The Effect of Characteristics of Board of Directors on Financial performance of firms in Tehran Stock

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Abstract

The present study was aimed to investigate the impact of characteristics of board of directors on financial performance of companies in Tehran Stock Exchange in 2015. The research was practical in terms of objectives, casual in terms of data collection and experimental. Moreover, it was a deductive-inductive research in terms of type of reasoning. Population of the research consisted of companies accepted in Tehran Stock Exchange. Statistical sample was selected using systematic removal method. Rah Avard and Tadbir Pardaz databases, manual archive in the library of stock exchange organization and the Internet website of project management, development and Islamic studies were used to collect required data for the present study. Data analysis was carried out using Panel Data method. Findings indicated that independence of board of directors had impact on the financial performance of companies in two cases of Tobin's Q and economic value added; size of board of directors had impact on the financial performance of companies in two cases of Tobin's Q and economic value added; responsibility duality of managing director had impact on the financial performance of companies in the case of economic value added but it has no effect on financial performance of companies in the case of Tobin's Q; duration of management tenure had impact on the financial performance of companies in the case of Tobin's Q but it had no effect on the financial performance of companies in the case of economic value added.

Keywords: Economic Value Added CEO duality of duty, Board of Directors Independency, financial performance, board of directors.
Introduction

The start of the third Christian millennium coincided with financial crisis in many US and European companies, which affected other countries too. Many scholars believe that these tensions mainly stem from weak corporate governance systems. Factors such as weak behavior in a corporate level, fawner managers who lack necessary managerial expertise, weak internal controls for preventing or discovering problems in a corporate level, and weak external monitoring (such as rule makers, capital market, auditors, law frameworks, etc.) have played an important role in these tension (Banks, 2004).

Generally, these factors can be classified into two mechanisms: internal and external mechanisms. Internal mechanisms are based on actions taken by individual companies for implementing control and accountability. One of the most important internal mechanisms of corporate governance is paying attention to directors board as a directive institution which watches and monitors executives' work in order to maintain stakeholders' ownership benefits. It seems that the key to a company's success is favorably navigating that company, in a way that we can say the key to the sustainability of famous and well-recognized companies is that they possess an efficient Directors Board. Weak Directors Board's performance requires immediate care. As healthy blood helps the body survive, correct information streams in Directors Board are highly vital for favorable performance (Hassas Yeganeh and Baghumian, 2007).

The importance of Directors Board as one of the internal mechanisms of corporate governance is so great that it has received attention from many advanced countries, with guidance for increasing efficiency. A large portion of these mechanisms emphasize the fact that special characteristics possessed by Directors Board limits their opportunistic and avaricious habits, make them pay more respect to rules, replace enactment with relations, and enhance corporate status and stakeholders' benefits. Therefore, quality of goods and services increases, and company performance is enhanced both financially and behaviorally. As a result, investors trust capital markets more, leading to more capitals; hence, due to increase in assets and capital, companies' financial performance becomes stronger than before (Pergula, 2006). From these characteristics, we can refer to Directors Board, the role of Directors Board being separate from CEO, presence of experts in Directors Board, members of Directors Board who use private consultation services, presence of Directors Board committees, and so on (Jafarinia, 2011).

Directors Board is an internal monitoring mechanism which is formed in order to support the benefits of stakeholders, within the discrimination of management and ownership. In order to solve this problem, Directors Board's representative plays the role of supervisors who normally monitor CEOs, approve of company strategies, and monitor control system. To guarantee that capitals are spent in order to increase companies' financial performance, Directors Board needs external credit which can come from its characteristics; this means that investors, paying attention to features possessed by Directors Board, consider a certain amount of credit for their activities. Features such as independence, size, period during which CEO is in charge, and the CEO's duty dichotomy in recent seals have been increasingly studied. In this paper, the role of such features in increasing efficiency has been emphasized, and their effects on financial performance have been evaluated. In the following, we explicitly define some of these concepts.
Independence of Directors Board: Directors Board is an important mechanism of corporate governance, which plays an important role in improving quality of financial reports and accountability. By correctly understanding their role in monitoring and navigating, independent managers can bring health to their company, preventing conflicts between actors of corporate governance. Based on this fact, in most conducted studies in the field of corporate governance, the importance of executives' role in improving the process of reporting has been emphasized; and the position of Directors Board as a directive institution which is responsible for maintaining and monitoring executives has is becoming increasingly important. From a representativeness theory viewpoint, it can be assumed that non-executive managers are responsible for monitoring other members of Directors Board. Some scholars have shown that non-executive managers' role, i.e. monitoring has been effectively performed (Mehrani and Behbahani Nia, 2011).

