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An Investigation on the Relationship between Corporate Governance and Growth Strategy with Value Creation in Tehran Stock Exchange (TSE)

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Abstract

The present paper evaluated the role of corporate governance and growth strategy on value creation. As for the variables of value creation, economic value added, market value added, Jensen's alpha, return on assets, and return on equity were examined, sales growth and income growth were considered for growth strategy, and variables of percentage of institutional investors, percentage of non-bound members, CEO duality, CEO replacement, and auditor tenure were used as indicators of corporate governance. For testing research hypotheses, the authors utilized multiple regression and financial data of 111 sample companies for the period of 2001 to 2010. The findings indicated that sales growth was positively associated with all indices of value creation. However, income growth was only positively associated with the return on assets. Moreover, economic value added was solely positively associated with CEO duality. There were no associations whatsoever between market value added and Jensen's alpha as well as all indices of corporate governance. A negative and significant relationship was observed between return on assets and auditor tenure, and finally, return on equity was negatively associated with auditor tenure and CEO replacement. According to the results, corporate governance had little to do with value creation in Iran.

Keywords: Sales Growth, Income Growth, Corporate Governance, Value Creation

Introduction

According to classical theories of accounting, the ultimate goal of any company is to maximize its shareholder value. Since shareholders are the ultimate owners of a company, and shoulder the primary risk loads, compared to other beneficiaries, they, obviously, expect a desirable long-term return.

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In order to meet the shareholders' expectations and to create value, followed by a proportional return, managers continually struggle to increase sales and grow company's income. Now, the question to be answered is that whether sales and income growth leads to value creation for the company. Different indicators have been adopted to evaluate a company's performance. For instance, in the past, while focusing on maximizing profits, the utilized indicators included return on assets and return on equity. However, with the introduction of the paradigm of value creation into accounting and finance texts, new indicators such as economic value added, market value added, and Jensen's alpha replaced profit maximization.

On the other hand, separation of management and ownership as well as the conflict of interest between these two, has called for regulatory mechanisms, which can be internal and external. Presence of strong corporate governance mechanisms not only acts as a preventive measure against wasting shareholder value by managers, but also is an incentive for the improvement of value. Accordingly, while investigating the relationship between sales growth and income growth and different performance and value creation criteria, the present paper addressed the role of the mechanisms of corporate governance, including percentage of institutional ownership, percentage of non-bound members, CEO duality, CEO replacement, and auditor tenure.

Review of the Related Literature

Changes in technology, competition, and globalization have rendered traditional theories, including accounting profit maximization, to be disqualified and replaced by the modern paradigm of stakeholder value maximization. This value-based viewpoint is referred to as 'Value-Based Management' in accounting and financial management texts. Management is a process in which a company's resources are efficiently employed to fulfill the company's objectives, and by doing so, satisfy all the stakeholders. Fulfilling the satisfaction of all stakeholders is directly associated with the functioning of procedures, application of methods, and effective implementation of tasks of the management.

As a result, the management's thought needs to be organized aiming at satisfying all the stakeholders. Value creation is the core of such thought. Value-based management will induce every active member of a corporation to learn to prioritize his/her decisions based on the understanding of how it would contribute to the creation and increasing of company value.

The main concept is that all essential procedures and systems aim for value creation. It is thus, obvious that, in the present era, value creation has managed to sustain itself as a dominant model for all the stakeholders, including shareholders, creditors, the government, etc. Value creation for shareholders, who accept a higher risk compared to other stakeholders, can be under the influence of the corporation's administration. Otherwise put, policies developed and decisions made by board members, CEO, etc, will compromise value creation, if they are not developed aiming at meeting stakeholder interests, or otherwise developed for personal benefit or for the benefit of specific groups.

It is expected that when the corporate policies and approaches developed by the administration comply with the paradigm of value creation, they lead to value creation for shareholders. To evaluate the effect of developed decisions and policies by managers on the creation of value, both traditional profitability measurement criteria, including return on equity rate and return on assets rate, and modern profitability measurement criteria, including economic value added and market value can be employed. It can generally be stated that, corporate governance and the resulting company performance, can influence the degree of value creation for shareholders.

