

## Determining the Strategy of Maintaining Minor Stockholders Rights Based on Firm Governance

Fateme Dashti Marvili<sup>\*1</sup>, Ali Esmaelzadeh Maghari<sup>2</sup>, Mostafa Kholdi<sup>3</sup>

<sup>1</sup>M.A. student of Accounting, Borujerd Branch, Islamic Azad University, Borujerd, Iran

<sup>2</sup>Departments of Accounting, Eslamshahr Branch, Islamic Azad University, Eslamshahr, Iran

<sup>3</sup>Departments of Accounting, Borujerd Branch, Islamic Azad University, Borujerd, Iran

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### ABSTRACT

The present research aims investigating the strategy of maintaining minor stockholders rights based on firm governance which was carried out in stock firms in 2011-2012. The research population was the accounting lecturers and the managers of stock firms among which 172 samples were chosen by Chockran formula which the number of samples returning the responses was 152. This research contains four hypotheses: 1) The information duly for minor stockholders has a significant relationship with firm governance. 2) The existence of information bases has a significant relationship with firm governance. 3) At present minor stockholders do not have any tool to supervise the managers and the directory board issues. 4) Culturization and education of stockholders have a significant relationship with firm governance. In this research, the data were collected through field observation and questionnaire. T-student test was used to identify if the responses given to variables are at very low, high and very high. Regarding the fact that scale level of questions of this research is ranked, the best test to establish the relationship among the variables is spearman test. The primary processing was preformed through Excel software and spss18 was used to analyze the data.

**Keywords:** Stockholders, Firm Governance, Strategy, Spearman Test.

### Introduction

The formation and accumulation of capital has a critical role in the development and progress of countries and sustainable development demands the attraction demands the attraction of investor's trust and finance providers. The increasing limitation of accessibility to financial resource makes important the accumulation of scattered resources through winning the public trust to

achieve the profits from implementation of economic projects. On the other hand, implementing programs of privatization in general policies of principle 44 involves a wide public interest and it's success is dependent on the support of investors and the safety of investments. Therefore, establishing suitable firm governance which provides firm operational performance and suitable feedback of

investment can turn in to a political and economic commitment. The issues of firm governance was proposed in 1990s in England, USA and Canada in response to the problems pertaining to efficacy of directory board in big firms , the primary concepts of which were formed by Cad berry report (1992) in England, the regulations of general motors company of USA and DEY report in Canada. The evidence shows that firm governance is the most common phrase in world trade terminology in the new millennium.

The aims of this research are: support and development of investment by minor stockholders (the firm governance framework must support the rights of stockholders and facilitate its process).

2) The main problem which is lack of trust to market and information privileges of capital market must be removed.

3) Increase of clarity and responsiveness in all organizational levels.

4) Public trust to investment is increased.

5) The government role and parties involved in firm governance in investment security are paid attention to.

Based on research aims, the following hypotheses are proposed:

1) Revealing the information duly for minor stockholders has a significant relationship with firm governance.

2) Existence of electronic informatics database has a significant relationship with firm governance.

3) At present, minor stockholders do not have any tool to supervise the managers and directory board.

4) Culturization and teaching investors have significant relationship with firm governance.

#### 1. Theoretical background

Cad Barry report in 1992 was the first spike of firm governance which focused on setting internal control system and internal auditing .The Watergate event in

USA and deception in capital market of American in 2001 led to the passage of OECD in 2004. The main aim of this rule was clarity and responsiveness in capital market. The firm governance is a set of relation between stockholders, managers and auditors which guarantee a control system to observe the minor stockholders rights, to implement the issues of assembly correctly and to prevent the possible abuses. These tasks and responsibilities must be performed so that the clarity and responsiveness.

#### Definitions

A number of responsibilities and methods implemented by directory board and managers to specify the strategic path of guaranteeing access to aims, risk controls and responsibly consuming resource [IFAC]. The system with which firms are controlled and conducted a set of rules which supervise the control and conduct of firms the process of control and supervision to guarantee the firm manager's performance parallel to stockholders` interests. The structure of relations and responsibilities within a man group of stockholders, directory board members and general director to spread the competitive performance to attain the primary aims of participation. (IMF and OECD) Firm governance pays attention to internal structure and power relationships, the implementation of directory board tasks firm ownership structure and its creditors. A set of rules, regulation and methods to determine how firms are conducted and for whom ? The tools by which the community determines the direction of firm . Relationship among different group to determine the orientation and performance of firm . Firm governance aims to promote the fair, clarity and responsiveness in the firm.