CEO's duty dichotomy: the fact that CEO's duty is twofold can potentially increase the risk of being end-decision-maker in financial reports for CEO; in conclusion, it is possible that behavior monitoring costs will increase company value. Thus, this can play an important role in determining the destiny of the company; observing it or not observing it can have a direct effect on company value, and most importantly on institutional and micro attitudes to financial status and company value (Namazi, 2009).

Size of Directors Board: Theoretical literature has offered two opposite visions for the role of Directors Board ' size in company performance. The first vision states that a smaller Directors Board helps enhance company performance. When a Directors Board is formed of many members, representativeness problems increase; because some members might perform as useless individuals (Hermalien & Wilsbeck, 2003). In addition, when there are an excessively large number of members, controlling and monitoring CEO is not done in an effective way. While planning, team coordination, decision-making, and holding organized sessions are difficult for Directors Board (Jensen, 2003), an excessively large Directors Board cannot perform its functions perfectly, and it is considered to be more in a symbolic position (Hermalien & Wilsbeck, 2003). On the other hand, the second attitude states that a small Directors Board does not have the various advantages, comments, and professional offers that are present in bigger boards of directors. However, in contexts such as experience, skills, gender, nationality, and other contexts, it has advantages. In addition, a small Directors Board uses fewer non-executive managers, with little time for functions such as monitoring and decision-making (Falton, 2005).

CEO's term of office: Increase in CEO's term of office in companies helps increase profit management. To show their favorable management status, CEOs change the company's financial statements, leading to an increase in profit management and a decrease in the quality of financial statements (Yazdanian, 2007).

In the following, in line with the above-mentioned, some researches have been discussed: In their research, Almnsyr et al (2012) found that that the positive relationship between corporate governance indexes, i.e. the number of the members of Directors Board, external ownership, and banking system performance of Ordon. Additionally, they found that the size of Directors Board and ownership being separate from management have a negative relationship with banking system performance in this country. In their study, Pennu et al (2012) also found that banks with stronger corporate governance mechanisms than other
banks possess higher profitability indexes. In addition, the effect of corporate governance on providing credit in mortgage section has been complex, depending on the definition of crisis period. Although banks with stronger corporate governance than other banks experience fewer bad debts. When mortgage markets face crisis, banks with weaker corporate governance decrease the amount of their endangered mortgages.

In his study, Tai (2012) found that independence of presidium and type of bank ownership has a negative relationship with stock returns. In addition, in their study, Armyna & Maria (2011) showed that there is a strong and positive relationship between bank performance and financial leverage and economic growth. Additionally, the findings of this research show a positive relationship between internal stakeholder and bank performance, which states that if a bigger share is held by internal employees of banks, Directors Board, and big stakeholders, bank performance will be better.

We can also refer to some similar cases in internal studies. In his study, Yazdani (2014) found that the independence of Directors Board and the size of Directors Board have a positive significant effect on bank performance and financial institutes. In addition, evidence showed that the size of ownership management level has a negative significant on bank performance. In addition, in his study, Kianvand (2013) found that governmental ownership has a bigger effect on increasing loans than on private and external ownership; however, external ownership, compared to other types of ownership, performs better in terms of banks' profitability ratios. Additionally, Raeesi (2013) concluded that the corporate governance variables do not have any effect on the quality of profit predicted by management of companies accepted in Tehran's security bourse. On the other hand, Bahmani (2012) found that corporate governance can have a positive effect on company value and stock returns.

In their study, Mashayekh and Abdollahi (2012) found that there is a significant relationship between ownership focus and two criteria of performance, i.e. capital and Q Tobin; this means that if ownership focus is higher, more control will be applied for managers, leading to an improvement in performance. In addition, between the criteria of return performance and Q Tobin and divisional profit ratio, there is a significant relationship. This means that improvement in performance can enhance divisional profit; however, no statistically significant relationship has been observed between ownership focus and divisional profit ratio.

It must be noted that most researches have been focused on the features of Directors Board in western countries. Indeed, the results of previous researches oppose on another, because each of them has evaluated different features of different performance criteria. In Iran, few researches have been conducted in this field. Therefore, it seems to be necessary to study the effect of the features of Directors Board on financial performance, thereby we can better understand the quality and features of a successful Directors Board.

