CULTURAL VALUES AND CORPORATE GOVERNANCE IN IRAN

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As corporate governance is improving and evolving through the time, public firms have to follow its mechanisms for surviving in competitive markets. Cultural values have become subject of many studies which are investigating the effective factors on corporate governance. In this paper the relationship between cultural values and some corporate governance's indices in Tehran Stock Exchange (TSE) companies has been studied. For this purpose we have chosen Hofstede model (Hofstede, Culture’s consequences: International differences in work-related values, 1980) among different cultural models and percentage of non-executive directors and institutional investors on the board as proxies of corporate governance mechanisms. Studied firms have been tested for 3 years from 2008-2011. Research finding indicate: (1) a significant negative relationship between masculinity and percentage of non-executive directors on the board; (2) a significant positive relationship between Individualism and the percentage of institutional ownership; and (3) a significant negative relationship between uncertainty avoidance and the percentage of institutional ownership.

Keywords: Cultural values, Corporate governance, Institutional investors, Non-executive directors.

Introduction

Organisation is a set of written or unwritten contracts among owners of production factors and customers and the separation of management and ownership calls for more attention to “behavioural” and “managerial” theories in companies (Fama, Agency problem and the theory of the firm, 1980). Since the corporate governance system alike other social issues, is gaining from a dynamic nature, if a company wills to success, one of the necessary tools is corporate governance. So discovering the effective factors leading to corporate governance’s establishment has been concerned by researchers.

Metousi (2012), has shown that races, customs, beliefs, joint values and religious are considered as primitive elements which are effective on corporate governance efficiency. Effective factors’ trend from probers’ point of view in various courses includes legislation theory, political theory, and cultural theory (Matoussi & Jardak, 2012). Including of the factors involving in corporate governance erection are cultural values, which have been under scrutiny among researches and the impact of them on corporate governance were confirmed. For example, Li (2008) however concluded that the relationship between corporate governance and uncertainty avoidance is converse. Also it was found that less executive board directors exist in organisation with more masculinity culture (Li & Harrison, 2008).

So this study aims to investigate the relationship between cultural values and the corporate governance. The remainder of the paper is organised as follows: following this introduction is theoretical framework, followed by research background and hypothesis development. An explanation of the
research methodology and results are presented and the conclusion of the research is discussed. Finally some suggestions for future research are raised.

Theoretical Framework

Culture

There are numerous definitions of culture. For instance it can be defined as “collective programming of the mind distinguishing the members of one group or category of people from others” (Hofstede, Culture’s consequences: International differences in work-related values, 1980) or an invisible operational control mechanism that works on our mind (Hall, 1983) or as a way in which individuals act in a group (Kang & Shivdasani, 1995) or a set of identity, beliefs, values, activities, rules, customs, communication patterns and institutional groups (Dodd, 1998).

A vast number of researchers have introduced a variety of cultural models and have included different aspects in their models. Some of these models are Hofstede (Hofstede, Dimensions of national cultures in fifty countries and three regions, 1983), Glob (Abdolmohammadi & saren, 2011), Gary (Gray, 1988), Trampanera and Trenz (Trompenaars & Hampden Turner, 1998), Smith et al. (Smith, Dugan, & Trompenaars, 1996) and Schwartz (Schwartz S. H., 1994). Different probers have investigated the stated cultural models. For example some of them are against Hofstede model (Baskerville, 2003), (HassabElnaby & Mosebach, 2005), (McSweeney, 2002), (Smith, Dugan, & Trompenaars, 1996), (Schwartz S. H., 1994) while the others have supported it (Sudarwan & Fogarty, 1996), (Hofstede, Dimensions of national cultures in fifty countries and three regions, 1983), (Hoppe, 1990), (Merritt, 2000), (De mooji, 2003), (Bing & D, 1998), (Tamas, 2007).

In this paper we gained from diverse cultural aspects available in Hofstede model in order to evaluate companies’ cultural values, which are as the following:

- **Individualism**: Individualism is a measure that shows the relation among individuals and groups in a society. In the individualist society the connection among the individuals is feeble and unnoticeable and one may have rarely any relation with people beyond their family.

- **Masculinity**: Masculinity is a measure that shows the tendency of the people to have an impudent reaction against humble behaviour. In other words, MAS is to somehow the inclination of the people to seek excellence and gallantry (Hofstede, Culture’s consequences: International differences in work-related values, 1980).

