Corporate Governance, the Adoption of a Balanced Strategic Approach in Iran's Capital Market

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Abstract
The presence of numerous definitions regarding the "Corporate Governance" is indicative of financial thinkers' care to this strategic area of financial literature. Through presenting techniques necessary for the leading and controlling organizations, and also with the strengthening of relations between stockholders and managers, reducing managers' immoral behaviors, preventing firms from breakup, increasing the transcendence of capital market, and also with the rise in the reliability of market mechanisms, Corporate Governance provides the ground for growth and development in capital markets. In spite of the numerous studies done in the developed countries in this area of financial literature, it seems that we are facing lack of applicable studies in the developing countries in general and in Iran in particular. Thus, the present article (through historical knowledge and library study) intends not only to present a theoretical framework for the Corporate Governance and the effect it has on the development of capital market, but also to support the research literature of the country with regard to this area of financial literature so that to provide a suitable tool for other researchers and decision makers in capital market.

Keyword: Corporate Governance, Agency Theory, Capital Market

1. Introduction
Financial scandals including Enron, World Com, and Hollinger have posed many questions in the international area with regard to the potential relationship between firm's management and the value or performance of firm. This is because all these firms appeared to have the qualities suitable for ruling including board of managers or the committee of auditing; however, after the occurrence of failure, it became clear that the ruling processes of these firms had been inefficient and were controlled by managers (Cormier et al, 2010). These scandals can be the source for the occurrence of incidents including declination of capital market, annihilation of job opportunities and fall of the values for the retirement plans. The losses that the greatest retirement fund in the US incurred as a result of investment in World Com, for instance, were beyond one million dollars (Berthelot et al, 2010).

Though dating back to the 18th century, the issue of Corporate Governance is unprecedentedly welcomed in modern firms and is considered as one of the highly discussed areas in the developed countries (Yau, 2003). However, the recently occurred scandals and bankruptcies have made it inevitably necessary to create a mechanism called Corporate Governance so that to provide investors with trust.
The importance of Corporate Governance is due to the continuous role it has in the refinement of rules and contracts related to the management of firm actions and the protection of shareholders’ rights. Actually, Corporate Governance is seeking for the provision of correspondence between the willing of managers and shareholders and is trying to create transparent information so each person in the firm (either manager or shareholder), apart from being aware of his responsibility, participates in the development and provision of value for that firm (Jamali et al, 2010).

In order to keep their competitive ability in today's unstably changing world, firms should practice the innovation and adaptation of their methods of Corporate Governance so that they can satisfy their new needs and until they are bestowed with the possibility to take the best advantage of the opportunities attained. However, the problems usually tackled by the developing countries to get to Corporate Governance, preventing them from correctly performing and developing the issue, are as follows: predominant role of government in economy, limitations implemented on the ratio of ownership, the futile supervision of shareholders on managers, centralized ownership, and the chiefly inexperienced board of managers who are selected with incorrect criteria. Thus, taking this area of financial literature into consideration is of inevitably high importance. Therefore, with the explanation of Corporate Governance and its features, the present study is intended to provide a suitable theoretical framework in the research literature of the country, hence preparing an appropriately suitable tool for other researchers and decision makers in capital market.

2. Theoretical Foundations and the Research Background
2.1. Corporate Governance

Many definitions for Corporate Governance have been offered in the dealing literature based on which Corporate Governance is considered a mechanism specifying how precise supreme decision makers of organization (shareholders) are to supervise and direct the contractual relations (of managers). According to Scheifer and Vishny (1997) Corporate Governance is a method by which firm's suppliers can make sure that their investment in firm will be returned. In other words, Corporate Governance is a competitive mechanism by which shareholders control the actions of managers and decision makers inside firm (John and Senbet, 1998), and through which organization is directed and controlled (Cadbury, 2000).

