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Identify and Analyze the Role of Corporate Governance on Financial Performance of Pharmaceutical Substances in Iran

(Case Study: Atlas Teda Pharmaceutical Company)

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Abstract

Today, the term "corporate governance" is of interest and developing concept in the business world. Corporate governance is the foundation of corporate relationships with beneficiary groups. It is necessary to pay attention to internal and external factors as well as economic, political, and cultural conditions of each country in order to formulate a desirable corporate governance system. Accordingly, in the current situation, one of the factors, which improves financial and economic performance and, consequently, increases the profitability of companies, in other words, improves the situation of companies, is to use corporate governance elements including the percentage of institutional investors, the percentage of non-executive directors, and the percentage of major investors. In this research, the main goal is to analyze the role of corporate governance in the financial performance of Atlas Teda Company. The research is a kind of quantitative and field research. The statistical population of the research includes experts in the field of research and managers and employees of Atlas Teda Company in Tehran. Research strategy is analytical survey and tool of data collection is questionnaire. The findings show that the percentage of institutional investors, the percentage of non-executive directors, and the percentage of major investors affect the financial performance of Atlas Teda Company as the main dimensions of corporate governance.

Keywords: Corporate Governance, Financial Performance, Institutional Investors, Non-Executive Directors, Percentage of Major Investors

1. Introduction

The present age is called the management era. Because every manager's decision can change the fate of all the institutions of society sooner or later in a sequentially process. Therefore, one of the social problems, which have attracted the attention of many scholars and practitioners in many societies in the recent years, is the lack of attention and commitment of organizations and executives to corporate governance.

Today, the term "corporate governance" is of interest and developing concept in the business world. Corporate governance is the foundation of corporate relationships with beneficiary groups. As with many discussing and developing issues, there is a variety of perceptions and definitions of corporate governance. The main difference in attitudes is related to the wide scope of company's relationship with the beneficiaries. At the micro level, corporate governance is to achieve company goals. At the macro level, corporate governance is to allocate community resources optimally. As it is addressed today, the historical record of corporate governance dates back to the 1990s and the occurrence of financial scandals in some large companies. In spite of some differences, it seems that the basic principles of corporate governance in developed and developing countries have been gone the path of convergence over time. It is necessary to pay attention to internal and external factors as well as economic, political, and cultural conditions of each country in order to formulate a desirable corporate governance system (Sabaghi, 2009). In recent years, significant progress has been made to establish a corporate governance system through legislation and supervision as well as voluntary measures by companies in developed and developing countries. Investors and shareholders have become more aware of the necessity and importance of corporate governance. They have interested in following the establishment of this system in companies. Some empirical research suggests a positive relationship between corporate governance system and corporate returns. In a general statement, corporate governance is the company's control and guidance system; a system, which controls and directs the relationship between the company and its stakeholders. At the micro level, corporate governance is to achieve company goals. At the macro level, corporate governance is to allocate community resources optimally.

Companies have always sought to improve their performance and increase profitability so that they can encourage new shareholders to invest in their company as well as to provide shareholder benefits that is to maximize their wealth. Therefore, a favorable situation for companies is to improve performance and increase profitability.

Among the things, which can be included in organization performance, are giving attention to resilient economy policies through monitoring and controlling financial performance and increasing productivity and giving attention to corporate governance according to the role and importance of manufacturing and service providing small and medium enterprises in Iran and its deep impact on the GDP of the country, and considering the perspective document of 1404 that Iran should be reach to the first economic, scientific, and technological leader in the Southwest Asia region (including Asia The Middle East, the Caucasus, the Middle East, and neighboring countries).

Given the above mentioned, one of the solutions, which is made to increase the profitability of the Atlas Company in today's world, is to use corporate governance elements, since corporate elements are trying to drive corporate executives' performance toward maximizing the shareholders of the company. Therefore, the research shows whether the elements of corporate governance can improve the performance of Atlas Teda Company so that the goal is to achieve the vision and mission of the company.

Now, the question arises as to whether there is a tool to direct the company to its desirable position, which is the same profitability?

In the current situation, one of the factors, which improve the financial and economic performance and, consequently, increase profitability in companies, in other words, improve the situation of companies, is to use corporate governance elements.

The problem is that Atlas Teda Company has been decreasing profits in some cases. Therefore, in the company, whether there is a relationship between corporate governance elements and financial performance criteria; and whether corporate governance elements will improve the financial (profitability) and economic criteria of performance.