- **Power distance index**: Power distance index is a measure that illustrates the variation in power distribution among individuals in a society and reflects the extent of asymmetry in power distribution (Hofstede, Dimensions of national cultures in fifty countries and three regions, 1983).

- **Uncertainty avoidance**: Uncertainty avoidance is a measure which shows the amount of stress and anxiety of individuals in a society toward future uncertainty.

Corporate Governance

Organisation is a set of written or unwritten contracts (Fama & Jensen, Separation of ownership and control, 1983) and the separation of management and ownership lead to more attention to corporate governance mechanisms (Fama, Agency problem and the theory of the firm, 1980). The corporate governance system, alike other social issues, is gained from a dynamic nature and is one of the necessary tools for success and efficiency. Primarily most of the corporate governance principles emphasized on companies governance and stockholders’ equity (agency theory), which was later, with the emergence of modern viewpoint, it spread to even society and all Stakeholders’ rights (stakeholders theory). La Porta considers corporate governance as a system by which companies are controlled and led (La Porta, De Silanes, Shleifer, & Vishny, 1998). Various mechanisms in respect of corporate governance exist, which the following have been examined in this research:
• **Non-executive board directors**
  One of the corporate governance mechanisms is the attendance of non-executive directors on the board. The external members of the board of directors perform as a judge at disputes among internal directors and tasks that involve serious agency problems between internal managers and residual claimants, for example, determine the remuneration or search for the replacement of senior managers.

• **Institutional investors**
  Another corporate governance mechanism is the ownership of institutional investors. Their role in decreasing the agency problems and its effect on corporate finance has been investigated in many researches. Researches show that the minority ownership is only solving a minute part of free riding issue, and concentrating on ownership is effective on persuasion of managers to work and the shareholders to monitor the managers (Schwartz S., 2003) (La Porta, De Silanes, Shleifer, & Vishny, 1998) (Grossman & Hart, 1980) (Eisenhardt, 1989) (Zhang, 2012). Strategic management literature shows that institutional investors’ monitoring is effective on companies profitability (Olper & Sokobin, 1997), managers circulation in companies with poor performance (Kang & Shivdasani, 1995), increase of research and development in organization (Bush et al., 1998) (Hansen & Hill, 1991), current performance of the company and its past and future performance (Cheng, 2010), and the politics of retirement funds (Zhang, 2012). Also Scantary et al. argue that, in the case of existence of some conditions, institutional investors are even able to acquire some information advantage in efficient markets (Schnatterly, Shaw, & Jennings, 2008).

**Culture and Corporate Governance**

Metousi (2012), has shown that races, customs, beliefs, joint values and religious are considered as primitive elements which are effective on corporate governance efficiency. Effective factors’ trend from probers’ point of view in various courses includes legislation theory, political theory, and cultural theory (Metousi & Jardak, 2012). La Porta et al. have established their theory according to legal systems (La Porta, De Silanes, Shleifer, & Vishny, 1998). In other words, firstly they considered legal variances as the offspring of differences in corporate governance. Then political theory was introduced, by Roe (2003), which opposite with legal theory and gave different explanation for the variances. Finally, cultural theory argues that variances among countries in corporate governance field can be explained by cultural differences (Metousi & Jardak, 2012). Licht believes that corporate governance differences should be compared mainly with the society common behaviour or its cultural tendency (Licht, Goldschmidt, & Schwartz, Culture, Law, and Corporate governance, 2005). Additionally, theorists, policy makers and people active in this field, unanimously state that corporate governance reflects national culture. This trend has been shown is figure 1. In this figure theories and their developers are presented in timeline format.

Arewa (2005), believes that since company’s culture is effective on the way of encountering the difficulties, different companies would react diversely to issues, which one of them is corporate governance (Arewa, 2005). Ronald (2004) introduces concerning aspect. He claims that culture will force to execute the activities which have conformity with them so in this way it is affecting organisational politics and decision makers’ values. Cultural values create a contract of public desires in respect of communication among individuals and institutions. So it may affect particular structure of corporate governance (Ronald, 2004).

The researchers found out that legal factors cannot be effective on corporate governance mechanisms’ changes and some other factors like cultural issues play an important role in this context. In other word culture have effect on legal reforms and its rate (Metousi & Jardak, 2012).
Cultural Values and Corporate Governance in Iran

Figure 1. Historical Trend for Variables That Have Effect on Corporate Governance.

