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STUDY THE EFFECT OF SOME OF THE CORPORATE GOVERNANCE COMPONENTS ON THE LIQUIDITY POTENTIAL OF SHARES OF COMPANIES LISTED IN TEHRAN STOCK EXCHANGE

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ABSTRACT
This study aimed to evaluate the effect of the percentage of the rule of institutional investors, the proportion of outside directors, and task duality of Managing Director as some of the corporate governance components on the liquidity potential of stock of the companies listed on Tehran Stock Exchange. A total of 123 companies were selected for a period from 2009 to 2013 and their data got analyzed using multivariable regression model and through panel data with fixed effects. The results of hypothesis testing showed that none of the components mentioned have no significant effect on stock liquidity potential, but variables of firm size, financial leverage, and return on assets have significant effect on liquidity potential of stocks of the companies studied as control variables.

KEY WORDS: Corporate Governance, Stock Liquidity Potential, Institutional Investors, Task Duality of Managing Director

1. INTRODUCTION
Liquidity potential means that any assets could be converted into cash without bearing losses and expenses, (Dennis et al., 2003). Market liquidity increases by reducing the information asymmetry (Kanagartnam et al., 2007). Liquidity potential is a complex concept and cannot be directly observed. In order for an asset to have the liquidity potential, the existence of a liquidating market it is necessary (Saeedi et al., 2010) According to the information disclosure, investors (traders) are faced with the problem of information asymmetry. This problem occurs when one of the parties to the transaction has more information rather than the other side. (Graham et al., 2003). Improving the quality corporate disclosure reduces information asymmetry and reducing information asymmetry brings less earnings management with it (Nourvash et al., 2009). Corporate Governance is a set of monitoring mechanisms for the protection and support of beneficiaries, especially shareholders who will claim only to the remainder value of the company when bankruptcy (Owen et al., 2004). Many of corporate governance mechanisms aim to achieve responsible and responsive companies, value creator directors, and ultimately the company's control (Drobetz and others, 2003). Studies show that if there is a more effective oversight of the board on management, the quality of data published by the management will increase (Karamanou et al., 2005). Commercial companies needed to attract external capital resources to grow and develop, in addition to its internal resources (Salawati et al., 2007). According to the description aforementioned, the main purpose of this study is to investigate the relationship between corporate governance components including percentage of institutional investors, the proportion of outside directors and task duality of Managing Director on stock liquidity potential in the active companies of Tehran Stock Exchange. Thus, in the second part of the study, the outlines of the corporate governance and stock liquidity potential is provided. The third part of study describes the researches previously done. In the fourth part, the research methodology, including hypotheses, variables, population, statistical samples and statistical methods used to test the hypotheses are explained. Part five covers the analysis of results and the conclusions at last.

2. Theoretical Foundations
2.1. Corporate governance
Corporate governance has become a key and dynamic aspect of business and is exponentially increasing. The first concept of corporate governance has originated from the Latin word "**Governance**" meaning " to steer" commonly used to guide a ship and implies that corporate governance requires guidance rather than control (Rahnamy Roodposhti et al., 2012). Corporate governance creates a framework to guide and manage business enterprises effectively, efficiently, and accurately in order to maximize shareholders' interests. Corporate governance refers to the audit committee, the composition of directors, auditors independence, ownership structure, controlling part and major shareholders and wants to establish a balance between economic objectives and to ensure alignment of individual goals with collective goals. Research shows that corporate governance can improve the quality of financial reporting and performance affairs by corporates, and cause accountability and transparency (Keshavarz, 2012). International

Federation of Accountants has defined corporate governance as follows: Corporate governance is the number of responsibilities and practices applied by the Board of directors and obliged directors aimed to determine the strategic direction that ensures the achievement of objectives, risks control and responsibly use of resources (Kurdtabar, 2008). Corporate governance is a system by which companies are managed and controlled. Corporate governance and control structure of the company refers to ensure the alignment of activities and interests of management with those of shareholders (Mashayekh et al., 2006). Corporate governance is created to provide control features and to establish a balance between the interests of managers and shareholders and thus reduce opposition of representation. Therefore, companies with better corporate governance should be less faced with the difficulty of representation opposition (Sivaramakrishnan and others, 2008).