Companies normally employ growth strategy as one of their many approaches to develop their branch offices. Growth in company sales or income can be achieved by strategies, including product variety, cost reduction, or production of unique products. A company's sales and income growth are among the common indicators for the assessment of growth strategy. It is expected that companies who employ growth strategy in their agenda will maintain higher income. Therefore, the present study set out to answer two main questions proposed by the capital market. The first question addresses the effect of choosing growth strategy and corporate governance on traditional and modern income criteria. The second question seeks to examine the effects of corporate profitability as well as corporate governance indicators on shareholder value creation.

A number of studies conducted abroad will be discussed below:

Bayrakdaroglu (2012) studied the relationship between economic value added, market value added, and cash value added as value-based performance indicators and corporate governance.

The results showed that the three mentioned performance indicators will augment when the CEO is at the same time a Board Member. Furthermore, ownership concentration had a significant relationship with economic value added and cash value added, while, internal ownership was not a significant variable in the performance growth. In addition, external ownership increased economic value added and decreased market value added.

Sami et al. (2011) investigated the relationship between company performance and corporate governance in Shanghai Stock Exchange Companies from 2001 to 2004. To evaluate performance, they used return on equity, return on assets, and Tobin's Q. Also, this study employed combined and single indicators for measuring corporate governance. As indicated by the results, there was a significant positive relationship between corporate governance, company performance, and value creation. The said study only utilized traditional criteria.

In their study in 2008, El Mir and Seboui attempted to assess the role of characteristics of the board of directors, audit quality, and ownership structure in bridging economic value added and market value as a criterion of value creation for shareholders. The mentioned study used the data pertaining to US companies and adopted stepwise regression. As indicated by the results, features of corporate governance are important in explaining the different results obtained from economic value added and shareholder value creation. Board independence, auditor's expertise and reputation, ownership structure, and stock option, were also influential in the said explanation.

Gompers et al. (2003) investigated the relationship between corporate governance and stock price. They concluded that companies with stronger corporate governance benefit from higher market values and performance, the latter of which was measured using net profit margin and sales growth. However, no significant relationship was observed between corporate governance and return on equity, as a performance criterion. They merely used traditional performance indicators and overlooked more modern criteria.

Ramezani et al. (2002) investigated the relationship between growth strategy, profitability, and value creation in US Stock Exchange, between 1990 and 2000.

In their study, they managed to answer two major questions: **1.** is there a relationship between corporate profitability criteria, including economic value added and growth strategy criteria, i.e. income growth and sales growth? **2.** Whether maximization of corporate profitability indicators has led to shareholder value creation? As indicated by the results, maximizing growth does not necessarily lead to an increase in profitability and value creation for the corporate. This study merely adopted economic value added and overlooked the other criteria. Moreover, the role of corporate governance was ignored.

Another study by Kang and Shivdasani (1995) examined the relationship between corporate governance, performance, and replacements of executives in Japan. the results showed that extraordinary replacements maintains a significant relationship with the adjusted return on assets of the industry and excess return on operating profit. This study, however, did not concern itself with shareholder value creation, using only a single variable of corporate governance.

A study by Izadinia and Ebrahimi (2012) examined the relationship between the indices of corporate governance and performance. Return on assets was used as the instrument for measuring performance. Corporate governance indices include, board structure, institutional shareholders, and ownership concentration. To test the hypotheses, a sample of 556 firm-years was selected, out of which 453 firm-years were separated as value creating companies. Research hypotheses were once tested against the total samples, and a second time against value creating companies. Market value added was used to determine value creating companies, such that companies with positive market value added were considered value creating. The results indicated the determining effect of corporate governance strength on performance improvement of value creating companies. While, as for the entire sample, mixed results were achieved.