Research Background

It should be always considered that governance models are affected notably by national and organisational culture, although their traits are not recognisable easily. So these are those culture factors that are making the way of decision making. Some of the problems in organisation such as misallocation of power, out-schedule risk, insufficient organisational structures, unsuitable distribution of information and insufficient skill of managements are due to governance weakness that defers from culture to culture (Paquet, 2006).

Anyway, investigation of corporate governance events shows that reaction to the changes in general business environment may be due to multiple related factors which are entitled organisational culture. So a suite corporate governance and well behaviour needs scrutiny and retrain in business environment and diverse companies’ cultural context (Arewa, 2005).

Using samples from all around the world and two models of cultural aspects, Licht (2001) investigated the relation among legal equity of shareholders and cultural traits, as La Porta et al. (1998) had mentioned in their reports of research. He found in his paper that legal differences among countries are just explaining a part of differences among corporate governance systems. Also it was determined that the right to vote and creditors’ rights have correlation with cultural aspects. In order to rich the legal aspect of corporate governance, in cultural context, which is substructure of legal right, this paper will be discussed (Licht, Goldschmidt, & Schwartz, Culture, Law, and Corporate governance, 2005) (Licht, Goldschmidt, & Schwartz, Culture, law, and finance: Cultural dimensions of corporate governance laws, 2001) (La Porta, De Silanes, Shleifer, & Vishny, 1998).

Li et al. (2008) utilised agency theory and institutional theory in his paper to expand hypothesis in the field of compound of the board of company and two important part of it including: difference in size and management structure in board of companies (Li & Harrison, 2008). Bae et al. showed that in countries with powerful corporate governance and high uncertainty avoidance, investors tend to receive more cash profit. Also using the same data proved that relation between the variables in corporate governance and uncertainty avoidance is negative with correlation equal0.44 (Bae, Chang, & Kang, 2012). Results of other researches confirm the relation between cultural values and corporate governance too. (Naohito & Ichiro, 2010) (Aguilera & Jackson, 2003) (McCarthy & Puffer, 2002) (Christopher & Hassan, 2005) (Haniffa & Terry, 2002) (Breuer & Salzmann, 2011) (De Jong & Semenov, 2006)
Hypothesis Development

In order to state the hypothesis in this research, we need to refer to hypothesis which have been used and the results made by other researches. For example, Harrison in his research in 2008 used Hofstede model to scrutiny cultural aspects and research findings show that national culture put significant effect on corporate governance structure besides, cultural aspect of uncertainty avoidance is making more powerful relation with the independence of board of directors combination whereas, power distance, individualism and masculinity have relation with board of directors’ independency (Li & Harrison, 2008).

According to the research literature, hypothesis are as follows:

Hypothesis 1: There is a significant relation between the composition of the board of directors and cultural values (masculinity, Individualism, power distance and uncertainty avoidance).

Based on research background, this hypothesis will be tested in more detailed hypothesis as follows:

1.1. There is a negative relation between non-executive directors on the board and masculinity.
1.2. There is a negative relation between non-executive directors on the board and Individualism.
1.3. There is a negative relation between non-executive directors on the board and power distance.
1.4. There is a positive relation between non-executive directors on the board and uncertainty avoidance.

Naohito &Ichiro have used the premises of pluralism and high power distance in company to examine the institutional investors' penetration in company. They deduced that there is a positive relation between cultural values and institutional stockholder’s ownership (Naohito & Ichiro, 2010). Some researches show that there is a high negative correlation between corporate governance and uncertainty avoidance variables (Ba, Chang, & Kang, 2012). Others show that there is a positive relation between the cultural factor of masculinity and percentage of institutional ownership in a company.

Hypothesis 2: There is a significant relation between the percentage of institutional ownership and cultural values (masculinity, Individualism, power distance and uncertainty avoidance).

Based on research background, this hypothesis will be tested in more detailed hypothesis as follows, too:

2.1. There is a positive relation between the percentage of institutional ownership and masculinity.
2.2. There is a negative relation between the percentage of institutional ownership and Individualism.
2.3. There is a positive relation between the percentage of institutional ownership and power distance.
2.4. There is a negative relation between the percentage of institutional ownership and uncertainty avoidance.