### **The research carried out in Iran**

Torabian, Kreshmeh (The measures to support minor stockholders) the government role in investment security must not be ignored. The performance and efficacy of market should be considered importation.

Hassas yeganeh, yahya (firm governance in developing capital market of countries) modification and promotion of firm governance lead to the development of capital market followed by economic growth. Rasaian, Amir (firm governance and control). There are mechanisms to execute the external controls, the models of holder of stock blocks, directory board models of rewarding the managers. The establishment of these models and mechanisms are basic steps to use the resources optimally, promote, respond clarity and observe the individual's rights. Botshekan, Rahbari, Kharazi (2009) in a study entitled firm governance: the observance of stockholders right in firms of stock organization in Tehran concluded that:

1. Compiling and implementation of firm governance.
2. Notifying the stockholders about their rights and the ways to followed them by stock organization.
3. Requiring the accredited firms to establish electronic database to inform duly and provide similar accessibility.
4. Revision of the manifest accepted by Tehran stock organization in terms of observing the stockholder's rights.

Husseini, Rahbari and Kharazi (2011) in a study entitled: supporting the stockholders by compiling the framework and guidance of firm governance concluded that the suitable ground must be provided to use the capacities so that the performance is promoted and the stockholder's rights are maintained. The major stockholders pay attention to their

interests. Minor stockholders can be involved more through teaching and their integration can bridge the gap between minor establishment of suitable mechanisms of firm governance can help to attract and allocate the resources, increase the performance and revive the beneficiaries and growth of investment.

### **Researches carried out outside Iran**

Berl (2013): stated: The conflict of interests interpreted as delegacy issue icons from two points: first, each participant has it's own aims and priorities while they do not have adequate information about others. It is evident that this separation will be harmful for stockholders. Ericson et al. (2000) did a study about the effect of firm governance on financial crisis of East Asian countries concluding that local protection of stockholders is a strategic key of concluding a firm, the firms which reveal the information protect the stockholder's rights. Johnson et.al (2000) studied in Indonesia that most firms are under the family ownership and control. There was evidence of abuse by the majority which could be prevented by desirable strategic system. Hermanlin and Wiesbach (2007) expressed that the ultimate aims of establishing conducting system are attaining the responsiveness, clarity, justice and observing the beneficiaries' rights.

### **Materials and methods**

Our method is deductive – inductive in that theoretical backgrounds are used to reject or validate the hypotheses deductively while the data are obtained inductively. This research is applied in terms of aims and correlative – descriptive in terms of data collection. The research volume is considered to be 172 (based on Chochran's formula) for an infinite

research and 152 questionnaires were returned. The field method was used to collect data in that 1) Revealing information duly for minor stockholders which was reflected in a questionnaire in questions 1-5.

2) The presence of information database was investigated in questions 6-10.

3) Stockholder’s supervision in questions 11-14.

4) Culturization and education of investors were determined in questions 15-19.

The university lecturer confirmed the validity of the questionnaire and the reliability was measured by chornbach  $\alpha$  as 0.88 on 20 questionnaires KMO and t-student tests were used to determine the situation of responses. The spearman test was used to investigate the relationship between variables with rank scale level. To process the data primarily, EXCEL spread sheet was used and spss18 to analysis data.

**Data analysis**

Barthelt test was significant at the level of %1 and the value of KMO test was greater than 0.5 and factor rotational load (dependency of each element on other

elements) of each element was greater than 0.3; therefore, questions 1-5 were suitable to form the first hypothesis. Barthelt test was significant at the level of 0.01. and the value of KMO test was greater than 0.5 and factor rotational load (dependency of each element on other elements) of each element was greater than 0.3; therefore, questions 6-10 were suitable to form the second hypothesis. Barthelt test was significant at the level of 0.01. and the value of KMO test was greater than 0.5 and factor rotational load (dependency of each element on other elements) of each element was greater than 0.3 ; therefore, questions 11-14 were suitable to form the third hypothesis. Barthelt test was significant at the level of 0.01. and the value of KMO test was greater than 0.5 and factor rotational load (dependency of each element on other elements) of each element was greater than 0.3 ; therefore, questions 15-19 were suitable to form the fourth hypothesis.

