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Original Article

Impact of Corporate Governance on the Cash Holdings of the Firms Listed on the Tehran Stock Exchange

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ABSTRACT

As a concept related to several scientific fields such as accounting, economics, finance and law, corporate governance motivates the individual and accumulative goals and reinforces the effective application of the resources and necessitates the responsiveness to the other stakeholders. Furthermore, implementing corporate governance might lead to the optimum allocation of the resources and enhancement of the information transparency and economic growth. This study investigates the impact of some corporate governance mechanisms on the firm value by comparing the value and usage of the cash holdings with the weak and strong corporate governance systems. The employed corporate governance mechanisms in this study are composed of the institutional ownership of the stocks, ownership concentration and CEO duality. To measure the firm value in terms of the value of the cash holding, the difference between the annual stock returns and the return of the three factor Fama-French model has been employed. The sample is composed of 102 listed firms on the Tehran Stock Exchange during a period from 2005 to 2009. Multivariate regression and Pearson correlation coefficients are used to test the research hypotheses. The findings reveal that the concentration of the institutional ownership and CEO duality are significantly and directly associated with the firm value.

Keywords: Corporate Governance, Institutional Ownership, Institutional Ownership Concentration.

Introduction

The industrial revolution, the emergence of the corporations and the separation of the management and ownership are the events occurred during the eighteenth century. Before these events, the business and economic operations were conducted through the individual ownership and the separation of the management and ownership has not been much considered. As a result of these evaluations, the corporations compile the interests of many stakeholders including the stockholders, managers, creditors, employees and other stakeholders associated with the financial markets. The organized financial markets were then established. Due to the fact that all stockholders and stakeholders might not be always participating in the company, the directors hold the responsibility to control the affairs and are accountable to provide shareholders with useful information about the resources (Esmaeil Zadeh et al., 2010). Stock ownership significantly impacts the way the companies control the affairs. Separating ownership and management created the agency problem. Jensen and Meckling (1986) suggested the basis of agency problems. One of the main assumptions of the agency problem is that the directors and owners have conflicts of interests. In this situation, the directors are motivated to achieve the short-term earnings which leads to the mitigation of the interests of the stockholders. The agency problem reflects the necessity of the control executed by the directors (Resayian et al., 2010). The new structure of the capital extended the range of the operations performed by the accountants and required the preparation of the reports by which the management of the capital, evaluation of the performance and measurement of the directors' efficiency and investments are performing. On one hand, conflicts of interests suggested the agency problem and is considered as one of the main obstacles of issuing reliable information. Corporate governance is one of the most significant approaches highly considered by the regulators, stakeholders, government, scholars and others (Esameil Zadeh et al., 2010). Once the market mechanism and stockholders' ability in controlling the directors' behavior is not sufficient, a monitoring with the formal direction becomes necessary. The agency problem exists among the directors and stockholders of all around the world. An appropriate corporate governance mechanism is required to properly control the management performance. Resource allocation depends on the decisions made by the directors. Adam Smith (1937) indicated the indifferences in the management of the companies because of the separation of the ownership and control. This study investigates how the potential value of the firm disappears and identifies the way by which the corporate governance prevents this issue. For this purpose, the value of the cash holding is used as a measure of the firm value. In addition, the institutional shareholder concentration, institutional ownership of the stock and CEO duality are employed as the important measures of corporate governance.

Literature Review

Human thought have been always looking for finding the realities and factors through the observation, analysis and documentations of the events aiming at the growth of the diverse knowledge fields during the scientific and cultural revolutions. Undoubtedly, this is emerged by the empirical studies and researches (Nezafat, 2007). In this section, a definition of corporate governance is provided and its different aspects are revealed and the value of the cash holding is then defined. This study reviews the prior literature and the impact of corporate governance on the firm value is described.

