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Effect of Performance Corporate Governance Mechanisms to Change the CEO in Companies

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Abstract

According to the agency theory and the separation of ownership from management, including the most important measures of a company is management changes. On the other hand the cause of change the executive's managers because their effectiveness should be a special place in accounting research. The purpose of this study was to evaluate the performance impact and mechanisms of corporate governance on likely to change the Chief Executive Officer (CEO). To this end, 65 companies from the population, the information required for the 9-year period of the study (2008-2017) available in case they were selected. According to previous research, a measure of Return On Equity (ROE) and criteria for evaluating the performance of an entity, majority ownership, independence of board members, CEO positioning and public and private property for corporate governance was considered. To test the hypotheses, methods, and logistic regression with Eviews software were analyzed using descriptive statistics. The results show that the variables of institutional ownership and independence of board members and the CEO have a negative impact on the relationship between performance, but the majority ownership has a positive effect causing the change of CEO is more sensitive to performance. The variable of director representing the majority shareholder in the company which is the majority shareholder representative, managing director has a significant negative relationship between performance and the CEO. The type of ownership (Private or government) has a significant negative impact on the relationship between performance and the CEO and the negative effects of private ownership is more than public ownership.

Keywords: Corporate governance mechanisms, Managing director, Performance, State ownership, Private property.

1 | Introduction

The main theme of this study is the effect of performance and other corporate governance mechanisms on the Chief Executive Officer (CEO) in companies. In economics, the assumption of rational behavior of individuals seeking to maximize their wealth applies to everyone; so investors, shareholders, and managers are also no exception. Investors and shareholders are the leading suppliers of resources to companies, with

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regard to the freedom of action of the managers and the rewards that they pay for the service managers, wealth managers, and the company expects to raise as much as possible—the success or failure of company management as the most important element is considered. So shareholders, with respect to the achievement of the objectives of the management company, decided to continue their work or change them [1], [2]. The separation of ownership from management companies, the potential for opportunistic behavior of managers, has created a situation in which at least part of their wealth is transferred to the intra-organizational groups. Because managers have access to information that other people do not have access to, at least part of it. To monitor and control, corporate governance mechanisms are used.

The management changes are the most important decisions of the company, and the management of the most critical factors that affect the company's performance and corporate governance can be cited.

Until the 1980s, the central theme in the literature on corporate governance. It was generally accepted that the concentration of ownership reduces representation issues, and this will improve the company's performance [3]. The researchers explain that the increased concentration of ownership factor will enter the ownership structure of the companies that are major investors. These investors are motivated and empowered to monitor managers; they will monitor the company's management to achieve long-term goals and take steps [4].

The Enron and Vallad Kam scandals in 2002 led to a lot of research in the field of corporate governance. Many researchers have found that the structure of corporate governance, appropriate corporate performance, and its market value have a positive effect [5], [6]. Corporate governance involves a set of relationships between shareholders, directors, auditors, and other stakeholders to ensure the establishment of a control system in order to respect the rights of minority shareholders, the correct implementation of the decisions of the assembly, and prevent possible abuse. A group of researchers concluded that institutional investors can monitor the management function of the amount of investment [7]. The level of institutional ownership is higher, the monitoring is done by better management, and this is a direct connection, thus improving the performance and value of the corporation. Companies believe that good corporate governance, management, and business units facilitate effective control and hence are able to offer efficiency improvements for all stakeholders.

Research in the field of corporate governance is based on agency theory and focuses on the issue of conflict. Conflicts of interest arise when the interests of managers and owners are not in line, based on agency theory and conflict of interest between ownership and management, continued employment, and subject the company's performance in the management of his activities. The agency theory states that management is accountable for the company's performance. Therefore, replacement and change management as an internal control mechanism reduce the agency problems in companies with poor performance. Managers in poor performance compared to competing companies in the same industry were replaced. The company's performance quality affects the board of directors' decision to change the senior management.