Finally, considering the above-mentioned, in this paper, we have tried to examine the effect of the features of Directors Board on financial performance in companies present in Tehran's security bourse; hence, the hypotheses of the study are as follows:

- Independence of Directors Board does not have a significant effect on financial performance.
- Size of Directors Board does not have a significant effect on companies' financial performance.
- CEO’s duty dichotomy does not have a significant effect on companies' financial performance.
- CEO’s term of office does not have a significant effect on financial performance.

Research Methodology

In terms of objectives, this research was practical, because it examined the effect of the features of Directors Board on company performance. In addition, the present study was an experimental study in terms of research type. In this study, data-collection method was of an after-event type, considering the usage of information of companies accepted in Tehran's security bourse in past seals, and considering the fact that there was no intervention in controlling and changing the size of variables, which is in the field of demonstrable studies based on company information. In addition, in terms of method, the research was deductive-inductive; this means that in theoretical concepts and research background, the research was done through library studies, other sites, articles in a comparative frame, and data collection for approving or disapproving of hypotheses in an inductive frame.

The statistical population consisted of companies accepted in Tehran's security bourse; in this research, a "systematic removal of statistical sample" method has been used. Certain companies with the following features will be considered as statistical population:

1. Their financial year lads to the end of March;
2. Within seals of 2010 to 2014, there has been no activity change or no change in financial year, with constant activity in bourse.
3. Enterprises and banks have been eliminated due to the specific essence of their activities.
4. Information required by the company must be accessible for achieving the goals of this research;

In order to collect data needed for calculating research variables, Rahavard-Novin and Tadbir banks were used. In cases where available data in these information banks were incomplete, we referred to manual archives existing in the library of security bourse and the internet site of research management, development, and Islamic studies of security bourse organization (website address: www.rdis.ir).

Analysis of data was done through Data Panel method. The reason why Data Panel method was present was the presence of section and time series; the sections of companies and time series are limited (2010 to 2014). Considering the fact that in the present study, some companies have been examined, which have differences in different areas, much inconsistency is seen between the data of these companies; using more advanced available present in the environment of panel, this inconsistency will not be problematic. First, in order to choose panel or pole, or to test the significance of selected companies, we must use statistics "F". If the effects of the companies are accepted, we must consider different intercepts in the estimation; this means that panel method should be used. In addition, considering the fact that in Data Panel method we face two models – fixed effects and random effects – in order to select a proper model, Haussmann test was used, which is
measured based on khi-2 statistics; after adapting to the value presented in the table, a proper model is selected.

Findings

Considering two different variables as indexes of financial performance, examination of hypotheses requires two models. When estimating two models, based on the fact that variables are in a ratio-percentage format, there is no need to use an algorithm, and the algorithmic form of variables is not used. In order to examine the hypotheses of the study, data collected from 62 companies present in Tehran's security bourse were used from 2010 to 014. Hence, data are from time-series and cross-sectional data in a combinational form; thus we must use a Data Panel Regression method.

Estimation of the first model

In this model, the effect of control and independent variables on Q Tobin is examined as a financial performance index.

\[ Q_{it} = \beta_0 + \beta_1 Bdind_{it} + \beta_2 Dual_{it} + \beta_3 Bdsize_{it} + \beta_4 Tenure_{it} + \beta_5 IN_{it} + \beta_6 LEV_{it} + \epsilon_{it} \]

Where

- \( Q_{it} \): Q Tobin of company I in year "t"
- \( Bdind_{it} \): Independence of Directors Board of company "I" in year "t"
- \( Dual_{it} \): Dichotomy of duty in Directors Board in company "I" in year "t"
- \( Bdsize_{it} \): Size of Directors Board in company "I" in year "t"
- \( Tenure_{it} \): CEO's term of office in company "I" in year "t"
- \( IN_{it} \): Size of company "I" in year "t"
- \( LEV_{it} \): Proportion of assets to debts of company "I" in year "t"
- \( \epsilon_{it} \): Residual Regression in company "I" in year "t"

Diagnostic tests for the first model

In the following, tests such as Chow (F limer), Haussmann, and boys' cross-sectional independence are provided for the first model.

- Chow test
With the help of Eviews software, we did Chow test for the above-mentioned models; the obtained results are presented in the table below.