Hassanzadeh Brothers et al. (2012) investigated the relationship between some mechanisms of corporate governance and the created shareholder value and economic value added. The utilized corporate governance mechanisms included the following: Separation of Chief Executive Officer and Chairman of the Board roles, ratio of non-bound members, ownership of the largest shareholder, and ownership structure, main or subsidiary nature of the company, extent and influence of government ownership, free float percentage, and auditor type.

The results showed that there was a relationship between the extent and influence of government ownership, institutional ownership, capital structure, free float percentage, and created shareholder value. Also, from among the eight studied corporate governance mechanisms, only the extent and influence of government ownership, extent of institutional ownership, free float percentage, and economic value added showed a relationship.

In their study of 2011, Hasas, Yeganeh, and Moloodi examined the relationship between institutional ownership, institutional shareholder concentration, remuneration of board members, non-bound members, and Separation of Chief Executive Officer and Chairman or vice-chairman of the Board roles, as mechanisms of corporate governance, and created shareholder value as the index for measuring performance. The sample was divided into two groups of value-creating and value-destructing companies.

They concluded that first; there was a significant positive relationship between remuneration of board members and the created shareholder value in value-creating companies. Second, in value-destructing companies, there was a positive and significant relationship between institutional shareholder concentration and the value created. Third, in the above-said companies, the relationship between the ratio of non-bound members and remuneration of board members and the created value was negative and significant. Fourth, no significant relationship was observed between institutional ownership and separation of roles of chief executive officer and chairman, and the created shareholder value.

Nikbakht et al. (2010) studied corporate performance as influenced by board size, ratio of non-bound members, number of board meetings, financial knowledge of board members, and separation of roles of chief executive officer and chairman, as mechanisms of corporate governance. This study evaluated performance by taking into account 5 agents of: income growth, operating income growth, net income growth, return on assets, and return on equity. Using Spearman's correlation coefficient and regression analysis, they concluded that, in Iranian capital market, boards of directors do not fulfill their task of reducing agency problems efficiently and fail to have a determining effect on corporate performance.

Nikbakht and Rahmaninia (2010) studied the effect of institutional ownership on performance of Tehran Stock Market companies. Performance indicators adopted by them were return on equity and Tobin's Q, as dependent variables, and institutional ownership as independent variable. They concluded that there was a positive and significant relationship between institutional ownership and company performance (according to the indicators of return on equity and Tobin's Q). Furthermore, return on equity and financial leverage were significantly related; while, no significant relationship was observed between other control variables and performance.

In another study, Haghighat and Mousavi (2007) investigated the effect of sales growth, indicators of financial crisis, and market risk premium on stock returns. For testing the hypotheses, they employed Fama and French model and multivariate regression. They initially, developed a number of portfolios according to book/market ratio and company size. As shown by the results, sales growth, indicators of financial crisis, and market risk premium, have a significant relationship with stock returns.

Another study by Ghalibaf Asl and Rezaei (2007) examined the effect of board composition, as one of the indicators of corporate governance, on company performance. They also measured performance using indicators including return on equity, net profit margin, gross profit margin, average sales growth, and net income growth rate. The results maintained that there was no significant relationship between the ratio of non-bound members and none of the employed performance indicators.

Research Hypotheses

The research hypotheses are categorized into two groups:

A. there is significant relationship between growth strategy and value creation

1- there is significant relationship between sales growth and economic value added
2- there is significant relationship between net profit and economic value added
3- there is significant relationship between sales growth and market value added

4- there is significant relationship between net income growth and market value added
5- there is a relationship between sales growth and Jensen's alpha
6- there is a relationship between net income growth and Jensen's alpha
7- there is significant relationship between sales growth and return on assets
8- there is significant relationship between net income growth and return on assets
9- there is significant relationship between sales growth and return on equity
10- there is significant relationship between net income growth and return on equity