Corporate Governance

Corporate governance is a set of mechanisms aimed to control and direct the corporations. The corporate governance mechanism is influenced by the distribution of the rights and responsibilities of the stakeholders including the directors, employees, stockholders and other legal personalities. The corporate governance is also influenced by these elements. This system determines laws and regulations for the decision making processes of a corporation and identifies the ways by which the creditors make sure that their financial resources are returned back. Corporate governance composes of various guidelines, structures, processes and cultural norms aimed to direct companies toward information transparency in the working processes and accountability to the stakeholders. The mechanisms of the corporate governance mitigate the agency problems. These mechanisms have different degrees of qualities. It is proposed that the quality of the corporate governance exists in all steps of value creation. Reduction of finance costs is one of the methods used to create value. Consequently, it seems that the corporate governance quality might impact the debt costs (Ahmad Pour et al, 2010). Efficient trends of corporate governance are necessary for the correct operation of the capital market and total economy and are required to attract the public attention. Weak corporate governance might decline the trust in the market that will cause financial crisis and falling prices. Organization for Economic Co-operation and Development (OECD) defines corporate governance as a set of relationships between the directors, board of directors, stockholders and other stakeholders. The corporate governance also provides a structure by which the objectives are established and the ways to achieve them are identified. It is also intended to clarify the monitoring patterns of the directors. A satisfactory corporate governance mechanism should provide incentives for the directors and board of directors to follow the objectives consistent with the interests of the companies and stockholders. An efficient and effective corporate governance mechanism in a firm and in an economy contributes in providing a proper degree of confidence in the suitable function of the market economy. From the perspective of the stock exchange, corporate governance provides a method for directing and managing the firms' operations by the board of directors and top executives. This impacts the way the board of directors function (Tehran Stock Exchange, 2007). In fact, the marginal goal of the corporate governance is not only defined as mitigating the agency problem and aligning the interests of the directors and stockholders, but it also seeks to satisfy the different needs of all stakeholders. Therefore, the characteristics of the corporate governance mechanism are aimed to influence on the cash and operations of the companies. This is because an effective corporate governance system leads to improper consequences resulted from the conflict of interests among the managers and owners.

Cash Holding

Those firms confronting with more growth opportunities hold more cash to have the ability to use it in different opportunities. As a result, the growth opportunities of the firms are expected to have positive relationships with the cash holdings. Baskin (1987) concluded that the cash holdings enable the firm to properly respond to the new opportunities. Therefore, the firms seek to hold cash for protecting their competitive advantages (Nezafat, 2007). Most of the models including transaction cost model agree with an optimum point in holding cash. Kins (1936) identifies that the cash is held by the firms because converting substitutes into cash is costly. They believe that the costs of increasing capital through external resources is composed of two elements including fixed and variable components. The variable part increases as the capital increases. Those firms with the lack of cash increase their capital through the capital market, convert their assets into cash, mitigate the dividend and investment or renegotiate about the financial contracts. The capital always increases through a costly process whether performed by selling the assets or by using capital markets. The fixed cost of attaining external capital markets leads firms to increase their capital and use their cash and cash properties. However, holding cash is concerned with the opportunity cost. On the other hand, lack of cash causes major losses to the company. As a result, there is an optimum amount of money for the cash holdings (Opler et al., 1999). Holding cash by those firms confronting with financial constraints is impacted by the volatilities of the cash flows because the financial limitations create a competitive and conflicting situation between the current or future investments. Once there are various risks of the future cash flows, the competition between the future and current cash flows motivate the financially constrained firms to have precautionary savings. Consequently, they hold more cash in response to the increases in the cash flows. However, there is no significant relationship between cash holdings and the volatilities of the cash flows. Therefore, it can be concluded that the influence of the cash flows volatilities on the held cash depends on the financial constraints of the firms (Han and Qiu, 2006). Simply stated, holding cash increases as the volatility of the cash flow increases. Additionally, holding cash properties decreases as the result of the increases in the interest rate, finance costs, facility in selling properties and precautionary functions (Opler et al, 1999).