Table 1: Results of Chow test for the first research model

<table>
<thead>
<tr>
<th>Effect test</th>
<th>Statistics</th>
<th>Value of probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section F</td>
<td>7.257</td>
<td>0.00</td>
</tr>
<tr>
<td>Cross-section chi-square</td>
<td>36.227</td>
<td>0.00</td>
</tr>
<tr>
<td>Period F</td>
<td>28.751</td>
<td>0.00</td>
</tr>
<tr>
<td>Period chi-square</td>
<td>51.627</td>
<td>0.00</td>
</tr>
<tr>
<td>Cross-section/period F</td>
<td>7.557</td>
<td>0.00</td>
</tr>
<tr>
<td>Cross-section/period chi-square</td>
<td>41.275</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Value of probability shows the disapproval of the hypothesis of zero based on using Pouling model. Therefore, we can use Data Panel model for the first model.

It must be noted that Eviews software presents certain results for a bounded model in situations where only fixed cross-sectional effects are acceptable not periodical fixed effects. What is interesting is that in a cross-sectional manner, only the parameters of fixed effects model is qualitatively different from primitive integrative regression model. Therefore, it is periodical fixed effects which cause differences. Three types of extra test that are used include: 1) limiting cross-sectional fixed effects to zero, 2) limiting periodical fixed effects to zero, 3) limiting both types of fixed effects to zero. Probability value of the three types of test to two decimal figures in a 95-percent level (minimum) is zero, i.e. limits are not supported by data.

- Haussmann test

The result of Haussmann test for the first research model is as follows:

Table 2: Result of the first model's Haussmann test

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Statistics $X^2$</th>
<th>Probability value</th>
<th>Type of effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q</td>
<td>13.755</td>
<td>0.000</td>
<td>Fixed effect</td>
</tr>
</tbody>
</table>

The result of Haussmann test for the model shows the disapproval of hypothesis of zero based on the appropriateness of random effects; hence, we must use fixed effects model for estimating the first model.

- Boys' test (cross-sectional independence of residual)

The result of boys' test for the first model is presented in the table below:

Table 3: Boys' test for the first research model

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Boys' statistics</th>
<th>Probability value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q</td>
<td>0.874</td>
<td>0.286</td>
</tr>
</tbody>
</table>

Based on the results presented in table above, the hypothesis of zero in boys' test is not disapproved. In conclusion, residuals do not have correlation between sections, and sections are not dependent.
Estimation and Interpretation

According to results obtained from tests such as "F" and Haussmann, we estimated the model using Generalized Least Square (GLS) in a frame of weighted cross-sectional regressions, considering cross-sectional fixed effects. Generally, Generalized Least Square (GLS) controls co-linearity between residual sentences. Therefore, for all $t, s, j, i$ such that \( j, s \neq i, t \), we can consider that:

\[
E(\varepsilon_i, \varepsilon_j | X_{i^*}) = \delta_i^2
\]

\[
E(\varepsilon_{ts}, \varepsilon_{ji} | X_{i^*}) = \delta_i^2
\]

The model's estimation results for 62 companies from 2010 to 2014 have been presented in the following table through a fixed effects model:

<table>
<thead>
<tr>
<th>variable</th>
<th>coefficient</th>
<th>Standard deviation</th>
<th>Statistics &quot;t&quot;</th>
<th>Probability value</th>
</tr>
</thead>
<tbody>
<tr>
<td>B dind</td>
<td>0.521</td>
<td>5.210</td>
<td>4.821</td>
<td>0.002</td>
</tr>
<tr>
<td>Dual</td>
<td>-0.322</td>
<td>-3.241</td>
<td>-2.018</td>
<td>0.078</td>
</tr>
<tr>
<td>Tenure</td>
<td>0.849</td>
<td>0.276</td>
<td>3.741</td>
<td>0.017</td>
</tr>
<tr>
<td>B dsize</td>
<td>4.185</td>
<td>0.746</td>
<td>7.218</td>
<td>0.000</td>
</tr>
<tr>
<td>IN</td>
<td>0.178</td>
<td>7.049</td>
<td>0.953</td>
<td>0.386</td>
</tr>
<tr>
<td>LEV</td>
<td>-1.336</td>
<td>-1.184</td>
<td>-8.367</td>
<td>0.000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statistics &quot;F&quot;</th>
<th>Probability value of statistics &quot;F&quot;</th>
<th>Probability value of statistics &quot;F&quot;</th>
</tr>
</thead>
<tbody>
<tr>
<td>114.561</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Results show that when the Q Tobin index of banks' financial performance is considered:

- Independence of Directors Board has a significant effect on performance in a 95-percent level. This performance is direct, i.e. more independence leads to better performance.
- Size of Directors Board has a positive and significant effect on financial performance in a 95-percent; and it can be stated that an increase in the size of Directors Board can significantly improve performance.
- CEO's duty dichotomy does not have a significant effect on companies' financial performance in a 95-percent level; however, in a 90-percent level and with less care, its effect on financial performance can be significant. On the other hand, this effect is negative and reverse.
- CEO's term of office has a positive and significant effect on companies' financial performance in a 95-percent level.
- Company size which has been used in the model as a control variable has a significant effect on companies' performance.

\[
R^2 = 0.814
\]

Durbin-Watson statistics – 1.748
Financial leverage or debt-asset ratio has a positive and significant effect on companies' financial performance in a 95-percent level.

As seen in the table, value of R2 was calculated to be 0.814. In other words, independent variables of the research are able to explain 81.4 percent of dependent variable changes. Thus, the presented model has high power for explanations, and statistics "F" of null test for all coefficients of the estimated model in a 99-percent level is significant, which approves of the fitted model. Durbin Watson statistics also approves lack of correlation between errors.

Estimation of the second model

In the second model of the research, the effect of independent and control variables on economic added value as a financial performance index for companies was examined.

\[ EVA_{it} = \alpha_0 + \alpha_1 Bdind_{it} + \alpha_2 Dual_{it} + \alpha_3 Bdsize_{it} + \alpha_4 Tenure_{it} + \alpha_5 IN_{it} + \alpha_6 LEV_{it} + \mu_{it} \]

Where,

- \( EVA_{it} \): Economic added value of company "I" in year "t"
- \( Bdind_{it} \): Independence of Directors Board in company "I" in year "t"
- \( Dual_{it} \): Dichotomy of duty in Directors Board in company "I" in year "t"
- \( Bdsize_{it} \): Size of Directors Board in company "I" in year "t"
- \( Tenure_{it} \): CEO's term of office in company "I" in year "t"
- \( IN_{it} \): Size of company "I" in year "t"
- \( LEV_{it} \): Asset-debt ratio in company "I" in year "t"
- \( \mu_{it} \): Residual regression in company "i" in year "t"

Diagnostic tests of the second model

In the following, tests such as Chow (F limer), Haussmann, and boys' cross-sectional independence are presented for the first model.

Chow test

The results of Chow test have been presented in the table below:

<table>
<thead>
<tr>
<th>Effect test</th>
<th>statistics</th>
<th>Probability value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section F</td>
<td>8.412</td>
<td>0.00</td>
</tr>
<tr>
<td>Cross-section chi-square</td>
<td>42.228</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Table 5: Results of Chow test for the first research model
Value of probability shows the disapproval of the hypothesis of zero based on using Pouling model. Therefore, we can use Data Panel model for the second model.

**Haussmann Test**

The results of Haussmann test for the second model are presented in the table below:

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Statistics $X^2$</th>
<th>Probability value</th>
<th>Type of effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>$EVA_{it}$</td>
<td>15.005</td>
<td>0.000</td>
<td>Fixed effect</td>
</tr>
</tbody>
</table>

The result of Haussmann test for the second model shows the disapproval of null hypothesis based on the appropriateness of fixed effects; hence, we must use fixed effects model for estimating the second model.

Boys' test (cross-sectional independence of residual)

The result of boys' test for the second model has been presented in the table below:

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Boys' statistics</th>
<th>Probability value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$EVA_{it}$</td>
<td>0.451</td>
<td>0.347</td>
</tr>
</tbody>
</table>

It can be seen that null hypothesis, based on lack of correlation between sections for the second model, is not approved; hence, residuals possess cross-sectional independence.

