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Evaluating the Effect of Corporate Governance Mechanisms and Financial Constraints on Cash Holdings

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ABSTRACT: Cash is an important and vital source in each profit seeking company, Balance the between available Cash and cash needs is the most important factor in entity economic health. Since, weather firms that aren't holding adequate cash and firms are holding more cash, have some problems. Because of that this study investigate the effect of some corporate governance mechanisms (board independence, board size board expertise, institutional ownership and ownership concentration) and financial constraint on cash holding level in Tehran stock Exchange listed companies. To achieving for this research purpose, 83 companies during 5 year 2007 to 2011 were examined. The results suggest that the effect of financial expertise, institutional ownership, ownership concentration and financial constraint has positive and significant effect on Tehran stock Exchange listed companies, but board independence and board size on cash holding level is ineffective in on Tehran stock Exchange listed companies. Founding present that increase in corporate governance quality caused that cash holding level decreased.

Key words: Corporate governance, Financial constraints, Cash holding level

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INTRODUCTION

The holding of cash asset has its own costs. The most holdings of cash by companies lead to the formation of agency conflict between managers and stockholders that in turn cause to the increase of management authority and are harmful for stockholder's interest. In other words, the holdings of much cash leads to opportunity cost for companies; because the cash has low return clearly effects on market return and operation performance of companies. On the other hand, the lack of holdings of sufficient cash for companies which face to the constraints of financial needs makes lose their opportunities of future investments, so it has a negative effect on future performance and companies output; however, some of the theories talk about the advantages of cash holdings and believe that companies for using of future probability investment opportunities attempt to hold the high cash that in this case with ignoring the agency conflict theory, they expect to increase the output and future performance of companies. This research focuses on theoretical and empirical studies that attempts to explain the holding level of cash on the basis of corporate governance mechanism (board independence, board size, financial expertise of board and ownership concentration) and also financial constraints.

The companies with weak ownership significantly are bigger than the strong ones. Suppose that small companies have much financial constraint than the large ones, these findings present a positive relationship between financial constraint degree and governance quality. With study of a country, the companies with less financial constraint have much ownership scattering and also, they are companies which introduce anti exclusive rules with high probability. So, in according to these findings the companies with weak stockholding rights hold the least cash. It is possible to state with this fact that these companies which have the weakest financial constraint, so they need lesser cash.

On hypothesis argues that the increase of corporate governance quality causes to the reduction of cash holding levels. Ditmar et al. (2003) with using of this hypothesis analyzed the data of 11000 companies in 45 countries in 1998. They figured out that companies with lowest stockholding level of rights hold the cash almost 25% more than the companies with highest stockholding level of rights and conclude that the stockholders with weak protection cannot force managers to much reduction of cash. Pinkowitz et al. (2006) perceived that cash is cheap in companies with weak financial condition and weak economic development. But for data collection, they used measurement scale of ownership concentration levels in which firm management does not allow to use again the agency problem tests. Harford et al. (2008) study the relationship between cash holding management and stockholding rights index that developed by Gompers, (Mainly by studying the companies with strong stockholders rights to managers).

The second hypothesis argues that companies with financial constraint should have higher cash holding level. Opler et al. (1999) perceived that companies with less availability to stock markets as large companies and those have high credibility and also, higher financial constraint have tendency to protection of cash to assets. Almeida et al. (2004) show that cash levels with financial constraint is sensitive to cash flow while cash holding level of companies without financial constraint is independence of cash flow. The companies with financial constraint are possible to give up the acceptance and implementation of projects with current positive and net value because of high costs of financial needs that cause to lesser investment and associated with high level of cash holding (Verdi, 2006).

With regard to last findings, the purpose of this research is the study of the effect of corporation governance mechanisms and financial constraints on cash holding levels of companies. In present research has been used the criteria of corporation governance that paid less attention in last research and can inform financial analysts, investors and other users of financial information.