Given the above mentioned:

1. Does corporate governance affect the financial performance of the Atlas Teda Company?
2. Does the percentage of institutional investors affect the financial performance of the Atlas Teda Company?
3. Does the percentage of non-executive directors affect the financial performance of the Atlas Teda Company?
4. Does the percentage of major investors affect the financial performance of the Atlas Teda Company?

2. Theoretical foundation

2.1. Institutional Investors

Institutional Investors are institutions that sell and buy large volumes of securities. In line with existing literature, institutional investors include banks, insurance companies, pension fund, investment companies, etc. Institutional investors penetrate in the decision-making and structure of the company's board of directors using the right to vote so they can be one of the sources of monitoring the performance of corporate governance (Fama, 1980):

1. Banks and insurances;
2. Holdings, investment companies, pension funds, capital supply companies, etc.;
3. Any natural or legal person who has purchased more than 5% of the shares or more than 5 billion Rials of the nominal value of the securities at the publisher's disposal;
4. Governmental and public organizations and institutions;
5. Government Companies;
6. Members of the board of directors and managers of issuing or those who have the same function.

2.2. Percentage of non-executive directors

The board is the highest decision-making authority in organizations, both large and small that a major part of the outcome of the decisions made by them will not affect their wealth. They accomplish the selection and dismissal of the organization's highest executive officer, approval of the organization's many important decisions, and supervision its implementation. Applying this right of control by the board helps to ensure the effective separation of decision-making and control at the highest level of the organization (Fama and Jensen, 1983).

Since the responsibilities of the executive members of the board of directors are closely related to the CEO, it is expected that the task of supervising management will be largely reserved for non-executive members of the board. Therefore, non-executive members of the board are of important role in solving the problem of representation between managers and owners (Fama, 1980).

A non-executive member of the board is a person who has not an executive job in the company and does not receive a fixed monthly or annually salary.

2.3. Corporate Governance

The term "Governance" is derived from the root of the Latin word "Gubernare," which means "to guide" and it has been previously used to guide the ship.

Definition of corporate governance and the level of consensus admission

Item	Definition of corporate governance	Level of consensus
1	The monitoring and control process to ensure that the company managers act on the interests of shareholders (Parkinson, 1994).	Completely agree
2	The role of governance is not limited to the company's business activities, but it deals with directing the entire business unit, the supervision and control of executive actions of managers and their responsiveness to all stakeholders (Terry Cur, 1984).	Very agree
3	The governance of a business unit is the sum of the activities that make the internal regulations of the business unit consistent with the company's commitments including trustee and optimal asset management (Canun, 1994).	Agree
4	The relationship between stockholders and their companies and the way by which shareholders encourage executives to do their best performance (Corporate Governance Book, 1996).	Somewhat agree
5	Structure, processes, cultures, systems which lead to the company's operations to be succeeded (Kaisi and Wright, 1993).	Somewhat agree
6	A system by which companies are controlled and directed (Applied Report, 1992).	A little agree

2.4. A comparative look at corporate governance

The governance system is a function of internal and external variables in each country. Internal elements include ownership structure, economic status, legal system (regulation), government policies, and community culture. External elements relate to interactions and economic relations with other countries such as the flow of capital entering and exiting and the global economy status. At the corporate level, ownership structure and legal framework are the most important factors affecting corporate governance. Some researchers have been tried to classify corporate governance systems in different countries. Others have been sought a comparative survey to identify sharing and differentiation points of these systems. However, it seems that it has been not achieved a great success in this relationship due to the large variety. Nevertheless, a brief glance at a relatively general classification seems to be useful as internal/external (Kadberi, 2002).

Internal power systems are formed in conditions, which the control of joint stock companies is at the disposal of one or more of the major shareholders groups such as founders, legal shareholders (institutional investors), or government. This system is also referred to as "relationship-oriented." In this system, there is a close relationship between the company and controlling shareholders. Countries such as Germany and Japan are closer to this system. The close relationship between owners and managers is positive as far as it relates to the reduction of representation costs (Taheri, 2006).

2.5. The role of corporate governance in protecting shareholders

Formation and accumulation of capital have an important role in the economic development and progress of countries. Sustainable development requires gaining the trust of investors and financial suppliers. In the current conditions, the increased restrictions on access to financial resources highlight the need to accumulate dispersed sources of society by raising public confidence to gain benefits from implementing economic projects. On the other hand, the implementation of privatization programs within the framework of general policies of Principle 44 involves widespread public interest and its success depends on protecting investors and securing their investments. As a result, establishing a good corporate governance system that provides the operational efficiency of companies and good returns for citizens' investment becomes a political and economic requirement.