**Estimation and Interpretation**

According to tests such as $F$ limer and Haussmann, we estimate the second model using fixed effects, through Generalized Least Square method in a framework of weighted cross-sectional regressions, and considering fixed effects, in order to control co-linearity between residual sentences. The estimation result of the second model for 62 companies from 2010 to 2014 has been given in the table below:

<table>
<thead>
<tr>
<th>variable</th>
<th>coefficient</th>
<th>Standard deviation</th>
<th>Statistics &quot;t&quot;</th>
<th>Probability value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$Bdind$</td>
<td>0.628</td>
<td>2.321</td>
<td>3.865</td>
<td>0.039</td>
</tr>
<tr>
<td>$Dual$</td>
<td>- 0.351</td>
<td>- 4.071</td>
<td>-2.207</td>
<td>0.075</td>
</tr>
<tr>
<td>$Tenure$</td>
<td>0.420</td>
<td>0.214</td>
<td>0.036</td>
<td>0.629</td>
</tr>
<tr>
<td>$Bdsize$</td>
<td>0.583</td>
<td>0.627</td>
<td>5.690</td>
<td>0.001</td>
</tr>
<tr>
<td>$IN$</td>
<td>0.117</td>
<td>1.246</td>
<td>0.095</td>
<td>0.281</td>
</tr>
<tr>
<td>$LEV$</td>
<td>- 0.626</td>
<td>3.681</td>
<td>- 0.057</td>
<td>0.362</td>
</tr>
</tbody>
</table>
Results show that when the financial performance index of companies is considered as economic added value:

- Independence of Directors Board has a significant effect on performance in a 95-percent level. This performance is direct, i.e. the more the independence, the better the performance.
- Size of Directors Board has a positive and significant effect on financial performance in a 95-percent level; and it can be stated that with an increase in the size of Directors Board, companies’ performance is improved.
- CEO's duty dichotomy has a significant effect on companies' financial performance in a 95-percent level; however, in a 90-percent level with less care, its effect on financial performance can be significant. On the other hand, this effect is negative and reverse.
- CEO's term of office has a significant effect on companies' financial performance.
- Company size which has been used in the model as a control variable does not have a significant effect on financial performance.
- Financial leverage or asset-debt ratio do not have a significant effect on financial performance.

As observed in the table, value of $R^2$ was calculated to be 0.787. Therefore, the presented model has high explanation power; and statistics "F" of null test for all coefficients of the estimated model in a 99-percent level is significant, which approves the fitted model. Durbin Watson statistics also approves lack of correlation between errors.

**Tests for verifying model fitting**

In order to examine if the variables of this research can be used in least square regression, classical hypotheses of least square regression must be provided for residuals of the fitted model. Hence, in the following, we examine the classical hypotheses of least square.

**Normality of residuals**

The table below presents the results of residuals' normality test for both models:

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Jarque Bera statistics</th>
<th>Probability value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q</td>
<td>0.311</td>
<td>0.429</td>
<td>Normal</td>
</tr>
<tr>
<td>EVA</td>
<td>0.451</td>
<td>0.276</td>
<td>Normal</td>
</tr>
</tbody>
</table>

According to the results presented in the table above, null hypothesis of Jarque Bera test refers to the normality of the model's residuals; hence, the test's probability value must be greater than 0.05 so that the normality of residuals is approved in a 95-percent level. The
results of the test show the approval of null hypothesis and normality of residuals in both models.

**Autocorrelation**

In this research, in order to examine this hypothesis, Durbin Watson test was used. According to Durbin Watson statistics for both models and the fact that this statistics is close to 2 for both models, we can disapprove of residuals' correlation.

**Conclusion and Recommendations**

The importance of Directors Board as one of the internal mechanisms of corporate governance is so great that it has received attention from many advanced countries, with guidance for increasing efficiency. A large portion of these mechanisms emphasize the fact that special characteristics possessed by Directors Board limit their opportunistic and avaricious habits, make them pay more respect to rules, replace enactment with relations, and enhance corporate status and stakeholders' benefits. Therefore, quality of goods and services increases, and company performance is enhanced both financially and behaviorally. As a result, investors trust capital markets more, leading to more capitals; hence, due to increase in assets and capital, companies' financial performance becomes stronger than before (Pergula, 2006). From these characteristics, we can refer to Directors Board, the role of Directors Board being separate from CEO, presence of experts in Directors Board, members of Directors Board who use private consultation services, presence of Directors Board committees, and so on.

To ensure that capitals are spent in a way that financial performance improves, Directors Board needs external credit; this credit can come from its features, i.e. according to the features of Directors Board, investors consider a certain level of credit for their activities. Features such as independence, size, and CEOs term of office in Directors Board, and CEO's duty dichotomy in recent years are increasingly being studied; in this research, the role of these features in increasing financial performance is approved, and their effects on financial performance are examined.