Corporate Governance and the Basic Mechanism That Considered On It

Cash holding is explained mainly by adverse selection risk that confronts the investor with information asymmetry. In accordance with investor's viewpoint, the only way for ensuring the accuracy of disclosed information is the strong corporate governance. In fact, some researchers express that the concept potentially cause to information asymmetry reduction. Interest conflict between managers and stockholders, the possibility of expropriation of minority stockholders and defalcation are the examples of this weakness. As a result, they have more chances for aware people that use the advantages of particular information that is in available and will be more expensive for unaware people. Corporate governance is as a setting of mechanism that controls the agency cost reduction by managers' act control and information asymmetry reduction(that imposes by stockholders). So, it is leverage for establishment a relationship between firm and stockholders, new investor absorption and improvement of cash holding (Karmani and Aymen, 2012).

The role of board size in corporate governance

One of the factors that determine the effect of board size on liquidity generally relates to the leadership control and the quality of decision process. The agency theory hypothesizes expresses that the board size supports of leaders' authority by increasing the opposing groups and coalitions.

Lipman and Lipman (2006) believe that the board size must be as large that contains the spectrum of different talents and experiences. Also, the smaller board is excluded of interests and benefits, expertise comments and suggestions that are in larger board. As a result, in boards with smaller size the manipulation of manager's performance is easy that causes to low quality of published data, the exacerbation of asymmetry information and improvement reduction of cash holding level (Jensen, 1993). On the other hand, some of them like Weisbach et al. (1998) and Vafeas (2000) resulted that the companies with smaller size of board (at least 5 members) are more aware about returns and profits of company. So, they have more ability for monitoring. Goodstein et al. (1994) expressed that smaller boards of directors can be effective between 4 to 6 members so, they can adopt governance decisions on time.

The role of board independence in corporate governance

One of the most important factors of corporate governance system is the independence of board members the responsibility of board is the independence monitoring on managers' act and managers' commitment to responsibility to stockholders and stakeholders. The public believe that when board of directors has more independence, they can supervise executives effectively. The managers of inside of organization and those who have finance relation with company; it is possible do not be independent efficiently. These managers have fewer tendencies to criticize of executives and their responsibility and forget their tasks because of the relationship that have with executives (Solomon &Solomon, 2007).

The level of board independence usually measures as one of these methods: tenure or non-tenure two organizational posts by highest executives show that posts of president of the board and highest executives are occupied by a person? Or no, and the other by the members of the board (RahnamayRodposhti et al., 2011).

The financial expertise of board

There are some discussions about corporate governance that consist of board composition. About usefulness of managers' expertise, Guner et al. (2009) found that the managers who are expert in financial control can effect on corporate reliability by more accurate information and financial statement that are in best audits. So, information asymmetry decreases when liquidity increases. Wagner (2008) adds during the board composition, conciliation between independency and competency should be because of having an effective group. Therefore, qualified managers are indicators of published information quality. This may simplifies the absorption of others and then improves the liquidity by entrance of potential new stockholders. Since the law does not define the necessary criteria or skills, there is an implicit way of expertise within the board of director. With the report publication of Boton (2002) the dialogue about the merits of the case managers in the financial recordkeeping began:

Financial expertise is a state that every manager that has these criteria, this proficiency has designed in accordance with university (1) or professional experience of office (2).

1. Financial expertise attributes to a manager who has graduated from commercial university or any major of management or accounting of financial.

2. Financial expertise attributes to a manager who has practically experienced or engaged with financial affairs. So, financial managers, inspectors, auditors…are regarded as financial expertise (Karmani and Aymen, 2012).

The role of institutional stockholders in corporate governance

The dominant stockholders with using of franc influence on decision making and the board structure of firm. So, they can be one supervision source on firm management. In spite of reliable theoretical principles, the empirical results of studies in relation to the relationship between stockholders composition and firm performance joint to each other and sometimes take incoherent results. Stiglitz (1985) argued that one of the most important techniques of controlling and persuading the benefits and the growth of it by management is the growth of institutional stockholder.