Research Design

Data Collection

Information related to literature review and research background is been collected via studying and reviewing various books, magazines, theses and articles. In addition we collect corporate governance data for different Iranian companies through the use of financial statements footnotes and annual board of directors' reports. Also, we use Rezazadeh (2002) to extract companies' cultural values data. he has collected cultural values data for 90 accepted companies in Tehran Stock Exchange (TSE) through the use of questionnaire designed by Hofstede (Rezazadeh, 2002). It is noticeable that our sample consists of companies which their cultural values data is available and was accepted in Tehran Stock Exchange (TSE) from 2008 to 2011.
Research Models

The research hypothesis is tested using the OLS regression analysis. We perform multivariate regression analysis to test research hypothesis on the relationships between cultural dimensions and corporate governance mechanisms. The study has accounted for heteroscedasticity, autocorrelation, departure from normality and multicollinearity, where appropriate. The tests that have been performed to check the OLS assumptions are the White test for heteroscedasticity; the Durbin-Watson test for autocorrelation; and VIF test for multicollinearity.

We use regression model (1) & (2) to examine research hypothesis (1) & (2) and their sub hypothesis orderly.

\[
\begin{align*}
(1) \text{DIR} &= \beta_1 \text{MAS} + \beta_2 \text{IDV} + \beta_3 \text{PDI} + \beta_4 \text{UAI} + \epsilon_1 \\
(2) \text{INST} &= \beta_5 \text{MAS} + \beta_6 \text{IDV} + \beta_7 \text{PDI} + \beta_8 \text{UAI} + \epsilon_2
\end{align*}
\]

Figure 2 shows the concept and meaning of the above regression models:

![Conceptual Research Model](image)

**Figure 2.** Conceptual Research Model.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIR</td>
<td>The composition of the board of directors</td>
<td>The percentage of non-executive directors</td>
</tr>
<tr>
<td>INST</td>
<td>Institutional investors</td>
<td>The percentage of the institutional ownership</td>
</tr>
<tr>
<td>MAS</td>
<td>Masculinity</td>
<td>People tendency toward impudent behaviour</td>
</tr>
<tr>
<td>IDV</td>
<td>Individualism</td>
<td>Relation among individuals and groups in a society</td>
</tr>
<tr>
<td>PDI</td>
<td>Power distance</td>
<td>Extent of asymmetry in power distribution</td>
</tr>
<tr>
<td>UAI</td>
<td>Uncertainty avoidance</td>
<td>Extent of stress and anxiety toward future uncertainty</td>
</tr>
</tbody>
</table>

**Table 1.** Introduction to Model Variables.

Research Variables

- **Independent Variable**

Since this study aims to investigate the impact of cultural values on corporate governance mechanisms so, we consider cultural values variables as independent variables. In this study, cultural dimensions existed in Hofstede cultural model including masculinity, individualism, power distance and uncertainty avoidance are considered as independent variables. As explained in the previous sections, we extract these data from Rezazadeh (Rezazadeh, 2002) without any modifications.
• Dependant Variable

According to above explanation, corporate governance mechanisms including percentage of non-executive directors and the percentage of the institutional ownership are considered as dependant variables:

a. Non-executive directors

Among all corporate governance mechanisms, the composition of the board of directors have been attracted attention of many researchers (Li & Harrison, 2008) (Zhang, 2012). Required data related to number of members of board of directors and non-executive directors is collected through the use of financial statements footnotes or annual board of directors’ reports. The percentage of non-executive directors can be computed as following formula:

\[
DIR = \frac{\text{number of non executive directors on the board at the end of year } i}{\text{number of members of board of directors at the end of the year } i}
\]

b. Institutional investors

Some researchers believe that concentrating on ownership is effective on persuasion of managers to work and the shareholders to monitor the managers (Bae, Chang, & Kang, 2012) (Breuer & Salzmann, 2011) (Schwartz S. , 2003) (La Porta, De Silanes, Shleifer, & Vishny, 1998). In this study institutional investors refer to major investors such as banks, finance & credit institution, investment companies and pension funds. Required data for computing the variable of the percentage of the institutional ownership is collected through the use of financial statements footnotes or annual board of directors' reports. This variable is computed by considering the percentage of common stock in institutional investors' hand as following formula:

\[
INVST = \frac{\text{number of common stocks in institutional investors' hands at the end of the year } i}{\text{total number of common stocks of a company at the end of the year } i}
\]

Results

Descriptive Statistics

Descriptive statistics for the variables used in our analysis are given in Table 2.