2.2. Liquidity potential

Asset liquidity potential is very simply defined as any asset that can be converted to cash without bearing losses and expenses; liquidity potential has a multidimensional concept in economy. As mentioned earlier, financial market participants believe the asset to be liquidated if they can sell large amounts of it without being affected by a negative price changes. Therefore, liquidated financial assets are known with the characteristics of having low transaction costs, easy exchange, early settlement, and limited effect of high-volume transactions on the market price (Fe'li, 2008). Liquidity potential is the ease of buying and selling a product without a significant change in its price (Hosseini et al., 2010). Liquidity potential is the ability of investors to cash financial assets at the same price similar to the most recent transaction (Shirazian, 2005). Liquidity of an asset is the ability to buy or sell that asset in the shortest possible time and costs (Yahyazadehfar et al., 2008). Suggested price differences of shares bid and sell is an important measure of liquidity potential in the capital market. More investors (with short-term investment horizon) prefer those mostly liquidated stock to low liquidated stock. The perception of liquidity potential is just the ease of buying and selling property in question (Salawati and Rasaiian, 2007). A price that any trader offers to buy securities is called suggested bid price, and price offered for sale of securities is called suggested sale price of securities. The difference between these two suggested prices is called stocks bid and sell suggested price difference (Rasaiian, 2006).

3. Research background

Venkatesh and et al., (1988) examined the relationship between the difference of stocks bid and sell suggested price with that of institutional investors and found no significant relationship between these two variables. In a study titled as the relationship between investors and liquidity potential on the Stock Exchange of Hong Kong, Brockman and Chung (2003) concluded that companies with a lower gap, higher depth, i.e. more trading volume, have a stronger protection system of investors than other companies. Jain (2003) checked the relationship between the institutional structure as one of the mechanisms of corporate governance and liquidity potential, and concluded that the price gap is narrower in countries with better rights for shareholders. In a research, Gerald and others (2006) investigated the relationship between the independence, effectiveness and activities of the Board of Directors with the liquidity potential of markets. Their results showed that the size of the stocks bid and sell suggested price difference is connected with the independence of the board of directors in a negative way. They also found that there is a positive relationship between the number of shares and the effectiveness of the board and their activities. Rubin (2007) also found in a research that liquidity potential is related to institutional shareholders' ownership in an important form, that's the liquidity potential increases by increasing the level of ownership and is reduced with increasing concentration. In a study, Chung et al., (2008) examined the relationship between corporate governance and liquidity potential of the stock market, and found that firms with better corporate governance, thinner price gap, larger market quality index have the lowest impact of price of trading volume and trade probability reduction based on secret information. Ghaemi and colleagues (2005) have shown an increase in information asymmetry among traders makes greater the stocks bid and sell suggested price difference in Tehran Stock Exchange. In a study, Daryaei and others (2008) investigated the relationship between corporate governance and liquidity potential of stock using simultaneous trading system and found a significant negative relationship between corporate governance and stock liquidity potential. Fe'li (2008) examined the relationship between corporate governance and firm value, and used the percentage of institutional investors and the percentage of outside directors as corporate governance standards, and came to the conclusion that there is a significant relationship between corporate governance and firm value. E'temadi and colleagues (2010) examined the corporate governance tools including percentage of board outside members and institutional investors and the stocks bid and sell suggested price difference, and the results showed that there is no significant relationship between the tools of corporate governance and the stocks bid and sell suggested price difference. KashaniPour et al. (2010) investigated the relationship between some of the mechanisms of corporate governance with their stock liquidity potential. They concluded that there is no the positive and significant relationship between corporate governance mechanisms and stock liquidity potential. In a study, Ranjbar and others (2014) evaluated the amount of impact of stock liquidity potential on the company's investment rate, and came to the conclusion that there is a significant and positive relationship between the liquidity potential of the stock and the company's investment. The main difference between this research and some of the previous national research is in statistical methods used, study period or the difference in independent and control variables.

4. MATERIALS AND METHODS

The study is descriptive and correlational and its methodology is of post-event type and can be used in the process of information application, so it is a kind of applied research. To test the hypotheses, multivariate regression was applied using combined data in the period from 2009 to 2013. In order to achieve the research objectives, the hypotheses have been formulated as follows:

1. There is a significant relationship between the percentage of ownership of institutional investors and liquidity potential.
2. There is a significant relationship between the ratio of outside directors to all members of the board of directors and the company's stock liquidity potential.
3. There is a significant relationship between task duality of the managing director and the company's stock liquidity potential.

4.1. Measure variables

The relationship between the stocks bid and sell suggested price difference as the dependent variable and percentage of institutional investors, the ratio of outside directors to all members of board of directors and task duality of the managing director as independent variables, as well as measures of firm size, financial leverage and returns of assets as control variables have been studied in this research.

Liquidity potential: The stock liquidity potential is a multi-dimensional measure. Several alternate variables have been introduced substitute for liquidity potential: the value of the transaction, the number of transactions, trading volume, turnover ratio of trading volume and the stocks bid and sell suggested price difference (BA).