Institutional stockholders are among the corporate governance mechanisms that can control firm monitoring. So, they have a considerable authority on firm management. And also, parallels the management interest with stockholders interest (Solomon and Solomon, 2007). Institutional stockholders is an entity that trades great volume of stock exchange and its major activity is trading of stock exchange (security), like private and governmental banks, pension fund, insurance firms and the social security organization, investment funds and firms, foundations, institutions. The institutional stockholders usually desire to present of accurate and timeless information in company. And, continually deliberate the company for presentation of accurate and sufficient about future profit. They analyze the related information with stock value that is not reflected in current earning decision about the level of financial holdings or about the investment in profitable plans.

The role of ownership concentration in corporate governance

The separation of management from ownership is not the only reason of establishment of agency and its costs between stockholders and managers, but ownership scattering in small stockholders can be a reason. Roe (1990) believes that in widespread ownership composition none of the small stockholders have incentive for monitoring because in this case every stockholder that monitors firm performance must pay its costs when other stockholders use these interests too. In fact, the ownership concentration indicates the situation that considerable level of firm stock belongs to majority stockholders and shows what percentage of firm stock is in disposal of little group. In empirical studies for measurement of ownership concentration presented different approaches. For example, Demsetz and Lehn (1985) define the ownership concentration the total stock in disposal of 5 or 20 big stockholders of firm. Rack (1989) and Telgoli et al. (2003) define the ownership concentration as a total percentage of majority stockholders with authority more than 5% (Hassanzadehbaradaran et al., 2011).

Financial Constraints

The fullest and clearest define about it, is that when firms are in financial constraints that face with a spread between internal uses and external ones of allocated cash? So, with using of this define, we can treat all companies as companies with financial constraints but the level of "financial constraint" is different (KananiAmiri, 2009). The use of external fund is a suitable frame for separation of companies based on their financial constraints rate. When the difference between internal and external uses of investment funds in a company is high, that company has high financial constraint. In general, the companies without financial constraints or low financial constraints are those that relatively have high liquidity assets and their net asset is high. So, the mean of financial constraints are those that exclude the supplying of necessity funds for desirable investments for companies. But, there is an ambiguity that the difference between internal and external costs is because of internal information.

The Level of Cash Holding

The determination of level of cash holdings is the most important in financial decision that a manager must adopt it. When there is an input cash flow, the financial manager will decide to distribute it for stockholders as dividend or by recalling its investment or saving for supplying the future needs (Kinglangar, 2012). The considerable percentage of company's asset has devoted to the cash. This statistic is equal to 8/1 percent of total assets in American companies and 9/9 percent in British companies. Usually, managers are looking for a level of cash holdings that is optimized in the condition of advantages and disadvantages of cash holdings. In other words, the companies are following an optimum level of liquidity that because of the lack of liquidity do not incur major losses to companies, on the other hand, with cash holdings does not loss the opportunities (Agayi et al., 2009).

Research History

Kashanipoor and Naginejad (2009) with the choice of 78 listed companies in Tehran stock exchange studied the effect of financial constraint on the sensitivity of cash flow-cash during the years of 2002-2007. With using of criteria such as the size of company, firm life, dividend ratio and business group showed that cash flows did not have a significance effect on the level of cash holdings and also, there is no significance difference between cash flow-cash sensitivity of companies with financial constraints and without financial constraints. Rasaiyan et al. (2010) studied the relationship of some of corporate governance include the percentage of independence members of board and the percentage of institutional investors as dependent variables in stock exchange. The results show that there is a negative and significance relationship between the percentage of independence members of board and the level of cash holdings in Tehran stock exchange. But, there is not a significance relationship between the percentage of institutional investors and the level of cash holdings. Kashanipoor et al. (2010) with the choice of 96 listed companies in Tehran stock exchange during the years of 2002-2008 indicated that companies with financial constraints are more sensitive to cash flow investment than the companies without financial constraints. Almida et al. (2004) indicated that the companies with financial constraints, with increase of cash flows are more desirous to high cash holdings. In other words, the cash flow sensitivity has high cash holdings than the companies without financial constraints. Acharpra et al. (2005) showed that the companies with financial constraint are more desirous for cash saving that acquired from cash flows. Kinglangar et al. (2012) studied the relationship between the corporate governance mechanisms, financial constraints and the level of cash holdings and perceived that unlike the agency theory predictions the companies with weak corporate governance have high cash holdings and also the level of cash holdings is high in companies with financial constraint. Nasrum et al. (2013) studied the effect of ownership structure and corporate governance on investment decisions and the level of cash holdings of Indonesia stock exchange listed companies that understood the ownership structure and corporate governance positively affect the investment decisions. For, both of them have a negative effect on cash holdings.