Agency theory states that firms with better corporate governance structure, with better performance and higher value, have lower agency costs. Representation theory also states that better time management and monitoring are necessary in companies that have significant ownership concentration, because the major shareholder has the motivation and the ability to monitor the director and improve the performance of the company [8]. It is also expected that if the CEO and chairman of the board are the same, this structure allows the CEO to effectively control the information available to other members of the Board of Directors, effectively control, and thus may prevent effective monitoring [9]. Brown and Caylor's [6] research showed that companies with better corporate governance mechanisms have better performance and higher market value.

The purpose of corporate governance is to ensure the absence of opportunistic behavior through the reduction of agency problems and asymmetric information realization, and to reduce such problems and thus increase the efficiency and effectiveness of the company's performance management and change management controls. The purpose of this study was to investigate the determinants of a company's performance and corporate governance practices of the company's senior executive management change.

2 | Previous Studies

Jaiswall and Bhattacharyya [10] examined “Corporate Governance and CEO Compensation in Indian Firms”. They find that CEO compensation attributed to ownership characteristics in the private sector is positively related to future firm performance, whereas remuneration attributed to board and CEO characteristics in both private and public sectors is not. Our evidence is consistent with efficient CEO compensation contracting, rather than CEO rent extraction, in Indian firms.

Gao et al. [11] examined the relationship between corporate governance and the replacement of their senior executives. The results showed that state-owned enterprises have a higher replacement rate and a greater sensitivity of the replacement and performance in public companies than in private companies.

Dianati Deilami et al. [12] examined the effect of tenure on the company's management, agency costs, and information risk. They have not represented a significant relationship between tenure and management costs, but found an inverse relationship between the enterprise and between the enterprise information risk and the value of the company directly.

Moradi and Hosseini [13] investigate the relationship between senior management and management of change at the same time as profit in the final year of senior executives. The relationship between change management and the management of the CEO did not improve last year.

The lack of women's representation on boards has become an important issue recently that needs to be addressed due to the benefits derived from gender diversity in the boardrooms. This study [14] intends to examine the association between gender diversity in the board of directors and firm performance. The finding indicates that a positive association exists between gender diversity and firm performance. A positive association suggests that women's directorship may influence firm performance.

Moradi and Rostami [15] examined “the Relationship between Corporate Governance Mechanisms and Firm Performance after Initial Public Offerings”. Corporate governance mechanisms include ownership structure (i.e., institutional ownership, managerial ownership), and board composition (i.e., the percentage of non-executive directors or Board independence, and CEO duality) in order to evaluate the return on asset, and Tobin’s Q is used. Findings show that institutional ownership and managerial ownership are positively related to firm performance after going public. Moreover, the percentage of non-executive directors improves firm performance. However, there is no relationship between CEO duality and firm performance.

Assadi and Manti Monjagh Tapeh [16] examined the impact of management changes on earnings management. The results of their research, positive management of change, have confirmed a profit in the previous year, but no evidence of benefit in the management of change and positive management of change profit in the following year has been gained.

Assadi and Manti Monjagh Tapeh [17] in another study examined the impact of the management changes announced on market reaction. The results showed that the market reaction to the announcement showed no change management, or in other words, change management has been lacking in content.

Adams and Ferreira [18] examined examined “Women in the Boardroom and Their Impact on Governance and Performance”. In a sample of US firms, their results suggest that gender-diverse boards allocate more effort to monitoring. Accordingly, we find that chief executive officer turnover is more sensitive to stock performance, and directors receive more equity-based compensation in firms with more gender-diverse boards. However, the average effect of gender diversity on firm performance is negative. Companies with fewer takeover defenses drive this negative effect. Our results suggest that mandating gender quotas for directors can reduce firm value for well-governed firms.

Olga et al. [19] examined the performance of the company and replaced their management. They found that the replacement of this relationship is negative.

Jahankhany and Amini [20] examine the effect of changes in the stock price at the time of change management. Their results showed that the average cumulative abnormal returns in the period after the change in management were increasing, and this change would affect the stock price.

Sikavika [21] investigates the relationship between ownership structure, corporate performance management, and senior executive pay in Switzerland. He showed that institutional investors make poor performance increases the probability of dismissal of senior executive management.