In another definition, Corporate Governance is a set of rules, deeds, and motives used for equalizing the benefits of managers and shareholders (Picou and Rubach, 2006). In this definition, the set of legal supports, firms' laws, the rules of stock exchange and accounting standards, are considered as methods by which the system of Corporate Governance is formed and executed (Berthelot et al, 2010). Despite the presence of the many definitions presented in the area of Corporate Governance, there is still no precise consensus on the parts of a suitable Corporate Governance framework. There are different supervisory mechanisms in different countries based on owners' role, financial and banking system, the structure of capital market, economical system and the role of government. The presence of difference in these mechanisms has made each country choose its own set of rules and structures which are different from other countries (Yau, 2003). That is why the system of Corporate Governance in one country is different from another one. Based on what mentioned above and with regard to lack of consensus on the elements of a suitable framework for Corporate Governance, some information mediators have proceeded to develop a system for classifying Corporate Governance so that to provide the information suitable for those who are active in capital market. One example can be Standard and Poor's (S&P) using of the criteria such as ownership structure, the influence of foreigner beneficiaries, the rights and relationships of investors, translucency and disclosure of information, structure and managerial processes to develop a system for the classification of Corporate Governance. Another example is the GMI's (Governance Metrics International) using of the criteria including the amount of managers' accountability, disclosure of financial information, internal controls, shareholders’
rights, firm's system of wage and salary to plan and develop a system for the classification of Corporate Governance (Berthelot et al, 2010).

2.2. Corporate Governance and Agency Theory

One of the main characteristics of modern firms, the one that raises the conflict between the benefits of managers and owners, is the separation of ownership and control. First, by yielding the affairs to managers, firm's shareholders had no tendency to supervise the deeds of managers; even those who were willing to do so, didn't manage to control firms' activities and managers, which was owing to their having various viewpoints. Thus, due to lack of controlling mechanisms, managers found complete freedom to use resources (compared to the time when owners were present in firm) ((Yau, 2003).

Jensen and Meckling (1976) believe that there are some conflicts between the benefits of managers and owners, causing managers to adopt non-optimal decisions so that to improve their own welfare with shareholders' cost. These decisions can occur in different forms including the making of an empire, ambitiousness, protection of management position, theft, taking money out of firm, collusion and conspiracy in firm's dealings, creation of a clique in firm and improper investment due to inefficiency.

Agency theory states that there is a potential conflict between the benefits of shareholders and managers. Based on the theory, the only thing manager desires is getting to his own benefits, although this may not be for shareholders' benefits. Therefore, the main issue and the first reason for which Corporate Governance is created is to reduce the Agency problem that occurs as a result of separating ownership from management. In other words, Corporate Governance is seeking to make sure of the deeds that are performed for the realization of goals (which are defined by shareholders) (Sternberg, 1998).

In order to minimize the costs of agency, which is the key element of a good system of Corporate Governance, three main factors can be put forward, which are as follows: Accountability (internal and external), Transparency, and Recognizing the rights of firm's shareholders and beneficiaries. Some other criteria can also be considered as the characteristics of a good system of Corporate Governance, including efficiency, unity, leadership, emphasis on performance, beneficiaries' participation, and comprehensiveness. Of course, different elements are needed to be chosen and harmonized with each other in each period of time and in each organization so that to put a suitable system of Corporate Governance into practice.

In general, if broadly classified, the systems of Corporate Governance can be divided into two methods of internal and external. The main difference between the two systems can be the kind ownership and control structure each one has. The internal mechanisms refer to deeds of managers and supervisory role of owners. In other words, the structure of internal control is seen as a mechanism for control and balance. The reason why board of managers is controlled in this structure is to make sure if the benefits of shareholders are protected. Managers are chosen by shareholders based on efficiency and are dismissed as a result of inefficiency. The other things that can be placed in this group are determining how powerful managers are and thinking of a good incentive necessary for encouraging managers to improve firm's performance and value.

External mechanisms refer to controls applied by the legal system (the one that controls the deeds of firms), market and loaners. Actually, these mechanisms are highly influenced by the comprehensive legal system that supervises the activities of firm. As a matter of fact, the legal system not only directs firm's activities, but also prevents government from interfering in firm's affairs, thus reducing such interferences. Therefore, the production of an accounting or auditing system is considered as one of the economical characteristics of the deeds of Corporate Governance. These rules guarantee transparency and allow shareholders to supervise the performance of managers. The rules lead to the assurance that the system is open and fair and are defined as the rights, dispositions, and responsibilities of firm's owners.
Moreover, controlling the activities of firm by market refers to the deeds done by rivals or the staff to have corporate takeover or to buy firm and to legally support minor shareholders. Takeover is a useful mechanism for directing and supervising the behavior of managers (Yau, 2003). Being suitable choices for takeover, firms with weak performance or low value do their best to improve their performance and value, the result of which is improvement of their management (Hart, 1995). Therefore, takeover can potentially be considered as a suitable tool for the improvement of Corporate Governance.