Research Hypothesis

As we explained, the present research is going to clarify the effect of corporate governance mechanisms and financial constraints on the level of cash holdings in Tehran stock exchange listed companies, with regard to upon expression, this research contains two main hypothesis and six subordinated hypothesis as follows:

H1: the corporation governance mechanisms effect on the level of cash holding

The secondary hypothesis that come from first hypothesis:

H1-1: the board size effects on the level of cash holdings of companies.
H1-2: the board independence effects on the level of cash holdings of companies.
H1-3: the finance expertise of board effects on the level of cash holdings of companies.
H1-4: the institutional stockholders effect on the level of cash holdings of companies.
H1-5: the ownership concentration effects on the level of cash holdings of companies.

H2: the financial constraints effect on the level of cash holdings

MATERIAL AND METHOD

The purpose of this research is application and research scheme is declining regression. With regard to formatting of research subject that is a kind of X to Y .the method of this research is correlation method. For collecting required data, we used of different kinds of library method and for collecting the required data in relation to stock exchange has used of RahavardNovin software and Research and development managing and Islamic studies site. In this research, we studied 5 periods of Tehran stock exchange listed companies from 2007 to 2011.

Because of great amount of statistical society and some inconsistencies among members of society, the below conditions are placed for statistical example. So, the statistical example chose with systematic write off method. The considered conditions are:

- The companies that listed in stock exchange before 2007.
- The end of fiscal year will be in the end of March.
- The company doesn't change the fiscal year during the study.
- The company is not a member of investment companies that act special like retirement funds, commercial endowment, insurance firms, investment banks.
- Transaction sample of firms is active and has not stopped in stock exchange more than 6 months.

Given the above condition, we studied 83 active firms during the years of 2007 to 2011.

The research format contains3Variables with two independent variables i.e. corporation governance mechanisms and financial constraints and dependent variable i.e. the level of cash holdings. For evaluation the effect of corporate governance mechanisms and financial constraints on the level of cash holdings have been used a sample that acquired from Kinglanger and his colleagues' model (2012) and is as follow:

$$CASH_{i,t}= \beta_0 + \beta_1 KZ+ \beta_2 IND_{i,t}+ \beta_3 BCOMP_{i,t}+ \beta_4 BSIZE_{i,t} + \beta_5 IS_{i,t} + \beta_6 SIZE_{i,t}+ \beta_7 LEV_{i,t}+ \beta_8 GROWP_{i,t} + \beta_9 DIVIDEND_{i,t} +\beta_{10} INVEST_{i,t}+ \varepsilon_{i,t}$$

CASH: the level of cash holdings is equal to the cash ratio to short-term assets, KZ: the financial constraints in the presence of financial constraints are 1 and in the absence of them are 0. IND: the board independence is equal to the ratio of the percentage of independence member in board to the total members of board. BCOMP: the financial expertise of board, if he is graduated between the members of board (at least 1 member) is 1 and unless is 0. BSIZE: the board size and is equal to the members of board. INSTOWN: the percentage of institutional stockholders and is equal to the firm stock ratio that holds by majority investment entities to the total distributed stock and is in the disposal of stockholders. SIZE: for the measurement of firm size used the logarithm of total assets of company. LEW: financial leverage is equal to the total liability ratio to the total assets of company, as the degree of financial leverage is high; the degree of financial risk is more. GROWP: for measurement of growth opportunities of firm used the Q Tobin that consists of stock market ratio to asset's clerical value. DIVIDEN: for measurement of dividend ratio of dividend payment used during the fiscal year to the clerical value of total assets of first period. INVEST: the capital expenditure ratio is equal to the investment ratio in fixed assets to the fixed net assets in first period. β: regression coefficient.

RESULTS

The results presented in tables 1 and 2 which take from the analysis of data descriptive statistics.