Research Background

The prior studies are classified into two parts as follows:
Hasssa Yeganeh et al (2008) conducted a study to provide evidence in relation to the role of the institutional investors in order to examine the influence of institutional ownership of the firm value. They suggested that there is no significant association between the institutional ownership concentration and firm value and the convergence of the interests is rejected. Morad Zadeh Fard et al. (2009) also considered the institutional investors but they examined whether institutional ownership affects the earnings management style. Generally, their findings revealed a significant negative relationship between the level of the institutional ownership and concentration as the measures of the corporate governance with the earnings management. Ghaemi and Shahriyari (2009) tried to find the relationship between the components of the corporate governance with the firms' performance. These components include the compound of the board of directors, ownership structure and information disclosure. Fakhari and Ali Tabar (2010) investigated the relationship between dividends and corporate governance. The findings indicated that there is an inverse significant relationship between the corporate governance measures and dividends. Izadi Niya and Resayian (2010) examined the association of some of the corporate governance mechanisms and firm value of the firms listed on the Tehran Stock Exchange. They concluded that there is a positive significant relationship

between the institutional ownership percentage and the value of the firms listed on the Tehran Stock Exchange. However, there is no significant relationship found between the non-executive board members and the value of the Tehran listed firms. The cash maintenance level is also found to be associated with the values of the Tehran listed firms. The Cash holdings level is also significantly and positively associated with the firms listed on the Tehran Stock Exchange. Babajani and Abdi (2010) evaluated the relationship between corporate governance and taxable income. The findings indicate that there is no significant relationship between the average taxable income of the firms with the corporate governance measures and those without these measures. Etemadi et al. (2010) examined the association between the corporate governance mechanisms and the difference bid ask prices. The corporate governance mechanisms include the percentage of the non-executive board members and the percentage of the institutional investors. However, the dependent variable is the difference between bid-ask prices. They concluded that there is no significant association between the corporate governance mechanisms and the stock liquidity of the firms listed on the Tehran Stock Exchange. Esmaeil Zadeh et al. (2010) investigated the influence of corporate governance on the earnings quality of the firms listed on the Tehran Stock Exchange. Their findings confirm the positive significant association between the percentage of the institutional ownership, the block number of the institutional stakeholders, the percentage of the non-executive members of the board, audit firm size and earnings quality. Resaian et al. (2010) examined the relationship between some of the corporate governance mechanisms and the level of cash holdings. They considered the percentage of the non-executive members and the percentage of the institutional shareholders as the independent variables and the cash holding level as the dependent variable. Their results indicated that there is a negative significant association between the percentage of the non-executive members of the board and the level of cash holding on the Tehran Stock Exchange. However, no significant relationship was found between the percentage of the institutional shareholders and the level of cash holdings.

Hassas Yeganeh and Dadashi (2010) explored the impact of corporate governance quality of the opinions of the independent auditors. Their findings confirmed the significant association between the corporate governance quality in the firms with the average and weak levels of the governance and the qualified opinions of the independent auditors. Jiang et al (2008) studied the relationship between corporate governance and earnings quality by using 4311 observations during 2002 to 2004. The findings of their study show that the increases of the corporate governance level causes the discretionary accruals and earnings quality increase. Isshaq et al (2009) analyzed the interaction between corporate governance, ownership structure, cash holdings and firm value of the firms listed on the Ghana Stock Exchange. They concluded that among the other corporate governance measures, board size is directly and significantly associated with the stock price. Chen and Chuang (2009) examined the relationship between corporate governance and cash holdings in the growth firms and those firms confronted with the investment environment. They found that the ownership of the top executives, direction of the risky investors and independent directors play vital roles in the liquidity policies of the firms. Fresard and Salva (2010) conducted a study about the relationship between the value of the excess cash and the corporate governance of the firms listed on the U.S.A Stock Exchange. There are strong evidences provided based on the analyses. They indicated that the value attributed to the excess of the cash holdings is greater for the foreign listed firms in comparison with the internal peers. Furthermore, they found that this is required by the legal regulations and disclosure requirements in addition to the informal monitoring pressure executed by the listing process on the U.S.A Stock Exchange. Attig et al. (2011) analyzed the impact of institutional shareholders on the value of the cash holdings. Their results suggested that the institutional shareholders have stronger relationships with the family owned firms.

