A (2012). "The relationship between some corporate governance structures and earnings quality. *Research Journal of Financial Accounting and Auditing* **15** 143-164.

Khodadadi V and Talker R (2012). The effect of corporate governance structure on performance and value of firms enlisted in Tehran Stock Exchange. *Journal of Accounting and Auditing Researches* **4**(15).

Lenuz C, Nanda D and Wysocki P (2003). Earning Management and Investor Protection, an International Comparison. *Journal of Financial Economies* **69** 505-527.

Moradzadeh M (2002). Cash flow statement, standards in Iran compared to international standards. *Journal of Accountant* **17**(147).

Rezaee F and Piri A (2011). The effect of corporate governance, capital structure, and liquidity on firms' value, MA Dissertation, Islamic Azad University, Ghazvin Branch.

Sanatkar S (1997). Cash flow statement as a principal financial statement. *Journal of Accountant* **121**.

Vafeas N (2000). Board Structure and the Informativeness of Earnings. *Journal of Accounting and Public Policy* **19** 139-160.

Wang K (2009). Form State to State. *Journal of China & World Economy* **17** 52-68.