**t- test for the first hypothesis**

H0:  $\mu \leq 3$

H1:  $\mu \geq 3$

**Table1.** Data description in t – student test for the first hypothesis

Number	Average	Standard deviation	Standard error
152	3.633	.5947	.0482

**Table 2.** T–student test for the first hypothesis.

Society Average=3

t	Degrees of freedom	Significant	Difference mean	95% Confidence Interval of the Difference	
				Lower	Upper
13.122	151	0.000	0.6329	0.538	0.728

The results of table 1 table2 show that the average of responses given to this

hypothesis was 3.63 while the basis average (society) is 3.This difference is

significant at the level of 1% in t-test. Therefore, the hypothesis  $H_0$  is rejected and  $H_1$  is confirmed. Therefore, the mean value is greater than average.

**T- test for the Second hypothesis**

**Table 3.** Data description in t – student test for the Second hypothesis

Number	Average	Standard deviation	Standard error
152	3.795	0.5095	0.0413

**Table 4.** T- student test for the Second hypothesis

Society Avarage=3					
t	Degrees of freedom	Significant	Difference mean	95% Confidence Interval of the Difference	
				Lower	Upper
19.232	151	.000	0.7947	0.713	0.876

The results of table 3 and table 4 show that the average of responses given to this hypothesis was 3.679 while the basis average (society) is 3. This difference is

significant at the level of 1% in t- test . Therefore, the hypothesis  $H_0$  is rejected and  $H_1$  is confirmed. Therefore, the mean value is greater than average.

**T- test for the Third hypothesis**

**Table 5.** Data description in t – student test for the Third hypothesis

Number	Average	Standard deviation	Standard error
152	3.7303	0.77070	0.06251

**Table 6.** T- student test for the Third hypothesis

Society Avarage=3					
t	Degrees of freedom	Significant	Difference mean	95% Confidence Interval of the Difference	
				Lower	Upper
11.682	151	0.000	0.73026	0.6068	0.8538

The results of table5 and table6 show that the average of responses given to this hypothesis was 3.73 while the basis average (society) is 3. This difference is significant at the level of 1% in t-test.

Therefore, the hypothesis  $H_0$  is rejected and  $H_1$  is confirmed. Therefore, the mean value is greater than average.

**T- test for the Fourth hypothesis**

**Table 7:** Data description in t – student test for the Fourth hypothesis

Number	Average	Standard deviation	Standard error
152	3.69	.672	.055

**Table 8:** T- student test for the Fourth hypothesis

Society Avarage=3					
t	Degrees of freedom	Significant	Difference mean	95% Confidence Interval of the Difference	
				Lower	Upper
12.623	151	0.000	0.688	0.58	0.80

The results of table7 and table 8 show that the average of responses given to this hypothesis was 3.69 while the basis average (society) is 3.This difference is significant at the level of 1% in t-test. Therefore, the hypothesis H0 is rejected and H1 is confirmed. Therefore, the mean value is greater than average. Spearman test for the first hypothesis: Revealing the

information duly for minor stockholders has significant relationship with firm governance. H<sub>0</sub>: Revealing the information duly for minor stockholders does not have significant relationship with firm governance. H<sub>1</sub>: Revealing the information duly for minor stockholders has significant relationship with firm governance.

**Table 9.** Spearman test for the first hypothesis

Amount of spearman	Number	Significant
0.753	0.152	0.000

The results of table 9 show that spearman test was significant at the level of 1%; therefore, with the confidence 99% we can say there is a relationship between the variables of this hypothesis. In another word, there is a relationship between revealing the information duly for minor stockholders and firm governance. The greater the revealing the information, the better the performance and control in the

firm. Spearman test for the second hypothesis: The existence of information database has a significant relationship with firm governance. H<sub>0</sub>: The existence of information database does not have a significant relationship with firm governance. H<sub>1</sub>: The existence of information database has a significant relationship with firm governance.