Clapper and Low (2002) show that good corporate governance has a significant positive correlation with operational efficiency and market value. This relationship is more pronounced in countries with a weaker legal system. Researches (Laporta, 1999, 2000; Collins et al., 2000) show that there are significant differences between investor protection laws among different countries, partly of which is because of differences in legal bases. In addition, the researches show that the differences between laws and applying then among different countries affect the structure of ownership, cash dividend, cost, the availability of foreign financial resources, and market value. Results of Clapper and Lowe's research also suggests that, although companies can independently improve their investors protection and the rights of small shareholders to a certain extent, a good corporate governance system at the company level is not a successor to improve and strengthen the legal system and can not fill the empty space of strong and appropriate legal infrastructures.

3. Methodology

The orientation of the research, development, philosophical basis of research, positivism, and research achievement is quantitative. The research is a field study. The statistical population of the research includes experts in the field of research and managers and employees of Atlas Teda Company in Tehran.

Research strategy is analytical survey. Tool of data collection is questionnaire. The research approach is a deduction approach. For the method of collecting required data in the writing stage, it has been paid attention to the literature, library studies, Internet search, reading articles, books, journals, dissertations, and other reputable scientific databases.

In this research, the statistical population included 112 experts in the field of research and managers and employees of Atlas Teda Company in Tehran. The statistical sample was selected in a randomized classification method among the experts in the field of research and managers and employees of Atlas Teda Company in Tehran. Classes were determined in terms of organizational unit and samples were selected in proportion to each unit.

4. Methods and tools for data collection

Generally, the data collection methods can be divided into two categories: library methods and field methods. Library methods are used in all scientific researches. In field methods which are more popular, the questionnaire is a very common method for collecting information and it uses a questionnaire tool whose questions can be opened, closed, combination, or follow-up. According to Bazargan et al. (2004), the measurement scale of attitude is among tools for data collection in researches. Measures can be used to measure attitudes, one of the most important of which is the Likert scale. This scale is made up of a systematic set of items (phrases) that are arranged in a special order. These phrases present certain states of the measured phenomenon as expressions that have equal distances in terms of measuring values. Grading these phrases is usually ranged from one to five (or seven). In this research, the main fieldwork is based on the questionnaire. The Likert scale has also been used for the questionnaire. It has been used five phrases (items) including completely effective, effective, moderate effect, low effect, and very low effect (Sheulson, 2004).

In general, evaluation of validity and reliability is always a mental process. For reliable results, the data set depends on a high degree of validity.

This work has been first carried out through an accurate evaluation of the subject literature. After setting up the questionnaire and before the survey, the questionnaire has been reviewed and approved by six experts. After confirming the validity of the questionnaire and implementing the required reforms, the questionnaire has been distributed among the sample. The results of this survey have been analyzed in the fourth chapter.

In the research, Cronbach's alpha coefficient has been used for reliability. Cronbach's alpha coefficient is one of the most widely used instruments for measuring reliability. In general, a scale is reliable that has a value of more than 0.7. In the survey questionnaire, 0.775 was achieved for the considered coefficient.

5. Findings

Regarding the research structure and hypotheses, it has been used regression analysis. It has been also used the spss 16.00 software for Windows to analyze outputs.

5.1. The results of the regression test on the role of corporate governance in the financial performance of Atlas Teda Company

Hypothesis 1: The percentage of institutional investors affects the financial performance of Atlas Teda Company.

At 5% significance level, it is $p<0.05$ according to the sig. column. Therefore, the hypothesis is confirmed and the percentage of institutional investors affect the financial performance of Atlas Teda Food Distribution Company.

The correlation coefficient of the hypothesis variables (i.e., the percentage of institutional investors and financial performance of Atlas Teda Company) is high (0.762). 0.581% of the financial performance of Atlas Teda Company (R2) is explained by the percentage of institutional investors. Therefore, the hypothesis is confirmed at a significant level of 5%.

Variable	Sig.	R	R2	Result
The percentage of institutional investors	0.0000	0.762	0.581	Confirmed

Frequency of respondents to the questions of questionnaire related to this hypothesis and their response type are as follows:

Respondents	Very much	High	Medium	Low	Very low	Total
Number	26	12	7	4	1	50
Percentage	52	24	14	8	2	100

Hypothesis 2: The percentage of non-executive directors affects the financial performance of the Atlas Teda Company.