B. there is significant relationship between mechanisms of corporate governance and value creation

11- there is significant relationship between institutional ownership and economic value added
12- there is significant relationship between the percentage of non-bound members and economic value added
13- there is significant relationship between CEO duality and economic value added
14- there is significant relationship between CEO replacement and economic value added
15- there is significant relationship between auditor tenure and economic value added
16- there is significant relationship between institutional ownership and market value added
17- there is significant relationship between the percentage of non-bound members and market value added
18- there is significant relationship between CEO duality and market value added
19- there is significant relationship between CEO replacement and market value added
20- there is significant relationship between auditor tenure and market value added
21- there is significant relationship between institutional ownership and Jensen's alpha
22- there is significant relationship between the percentage of non-bound members and Jensen's alpha

23- there is significant relationship between CEO duality and Jensen's alpha
24- there is significant relationship between CEO replacement and Jensen's alpha
25- there is significant relationship between auditor tenure and Jensen's alpha
26- there is significant relationship between institutional ownership and return on assets
27- there is significant relationship between the percentage of non-bound members and return on assets
28- there is significant relationship between CEO duality and return on assets
29- there is significant relationship between CEO replacement and return on assets
30- there is significant relationship between auditor tenure and return on assets
31- there is significant relationship between institutional ownership and return on equity
32- there is significant relationship between the percentage of non-bound members and return on equity
33- there is significant relationship between CEO duality and return on equity
34- there is significant relationship between CEO replacement and return on equity
35- there is significant relationship between auditor tenure and return on equity

Research Methodology

This is a correlational descriptive study and applied in terms of objectives. This study adopted logit regression as statistical model and used panel data. Five regression models were used for hypothesis testing to investigate the relationship between growth indicators, including sales growth and income growth, as well as corporate governance variables, including institutional ownership, percentage of non-bound members, CEO duality, CEO replacement, type of auditor, and auditor tenure, the following model was utilized:

$$EVA_{i,t} = \alpha_0 + \alpha_1 Sales\,Growth_{i,t} + \alpha_2 Earning\,Growth_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFo/asset_{i,t} + \alpha_5 INS\text{-}owner_{i,t} + \alpha_6 Indircet\,Board_{i,t} + \alpha_7\ Duality_{i,t} + \alpha_8 CEO\,Change_{i,t} + \alpha_9 Auditor\,Tenure_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$MVA_{i,t} = \alpha_0 + \alpha_1 SalesGrowth_{i,t} + \alpha_2 EarningGrowth_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFo/asset_{i,t} + \alpha_5 INS\text{-}owner_{i,t} + \alpha_6 IndircetBoard_{i,t} + \alpha_7 Duality_{i,t} + \alpha_8 CEOChange_{i,t} + \alpha_9 AuditorTenure_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$Alpha\text{–}Jensen_{i,t} = \alpha_0 + \alpha_1 SalesGrowth_{i,t} + \alpha_2 EarningGrowth_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFo/asset_{i,t} + \alpha_5 INS\text{-}owner_{i,t} + \alpha_6 IndircetBoard_{i,t} + \alpha_7 Duality_{i,t} + \alpha_8 CEOChange_{i,t} + \alpha_9 AuditorTenure_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$ROA_{i,t} = \alpha_0 + \alpha_1 Sales\,Growth_{i,t} + \alpha_2 Earning\,Growth_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFo/asset_{i,t} + \alpha_5 INS\text{-}owner_{i,t} + \alpha_6 Indircet\,Board_{i,t} + \alpha_7 Duality_{i,t} + \alpha_8 CEO\,Change_{i,t} + \alpha_9 Auditor\,Tenure_{i,t} + \varepsilon_{i,t} \quad (4)$$

$$ROE_{i,t} = \alpha_0 + \alpha_1 Sales\,Growth_{i,t} + \alpha_2 Earning\,Growth_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFo/asset_{i,t} + \alpha_5 INS\text{-}owner_{i,t} + \alpha_6 Indircet\,Board_{i,t} + \alpha_7 Duality_{i,t} + \alpha_8 CEO\,Change_{i,t} + \alpha_9 Auditor\,Tenure_{i,t} + \varepsilon_{i,t} \quad (5)$$

$EVA_{i,t}$: Economic value added of company i in the year t, calculated as follows:

(Weighted average cost of capital * capital employed) - operating profit after tax: EVA_{it}

$MVA_{i,t}$: Value added of company i in the year t, calculated using this equation:

Average book value of equity - average value of stock market = MVA_{it}

$ROA_{i,t}$: return on asset rate of company i in the year t, calculated by net profit divided by book value of assets

$ROE_{i,t}$: return on equity of company i in the year t, calculated by net profit divided by book value of equity

$Alpha - Jensen_{i,t}$: Jensen's alpha of company i in the year t, calculated by actual return deducted from expected return

$Sales\ Growth_{i,t}$: Sales growth of company i in the year t, calculated by changes in sales of a year and the previous year divided by last year's sales

$Earnings\ Growth_{i,t}$: Sales growth of company i in the year t, calculated by changes in income of a year and the previous year divided by last year's income

$Size_{i,t}$: size of company i in the year t calculated using natural logarithm of book value of assets

$CFo/assets_{i,t}$: The ratio of operating cash flow to book value of assets of company i in the year t

$INS - Owner_{i,t}$ Percentage of institutional ownership of company i in the year t

$Indirect\ Board_{i,t}$: rate of non-bound members of company i in the year t

$Duality_{i,t}$: CEO duality of company i in the year t

$CEO\ Change_{i,t}$ CEO replacement of company i in the year t

$Auditor\ Tenure_{i,t}$ Auditor tenure of company i in the year t

Findings

Normal data distribution was initially examined through Jarque-Bera test. The results indicated normal data distribution. Also, results of Durbin-Watson test showed no sign of autocorrelation. Table (1) shows the findings of descriptive statistics of study variables. as seen in the table, average economic value added, market value added and Jensen's alpha are 0.093, 0.645, 0.119, respectively, indicating, on average, value creation of the sample companies. Average return on assets and return on equity are 0.132 and 0.397. Average sales and income growth are -0.149 and -0.088, indicating negative sales and income growth in sample companies over the studied years. Average institutional ownership is 0.691. Average non-bound members' percentage of 0.688 indicates relative board independence. Moreover, as suggested by the results in Table, in %7.5 of companies, the CEO is also a board member. An average of %26.8 of companies replaced the CEO, and finally, average auditor tenure is more than 3 years.

Table 1: Descriptive Statistics of Study Variables			
	Average	**Mean**	**Standard Deviation**
Economic Value Added	0.093	0.085	0.153
Market Value Added	645/0	281/0	186/1
Jensen's Alpha	119/0	-040/0	705/1
Return on Assets	0.132	105/0	125/0
Return on Equity	0.397	334/0	546/0
Sales Growth	-0.149	-0.263	0.128
Income Growth	-0.088	-262/0	4.237
Company Size	12.929	12.764	1.305
cash flow to assets ration	0.133	0.111	0.149
Institutional Ownership	0.691	0.769	0.278
Percentage of Non-Bound Members	0.688	0.80	0.167
CEO Duality	0.057	0.000	0.233
CEO Replacement	0.268	0.000	0.443
Auditor Tenure	3.667	3	2.602

What follows presents the findings of hypothesis testing.

In order to investigate the relationship between sales growth, income growth, and also corporate governance indicators and economic value added as one of the indicators of corporate value creation, model (1) was developed, the results of which are presented in table 2. As indicated by the results, there is a direct and significant relationship between sales growth and economic value added. Sales growth coefficient is 0.098 and its t-statistic, 3.602 However, there is no significant relationship between net profit and economic value added.

In addition, from among indicators of corporate governance, including institutional ownership, percentage of non-bound members, CEO duality, CEO replacement, and auditor tenure, only CEO duality, with the rates of 0.063 and 0.020, maintained a direct and significant relationship with economic value added. Accordingly, hypotheses 1 and 13 cannot be rejected, while, hypotheses 2, 11, 12, 14, and 15 are rejected. Company size and cash flow to assets ratio at -0.072 and 0.128, and t-statistic of 3.905 and 2.447; show a significant relationship to this indicator of value creation. The coefficient of determination is 0.327, F-statistic (p-value) is 2.967 (0.000) which indicates the model's overall significance.