<table>
<thead>
<tr>
<th></th>
<th>DIR</th>
<th>INVST</th>
<th>MAS</th>
<th>IDV</th>
<th>PDI</th>
<th>UAI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.55</td>
<td>0.424</td>
<td>43.54</td>
<td>54.72</td>
<td>56.68</td>
<td>65.77</td>
</tr>
<tr>
<td>Median</td>
<td>0.5</td>
<td>0.402</td>
<td>43.5</td>
<td>49.5</td>
<td>55</td>
<td>70.5</td>
</tr>
<tr>
<td>Maximum</td>
<td>1</td>
<td>1</td>
<td>85</td>
<td>100</td>
<td>101</td>
<td>96</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>18</td>
<td>29</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>1.38</td>
<td>8.103</td>
<td>0.361</td>
<td>4.116</td>
<td>1.032</td>
<td>3.266</td>
</tr>
<tr>
<td>Probability</td>
<td>0.499</td>
<td>0.017</td>
<td>0.834</td>
<td>0.127</td>
<td>0.596</td>
<td>0.195</td>
</tr>
</tbody>
</table>

As shown in table 2, the mean of DIR in all studied firms is 0.55 which means that 55% of members of board of directors are non- executive. In addition, the mean of INVST in all studied firms is 0.425 which means that institutional investors own 42.5% of all published common stocks. After examining the
mean of percentage of non-executive directors and percentage of the institutional ownership during years from 2008 to 2011, We found that the mean of two variables is increasing during these years.

Based on Jarque-Bera statistics for all variables (Table 2), INVST is not normal. The probability of Jarque-Bera statistics for INVST is less than 0.05 (0.01 < 0.05), so it can be concluded that distribution function of INVST is not normal. In order to solve this problem, we use the logarithm of this variable and we examine its normality again. Results of the test show the normality of new variable (the probability of Jarque-Bera statistics for LOGINVST is 0.224 (> 0.05)).

Empirical Results

Model (1): Table 3 presents the regression of the percentage of non-executive directors (DIR) against cultural values variables (MAS, IDV, PDI, and UAI) as shown in model (1). As shown in this table the significance of t-Statistic for MAS is 0.0191 and it is less than 0.05, so it can be concluded that coefficient of this variable is statistically significant. On the other hand the significances of t-statistics of other variables are more than 0.05, so it means that coefficient of other variables are not statistically significant. In addition, the significance of the model as a whole should be examined. Since the significance of the F-statistic in Table 3 is less than 0.05, so it can be concluded that the model is statistically significant.

Based on above explanation, the first regression model can be shown as follow:

\[
\text{DIR} = 0.87 - 0.003 \text{MAS}
\]

In other words, the results show that there is a significant negative relationship between masculinity and the percentage of non-executive directors on the board. Based on previous researches this conclusion has been confirmed (Li & Harrison, 2008). So the first sub hypothesis of hypothesis 1 is accepted and the others are rejected.

<table>
<thead>
<tr>
<th>Dependent Variable: DIR</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.87034</td>
<td>0.164179</td>
<td>5.301133</td>
</tr>
<tr>
<td>MAS</td>
<td>-0.003417</td>
<td>0.001416</td>
<td>-2.413010</td>
</tr>
<tr>
<td>IDV</td>
<td>-0.000108</td>
<td>0.000987</td>
<td>-0.108995</td>
</tr>
<tr>
<td>PDI</td>
<td>-0.001541</td>
<td>0.001185</td>
<td>-1.300571</td>
</tr>
<tr>
<td>UAI</td>
<td>-0.000927</td>
<td>0.001682</td>
<td>-0.551149</td>
</tr>
<tr>
<td>R²</td>
<td>0.512270</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.442594</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.144374</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson stat.</td>
<td>1.938707</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The other point that should be considered is the compliance of OLS assumptions in our regression model. As previously mentioned we use White test for heteroscedasticity and Durbin-Watson test for autocorrelation. Table 4 represents the results of two tests. As shown in Table 4 the significance of F-statistic for White test is more than 0.05 (0.83> 0.05), so it can be concluded that F-statistic is not statistically significant and there is no heteroscedasticity between residuals in Model 1. In addition the value of Durbin-Watson is 1.93 and it is between 1.5 & 2.5 (1.5 < 1.93 < 2.5) so it can be concluded that residuals of this model are not auto correlated.
Table 4. Tests Results for OLS assumptions.