Enacting and implementing the general policies of privatization in Iran motivated firms to become privatized and function in a more prosperous business manner. Undoubtedly, the owners of the business firms play key roles in making corporate decisions. These decisions might lead to an increase or decrease of the firm's value. Hence, the present study seeks to examine the effect of different types of owners (corporate governance mechanisms) on the firm value. Our findings revealed that there is no prior study about the impact of corporate governance on the value of the cash holdings of the Tehran Stock Exchange. However, none of the prior studies applied Fama-French return in the calculations. The other innovation of this study is its application of the CEO duality in addition to the institutional stock ownership and the concentrated institutional ownership.

Research Methodology

The accounting studies are generally categorized into the positivism classes because the accounting scholars conduct studies in accordance with the fact that the concepts of the real world are measurable by the statistical methods. They believe in the independence of the examiner and the subjects. This is the common method of the accounting studies increasingly confronted with the critiques. This study describes the existing and real situations without any manipulation. Therefore, this study is classified as a descriptive accounting study that uses historical information in testing the hypotheses. This is also classified as a descriptive correlation study concerning the influence of corporate governance on the cash holdings.

This study mainly seeks to enhance the information about the relationship between corporate governance and cash holdings in the capital markets of Iran. The results of this study are applicable for resolving the problems about the applicable investments. In terms of the statistical analysis, it uses compound regression techniques and cross sectional regressions. The verified software of the Tehran Stock Exchange and internet sites are used to gather the required data. The collected data is then analyzed by SPSS software and the following models are used to test the hypotheses:

$$R_{i,t} = \gamma_0 + \gamma_1 \frac{\Delta C_{i,t}}{M_{i,t-1}} + \gamma_2 \frac{\Delta E_{i,t}}{M_{i,t-1}} + \gamma_3 \frac{\Delta NA_{i,t}}{M_{i,t-1}} + \gamma_4 \frac{\Delta I_{i,t}}{M_{i,t-1}} + \gamma_5 \frac{\Delta D_{i,t}}{M_{i,t-1}} + \gamma_6 \frac{C_{i,t-1}}{M_{i,t-1}} + \gamma_7 L_{i,t} + \gamma_8 \frac{NF_{i,t}}{M_{i,t-1}} + \gamma_9 \frac{C_{i,t}}{M_{i,t-1}} \times \frac{\Delta C_{i,t}}{M_{i,t-1}} + \gamma_{10} L_{i,t} \times \frac{\Delta C_{i,t}}{M_{i,t-1}} + \gamma_{11} GOV_{i,t} \times \frac{\Delta C_{i,t}}{M_{i,t-1}} + \varepsilon_{i,t}$$

$R_{i,t}$: Difference between stock returns and the return of the Fama-French model

: $M_{i,t}$: Market value of the owners' equity at time t

$C_{i,t}$: Cash balance at time t

$E_{i,t}$: Earnings before extraordinary items during the years of t-1 to t

$NA_{i,t}$: Net assets at time t

$I_{i,t}$: Interest expenses during t-1 to t

$D_{i,t}$: Dividends on the common stocks during t-1 to t

$L_{i,t}$:Leverage at time t $\left(\frac{debts}{debts+Owners' equity}\right)$

Debts: Sum of the short-term and long-term debts at time t

$NF_{i,t}$: New finances during t-1 years (t= net of the owners' equity + liabilities)

$GOV_{i,t}$: The corporate governance measures

The application of the institutional investor as the measure of the corporate governance is called the first model. The second model uses the institutional ownership concentration as the measure of corporate governance. Finally, the third model the third model uses the separation of CEO from the board chief as the measure of the corporate governance.