Table 2: Results of Model (1) Estimates

$$EVA_{it} = \alpha_0 + \alpha_1 SalesGrowth_{it} + \alpha_2 EarningGrowth_{it} + \alpha_3 Size_{it} + \alpha_4 CFo/asset_{it} + \alpha_5 INS\text{-}owner_{it} + \alpha_6 IndircetBoard_{it} + \alpha_7 Duality_{it} + \alpha_8 CEOChange_{it} + \alpha_9 AuditorTenure_{it} + \varepsilon_{it}$$

variables	coefficients	t-statistic	p-value	F-statistic p-value	Durbin-Watson
Sales Growth	0.098	3.602	0.0003	2.967 (000/0)	2.008
Income Growth	-0.00006	-0.060	0.952		
Company Size	-0.072	-3.905	0.0001		
cash flow to assets ratio	0.128	2.447	0.014		
Institutional Ownership	-0.013	-0.308	0.757		
Percentage of Non-Bound Members	-0.027	-0.626	0.531		
CEO Duality	0.063	2.318	0.020		
CEO Replacement	-0.012	-0.942	0.346		
Auditor Tenure	-0.004	-0.455	0.146		
coefficient of determination					0.327

While investigating the relationship between sales growth, income growth, and indicators of corporate governance and market value added, model (2) was developed, the results of which are presented in Table 3. The findings suggest that sales growth coefficient is positive and significant (coefficient 0.523 and t-statistic 2.984) yet, the relationship between income growth and market value added is insignificant statistically. furthermore, as suggested by model estimates, none of the employed variables of corporate governance had no significant relationship with market value added hypotheses 4, 16, 17, 18, 19, and 20 can be, therefore, rejected, while hypothesis 3 cannot be rejected. Similar to model (1), coefficient (t-statistic) of company size and cash flow to assets ratio are significant and respectively -0.964, (-8.101) and 0.903 (2.707) the coefficient of determination is 0.601, F-statistic (p-value) is 9.289 (0.000) which indicates the model's overall significance.

Table 3 - Results of Model (2) Estimates

$$MVA_{i,t} = \alpha_0 + \alpha_1 Sales\ Growth_{i,t} + \alpha_2 Earning\ Growth_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFo/asset_{i,t} + \alpha_5 INS\text{-}owner_{i,t} + \alpha_6 Indircet\ Board_{i,t} + \alpha_7\ Duality_{i,t} + \alpha_8 CEO\ Change_{i,t} + \alpha_9 Auditor\ Tenure_{i,t} + \varepsilon_{i,t}$$

variables	coefficients	t-statistic	p-value	F-statistic p-value	Durbin-Watson
Sales Growth	0.523	2.984	0.003	9.289 (000/0)	0.851
Income Growth	-0.002	-0.349	0.726		
Company Size	-0.964	-8.101	0.000		
cash flow to assets ratio	0.903	2.707	0.007		
Institutional Ownership	-0.033	-0.117	0.906		
Percentage of Non-Bound Members	-0.185	-0.668	0.504		
CEO Duality	0.310	1.758	0.079		
CEO Replacement	-0.057	-0.703	0.482		
Auditor Tenure	0.000	-0.0003	0.999		
coefficient of determination					0.601

model (3) addresses the relationship between the variables of company growth and indicators of corporate governance and Jensen's alpha, as one of these indicators the results of moder 3 estimate are shown in table 4 the relationship between sales growth and Jensen's alpha are direct and significant coefficient of this variable is 0.389, and its t-statistic is 2.261 sales growth and all the variables of corporate governance, used in the model don't have a significant relationship with Jensen's alpha. as a result, hypotheses 5, 6, 21, 22, 23, 24, and 25 are rejected, while, hypothesis 5 is approved. Moreover, company size coefficient is negative and significant (-0.415) and cash flow to assets ratio coefficient is not statistically significant the coefficient of determination is 0.178, F-statistic (p-value) is 1.329(0.03) which indicates the model's overall significance.

in order to examine the relationship between growth variables and institutional ownership, percentage of non-bound members, CEO duality, CEO replacement, and auditor tenure, as indicators of corporate governance, and return on assets ratio, model (4) was estimated, the results of which are presented in Table 5. As indicated by the results, there is a direct and significant relationship between income and sales growth and economic value added. Coefficients (t-statistic) of sales growth and income growth are respectively 0.131 (8.770) and 0.001 (2.328).