In this study, the relationship between Directors Board and financial performance of companies accepted in security bourse was examined by using Generalized Least Square estimator. In order to estimate the mentioned model, we used Eviews software. In the following, the hypotheses of the research are examined:

The results of the first hypothesis show that choosing different indexes for evaluating performance makes no difference in the effect of independence in Directors Board on companies' financial performance; and independence of Directors Board constantly has a positive and significant relationship with performance; hence, this hypothesis is approved in a 95-percent level. The results of this hypothesis are in congruence with findings obtained from studies conducted by Yazdani (2014), and Almnsyr et al (2012). In their studies, they found that the size of Directors Board has a significant effect on the performance of banks and insurance-financial institutes. If Directors Board has more independent members, there will be fewer representativeness problems. Normally, a duty-based Directors Board equals a CEO. CEOs have the highest executive position in companies, and they have complete authority in choosing executives. Hence, considering the figurative relationship between
executive members of directors Board and CEO, on-duty managers might be unable to effectively perform their monitoring duties. In addition, on-duty managers might abuse their authority by controlling salary, incentive, and job safety plans. Unlike on-duty managers, non-on-duty managers are independent from company management; hence they perform their monitoring duty more effectively. Therefore, from a theoretical point of view, when Directors Board is independent and composed of a large number of non-on-duty members, company performance is enhanced.

In line with this hypothesis, it is recommended that investors pay attention to the size of Directors Board when it comes to making decisions about sales or purchase of their share, because based on the results of this research, the size of companies’ Directors Board affects their performance and value.

In connection to the second hypothesis, it can be concluded that the size of Directors Board has a significant effect on companies’ financial performance in a 95-percent level; hence this hypothesis is approved. To justify the obtained result, it can be stated that using collective wisdom and comments can lead to better results. Because of using comments and recommendations presented by a larger group of experts, or because of using more collective wisdom, large Directors Boards can perform better in their companies. In addition, in areas such as experience, skills, gender, nationality, and so on, they are better than small Directors Boards (Dalton, 2005); because larger Directors Boards use more non-on-duty managers and they have more time to play their role in monitoring and decision-making. This hypothesis is in congruence with findings obtained from studies conducted by Armyna and Maria (2011) and Almnsyr et al (2012).

Therefore, in line with this hypothesis, it is recommended that investors invest in companies which have more non-on-duty members, because this shows that Directors Board is more independent.

In connection to the third hypothesis, it can be generally said that measuring financial performance using different indexes cannot make a change in the effect of CEO's duty dichotomy on financial performance, and it is always ineffective. On the whole, this hypothesis is not approved. In fact, not segregating CEO's duties and the duties of Directors Board's head can lead to a decrease in the effectiveness of the monitoring role of Directors Board, thereby weakening financial performance. Separating the duties of CEO and the head of Directors Board helps bring more independence to Directors Board, leading to a decrease in representativeness problems and improvement in financial performance. The results of this hypothesis are not in congruence with findings provided by Armyna and Maria (2011).

Thus, in line with this hypothesis, it is recommended that investors invest their capital in companies in which CEOs are not members of Directors Board, i.e. they must be independent.

In connection to the fourth hypothesis, generally if companies' financial performance is evaluated using Q Tobin, XEO's term of office will have a significant effect on performance; and if it is evaluated using economic added value, CEO's term of office will have an insignificant effect on financial performance. Hence, it can be concluded that the effect of CEO's term of office on financial performance depends on the index selected for
performance; and based on the selected index, the present hypotheses are approved or disapproved.

Increase in CEO's term of office helps CEO, who has learned all about official affairs over long years, continue to improve performance. It also helps to prevent less experienced individuals from becoming CEOs; in other words, CEO's experience is a factor that helps improve performance.

In line with this hypothesis, Directors Board must give CEO the opportunity to make changes and implement plans. This way, there will be more opportunities for them. Additionally, CEO must be consistent.

**Finally, below are some limits of the present research:**

Because there is a limited amount of accessible information, other features of Directors Board such as education, dependence on other companies, and so on were not examined.

Examination of all companies present in bourse in the form of a comprehensive sample on the condition that classifications of industries lead to better results.

Finally, for future studies, it is recommended that the present research is done on certain industries and the effect of some features of Directors Board on the performance of each industry separately.
References