Kaplan and Minton [22] showed that the sensitivity and performance of the replacement of major shareholders and independent board members is increased.

Brunninge et al. [23] examined "Corporate Governance and Strategic Change in Small and Medium-sized Enterprises (SMEs): The Effects of Ownership, Board Composition and Top Management Teams". They find that closely held firms exhibit less strategic change than do SMEs relying on more widespread ownership structures. However, to some extent, closely held firms can overcome these weaknesses and achieve strategic change by utilizing outside directors on the board and/or extending the size of the top management teams. Implications for theory and management practice in SMEs are discussed.

Firth et al. [24] reviewed the relationship between performance and ownership structure, and the replacement of top management was reviewed. They show that while the principal shareholders are legal entities, increased sensitivity between performance and replacement exists, but outside directors have the opposite effect.

Dang [25] investigates the ownership structure and features as the board determines the replacement of the CEO. He showed that if the company has major state-owned shareholders, the poor performance of the CEO changes, but institutional ownership has no effect on the sensitivity, and performance does not change.

Kato and Long [26], a study entitled "CEO Turnover, Firm Performance, and Corporate Governance in Chinese Listed Firms," the relationship between the variables in the Chinese market, did the results show that, 1) there is an alternative negative relationship between the CEO and the company's performance, 2) major shareholders, the sensitivity of the replacement of senior executives and increases corporate performance, 3) independent board members, senior managers and the sensitivity of the replacement increases company's performance, and 4) companies that represent the major shareholder, sensitivity between management director of the company, senior executives and reduces corporate performance.

Due to the change in leadership in the area of internal investigations, not only has the management of the company been noted, but also, they are paid to research in the field of change management.

3 | Research Methodology

Since the present study aims to investigate the relationship between variables, the method used in this research is descriptive correlation. The method used decreased the target application for applied research for answers to the problems raised. After sampling, the independent variables and the dependent variable were used in logistic regression and statistics with the help of the software Eviews, which was used to test the hypothesis. The place of the present study is the company listed on the Tehran Stock Exchange. In this study, for example, the screening method is used. In which the researcher defines the conditions for the selection of the targeted sample, if any member of the community meets one of the conditions, it is not removed from the community and forms the rest of the population and sample. These conditions include:

Companies are not the unproductive: Because of differences in the nature of the performance of other manufacturing companies, insurance companies, investment, holding, banks, financial intermediation, etc. are excluded from the scope of investigation and in terms of increased comparability, the company's financial year end 19 or 20 March. Because of this restriction, variables in calculating the possible same period and conditions and seasonal factors don't affect the choice of factors and variables. During the study period (2004-

2012), there was no change in the fiscal period. The trading interval is not more than 6 months. Full details are available. Prior to 2004, the company was listed on the exchange. The book value of equity during the period of study is positive. Finally, the 65 companies were qualified and selected.

The study was conducted over the 8 years from 2004 to 2012.

3.1 | Variables and Data Analysis

To test the hypothesis, the first, second, and third of the following models are used:

$$\mathrm{TUORit} = \beta 0 + \beta 1\ \mathrm{PERFit} + \beta 2\ \mathrm{INDEPit} + \beta 3\ \mathrm{PERFit} * \mathrm{INDEPit} + \beta 4\ \mathrm{BLOCKit} + \beta 5\ \mathrm{MAJORITYit} + \beta 6\ \mathrm{PERFit} * \mathrm{MAJORITYit} + \beta 7\ \mathrm{PERFit} * \mathrm{BLOCKit} + \beta 8\ \mathrm{CONTROLit} + \varepsilon \mathrm{it}$$

Hypothesis 1. In order to confirm the *Hypothesis 1* based on the output of the regression model, the need to ($\beta_6 \neq 0$).

Hypothesis 2. In order to confirm the *Hypothesis 2* ($\beta_7 \neq 0$).

Hypothesis 3. In order to confirm the *Hypothesis 3* ($\beta_3 \neq 0$).