The applying of control by loaners indicates that they do support their loans by making a contract or applying various limitations on firm or deeds of managers. These loans are often restrictive for loan takers before they completely pay their loan. On the other hand, because of loaner's need to have a sufficient flow of information from loan-taker (firm), it is necessary that the manager (of firm), through a fixed contract, provide the information needed by the loaner; therefore, the supervisory role of loaner can have an effective control on the deeds of managers (Yau, 2003). Emphasizing the role of contracts in controlling the agency problem, Jensen and Meckling (1976) believe that planning different contracts can be effective in having owners and managers match their interests. Moreover, being worried about bankruptcy can also provide the ground necessary for supervising the deeds of managers. Therefore, because of financial contracts' being restrictive, managers have to be careful about their financial decisions and actions before taking a loan and before financing non-profitable investments.

2.3. The Key Mechanisms of Corporate Governance's Framework

As agency theory and Corporate Governance are trying to present the strategies supporting shareholders against opportunistic and selfish motivations of managers, some key mechanisms of Corporate Governance including ownership, disclosure of information, auditing and applying market control can be effective in decreasing the agency costs.

2.3.1. Ownership

Jensen and Meckling (1976) believe that the ownership of supreme managers in firm can lead to decrease in agency costs. However, this ownership can bring about a phenomenon called collusion in organization that eventually causes agency costs to be raised (Scheifer and Vishny, 1997). In the literature of Corporate Governance, different kinds of ownership are referred to as follows: institutional ownership, governmental ownership and foreign ownership.

Institutional ownership has an important role in supervising the actions of management. As institutional shareholders hold many of the shares of firm's ownership, and because they have enough resources in hand for analyzing firm's status, they are potentially able to make firms reduce their agency costs. Governmental ownership also refers to the share government has in firm's ownership. Investigating the literature existing the area of the effect firm's ownership has in Corporate Governance indicates that governmental firms are inefficient, both in ownership and control. This may be due to the fact that in these firms the attention is wholly directed to political goals instead of economical efficiency; hence, having them fail when they are to compete with new non-governmental rivals (Naughton, 1995).

Having compared the performance of governmental and private firms, Dewenter and Malatesta (2000) found that governmental firms have lower profitability and efficiency, but have to encounter higher agency costs. Therefore, the inefficiency of firms with governmental ownership can be originated from their high agency costs which are because of their old system of governmental management (Zhou and Wang, 2000).

Foreign ownership refers to presence of foreign investors in ownership of firm. Foreign investors should face noticeable risks (especially when investment is done in traditional economies). These risks include political risk, informative asymmetry, and inconvenient legal supports. It is because of these risks that foreign investors are highly worried about management of firms in which
they have invested. On the one hand, these investors are capable of compelling firms to reduce agency costs and enhance efficiency (Anderson et al, 2001); on the other hand, due to the existence of geographical distance and because environmental conditions are ignored, there happens a reduction in the amount of foreign shareholders' supervision on managers and this can reduce agency costs (Bordman et al, 1997).

2.3.2. Disclosure of Information
The evidence indicates that voluntarily revealing firm's issues can not only enhance the amount of Corporate Governance in firm, but also through the reduction of informative non-symmetry cause the costs of capital market to be diminished. This is because higher transparency causes the augmentation of cash in market and reduces the costs of the dealing of shares in firm (Cormier et al, 2010).

Referring to other researches (Francis et al, 2005; Leuz, 2000; Healy et al, 1999; Welker, 1995), Cormier et al (2010) assert that the way by which information is disclosed causes informative non-symmetry to be reduced. In most mechanisms of Corporate Governance for the disclosure of information to lead to the reduction of capital cost, it is necessary that there be legal supports from the benefits of investors and a high level of Corporate Governance in economy. In such cases, investment in firms with a high index of Corporate Governance will have a high return as a result of which information disclosure can reduce capital cost.