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Statistic</th>
<th>Statistic Value</th>
<th>Sig. (F-statistic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>White test</td>
<td>Heteroscedasticity</td>
<td>F</td>
<td>0.649824</td>
<td>0.833292</td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>Autocorrelation</td>
<td>Durbin- Watson</td>
<td>1.938707</td>
<td>-</td>
</tr>
</tbody>
</table>

In order to test multicollinearity, we compute VIF for all variables. The values of VIF for all variables are less than 10, so there is no multicollinearity between variables.

Model (2): Table 5 presents the regression of the percentage of the institutional ownership (INVST) against cultural values variables (MAS, IDV, PDI, and UAI) as shown in model (2). As the significance of t-Statistic for IDV and UAI is less than 0.05, so it can be concluded that coefficient of these variables are statistically significant. On the other hand the significances of t-statistics of other variables are more than 0.05, so it means that coefficient of other variables are not statistically significant. In addition, the significance of the F-statistic in Table 4 is less than 0.05 (0.00< 0.05), so the model is statistically significant. Based on above explanation, the second regression model can be shown as follow:

\[
\text{LOGINVST} = -2.675\text{~}0.038\text{~UAT} + 0.016\text{~IDV}
\]

Table 5. The Results of Model 2.

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Sig. (F-statistic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-2.675582</td>
<td>7.155310</td>
<td>-0.373930</td>
<td>0.7104</td>
</tr>
<tr>
<td>MAS</td>
<td>-0.012768</td>
<td>0.006592</td>
<td>-1.936883</td>
<td>0.0597</td>
</tr>
<tr>
<td>IDV</td>
<td>0.016163</td>
<td>0.005051</td>
<td>3.200167</td>
<td>0.0027</td>
</tr>
<tr>
<td>PDI</td>
<td>0.009603</td>
<td>0.005466</td>
<td>1.756797</td>
<td>0.0864</td>
</tr>
<tr>
<td>UAI</td>
<td>-0.038705</td>
<td>0.010447</td>
<td>-3.705038</td>
<td>0.0006</td>
</tr>
<tr>
<td>R²</td>
<td>0.821910</td>
<td></td>
<td>Mean dependent var.</td>
<td>-1.316434</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.791504</td>
<td>S.D. dependent var.</td>
<td>1.297980</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.592675</td>
<td>F-statistic</td>
<td>27.03148</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson stat.</td>
<td>1.667125</td>
<td>Sig. (F-statistic)</td>
<td>0.000000</td>
<td></td>
</tr>
</tbody>
</table>

The results show that there is a significant negative relationship between uncertainty avoidance and the percentage of the institutional ownership and a significant positive relationship between individualism and the percentage of the institutional ownership. Previous researchers concluded that there is a positive relationship between pluralism and institutional ownership (Naohito & Ichiro, 2010), so our conclusion in this regard is not confirmed, while based on previous researches our conclusion about the relationship between uncertainty avoidance and the percentage of the institutional ownership is confirmed (Bae, Chang, & Kang, 2012). So the fourth sub hypothesis of hypothesis 2 is accepted and the others are rejected.

Table 6 represents the results of White test and Durbin-Watson test. As shown in this table the significance of F- statistic for White test is more than 0.05 (0.83 > 0.05), so it can be concluded that F statistic is not statistically significant and there is no heteroscedasticity between residuals in Model 2. In addition the value of Durbin-Watson is 1.67 and it is between 1.5 & 2.5 (1.5 < 1.67 < 2.5) so it can be concluded that residuals of this model are not autocorrelated.

Also the values of VIF for all variables are less than 10, so there is no multicollinearity between variables.
Table 6. Tests Results for OLS assumptions.