To test the hypothesis, the fourth study used the following models:

$$\mathrm{TUORit} = \alpha 0 + \beta 1\ \mathrm{PERFit} + \mathrm{y1}\ \mathrm{ENTRENCHit} + \mathrm{y2}\ \mathrm{PERFit} * \mathrm{ENTRENCHit} + \beta 2\ \mathrm{BLOCKit} + \beta 3\ \mathrm{MAJORITYit} + \beta 12\ \mathrm{PERFit} * \mathrm{BLOCKit} + \beta 13\ \mathrm{PERFit} * \mathrm{MAJORITYit} + \varepsilon \mathrm{it}$$

Hypothesis 4. In order to confirm the *Hypothesis 4*, ($y_2 \neq 0$).

To test the hypothesis, the fifth study used the following models:

$$\mathrm{TUORit} = \beta 0 + \beta 1\mathrm{PERFit} + \beta 2\mathrm{PRIVATEit} + \beta 3\mathrm{COTOROLit} + \beta 4\mathrm{GOVERNit} + \beta 5\mathrm{PERFit} * \mathrm{PRIVATEit} + \beta 6\mathrm{GOVERNit} * \mathrm{PERFit} + \varepsilon \mathrm{it}$$

Hypothesis 5. In order to verify the *Hypothesis 5*, ($\beta_6 \neq \beta_5$).

3.2 | The Dependent Variable

Change manager-displacement (TUOR): If a CEO change occurs, then it is zero; otherwise.

3.3 | Independent Variables

Performance (PERF): The variable Return-On-Equity (ROE) is used.

Majority ownership (BLOCK): The percentage of stock ownership among shareholders, first person (First person has the highest share).

Institutional ownership (MAJORITY): Percent of equity ownership held by institutional agencies.

Independent directors (INDEP): The proportion of non-executive directors is responsible for the entire board.

Positioning (ENTRENCH): If the CEO is representative of the owner who has a majority stake, and zero otherwise.

State ownership (GOVER): The percentage of government ownership of total shares held by companies, banks, organizations, and other public institutions is located.

Private property (PRIVATE): Possession first between individuals: Abdul Karim Moghadam and Kazem Poor [27], Saeedi and Shiri Qahri [28] have used this method, but they all have to consider the real owners.

3.4 | Control Variables

Return (RETURN): ROE (End price-the first price+dividend)/the price of the first period.

Tenure (TENURE): The Number of months a person holds the post of managing director is divided by 12.

Dual tasks (GM): If the CEO is also the chairman of the board, otherwise zero.

Firm size (SIZE): Logarithm of the market value of the company.

4 | Results

Test results showed the assumption that institutional ownership, the independence of the board of directors and CEO positioning and significant negative impact on the relationship between the performance of the CEO and the CEO's performance and reduce the sensitivity, but the main property has a positive effect on the relationship between performance and increase sensitivity of the CEO.

The type of ownership (Private or government) on the relationship between performance and the CEO of private property impact and a more negative effect on the relationship between performance and the CEO is more than state ownership.

Table 1. Descriptive statistics variables.

Variables	Variable Symbol	Mean	Standard Deviation	Skewness	Elongation	Minimum	Maximum
Performance	PERF	0.408	0.767	0.488	86.167	-9.56	5.65
CEO change	TOUR	0.266	0.442	-1.58	-0.884	0.00	1.00
Term time	TENURE	3.280	3.678	3.080	13.729	0.00	27.50
Duality duty	GM	0.005	0.071	13.892	191.650	0.00	1.00
Independent directors	%INDEP	0.628	0.187	-0.17	-0.183	0.20	1.00
Independent directors	ENTRENCH	0.275	0.447	1.009	-0.985	0.00	1.00
Majority ownership	BLOCK	0.484	0.219	-0.033	-0.328	2.01	0.92
Institutional ownership	MAJOR	0.350	0.309	0.709	-0.949	0.00	0.97
Private property	PRIVATE	0.323	0.113	4.223	17.987	0.00	0.68
State ownership	GOVERN	0.092	0.182	2.147	3.774	0.00	0.88
Company Size	SIZE	26.819	1.525	0.351	-0.139	22.71	31.02
Output	RETURN	26.580	59.939	2.597	10.746	-58.48	452.07

Table 2. Table bracket prediction model research.