Population and Sample

The population of this study is composed of the firms listed on the Tehran Stock Exchange. These firms are selected due to the available financial information about these firms and the specific regulations of the stock exchanges which makes the available information more homogenous. These are the reasons contributing in better analyses of data. The population excludes the investment and financial intermediaries and considers the following characteristics of the selected firms:

Their end of the fiscal years should be consistent with the calendar year in order to prevent the heterogeneity.

There should be no changes in the functions and fiscal years during 2005 to 2009.

The managerial and financial information about this study should be available.

Considering the above limitations, 102 firms are selected as the sample.

Hypotheses Development

The following hypotheses are developed to achieve the research objectives:

The first hypothesis: There is a significant relationship between institutional ownership and the value of the cash holdings.

The second hypothesis: There is a significant relationship between the institutional ownership concentration and the value of the cash holdings.

The third hypothesis: There is a significant relationship between CEO duality and the value of the cash holdings.

Findings

The research hypotheses are examined in two stages. Using the Pearson correlation coefficients, the relationships between the regression variables have been examined initially. As the second step, the regression model is implemented in the related software and the coefficients of the model are estimated.

Tables 1 to 3 show the Pearson correlation coefficients for the model variables. The calculated variables include significant at the levels lower than 5 percent and the acceptable observations for the examination 510 firm-year observations. Among the model variables, the interest rate, debt ratio and new finance have inverse and significant relationship with the excess return so that the other variables have direct and significant relationship with the dependent variable.

As shown in the table above, there is a direct significant relationship between the institutional ownership and excess return. Therefore, the first hypothesis concerning the relationship between the institutional ownership and the value of cash holdings is confirmed according to the Pearson correlation coefficient.

Table 1. Pearson Correlation Coefficient for the Variables of Model 2

		Ri	AC	AE	ANA	AI	AD	Ct	Li	NF	CiACi	LiACi	GOV2ACi
Pearson Correlation	Ri	1.000	-	-	-	-	-	-	-	-	-	-	-
	AC	.024	1.000	-	-	-	-	-	-	-	-	-	-
	AE	.042	.055	1.000	-	-	-	-	-	-	-	-	-
	ANA	.064	.048	.014	1.000	-	-	-	-	-	-	-	-
	AI	-.021	-.169	-.885	.062	1.000	-	-	-	-	-	-	-
	AD	.260	.007	.013	.068	.037	1.000	-	-	-	-	-	-
	Ct	.068	-.298	.059	.068	-.278	.071	1.000	-	-	-	-	-
	Li	-.112	.022	.010	-.226	-.194	-.013	.216	1.000	-	-	-	-
	NF	-.014	-.003	-.004	.215	-.075	.032	.150	.170	1.000	-	-	-
	CiACi	.026	.728	.013	-.003	-.278	-.008	.128	.085	.030	1.000	-	-
	LiACi	.031	.980	.054	.027	-.187	.012	-.256	.038	.011	.785	1.000	-
	GOV2ACi	.006	.922	.067	.049	-.170	.005	-.275	.037	.000	.648	.896	1.000
Sig	Ri	-	-	-	--	-	-	-	-	-	-	-	-
	AC	.029	-	-	--	-	-	-	-	-	-	-	-
	AE	.017	.100	-	-	-	-	-	-	-	-	-	-
	ANA	.076	.014	.037	-	-	-	-	-	-	-	-	-
	AI	.031	.000	.000	.082	-	-	-	-	-	-	-	-
	AD	.000	.044	.038	.062	.020	-	-	-	-	-	-	-
	Ct	.062	.000	.090	.062	.000	.054	-	-	-	-	-	-
	Li	.006	.031	.040	.000	.000	.038	.000	-	-	-	-	-
	NF	.037	.047	.046	.000	.045	.023	.000	.000	-	-	-	-
	CiACi	.028	.000	.038	.047	.000	.043	.002	.028	.025	-	-	-
	LiACi	.024	.000	.011	.026	.000	.039	.000	.019	.039	.000	-	-
	GOV2ACi	.045	.000	.066	.013	.000	.046	.000	.021	.049	.000	.000	-

The above table indicates that there is a significant direct relationship between the institutional ownership concentration and excess return. Therefore, it seems that there is a significant association between the institutional ownership concentration and cash holdings based on the Pearson correlation coefficient.