<table>
<thead>
<tr>
<th>Name</th>
<th>Description</th>
<th>Statistic</th>
<th>Statistic Value</th>
<th>Sig. (F-statistic)</th>
</tr>
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<tbody>
<tr>
<td>White test</td>
<td>Heteroscedasticity</td>
<td>F</td>
<td>1.853114</td>
<td>0.083888</td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td>Autocorrelation</td>
<td>Durbin-Watson</td>
<td>1.667125</td>
<td>-</td>
</tr>
</tbody>
</table>

Conclusion

This study aims to investigate the impact of cultural values including masculinity, individualism, power distance and uncertainty avoidance on some corporate governance mechanism such as the percentage on non-executive directors on board and the percentage of institutional ownership. According to results finding, we conclude that there is a negative relationship between masculinity and the percentage of non-executive board directors. To be more specific, when the culture of masculinity increases in a company, the number of external members of directors on the board decrease. This result could be expectable as the other concluded, too (Li & Harrison, 2008). Based on Hofstede definition, masculinity is the tendency of the people of a society in having an impudent behaviour against humble behaviour, so it can be inferred that when people tend to have more impudent behavior in a company, the number of executive directors will be increased more (Hofstede, Culture’s consequences: International differences in work-related values, 1980). Agency theory suggests that the majority of board members should ideally be independent and non-executive. As this theory emphasized that there is always conflict of interest between owners and managers, so the presence of non-executive directors in board composition is really critical because there is no conflict of interest between them and company. They play a more effective monitoring role and they judge managers’ decisions with more objective and professional point of view. According to Iranian Corporate Governance Bylaw Draft prepared for Tehran Stock Exchange Companies, in large firms at least two and in other firms at least one member of board of directors should be non-executive manager.

On the other hand we found that there is a negative relation between uncertainty avoidance and percentage of institutional ownership. Clearly, when people’s uncertainty avoidance is high, the percentage of institutional ownership decreases. Bae et al. achieved the same conclusion. They show that the relation between the corporate governance mechanisms and uncertainty avoidance is negative with correlation equal 0.44 (Bae, Chang, & Kang, 2012). Agency theory declares that there is conflict of interest between stockholders and managers and minor stockholders are not sufficiently motivated to monitor the operation of their company. Fama(1980) believed that based on portfolio theory, the ideal portfolio for investors is adequately diverse portfolio, so the investor's wealth is not dependent on one company (Fama, Agency problem and the theory of the firm, 1980).

Besides, we concluded that there is a positive relation between individualism and the percentage of institutional ownership. Based on our conclusion it is obvious that by increasing the culture of individualism in a company, the percentage of institutional ownership increases, too. Unlike our finding, other researchers concluded that there is a positive relation between pluralism and the percentage of institutional ownership (Naohito & Ichiro, 2010).

Relationship between other cultural values and corporate governance mechanisms are not founded in our study. For instance based on our conclusions, power distance doesn’t have any impact on the board of directors’ composition and the percentage of institutional ownership.

Lack of relationship between some cultural values and corporate governance mechanisms can be justified by various reasons. First, it is possible that Iranian culture regarding to these cultural values doesn't affect application of corporate governance in Iran. Second, the weakness of the law, particularly commercial law, requires company to comply many issues related with corporate governance especially about board of directors. Other reasons can be related to weak emerging capital market.

Other reason about above issue can be considered is related to Hofstede cultural model. It is possible that cultural dimensions mentioned in his model are not applicable for Iran. Some researchers haven't achieved suitable conclusions, too, while they used Hofstede model. In addition, various criticisms have
been raised about its cultural dimension and its persistency. For instance, Baskerville declared that in Hofstede' researches, nation is considered equivalent to culture. He argued that Hofstede present a narrow understanding of culture by using figures and matrixes (Baskerville, 2003). HassabElnaby et al. (2005) confirm Baskerville's ideas and mention that Hofstede cultural dimensions are not adequately enough to measure culture.

Since our study is the first study regarding to the relationship between cultural values and corporate governance mechanisms in environment of Iran, so it can be a good sample for future studies. Therefore, recommendations for future research are presented as follows:

1. Further researches can investigate other corporate governance mechanisms such as auditing committee, board of directors’ duality, the number of board members, the number of board meetings, to find if these mechanisms are influenced by cultural values or not.
2. Further researches can use other cultural models Globe (Abdolmohammadi & sarens, 2011), Gray (Gray, 1988), Trompenaars (Trompenaars & Hampden Turner, 1998), Schwartz (Schwartz S., 2003), and Smith et al. (Smith, Dugan, & Trompenaars, 1996).

References


