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# An Investigation of the Link between Major Shareholders' Behavior and Corporate Governance Performance before and after the COVID-19 Pandemic: A Case Study of the Companies Listed on the Iranian Stock Market

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**Abstract:** One of the basic functions of establishing corporate governance (CG) in companies is improving performance and increasing value for shareholders. Expanding the company's value will ultimately increase the shareholders' wealth. Therefore, it is natural for shareholders to seek to improve their performance and increase the company's value. If CG mechanisms cannot perform this function in companies, they do not have the necessary efficiency and effectiveness and, therefore, cannot improve the efficiency of companies. This article investigated the connection between the power of major shareholders and the modality of CG of companies listed on the Iranian capital market before and after the COVID-19 pandemic. The statistical sample of the research included 120 companies listed on the Tehran Stock Exchange for the selected period from 2011 to 2021. The results showed that the concentration of ownership is harmful to adopting corporate governance (GCG) practices. In particular, the high level of voter ownership concentration weakens the corporate governance system (CGS). The results of this study, which was conducted using panel analysis, revealed that the concentration of ownership impairs the quality of CGS, and major shareholders cannot challenge the power of the main shareholder; it also negatively affected the quality of business boards, both during and before the COVID-19 pandemic. The competitiveness and voting rights of the major shareholders negatively affected the quality of board composition before and after the COVID-19 pandemic. The concentration of voter ownership also negatively affected the quality of CGS, both during and before COVID-19, and the competitiveness and voting rights of major shareholders before COVID-19. This concentration positively affected the quality of CGS after the COVID-19 pandemic.

**Keywords:** corporate governance; ownership concentration; agency theory; COVID-19 pandemic; Iran; global economy; emerging economy; financial management

## 1. Introduction

The pandemic associated with the coronavirus illness 2019 (COVID-19) caused a multitude of perturbations in every aspect of contemporary life. The possible impact of the coronavirus (COVID-19) pandemic on the global economy was between USD 5.8 trillion and 8.8 trillion—equivalent to 6.4–9.7% of global gross domestic product (GDP)—as approximated by the Asian Development Bank (ADB), May 2020 (Zheng and Zhang 2021). The effect of the virus itself, and the measures necessary to curb it, disrupted consumption

and production (di Mauro 2020); for instance, high mortality rates and complications from the COVID-19 pandemic reduced labor supply, which impeded production.

Similarly, social distancing policies and traffic control measures aimed at reducing transmission and preventing the spread of the coronavirus (COVID-19) infectious disease caused by SARS-CoV-2 may have led to a sharp and instantaneous decrease in production in the economy (Zheng and Zhang 2021). The virus also affected the profitability and CGS of companies. As COVID-19 spread, organizations and countries were forced to make changes to their mechanisms to cope with these changes. Companies are moving in a direction that guarantees the profits of their stakeholders. As a result, the strength of the major shareholders and the quality of CG refer to a set of standards for evaluating the company's performance in relation to natural or environmental protection (Gelter and Puaschunder 2020; Patel et al. 2020; Solechan 2020). The aim of CG derives from the agency theory and is based on the presumption of optimizing the value of shares (Al-Gamrh et al. 2020; Cyert et al. 2002). CG is one of the factors in ameliorating economic efficiency and incorporates a set of communications between firm administration (Aspan 2017; Liang et al. 2021; Salehi et al. 2022), board structure (Baysinger and Butler 1985; Naciti 2019), shareholders, and other categories of stakeholders (Short and Keasey 2005; Stapledon and Stapledon 1997).

CGS provides an arrangement for the assessment of a firm's targets, the manner in which evaluations are conducted, and how performance is determined. This structure motivates the obligation to create a business schedule among management and prepare the foundation for effective monitoring (Johnston 2004). Recent research on CG and the understanding of the global differences in CG have emphasized the need for a deep examination of national institutions (Schiehl et al. 2014; Klettner 2021). Local laws of each country create a specific incentive for research, and the national, institutional, and legal environments create clear differences in CG. In markets with powerful shareholder patronage, the corporate perimeter encourages better CGS with the least changeability between organizations (Durnev and Kim 2005; Areneke et al. 2022). This is in contrast to weak law conventions, which can generate market pressures to recover CG via the civil system or promote voluntary acceptance of great governance (Claessens and Yurtoglu 2013; Klapper and Love 2004; Scherer and Voegtlin 2020; Al Amosh and Khatib 2021). Many corporations incorporate CG mechanisms outside those prescribed by legislation or implement those of other corporations (Aguilera and Jackson 2003; Zattoni and Pugliese 2021).

Several researchers have examined the relationship between major shareholder strength and CG quality and have stated that there is always a relationship between them (Pakmaram and Aliabadi 2020; Modares Ahmad and Zohreh 2001) suggested that the character of corporate shareholders is one of the most significant criteria for CG from the perspective of shareholder returns, even though the ranking of institutional ownership in businesses listed on the Tehran Stock Exchange is very high. However, although there is no significant relationship between Iranian institutional shareholders and returns, the results of research in other countries show that this relationship can be positive or negative (Modares Ahmad and Zohreh 2001). The ownership structure in CG has a clear and central position (Abdallah and Ismail 2017; Ducassy and Montandrou 2015). Corporate governance (CG), above all, is concerned with the long-term life of the corporation; in this regard, it aims to support the interests of shareholders against corporation managers and prevent unwanted transfers of wealth between different groups and the squandering of public rights of individual shareholders. Having an appropriate governance system can help to realize the genuine independence of independent auditors and lead to the creation of a transparent information space, from which economic actors can make a more informed resolution. Currently, there is no doubt about the significance and circumstances of CG for the success of companies because this issue has become more vital due to recent events and financial tension among companies (Yeganeh et al. 2010). CG determines the type of ownership structure and the arrangement of the corporation shareholders as a tool to control and exercise governance