It is found that there is a direct significant relationship between CEO duality and excess return by considering the cash holdings. It seems that the Pearson correlation coefficient confirms the third hypothesis. Implementing the multivariate linear regression, the findings of the related models are provided in the following tables. The related tables are provided based on the hypotheses. Table 3 shows that the estimated regression coefficient of the institutional ownership is 176.276 and the calculated t value for this variable is significant at a level lower than five percent. This coefficient is positive and it confirms the direct relationship between institutional ownership and excess return. In other words, the higher percentage of the institutional ownership indicates the higher excess return. This study values cash holdings based on the excess return and it can be concluded that the institutional ownership has a significant direct relationship with the cash holdings. Then it can be interpreted that the first hypothesis is confirmed. In addition to the institutional ownership, the other variables except the net assets and interest cost are significantly associated.

Table 2. Pearson Correlation Coefficient for the Variables Model 3

		Ri	AC	AE	ANA	AI	AD	Ct	Li	NF	CiACi	LiACi	GOV3 ACi
Pearson Correlation	**Ri**	1.000	-	-	-	-	-	-	-	-	-	-	-
	AC	.024	1.000	-	-	-	-	-	-	-	-	-	-
	AE	.042	.055	1.000	-	-	-	-	-	-	-	-	-
	ANA	.064	.048	.014	1.000	-	-	-	-	-	-	-	-
	AI	-.021	-.169	-.885	.062	1.000	-	-	-	-	-	-	-
	AD	.260	.007	.013	.068	.037	1.000	-	-	-	-	-	-
	Ct	.068	-.298	.059	.068	-.278	.071	1.000	-	-	-	-	-
	Li	-.112	.022	.010	-.226	-.194	-.013	.216	1.000	-	-	-	-
	NF	-.014	-.003	-.004	.215	-.075	.032	.150	.170	1.000	-	-	-
	CiACi	.026	.728	.013	-.003	-.278	-.008	.128	.085	.030	1.000	-	-
	LiACi	.031	.980	.054	.027	-.187	.012	-.256	.038	.011	.785	1.000	-
	GOV3 ACi	.023	.985	.058	.062	-.164	.032	-.279	.023	-.016	.734	.962	1.000
sig	**Ri**	-	-	-	--	-	-	-	-	-	-	-	-
	AC	.029	-	-	--	-	-	-	-	-	-	-	-
	AE	.017	.100	-	-	-	-	-	-	-	-	-	-
	ANA	.076	.014	.037	-	-	-	-	-	-	-	-	-
	AI	.031	.000	.000	.082	-	-	-	-	-	-	-	-
	AD	.000	.044	.038	.062	.020	-	-	-	-	-	-	-
	Ct	.062	.000	.090	.062	.000	.054	-	-	-	-	-	-
	Li	.006	.031	.040	.000	.000	.038	.000	-	-	-	-	-
	NF	.037	.047	.046	.000	.045	.023	.000	.000	-	-	-	-
	CiACi	.028	.000	.038	.047	.000	.043	.002	.028	.025	-	-	-
	LiACi	.024	.000	.011	.026	.000	.039	.000	.019	.039	.000	-	-
	GOV3 ACi	.030	.000	.095	.082	.000	.023	.000	.029	.035	.000	.000	-

According to the above table, the first hypothesis is confirmed in two steps (Pearson correlation coefficient and regression coefficients of the model).

Table 4 indicates the regression results of the second model for investigating the institutional ownership. The findings indicate that the calculated coefficient of the institutional ownership is 126.314 with a positive sign which confirms the direct relationship with the dependent variable of the model. In other words, the more concentration of the institutional ownership brings more excess return. Furthermore, the t statistic of this coefficient is 1.377 that confirms the significance of this variable at a level higher than 95 percent of significance. Consequently, it is found that the second hypothesis is confirmed.