	Percent Forecast Models Generally	Percent Correctly Predicted The CEO	The Percentage of Correct Predictions Unchanged CEO	Predicted the CEO and The CEO	Predicted The CEO and The CEO	Predicted no Change in the CEO and the CEO	Anticipate No Change and No Change Managing Director
Hypothesis 1	96.21	97.61	96.19	141.35	14.65	16.34	412.66
Hypothesis 2	96.21	97.61	96.19	141.35	14.65	16.34	412.66
Hypothesis 3	96.21	97.61	96.19	141.35	14.65	16.34	412.66
Hypothesis 4	95.17	96.38	95.12	136.32	19.68	20.92	408.08
Hypothesis 5	96.43	97.30	94.51	134.62	21.38	23.55	405.45

Table 3. Statistical output of the research hypothesis.

	Coefficients					Z Statistic Significant Level				
Hypothesis	**1**	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
Constant	1.912	1.912	1.912	2.888	4.982	0.3074	0.3074	0.3074	0.1539	0.0265
Performance	-0.417	-0.417	-0.41	-0.5086	-0.3638	0.0000	0.0000	0.0000	0.0000	0.0000
Institutional ownership	1.914			0.8515		0.0000			0.0115	

Table 3. Continued.

	Coefficients					Z Statistic Significant Level				
Hypothesis	**1**	**2**	**3**	**4**	**5**	**1**	**2**	**3**	**4**	**5**
Majority ownership		0.733		0.1096			0.0000		0.0080	
Independence of the board of directors			-2.929					0.0000		
Consolidated CEO				0.9992					0.0002	
Private ownership					1.334					0.0000
State ownership					-6.46					0.0102
X performance majority ownership	-0.609			1.075		0.0198			0.0110	
X the independence of the board of directors		1.474		-0.5048			0.0001		0.0000	
X performance stabilized CEO			-0.510					0.0082		
X performance stabilized CEO				-0.1583					0.0006	
X performance of private property					-1.707					0.0000
X performance of state ownership					-4.830					0.0002
Term time	-1.308	-1.308	-1.308	-1.627	-1.525	0.0132	0.0132	0.0132	0.0051	0.0136
Company Size	-0.012	-0.012	-0.012	-0.075	-0.131	0.8422	0.8422	0.8422	0.2458	0.0694
Company returns	0.0007	0.0007	0.0007	-0.0002	-56 E3.97	0.593	0.593	0.593	0.883	0.9979
Duality duty	1.433	1.433	1.433	0.230	1.479	0.172	0.172	0.172	0.147	0.2018
The coefficient of determination, Mac Fowden	0.8358	0.8358	0.8358	0.7908	0.7702					
Let indicators show a significant level	0.2515	0.2515	0.2515	0.0985	0.2565					
The significance level of the likelihood ratio test	0.000	0.000	0.000	0.000	0.000					

Table 4. Wald test.

Significance Level	Degree of Freedom	Value	Test
0.0000	1.577	11.636	Test F

5 | Conclusions

Given the importance of the CEO and their impact on participation in the capital market, it is suggested that more attention should be paid to management changes. Variable-yield performance of the company and compare it with the measured efficiency of the industry, because this way we can measure the company's performance against the performance of the sector.

It is suggested that the impact of the change of ownership of existing shareholders and the major shareholder in the new company be given to the CEO. It is recommended that the management incentives also be noted, because if the manager is not motivated by the possibility that changes can be made voluntarily, it may be difficult to implement them. The study relied on the information disclosed, so the quality of the information depends on the quality of the information. It is therefore difficult to identify false information. Information about the CEO, the company, and the type of change, such as being voluntary, mandatory, retirement, etc., is not disclosed. Thus, they are able to dissociate to obtain better results. Following restrictions, lack of implementation of performance measures, such as market performance and social performance, for the nonstate shareholders, according to market performance, but the public shareholders are given that social function.

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Conflicts of Interest

The authors confirm there are no financial or personal relationships that could influence this work.

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