In addition, among variables of corporate governance, only auditor tenure, with the coefficient of -0.004 and t-statistic of -2.609, showed a significant relationship with return on assets ratio. Accordingly, hypotheses 7, 8, and 13 cannot be rejected, while, hypotheses 26, 27, 28, and 29 are rejected. Coefficient (t-statistic) of company size and cash flow to assets ratio are significant and respectively -0.099, (-9.755) and 0.155 (5.313) the coefficient of determination is 0.734, F-statistic (p-value) is 17.049 (0.000) which indicates the model's overall significance.

Table 4 - Results of Model (3) Estimates

$$Alpha\text{–}Jensen_{it} = \alpha_0 + \alpha_1 SalesGrowth_{it} + \alpha_2 EarningGrowth_{it} + \alpha_3 Size_{it} + \alpha_4 CFo/asset_{it} + \alpha_5 INS\text{-}owner_{it} + \alpha_6 IndircetBoard_{it} + \alpha_7 Duality_{it} + \alpha_8 CEOChange_{it} + \alpha_9 AuditorTenure_{it} + \varepsilon_{it}$$

variables	coefficients	t-statistic	p-value	F-statistic p-value	Durbin-Watson
Sales Growth	0.389	2.261	0.024	1.329 (0.03)	2.19
Income Growth	0.010	1.449	0.147		
Company Size	-0.415	-3.565	0.004		
cash flow to assets ratio	0.197	0.603	0.546		
Institutional Ownership	-0.276	-0.988	0.323		
Percentage of Non-Bound Members	-0.196	-0.719	0.472		
CEO Duality	-0.042	-0.242	0.808		
CEO Replacement	-0.074	-0.923	0.356		
Auditor Tenure	0.021	1.105	0.269		
coefficient of determination					0.178

Table 5 - Results of Model (4) Estimates

$$ROA_{i,t} = \alpha_0 + \alpha_1 Sales\ Growth_{i,t} + \alpha_2 Earning\ Growth_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFo/asset_{i,t} + \alpha_5 INS\text{-}owner_{i,t} + \alpha_6 Indircet\ Board_{i,t} + \alpha_7\ Duality_{i,t} + \alpha_8 CEO\ Change_{i,t} + \alpha_9\ Auditor\ Type + \alpha_{10}\ Auditor\ Tenure_{i,t} + \varepsilon_{i,t}$$

variables	coefficients	t-statistic	p-value	F-statistic p-value	Durbin-Watson
Sales Growth	0.131	8.770	0.000	17.049 (0.000)	1.284
Income Growth	0.001	2.328	0.020		
Company Size	-0.099	-9.755	0.000		
cash flow to assets ratio	0.151	5.313	0.000		
Institutional Ownership	-0.001	-0.053	0.957		
Percentage of Non-Bound Members	-0.042	-1.789	0.074		
CEO Duality	-0.0006	-0.044	0.964		
CEO Replacement	-0.007	-1.085	0.277		
Auditor Tenure	-0.004	-2.609	0.009		
coefficient of determination					0.734

The relationship between growth variables and corporate governance indicators and return on equity, were examined adopting model (5) and the results are presented in table 6. Sales growth shows a direct and significant relationship with return on equity. Coefficient and t-statistic of this variable are 0.331 and 3.689 coefficients (t-statistic) of CEO replacement and auditor tenure are -0.084 (-2.021) and -0.022 (-2.237) and significant. However, other variables of corporate governance as well as sales growth didn't show a significant relationship with return on equity. Consequently, hypotheses 10, 31, 32, and 33 are rejected, and hypotheses 9, 34, and 35 cannot be rejected. Coefficients of company sized and cash flow to assets ratio in this model are -0.376 and 0.392 respectively and their t-statistic is -6.177 and 2.294 and significant. The coefficient of determination is 0.411, F-statistic (p-value) is 4.312 (0.000) which indicates the model's overall significance.

