



An investigation on the Relationship between Corporate Governance Mechanisms and Agency Costs among Listed Firms of Tehran Stock Exchange

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This study examines the impacts of corporate governance mechanisms on agency costs among firms listed on Tehran stock exchange. Agency relationship is a contract under which a principal engages an agent to perform some operations, and also delegates some decision making authority to him in this way. By forming agency relationship, agency costs, arising from conflict of interests between parties are generated. Agency costs have an inverse impact on the firm's value; firms, therefore, are about to control and mitigate such costs. In our study, agency costs are defined as the interaction of the firm's growth prospects and its free cash flows. We used Tobin's Q as a proxy for the firm's growth prospects. Among agency costs mitigating mechanisms, institutional ownership, percentage of non-executive directors, and debt ratio are used as independent variables. We also tested hypotheses using a pooled cross-sectional OLS regression. Our study provides evidence on a negative and significant relation between percentage of non-executive directors and agency costs of the firm. Also the same relation is observed between levels of institutional ownership and the firm's agency costs. Furthermore, our findings were inconsistent with the hypothesis that there is a relation between the firm's debt ratio and its agency costs.

Key words: Agency costs, Free cash flows, Corporate governance, Institutional ownership, Non-executive director



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