Testing of variable's normal distribution

In order to dependent variable normality test in this research we use Kolmogorov and Smirnov (K-S) Test. With regard to a significance level of Kolmogorov-Smirnovfor dependent variable and control variables, it's necessary to mention that normality of dependent variable leads to normality of total model, so data distribution is normal in this model.

Table 1. Research Data Descriptive statistic

Variable	CASH	IND	B Size	IS	OC	Size	Lev	Growp	DIV	Invest
Maximum	0.316	1.000	7.000	1.000	0.894	18.438	0.923	3.009	0.578	1.804
Minimum	-0.181	0.000	4.000	0.000	0.009	10.031	0.021	0.199	0.000	-0.867
Average	0.009	0.627	5.036	0.726	0.289	13.661	0.614	1.373	0.137	0.169
STD	0.047	0.212	0.288	0.174	0.225	1.400	0.196	0.474	0.132	0.275

Table 2. Research Nominal Data frequencies analytic

Variable	BCOMP	KZ
Observation	415	415
Answer	Attendance / non attendance	Constraint Financial
Frequencies	186 / 229	240 / 160
Frequencies Percentage	44/8 /55/2	0.60 / 0.40

Table 3. Kolmogorov and Smirnov (K-S) Test

Variable	Variable type	Observation	Z- Value	Sig	Result
CASH	Dependent	415	1.368	0.087	Normal
Size	Control	415	1.121	0.162	Normal
Lev	Control	415	1.175	0.127	Normal
Invest	Control	415	1.326	0.088	Normal

The results from hypothesis testing
In this part the hypothesis testing and their results will be present.

Hypothesis testing1-1
Hypothesis1, board of director's independence has effects on firm cash holding level
Following multivariate model for hypothesis 1 is used.

$$CASHi,t= C + \beta1(INDi,t) + \beta2(SIZEi,t) + \beta3(LEVi,t) + \beta4(GROWPi,t)+ \beta5(DIVIDENDi,t) + \beta6(INVESTi,t)+ \varepsilon i,t$$

Table 4. Resulting from regression for Board of director's independence and Cash holding level

Variable	Coefficient	t-statistic		Significant
Constant	-0.015	-0.656		0.512
IND	0.014	1.481		0.139
SIZE	0.001	0.576		0.565
LEV	-0.037	-3.363		0.001
GROWP	0.016	3.488		0.000
DIV	-0.051	-3.329		0.001
INVEST	0.069	9.208		0.000
F-statistic	**Significant**	**Durbin-Watson Test**	**R2**	**Adjusted R2**
18.073	0.000	2.410	0.309	0.292

Due to table4, Durbin-Watson statistic is2.410 suggesting that there isn't auto correlating between errors of model. Due to F-statistic is significant and linearity assumption between two variables (board of director's independence and cash holding level) confirmed. Calculated R2 is 0.309 and represent that 30.9% adjustment in cash holding level implemented explained by board of director's independence and other control variable. Due to of high T-statistic significant than acceptable Beta significant level (0.139), results suggest that board of director's independence has positive but not significant effect on cash holding level. In all of hypothesis leverage and dividend policy ratio as a control variable has negative effect but the grow opportunity and capital expenditure has positive and significant effect on cash holding level as well as firm size has positive effects on dependent variable too, but it's not significant.

Hypothesis testing 1-2
Hypothesis2, board of director has effect on cash holding level
Following multivariate model for hypothesis2 is used.

$$CASHi,t= C + \beta1(BCOMPi,t) + \beta2(SIZEi,t)+ \beta3(LEVi,t) + \beta4(GROWPi,t) + \beta5(DIVIDENDi,t) + \beta6(INVESTi,t) + \varepsilon i,t$$

Table 5. Resulting from regression for Board of director's Financial Expertise and Cash holding level

Variable	Coefficient	t-statistic		Significant
Constant	0.000	-0.019		0.985
IND	0.009	2.439		0.015
SIZE	0.000	0.146		0.884
LEV	-0.037	-3.404		0.000
GROWP	0.014	3.011		0.003
DIV	-0.050	-3.288		0.001
INVEST	0.069	9.182		0.000
F-statistic	**Significant**	**Durbin-Watson Test**	**R2**	**Adjusted R2**
18.841	0.000	2.394	0.318	0.301

Effect of board of director's financial expertise on cash holding level is significant and positive.