Table 6: Results of Model (5) Estimates

$$ROE_{i,t} = \alpha_0 + \alpha_1 Sales\ Growth_{i,t} + \alpha_2 Earning\ Growth_{i,t} + \alpha_3 Size_{i,t} + \alpha_4 CFo/asset_{i,t} + \alpha_5 INS\text{-}owner_{i,t} + \alpha_6 Indircet\ Board_{i,t} + \alpha_7\ Duality_{i,t} + \alpha_8 CEO\ Change_{i,t} + \alpha_9\ Auditor\ Type + \alpha_{10}\ Auditor\ Tenure_{i,t} + \varepsilon_{i,t}$$

variables	coefficients	t-statistic	p-value	F-statistic p-value	Durbin-Watson
Sales Growth	0.331	3.689	0.0002	4.312 (0.000)	1.580
Income Growth	-0.004	-1.327	0.184		
Company Size	-0.376	-6.177	0.000		
cash flow to assets ratio	0.392	2.294	0.022		
Institutional Ownership	0.182	1.250	0.211		
Percentage of Non-Bound Members	-0.029	-0.207	0.836		
CEO Duality	-0.001	-0.011	0.990		
CEO Replacement	-0.084	-2.021	0.043		
Auditor Tenure	-0.022	-2.237	0.025		
coefficient of determination					0.411

Conclusion

The present paper evaluated the role of corporate governance and growth strategy on value creation. The results of hypothesis testing showed that sales growth maintained direct and significant relationships with all the examined performance indicators. However, income growth was only positively associated with the return on assets. Cash flow to assets ratio showed direct and significant relationship with all indicators of value creation examined in this study, except for Jenson's Alpha (including economic value added, market value added, return on assets, and return on equity). It can thus be understood that sales growth is a better indicator for assessing the creation of value, as sales growth maintains a more tangible influence on value creation, compared to income growth, which has a higher probability of being manipulated. The said conclusion is consistent with those presented by Ramezani et al. (2002)

This study employed variables of institutional ownership, percentage of non-bound members, CEO duality, CEO replacement, and auditor tenure, as indicators of corporate governance. Among the said variables only CEO duality had a direct and significant relationship with economic value added. This result contradicts the findings of Bayrakdaroglu (2012).

By way of interpretation, it can be stated that concentration of decision-making in the company and avoiding CEO and Chairman disputes (as both are one and the same person), will result in uniform and coordinated decisions and consequently creation of value. There were no significant associations between market value added and Jensen's alpha and none of the studied indices of corporate governance. Return on equity was only negatively associated with auditor tenure, and return on equity with auditor tenure and CEO replacement. Meaning that increased auditor tenure and the resulting close relationship between the auditor and employer, may compromise auditor independence and weaken corporate governance, which contradicts shareholder benefits and lowers corporate value.

Also, by CEO replacement, the new CEO may ignore the policies of the former in office and acts in another direction, which, per se, wastes company resources and lowers corporate value. In general, a weak relationship was observed between most indicators of corporate value and indices of corporate value creation. the said results are consistent with those presented by Gompers et al. (2003), Hassanzadeh brothers et al. (2012), Hasas, Yeganeh, and Moloodi (2011), Nikbakht et al. (2010), Ghalibaf Asl and Rezaei (2007), and contradictory to the findings of Sami et al. (2011), El Mir and Seboui (2008), and Izadinia and Ebrahimi (2012). As indicated by the above-gone conclusions, investors are advised to take into account a company's sales growth, while making investment decisions.

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