**Table 10.** Spearman test for the Second hypothesis

Amount of spearman	Number	Significant
0.677	0.152	000/0

In another word, there is a direct relationship between electronic databases

with firm governance. The more the number of information databases, the

greater the firm governance. Spearman test for the third hypothesis. There is a relationship between minor stockholders supervision and firm governance. H<sub>1</sub>: There is not a relationship between minor stockholders supervision and firm governance H<sub>0</sub>: There is a relationship between minor stockholders supervision and firm governance.

In another word, there is a direct relationship between stockholders supervision, and firm governance. The

**Table 11.** Spearman test for the Second hypothesis Third

Amount of spearman	Number	Significant
0.841	0.152	0.000

**Table 12.** Spearman test for the Second hypothesis fourth

Amount of spearman	Number	Significant
0.836	0.152	0.000

In another word, the positive value of spearman shows a direct relationship between culturization and educating investors with firm governance.

**Discussion and Conclusion**

**First hypothesis**

To examine the responses for this hypothesis, single sample t- student test was used in which the mean of responses of representative members is compared with the basis mean (3). As seen, the mean responses to this hypothesis are 3.63 which are 0.63 greater than basis mean and this difference is significant at the level of 0.01. In another word, the responses given were more than the medium level. To examine the relationship between revealing the information duly for stockholders with firm governance with firm governance, person test was used. The results show that there is a significant

greater the stockholders supervision, the better the firm governance. Spearman test for the fourth hypothesis. There is a significant relationship between culturization and educating with firm governance. H<sub>1</sub>: There is not a significant relationship between culturization and educating with firm governance. H<sub>0</sub>: There is a significant relationship between culturization and educating with firm governance.

relationship between the two variables at the level of 0.01 in which the positive number of test (0.753) shows a direct relationship. Therefore, revealing the information duly for stockholders has a positive effect on firm governance.

**Second hypothesis**

To examine the responses for this hypothesis, single sample t- student test was used in which the mean of responses of representative members is compared with the basis mean (3). As seen, the mean responses to this hypothesis are 3.63 which are 0.63 greater than basis mean and this difference is significant at the level of 0.01. In another word, the responses given were more than the medium level. To examine the relationship between revealing the information duly for stockholders with firm governance with firm governance, person test was used. The results show that there is a significant relationship between the two variables at the level of 0.01 in which the positive number of test (0.753) shows a direct

relationship. Therefore, the existence of information database has a positive effect on firm governance.

### Third hypothesis

To examine the responses for this hypothesis, single sample t- student test was used in which the mean of responses of representative members is compared with the basis mean (3). As seen, the mean responses to this hypothesis are 3.63 which are 0.63 greater than basis mean and this difference is significant at the level of 0.01. In another word, the responses given were more than the medium level. To examine the relationship between revealing the information duly for stockholders with firm governance with firm governance, person test was used. The results show that there is a significant relationship between the two variables at the level of 0.01 in which the positive number of test (0.753) shows a direct relationship. Therefore, stockholders supervision has a positive effect on firm governance.

### Fourth hypothesis

To examine the responses for this hypothesis, single sample t- student test was used in which the mean of responses of representative members is compared with the basis mean (3). As seen, the mean responses to this hypothesis are 3.63 which are 0.63 greater than basis mean and this difference is significant at the level of 0.01. In another word, the responses given were more than the medium level. To examine the relationship between revealing the information duly for stockholders with firm governance with firm governance, person test was used. The results show that there is a significant relationship between the two variables at

the level of 0.01 in which the positive number of test (0.753) shows a direct relationship. Therefore, culturalization and education of investors have a positive effect on firm governance.

### Suggestions

1. Using the results of this research in more supervision on stock firms to attain the principles of firm governance more.
2. Revealing the information related to firm governance in the notices a companied by financial balance sheets more clarity.
3. Designing indexes to reflect the amount of firm governance in firms of stock organizations.

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