Table 3. Findings of Model 1 (The first hypothesis)

Variable	Model 1 Coefficient	t	Sig.
Constant	٣٧,٦٧٧	٣,١٦٠	٠,٠٠٢
Average cash	٩٢,٣٧٣	١,٧٩١	٠,٠٧٢
Average earnings before extraordinary items	١,٤٩٨	١,٧٨١	٠,٠٧٤
Average net assets	١,٦٢٤	٠,٢٤٦	٠,٨٠٦
Average interest rate	٤,٢٣٩	٠,٢٨٨	٠,٧٧٤
Average dividends	٣٠٤٤,٣	٥,٦٠٨	٠,٠٠٠
Average cash	٦٢,٧٧٧	١,٨٤٩	٠,٠٦٥
Financial leverage	-٤٥,٦٦٤	-٢,٤٩٤	٠,٠١٣
Sum of liabilities and owners' equity	-٠,٦٦٠	-١,٧٤٩	٠,٠٨١
Cash multiplied by average cash	-١٦,١٥١	-١,٦٨٥	٠,٠٩٤
Financial leverage multiplied by average cash	١٢١,٠١	٢,١٤١	٠,٠٣١
Corporate governance measure	١٧٦,٢٧٦	٢,٠٤٠	٠,٠٤٦

R^2 adj. :0/193
Durbin-Watson: 1/772
F:4/634
Sig. :0/000

Table 4. Findings eof Model 2 (the second hypothesis)

Variable	Model 2 coefficient	t	Sig.
Constant	٣٧,٧١٣	٣,١٦٢	٠,٠٠٢
Average cash	١,١٩٧	٢,٠٠٩	٠,٠٤٥
Average earnings before extraordinary items	١,١١٥	١,٣٥٢	٠,٠٩٧
Average net assets	١,٧٠٠	٠,٢٥٧	٠,٧٩٧
Average interest rate	٢,١٣٦	٠,١٤٦	٠,٨٨٤
Average dividends	٣٠٤٨,٩٢	٥,٦١٥	٠,٠٠٠
Average cash	٦٣,٧٣١	١,٨٧٦	٠,٠٦١
Financial leverage	-٤٦,٠٥٢	-٢,٥١٦	٠,٠١٢
Sum of liabilities and owners' equity	-٠,٦٢٤	-٠,٤٢٥	٠,٦٧١
Cash multiplied by average cash	-٢٩,٦٣٧	-١,٧٣١	٠,٠٧٢
Financial leverage multiplied by average cash	١٣٢,٠٨٨	١,٨١٣	٠,٠٦٤
Corporate governance measure	١٢٦,٣١٤	٢,٣٧٧	٠,٠١٨

R^2 adj.:0/182
Durbin-Watson:1/775
F:4/603
Sig.:0.000

According to the above findings, the second hypothesis is confirmed in two steps (Pearson correlation coefficient and regression coefficients of the model). Table

5 shows the findings related to the regression of the third model. In this model, the relationship between CEO duality and excess return has been examined. A dummy variable is used to explain the dual role of the CEO. The results indicate that the estimated regression coefficient is 157.305 with a positive sign that confirms the direct association of CEO duality and excess return. In addition, the t statistic is 2.089 and it shows that the calculated coefficient is significant at a level lower than five percent. Accordingly, the relationship between CEO duality and cash holdings is confirmed. In other words, non-duality of CEO leads to the higher excess return.