The literature existing in the area of Corporate Governance indicates that the way with which firms are managed affects the quality of information disclosure. In other words, board of managers have tendency to give the responsibility of supervision to shareholders and beneficiaries, so that they have a direct influence on the free deeds of managers, thus providing the ground for wide evaluations from the performance of organization. Thus, the more firm is benefited by a better management system, the more probable it is for that firm to publish the information related to the prediction of its profit (Karamanou and Vafeas, 2005). Therefore, as legal environment gets more efficient, the relationship between board of managers (authority) and disclosure of information increases.

2.3.3. Auditing Committee
Auditing committees are formed in all firms, even those in which the managers agree with high level of supervision on the part of shareholders and other beneficiaries; however, it is not precisely clear how much effective these committees are. Thus, it is to take the characteristics of Auditing committee into consideration. According to Abbott and Parker (2000), the two main characteristics of this committee are its being independent and active. By the term 'independent auditing committee' we mean that it is composed of people not working in firm, which can be considered both as a convenient tool to supervise managers, and a method to increase firm's credit. In other words, on the one hand, it is the independence of auditing committee, i.e. the absence of people working inside firm in it, that causes the firm's credit to be enhanced. Actually, this is because the presence of managers in the committee may excessively enhance the reduction of firm's credit in case an error occurs in financial inventories. On the other hand, protecting and enhancing firm's credit leads to the applying of precise and high quality supervisions on the independent auditing committee, which by itself results in exactly paying attention to the process of auditing and convincing shareholders of the trustworthiness and dependability of firm's financial statements and inventories (Abbott and Parker, 2000).

Referring to Menon and Williams (1994), Abbott and Parker (2000) also state that an independent auditing committee will not be effective, unless it is active. A committee that does not hold at least two meetings a year cannot follow its duties very well. Thus, the effectiveness of auditing committee can be dependent on the tendency of the committee's members to follow their duties.

Moreover, another stimulus for the use of auditing committee services is the commitment managers should give to owners. Because shareholders have the ability to make a claim in court against deception in financial statements, it is necessary that managers do some deeds including provision of financial statements, having internal control structure, and using an external auditor so that
to prove they have been honest in their duties. Thus, in order to avoid legal commitments, managers can use auditing committee services.

In general, the ability of the committee to have effective supervision is subject to its independence and its tendency to perform its duties depends on the number of meetings the committee has, and it is these two features that make the committee able to prevent cheating to happen in financial statements. An independent auditing committee can also support the deeds of internal auditor both through holding common meetings with him and through investigating the deeds and statements of him, which leads to presenting a financial statement of high quality.

3. Research Method
The methodology of the present study is qualitative, based on historical recognition, and uses the results of scientific foundations which are on the basis of library study. The goal of the study is to present a framework for the explanation of a theoretical model and the development of financial knowledge. The model presented in the essay will be supported by empirical research.

4. Empirical Evidence
4.1. Taiwan
In Taiwan, Corporate Governance is assumed to be a system demonstrating if market's security is correct and perfect, in which not only supervisors and providers, but also all personnel and shareholders are to do their duties to the best possible way so that to raise the culture of Corporate Governance in the country. Actually, the aim of this system is to correctly and accurately direct the benefits of shareholders. The attempt to get to this goal makes the duties and responsibilities of leaders and managers much heavier. At present, the system of Corporate Governance in this country is arbitrary, not compulsory. However, the firms having stock exchange in the country have accepted Corporate Governance as a rule which is necessary for the creation of a comprehensive and exhaustive system to provide the security of market.

Since the application of the system of Corporate Governance in the country, in order to accept rules, all firms are to obey the following rules: protection of shareholders' benefits, strengthening the power of managers and those in charge of affairs, performing supervisors' duties, showing respect to the rights of supervisors, and increasing transparency of information.