Hypothesis testing 1-3
Hypothesis3, board of director size has effect on cash holding level
Following multivariate model for hypothesis3 is used.

$$CASHi,t= C + \beta1(BSIZEi,t) + \beta2(SIZEi,t)+ \beta3(LEVi,t) + \beta4(GROWPi,t) + \beta5(DIVIDENDi,t) + \beta6(INVESTi,t) + \varepsilon i,t$$

Table6. Resulting from regression for Board of director size and Cash holding level

Variable		Coefficient	t-statistic	Significant
Constant		0.009	0.255	0.799
BSIZE		-0.004	-0.557	0.578
SIZE		0.001	0.680	0.496
LEV		-0.036	-3.267	0.001
GROWP		0.016	3.642	0.000
DIV		-0.051	-3.38	0.001
INVEST		0.070	9.271	0.000
F-statistic	**Significant**	**Durbin-Watson Test**	**R2**	**Adjusted R2**
17.781	0.000	2.424	0.306	0.288

Effect of board of director on cash holding level is negative and meaningless.

Hypothesis testing 1-4
Hypothesis4, institutional stockholders has effect on cash holding level
Following multivariate model for hypothesis4 is used.

$$CASHi,t= C + \beta1(OCi,t) + \beta2(SIZEi,t)+ \beta3(LEVi,t) + \beta4(GROWPi,t) + \beta5(DIVIDENDi,t) + \beta6(INVESTi,t) + \varepsilon i,t$$

Table 7. Resulting from regression for institutional stockholders and Cash holding level

Variable		Coefficient	t-statistic	Significant
Constant		-0.023	-1.006	0.315
INSTOWN		0.026	2.249	0.025
SIZE		0.001	0.656	0.512
LEV		-0.040	-3.622	0.000
GROWP		0.015	3.262	0.001
DIV		-0.049	-3.267	0.001
INVEST		0.069	9.051	0.000
F-statistic	**Significant**	**Durbin-Watson Test**	**R2**	**Adjusted R2**
18.598	0.000	2.362	0.315	0.298

Effect of institutional stockholders on cash holding level is positive and significant and correlation rate between the variables of this hypothesis at is acceptable at 95% reliability

Hypothesis testing 1-5
Hypothesis 5, concentration ownership has effect on cash holding level
Following multivariate model for hypothesis 5 is used.

$$CASHi,t= C + \beta1(OCi,t) + \beta2(SIZEi,t)+ \beta3(LEVi,t) + \beta4(GROWPi,t)+ \beta5(DIVIDENDi,t) + \beta6(INVESTi,t) + \varepsilon i,t$$

Table8. Resulting from regression for concentration ownership and Cash holding level

Variable		Coefficient	t-statistic	Significant
Constant		-0.018	-0.825	0.410
OC		0.023	2.611	0.009
SIZE		0.001	0.859	0.391
LEV		-0.036	-3.248	0.001
GROWP		0.015	3.396	0.000
DIV		-0.050	-3.297	0.001
INVEST		0.068	8.906	0.000
F-statistic	**Significant**	**Durbin-Watson Test**	**R2**	**Adjusted R2**
18.615	0.000	2.393	0.315	0.298

In table8, due to the low significant of t-statistic to acceptable significant for beta coefficient (0.009), result from test suggest that concentration ownership has positive and significant effect on cash holding level. Thus, hypothesis 5 is accepted in 0.95 level reliability.