At 5% significance level, it is p<0.05 according to the sig. column. Therefore, the hypothesis is confirmed and the percentage of non-executive directors affects the financial performance of the Atlas Teda Company. The correlation coefficient of the hypothesis variables (i.e., the percentage of non-executive directors and financial performance of Atlas Teda Company) is high (0.809). 0.655% of the financial performance of Atlas Teda Company (R2) is explained by the percentage of non-executive directors. Therefore, the hypothesis is confirmed at a significant level of 5%.

Variable	Sig.	R	R2	Result
The percentage of non-executive directors	0.0000	0.809	0.655	Confirmed

Frequency of respondents to the questions of questionnaire related to this hypothesis and their response type are as follows:

Respondents	Very much	High	Medium	Low	Very low	Total
Number	22	11	11	3	2	49
Percentage	44	22.8	21.2	6	4	100

Hypothesis 3: The percentage of major investors affects the financial performance of Atlas Teda Company.

At 5% significance level, it is p<0.05 according to the sig. column. Therefore, the hypothesis is confirmed and the percentage of major investors affects the financial performance of the Atlas Teda Company.

The correlation coefficient of the hypothesis variables (i.e., the percentage of major investors and financial performance of Atlas Teda Company) is high (0.625). 0.391% of the financial performance of Atlas Teda Company (R2) is explained by the percentage of major investors. Therefore, the hypothesis is confirmed at a significant level of 5%.

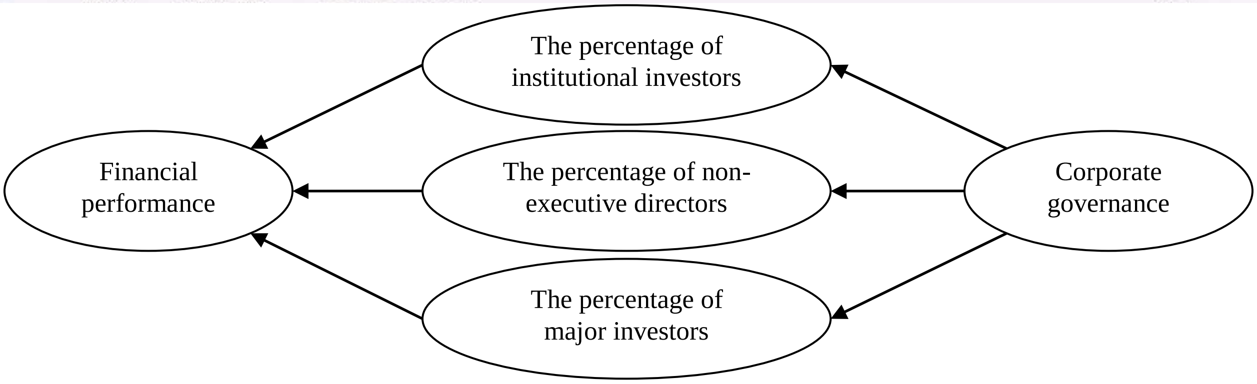
Variable	Sig.	R	R2	Result
The percentage of major investors	0.0000	0.625	0.391	Confirmed

Frequency of respondents to the questions of questionnaire related to this hypothesis and their response type are as follows:

Respondents	Very much	High	Medium	Low	Very low	Total
Number	22	18	4	4	4	50
Percentage	44	36	8	8	2	100

6. Discussion and conclusion

According to the results from the viewpoint of managers and employees of Atlas Teda Company, it is determined that corporate governance affects the financial performance of the Atlas Teda Company in the form of the percentage of institutional investors, the percentage of non-executive directors, and the percentage of major investors. Therefore, it should be considered the assessment of current situation of the organization from various aspects such as human resources, financial conditions and budget, infrastructures, missions, and organization objectives, structures, processes, culture, and environment in order to establish corporate governance in the company. Then, it should be improved the quality of decisions in this company by developing, establishing, and using timely, correct, appropriate, true, real, and sufficient information. Finally, it should be led to the growth and success of the organization. With regard to the above mentioned, the final model of the research is presented as follows:



The conceptual framework of the research (Taheri Heshi, 2016)

7. Recommendations

According to the results of the research and the importance of corporate governance in the success of all organizations, Atlas Teda Company should consider the following for success in its business:

Assess the current situation of the organization in terms of:

- Organizational, structural and content, infrastructures of information technology, human resources, structure and process, culture, environment, finance and budget;
- Developing strategies in consistent with the results of the research related to the integration of business strategies with corporate governance;
- Efforts to achieve the organization goals with regard to proposed organizational strategies;
- Planning to improve awareness and knowledge level of company managers and staffs in order to establish corporate governance.

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