4.2. Zambia
The first attempts to develop and institutionalize Corporate Governance in Zambia can be related to the studies done by IODS (Institute of Directors in Zambia), which later on appeared in the form of strengthening Corporate Governance in small and medium firms (SMEs) and also educating the concepts of Corporate Governance to public and governmentals.

The studies done regarding Corporate Governance in small and medium firms of Zambia have provided a suitable system of Corporate Governance in this economical part, leading to the development of a model of Corporate Governance in this area. Moreover, the resulting model was presented to be discussed by public and private shareholders, so that to eliminate the existing drawbacks and provide shareholders with maximum benefits.

The most important success of the attempts done regarding the presented model could be related to the acceptance of this model in stock exchange of Zambia where one of the preconditions set for small and medium firms to be allowed there was to follow the system of Corporate Governance.

During the elections of 2007 in Zambia and after the attempts done regarding the development of the system of Corporate Governance, the rules and the ways for correctly performing Corporate Governance were educated to all 150 members of parliament. Moreover, in order to raise the level of
public awareness, some deeds were done including broadcasting radio programs, publishing various essays in publications and holding different seminars in this field, all of which causing the knowledge and awareness of Zambian people with respect to Corporate Governance to be raised.

4.3. Philippine

Philippine, considered as one of the newly-appearing economies, has done two main activities in order to create and develop Corporate Governance. First, a scoring system of Corporate Governance was created in Philippine, so that to develop the standards of Corporate Governance among the country's firms. Based on this system, firms were judged and evaluated with respect to the criteria including public accessibility to firm's information, disclosure of information and firm's attempt to publish information. This deed enabled firms to identify their own position with respect to the criteria of Corporate Governance and also to compare themselves with other firms in Philippine, the area and the world. Moreover, following this system, firms were able not only to evaluate their own performance, but also to identify the areas required to get to a suitable system of Corporate Governance.

Second, after the system was accepted by Philippine's stock exchange, all firms present in stock exchange were forced to use a Corporate Governance scorecard. This action led to the improvement of transparency and information disclosure in capital market of the country.

4.4. Macedonia

For the performance of Corporate Governance, Macedonia has taken two fundamental areas into consideration. The first area was dedicated to providing a legal framework to support the benefits of shareholders, and the other one included training the rules and concepts of Corporate Governance to shareholders, managers, judges, and lawyers. In general, understanding the rules of Corporate Governance and the new laws for the management of firms caused harsh behavior of managers toward their staff to be limited, and promoted the culture of asset ownership, too. In other words, these actions made people more and more aware of rules, asset ownership, transparency in controlling firm affairs, and corporate processes. Actually, these actions, based on the account recorded by the World Bank, were among the few activities done to protect the rights of shareholders in the country.

Furthermore, the other activity done for the concept of Corporate Governance to be developed and expanded were holding various seminars for shareholders, managers, judges, and lawyers. These trainings made shareholders become more aware of their rights, enabling trained managers to be accountable to law. The trainings were also suitable for judges and lawyers as they learned how to implement shareholders' rights based on law.

4.5. Iran

The first signs of the presence of Corporate Governance in Iran were seen at the time when stock exchange was established in the early 1960s, and when the trade law was ratified and especially the time when the bill of the 1967 with regard to affairs related to how firms should be founded and managed was amended; however, the issue of Corporate Governance with its present concept is only recently put forward.

The analysis of firms and capital market in Iran with respect to the execution of Corporate Governance rules indicate the presence of some out-of-organizational mechanisms including legal supervision on the basis of the contents of trade law (especially the articles 144 Until 156), rules of stock exchange, law for the establishment of auditing organization and rules for Iran's official accountants committee. Moreover, there are some mechanisms for the supervision of big shareholders, for motivating shareholders to buy controlling shares and for the supervisory role of institutional investors in stock exchange.

On the other hand, small shareholders have a trivial supervision on firms, and classifying institutions in Iran are not active. The only firms for which auditing (or independent auditing) is
obligatory are those that are subject to the law for the establishment of auditing organization and those allowed in stock exchange; however, after the law for Iran's official accountants committee was ratified, more firms got subject to the law of independent auditing.