Table 5. Findings of Model 3 (the third hypothesis)

Variable	Model 3 Coefficient	t	Sig.
Constant	٣٦,٦٢٦	٣,٠٥٤	٠,٠٠٢
Average cash	١١٦,١٨٢	١,٨٨١	٠,٠٦٢
Average earnings before extraordinary items	١,٨٥٧	١,٨٨٧	٠,٠٥٩
Average net assets	٢,٠٣٥	٠,٣٠٧	٠,٧٥٩
Average interest rate	٥,٨٠٧	٠,٣٨٩	٠,٦٩٨
Average dividends	٣١٢٥,٨٦١	٥,٧١٠	٠,٠٠٠
Average cash	٦٥,٢٠٣	١,٩١٨	٠,٠٥٦
Financial leverage	-٤٤,٣١٧	-٢,٤٠٨	٠,٠١٦
Sum of liabilities and owners' equity	-٠,٧٣٩	-٠,٥٠٢	٠,٦١٦
Cash multiplied by average cash	١٤,٨٠١	١,٥٠٢	٠,٠٨٨
Financial leverage multiplied by average cash	١٠٣,٧٤٩	١,٦٢٦	٠,٠٧٢
Corporate governance measure	١٥٧,٣٠٥	٢,٠٨٩	٠,٠٢٧
	R^2 adj. :0/190 Durbin-Watson:1/775 F:4/644 Sig.:0/000		

The third hypothesis is confirmed according to the above table. Generally, Durbin-Watson statistic confirms the non-linearity between the independent variables of all models and the significance of the models is confirmed by F statistic.

Conclusion, Discussion and Suggestion

The human beings have been always looking for discovering the realities and

the way things happen through the observation and analyses that are the results of the different knowledge fields. Undoubtedly, the researches and empirical studies contribute to achieving this result (Nezafat, 2007). Corporate governance, liquidity and cash holdings have been always considered by the scholars and there are different studies conducted about these subjects. A satisfactory corporate governance system ensures that the entities utilize their capital effectively and capture an extended range of the stakeholders and the society and also respond to the company and the shareholders (Klein, 2002). Corporate governance is a mechanism for the management, direction and monitoring the organizational operations aimed to create value for the shareholders. This means that the companies are not merely looking for the spiritual goals but they aim at some goals because of the corporate governance structure. In other words, the firms create value when they internalize the values of the key stakeholders. Furthermore, the stakeholders can directly impact the firms through the market transactions and contracts but the information constraints and transaction costs limit the application of the mechanisms (Hassas Yeganeh and Ali Zadeh, 2010). The impact of the corporate governance mechanisms on the performance and firm value is another subject which has been much debated in different fields. This study seeks to find the way the corporate governance mechanisms impact the firm value that is measured by the cash holdings. The analysis of the findings reveals that the institutional ownership, concentrated institutional ownership and CEO duality are directly and significantly associated with the firm value. The findings are consistent with the findings of Attig et al. (2011). The only difference is that Attig et al (2011) used institutional shareholders to measure the corporate governance. The findings are further consistent with Ozkan and Ozkan (2004). Their study concentrated on the managerial ownership among the other corporate governance characteristics including board structure and final controllers. They concluded that there is a non-uniform relationship between the managerial ownership and cash holdings. Ishaq et al. (2009) also found similar findings but they used stock price to measure the firm value. The findings of Ditmar and Smith (2007) are similar to the present study because they showed that the corporate governance mainly influences on the firm value through its impact on the cash holdings.

The following suggestions are provided for the more improvement of the future studies. In addition, there might be various questions concerning the corporate governance, capital structure and firm value that are considered as the future research hypotheses. Some suggestions are provided about the future studies:

This study takes institutional ownership, institutional ownership concentration and CEO duality as the corporate governance mechanisms. To better investigate the relationship between the corporate governance and cash holdings, it is suggested to use other mechanisms such as the audit committee, board size, the percentage of the independent board members, ownership percentage of the independent board members, family ownership and so on.

The difference between the annual stock returns and the return of Fama-French is used in this study as a measure of firm value. The future scholars are offered to measure cash holdings by other indicators such as the ratio of market value to the net book value of the assets or the return on assets.

This study employs most of the industries to collect the required data about the variables. Due to the specific nature of some industries (such as the financial intermediaries), the researchers are suggested to emphasize on this specific industry.

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