In this study, the stocks bid and sell suggested price difference is used as liquidity potential variable that is formulated as follows.

$$BA_{it} = \frac{AP_{it} - BP_{it}}{\frac{AP_{it} + BP_{it}}{2}}$$

i = studied sample
$BA_{i,t}$ = daily relative suggested price difference of stocks bid and sell
$AP_{i,t}$ = best suggested price to sell the shares of company i in each day
$BP_{i,t}$ = best suggested price to buy the share of company i in each day

Institutional investors: the percentage ratio of the company shares held by major institutional investors to the total shares outstanding in the hands of shareholders is used for measuring the variable of institutional investors. (According to the regulations of the stock exchange, institutional shareholders are those who have at least 5% of the company's shares. For example, in regulations of information disclosure, one of the owners of the ultimate information is the shareholders whose total shares and that of their spouses and minor children are at least 5% of the total stocks of the company).

The proportion of outside directors: the ratio of board outside directors divided into all members of board of directors is used for measuring the variable of the ratio of board outside directors to all members of is divided.

Task duality of Managing Director: if the Managing Director is the Chairman or Vice- Chairman of the Board as well, this situation is called task duality. To measure the variable of the managing director's task duality, when the board chairman and the managing director aren't the same, the coefficient (+1), and if they are the same, the coefficient (0) is considered.

Company size: In this study, the natural logarithm of the total assets of the company is examined as the representative of the company size.

Financial leverage: This variable is obtained through dividing the total debt into the total assets of the company at the end of the period.

Return on assets: is equal to net profit of the company divided by its average assets.

4.2. Statistical sample and population

The target population of the study included all companies listed on Tehran Stock Exchange for which the sampling method was the purposive method based on the systematic elimination in this research, and after applying some restrictions over the process involved, the number of 123 manufacturing companies were selected as sample.

4.3. Data collection method

The software of Tadbirpardaz and Rahavard Nowin as well as the website of Tehran Stock Exchange Co was used to gather the necessary information in order to do this research. Then, the necessary statistical test was carried out using Eviews software.

4.4. The model used in the study

According to the research hypothesis and what was said about the statistical methods, multivariate regression model is used as follows:

$$BA_{it} = \beta_0 + \beta_1 INSTOWN_{it} + \beta_2 OUTD_{it} + \beta_3 CEO_{it} + \beta_4 SIZE_{It} + \beta_5 LEV_{it} + \beta_6 ROA_{it}$$

$$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0$$

$$H_1: \beta_i \neq 0$$

BA is the suggested price difference of stocks bid and sell, OUTD percentage of outside members of the board of directors, INSTOWN institutional investors percentage, CEO task duality of managing director, β_0 constant coefficient and SIZE firm size, LEV financial leverage, ROA return on assets, and accepting H_1 assumption if rejection of the hypothesis H_0 indicates a significant relationship between the independent and dependent variables.

4.5. Descriptive statistics

After data collection and Calculation of variables used in the research, descriptive parameters were calculated for each variable separately. These parameters include information on the central indexes such as mean, median, minimum and maximum as well as information on the dispersion parameters such as standard deviation, skewness and dispersion. Table 1 shows descriptive statistics of the variables studied for the statistical sample member of 123 companies on the stock exchange for a period of 5 years.

Table1. Descriptive statistics of the research variables

variable	*BA*	*INST-OWN*	*OUTD*	*CEO*	*SIZE*	*LEV*	*ROA*
The mean	*0.018*	*0.356*	*0.663*	*0.028*	*13.661*	*0.694*	*0.122*
median	*0.014*	*0.244*	*0.600*	*0.000*	*13.539*	*0.637*	*0.105*
maximum	*0.247*	*0.99*	*1.250*	*1.000*	*18.169*	*3.061*	*1.794*
minimum	*0.000*	*0.000*	*0.167*	*0.000*	*10.032*	*0.017*	*-0.301*
standard deviation	*0.014*	*0.397*	*0.218*	*0.142*	*1.301*	*0.296*	*0.169*

Source: research findings

Among the central indexes expressed, the mean is regarded as the most important, which reflects the balance point and gravity center of distribution. The mean is a suitable index to show the data centrality. For example, the mean of liquidity potential variable is equal to 0.018, indicating that much of data related to this variable have concentrated around this point. Median is another central indicator that shows the status of the population. As the table1 shows, the median of the variable of liquidity potential is equal to 0/018 showing that half of the data of this variable is lower than this amount and the other half is more than this amount. Generally, dispersion index is a criterion for determining dispersion of the data from each other or their distribution compared to the mean. Including the most important dispersion index that is a more favorable condition for entering the variable in the regression model, is the standard deviation. As in Table1 again, the standard deviation of the variables is not zero and it does have this condition. In this study, the highest and lowest value of this parameter are equal to 0.397 and 0.014 that are related to the variables of institutional investors and liquidity potential, respectively.