Hypothesis testing 1-6

Hypothesis 6: financial constraint has effect on cash holding level

Following multivariate model for hypothesis6 is used.

$$CASHi,t= C + \beta1(KZi,t) + \beta2(SIZEi,t)+ \beta3(LEVi,t) + \beta4(GROWPi,t) + \beta5(DIVIDENDi,t) + \beta6(INVESTi,t) + \varepsilon i,t$$

Table9. Resulting from regression financial constraint and Cash holding level

Variable	Coefficient	t-statistic		Significant
Constant	-0.001	-0.068		0.945
KZ	0.011	2.341		0.019
SIZE	0.001	0.813		0.417
LEV	-0.034	-3.059		0.002
GROWP	0.012	2.599		0.009
DIV	-0.069	-4.099		0.000
INVEST	0.070	9.350		0.000
F-statistic	**Significant**	**Durbin-Watson Test**	**R2**	**Adjusted R2**
18.587	0.000	2.406	0.315	0.298

In table 9, due to the low significant of t-statistic to acceptable significant for beta coefficient (0.019), result from test suggest that financial constraint has positive and significant effect on cash holding level. Thus, hypothesis6 is accepted in 0.95 level reliability.

CONCLUSION

In doing this research, we tested two main hypotheses that generally contain six subordinated hypothesis. The main purpose that presented in the format of two main hypotheses is the evaluation of corporate governance mechanisms and financial constraints on the level of cash holdings of Tehran stock exchange listed companies. In this research with regard to the dependent and independent variables that their data has been collected, the presented model is acquired from the model of Kinglangar et al. (2012) that codified and used.

In accordance to these theories, the level of board independence measures as follows: one of them is the simultaneous tenure or non-tenure of two organizational posts by executives and the other is the number of board members. In this research board independence is measured on the basis of role separation of board president from executive. While, on the basis of specified rule commitments in the business article 124, in more than of 86% of the cases the executives are not the board president simultaneously. So, the results of first hypothesis testing shows that there is no performance premium for the separation of these two roles and its effect on the level of cash holdings in stock listed companies. Rasaiyan et al. (2010) showed the same results.

About the acceptance of second hypothesis of this research, it is mentionable that although the majority of financial expertise members in board composition are administrative and independence members (usually, financial manager) with regard to the role and monitoring performance, the independence members(especially financial manager) can have an effective role in making decisions based on the level of cash holdings on the company's board.

The results of third hypothesis testing show that the board size does not effect on the level of cash holdings. with regard to the corrigendum of business rule (107), the board members of the most joint stock companies are 5 persons(in the present research about 90% of the cases are 5 members) so it can affect the results. On the other hand, this shows that legal commitment specifies the board size and they do not regarded other factors like the subject of firm activity, the size and structure of firm. The results of Rasaiyan et al. (2010) research are in accordance with the present study.

In according to the these theories the institutional investors with efficient monitoring can prevent of cash accumulation of company and in the lack of efficient monitoring lead to the increase of cash holding. The results from fourth hypothesis that indicate the positive and significance effect of institutional investment on cash means that changing the ownership of institutional investors explains the level of cash holdings changes in Tehran stock exchange listed companies. This result is in accordance with the results of Harford and his colleagues (2007) that found a positive relationship between the ownership of institutional investors and the level of cash holdings. And these results are not in accordance with Rasaiyan et al. (2010) results that showed an insignificance effect of institutional investors ownership on the cash holdings level.

The results of sixth hypothesis testing argue that financial constraints have a positive and significance effect on the level of cash holdings. The companies with financial constraints are more sensitive to cash holdings than the companies without financial constraints. In other words, they overemphasize on the internal cash flows in the decision making or cash holdings. These findings show that the companies with financial constraints have costly external finance and limited availability to external finance. These results are in accordance with results of Kashanipoor's and his colleagues' research (2009) that found a positive relationship between companies with financial constraints and the level of cash holdings.

Generally, the results of this research show that the increase of corporate governance leads to the increase of the level of cash holdings of companies. So, with regard to today's economic condition of Iran that is associated with high liquidity and inflation, it is necessary to allow for a corporate governance regulation that regards to the corporate governance system and especial to the board of directors.

Research limitations

With regard to the condition of research variables, it was not possible to do the research for all firms so, it caused to the reduction of sample numbers.

The political, economic and cultural condition of country and the dominated setting on Tehran stock exchange and the knowledge of naturalized people in stock market effect on demand and supply, trade volume and stock improvement or downturn and main variables of research effect the companies by ownership governance and the presence of institutional stockholders. So, these factors may cause that cash holdings level be affected by other factors that are not predicted.

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