Moreover, regarding the supervisions related to inner-organizational mechanisms, it seems that, apart from the issue of board of managers and the affairs related to executive management (including the distribution of responsibilities between executive management and the placement of suitable software programs), the supervisory role of non-executive management (including the creation of board of managers' committees composed of independent and non-executive managers), is too weak and trivial, paying no suitable attention to the supervisory role of organizational morals.

In general, having briefly analyzed the status of Iran's capital market, firm's ownership structure, the small separation of ownership from management and the closeness of Corporate Governance to inner-organizational system, it is found that to managers of some economical units it is not necessary and it is of low importance to be accountable. Actually, the reason for accountability in these systems of Corporate Governance to be of low significance is related to the separation of ownership from management which is not substantially realized and also due to the effect of other environmental factors. As a result, the only thing that can make firms obey the rule for being accountable is legal compulsion; even in this case, they obey it to the extent they are legally forced, not more than that.

5. Findings

Though, the establishment of big firms and the world-wide separation of ownership from management date back to the late 19th century and the early 20th century, the issue of Corporate Governance in its present form, which is to answer the problems related to the effectiveness of big firms' board of managers, has been put forward in the 1990s. Moreover, the recent years' fragmentation of some big firms in America has directed public attention to the prominent role of Corporate Governance in preventing such fragmentations. Therefore, the need for Corporate Governance to limit the conflict between the benefits of shareholders and managers, especially the costs created as a result of the conflict has not been a new phenomenon (Berthelot et al, 2010) and what is more, the fundamental rules for Corporate Governance have been trying to strengthen the atmosphere of organization management.

As the economy of each country is dependent on firm's activity and efficiency, managers need freedom to advance the purposes of firm; however, this freedom should be applied on the basis of managers' effective accountability and responsibility. And this issue is considered the essence of each good system of Corporate Governance (Cadbury, 2000). Therefore, the permanent concern created by the potential conflict between the benefits of shareholders and managers is that managers may misuse the freedom to follow their own benefits with the cost of shareholders, causing the main problem of Corporate Governance, i.e. the agency problem.

According to the agency theory which is based on the relationship between shareholders and managers, the shareholders' yielding of responsibilities to managers causes the problems leading to the agency costs, such as theft, taking fund out of firm, collusion in firm's dealings, inconvenient investments, cheaply selling of firm's assets, expensive purchase from the non-governmental firm the manager of which is its owner, and conspiracy in firm. Therefore, there is a need to provide a suitable system of Corporate Governance so that to minimize the agency costs. That is why it seems useful to analyze the reason underlying the failure of some firms before to adopt a system of Corporate Governance. The evidence related to the failure of the programs designed for the performance of the system of Corporate Governance is indicative of some common factors including (Vitaliano, 2010):

- Board of managers' inability to perceive and recognize the dangers threatening the firm.
- The conflict between benefits and lack of agreement among supreme managers leading to the adoption of decisions with low benefits but high costs.
Weakness or lack of suitable inner controls, which seemingly appear to be very convenient but virtually nothing can be seen.

Weakness in internal and external auditing system due to not only being unable to recognize deceitful behaviors of managers, but also in some cases helping them to continue such behaviors.

The organizational system was devised so to reduce transparency of firm's performance, preventing the creation of a virtual picture from firm's status for other beneficiaries.

The most important factor is that organizational culture promotes non-ethical behaviors in firm, thus preventing the existing condition to be disputed.

According to the theoretical framework suggested in the essay and based on the aforementioned reasons, it seems necessary to take the following notes into consideration, presenting a comprehensive definition in each area, and to precisely specify the aspects of that area in order to present a suitable model for the system of Corporate Governance.

- The role of government in the development and promotion of Corporate Governance: Governments have an important responsibility in the creation of an effective supervisory framework. Actually, it is governments that provide markets with the essential flexibility in order to have effective performance and reaction to the expectations of shareholders and other beneficiaries. Therefore, for governments and those having a hand in capital market to make a decision in the selection of a framework for Corporate Governance, they should take the benefits and costs of lawmaking into consideration, paying attention to how to use these rules.

- The problem of internal controls and ambiguity of ownership.

- Using scientific methods in the promotion of Corporate Governance.

- Selecting a suitable model of Corporate Governance.