5. Analysis of the results

Limer F test

First, it is necessary for the obligatory statistical tests to be conducted to determine the type of data. For this purpose, the F-Limer table is primarily used to determine whether the data are cross-sectional or of the panel. F-test results have been shown models for research models in table2. The possible value related to this statistics for the research model, i.e. the variable of the effect of corporate governance parameters on company stocks liquidity potential is less than 0.05, so the null hypothesis of the test based on the compilation of data is rejected.

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Table2. Limer F-test results

Type of test	Statistics	Statistics possibility	Result
Limer F	3.197	0.000	Panel method

Source: research findings

Hausman test

According to F-Limer test, it is necessary for Hausman test to be made to determine the type of panel data. As shown in the table3, the Hausman test result for the research model indicates that data are of panel with fixed effects. The probable value of this statistics is less than 5%, so the research model is estimated based on panel data approach with fixed effects.

Table3. Hausman test results

Type of test	Statistics	Statistics possibility	Result
Hausman	55.70	0.000	Panel method with fixed effects

Source: research findings

Research finding

According to the results of F-Limer test and Hausman test, the research model was estimated based on panel data approach with fixed effects. The results of the estimation of the research model are presented in Table4. The Model tests the impact of the corporate governance parameters on liquidity potential of the company's shares. F value of regression that shows the explanatory power of the model is less than 0.01 for this model of statistics possibility, and it can be said that 99% of this model was significant and valid at confidence level. Moreover, looking at the Durbin-Watson statistics value (1.557) confirms the fact that there is no autocorrelation disturbing between components, because this amount is between 1 and 3. The coefficient of determination has also been adjusted that expresses the percentage of total variation in the dependent variable - in Table4, it is equal to 0.38- explained by the regression model.

Table4. Results of the estimation of research model

$$BA_{it} = \beta_0 + \beta_1 INSTOWN_{it} + \beta_2 OUTD_{it} + \beta_3 CEO_{it} + \beta_4 SIZE_{It} + \beta_5 LEV_{it} + \beta_6 ROA_{it}$$

variable	Estimated coefficient	standard error	T-statistics	p_Value
C	-0.032	0.006	-4.965	0.000
INST-OWN	0.002	0.001	1.840	0.066
OUTD	0.003	0.002	1.244	0.213
CEO	0.002	0.003	0.549	0.582
SIZE	0.002	0.004	6.388	0.000
LEV	0.012	0.002	5.459	0.000
ROA	0.018	0.004	4.209	0.000
adjusted coefficient of determination: 0.38	coefficient of determination: 0.51		F statistics significance	0.000 3.98
Durbin-Watson test	1.557		number observations	123

Source: research findings

6. CONCLUSIONS

The overall goal of this research is to study the effect of some of the corporate governance parameters on stock liquidity potential of the listed companies in Tehran Stock Exchange. Tools of corporate governance are very extensive from which the institutional investors' percentage, the ratio of outside directors to all members of the board of directors, and task duality of the managing director have been studied in this research. About the criteria used in this study to determine the institutional investors, the shareholders with more than 5% stocks of a company were considered as institutional investors. Also, in this study, stocks bid and sell suggested price difference applied in most researches, was used to estimate stock liquidity potential as the dependent variable of the research model. Test of the first hypothesis of the research examined the relation between the ownership percentage of institutional investors and liquidity potential of shares of companies listed on Tehran Stock Exchange. Based on the results, the percentage of ownership of the institutional investors does not have any significant impact on the liquidity potential of the stocks of the companies listed on Tehran Stock Exchange and thus, the first hypothesis was rejected. The result of this hypothesis corresponds to the investigations by Rahmani et al., (2010), E'temadi et al., (2010), and Venkatesh et al., (1988). Test of the second hypothesis of the research examined the relationship between the ratio of outside directors to all members of the board of directors and stock liquidity potential of the companies listed on Tehran Stock Exchange. Based on these results, the ratio of outside directors to all members of the board of directors has no significant effect on stock liquidity potential of the companies listed on Tehran Stock Exchange and thus, the second hypothesis was rejected. The result of this hypothesis is consistent with the research carried out by E'temadi et al., (2010). The third hypothesis is the relationship between task duality of the Managing Director and shares liquidity potential of the companies listed on Tehran Stock Exchange. Based on the results, task duality of the Managing Director has no significant effect on shares liquidity potential of the companies listed on Tehran Stock Exchange and thus, the hypothesis was rejected. The result of the third hypothesis of this study does not match the research by Gerald and others (2006), but is consistent with the researches of Kashanipour et al., (2010). By examining the results of this research, it can be suggested that investors and financial analysts shall consider that the parameters of the study, that's the ratio of institutional investors, the ratio of outside directors, and the managing director's task duality, are not the crucial factor of stock liquidity potential; therefore, the role of other factors should be considered.

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