In general, various models have been provided for the performance of Corporate Governance, all of which are in agreement with the characteristics and conditions of countries. Three of these models include: model of Anglo-Saxon, model of Lion River, and model of Japan-Korea. The evidence observed in the recent ten years is indicative of the convergent flow of these patterns, in spite of the small differences between them.

- Paying attention to the role of firm's beneficiaries in the development and promotion of Corporate Governance.

- Protecting the benefits of shareholders, especially the minor ones.

- Privatization and its relationship with Corporate Governance.

As successful performance of privatization process requires investors to trust capital market, it is inevitable to adopt the strategies necessary for strengthening the culture of accountability and promoting informative transparency in firms that are subject to the process of granting. To do so, the factor that plays the fundamental role is to produce a suitable system of Corporate Governance.

- The role of independent managers in Corporate Governance

- The role of institutional investors in Corporate Governance

- The role of banks and other credit givers in Corporate Governance

- Reforming the law of commerce

As the main bases of Corporate Governance, including structure, formation and duties of board of managers, mechanisms of independence and supervision on managers, shareholders’ right to vote, and mechanisms of supporting the rights of minor shareholders, are not defined in the law of commerce, it is necessary to do the reforms required in the law of commerce to not only help the system of Corporate Governance to be stable, but also provide the grounds for supporting the rights of investors.

According to the literature existing in the area under analysis and the empirical evidence obtained from some countries, four steps are suggested to develop Corporate Governance and put it into action.
Step 1. Introductory Analysis

- Analyzing the failures, successes, challenges and opportunities of Corporate Governance
- Comparing the standards of Corporate Governance in our country with the best practical and international experiences in this area (in the world)
- Comparing the standards of Corporate Governance with the conditions and realities of society

Step 2. Training

- Identifying beneficiaries
- Creating awareness between commercial leaders, policy makers, and society
- Creating public tendency for performing the rules of Corporate Governance

Step 3. Development and Institutionalization of Corporate Governance Mechanisms

- Developing the codes (criteria) for Corporate Governance and mechanisms for internal control
- Improving legal and executive frameworks
- Creating a web of Corporate Governance including legal factors, commercial leaders, organizations and other civil groups

Step 4. Capacity Making, Performance, Supervision, and Pursuit

- Training managers and those controlling the affairs and approving their qualifications
- Creating institutes specialized in the system of Corporate Governance
- Creating the classifying system of Corporate Governance for investors
- Training financial mediators
- Promoting legal and executive systems

6. Discussion and Conclusion

Today, the factor making financial scientists pay considerable attention to the area of Corporate Governance has been the many benefits this area has, especially in newly-appearing markets. Such benefits include the creation of a reliable market and encouragement to commerce, investment and entrepreneurship.

The existing literature for applying the rules of Corporate Governance, especially in new markets, shows that the ever-increasing consensus among policy makers, commercial leaders, and people with regard to the necessity of Corporate Governance is a tool for improving firm's performance and developing market-oriented democracy. Therefore, in order to create a suitable system of Corporate Governance, it seems necessary to have an equal combination of standards and laws, in which rules (standards) lead to the creation of flexibility and laws assure that the rules are performed reliably.

To continue, studying the experiences of other countries with respect to the implementation of the system of Corporate Governance is indicative of the existence of different benefits for society, firms, and investors. Some benefits of Corporate Governance for society can be as follows: encouraging investment and stable development, resistance against corruption, promotion of comparative atmosphere, strengthening productivity and innovation, improving efficiency and reducing losses, stabilization and development of financial markets and creating public assurance toward market. Moreover, some benefits of the system of Corporate Governance for firms and shareholders include raising firm's performance, decreasing capital cost, increasing firm's fame, improvement of strategy, making relationship with beneficiaries, increasing the rights of stock owners, supporting the rights and decreasing the risk of investors and increasing the cash.
Finally, considering the importance of Corporate Governance in financial literature, the present essay proceeded to examine and explain different aspects of the issue and presenting a theoretical framework, the study tried to, apart from its attempt to fill the gap existing in the research literature of the country which is because of the absence of practical and theoretical research in the area under analysis, provide a suitable tool for other researchers and the pertinent decision makers.

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