in businesses. This dimension can be examined from various perspectives that determine the corporation's ownership type, such as the distribution of ownership, the concentration of ownership and major stakeholders in the firm's composition, and their percentage of ownership. Moreover, the composition of corporate shareholders, such as institutional shareholders, managerial ownership, and private and public shareholders, follows a different pattern. One of the outside (external) control mechanisms that influences CG and is becoming increasingly significant is the emergence of institutional investors (Shekan and Kharrazi 2008). Due to agency problems, corporation managers may not use corporation resources to increase shareholder wealth. At present, experts believe that the ideal solution to this moot point is to improve CG. CG includes criteria that can reduce the power of managers to pursue personal interests by addressing the lack of focus on controlling companies. One of the most effective criteria is the existence of institutional shareholders in businesses, who have great potential to influence managers.

However, what was its effect before and after the COVID-19 pandemic? This research study utilizes an indicator for CG quality that brings up a set of reasonable CG practices beyond what is considered essential by the legal system, and it has been used before in Iran (Akbari et al. 2019; Pakmaram and Aliabadi 2020). Moreover, this research paper tests the communication among ownership structures and the quality of the corporate supervision index. To this end, it focused on the modality of the composition of the board of directors for a sample of 120 Iranian corporations for the period 2011 to 2021. This research study examined selected data considering the impact of the recent COVID-19 pandemic on the Iranian financial market. Moreover, Spulbar et al. (2020) considered that the rating of economic integration is disparate for developed stock markets, compared with emerging markets, such as Iran, while portfolio diversification is a remarkable investment strategy used to manage stock market risks. This study also evaluated the capability of other major shareholders to compete for the superior shareholder surplus power following the previous literature (Akbari et al. 2019; Crisostomo et al. 2020; Konijn et al. 2011).

Therefore, this empirical research extends previous investigations on Iran regarding the utilization of corporate quality indicators, particularly influential on the quality of the composition of the board of directors, and examines the result of surplus control rights on cash flow rights on the quality of CG; this is accomplished by reviewing the feasible competitiveness of major shareholders other than the major shareholder. Given the role and position of stock market liquidity in the case of investors' decisions, our results revealed that the existence of efficient and strong CG mechanisms reduces the influence and power of controlling shareholders and their involvement in the management of the firms (companies). Therefore, in such a situation, shareholders will be more willing to invest in these companies, and therefore, their selected stock market will be more liquid. As a result, an efficacious corporate governance (CG) mechanism minimizes the extent of its dependence on ownership structure and stock market liquidity. Specifically, highly intensive vote ownership undermines CG. This discovery follows the efficacy of dispossession and super-dense features in the original–original agency model. The influence of ownership structure on board composition indicates that major shareholders of Iranian businesses prefer to supervise management directly and replace board performance without the need for an independent board, which may limit private control profits.

This research paper reveals two essential achievements. First, it highlights the influence of ownership structure, particularly private ownership, on using CG practices and balancing the role of other major dominant shareholders in the context of the emerging market of Iran before and after the recent COVID-19 pandemic. The Tehran Stock Exchange has several features that distinguish it from other capital markets of developing countries. Firstly, the ownership structure in Iran is very stable over time, compared with developing countries. Many large shareholders are family members who stay with the corporation permanently. Therefore, ownership in Iran can be considered generally predetermined and less likely to be internal; thus, this study aims to contribute to the theoretical development of the political economy of CG from an economic standpoint in developing countries such

as Iran. Secondly, Iran is an appropriate case in point for this study, as controlling shareholders or entrepreneurs significantly impact the country's political process and corporate control policies. This research presumably has significant political implications for expansion partners such as the World Bank, which supports the Western version of CG reform regardless of stakeholder policies, with powerful shareholders of a developing economy.

This research also analyzes the negative effect of the COVID-19 pandemic. The novelty of this investigation is that, besides examining the relationship between the behavior of significant shareholders and the performance of CG, it also examines their role in the period before and after the COVID-19 pandemic, a factor that, in previous studies, was less important, and few studies have focused on their impact. Therefore, the goal of this study is to help discuss the impact of the relationship between major shareholders and the CG performance of companies. Existing empirical evidence indicates the existence of such an impact and confirms it; therefore, this article seeks to benefit from additional evidence based on different circumstances and add to the research literature. Recent studies focusing on ownership structure have often covered multiple corporate issues such as corporate value (Bennedsen and Nielsen 2010; Liang et al. 2011), analysis of corporate performance (Elyasiani and Jia 2010), quality of accounting statements, and debt expense (Crisostomo et al. 2020). Nevertheless, few studies have addressed the manner in which the ownership structure of CG mechanisms is modulated (Crisostomo et al. 2020; Sur et al. 2013) and, as far as this research is concerned, no other study has investigated the influence of competitiveness among shareholders other than the first major shareholder in Iran at the time of the COVID-19 pandemic.

Second, this article uses an indicator for the quality of CG that Ghorbani et al. (2015) proposed for Iranian companies, including a set of good measures (Ghorbani et al. 2015). This index is for the expansion of CG indices. This study is in line with the results provided by other several recent studies on CG in Iran and other emerging markets using a modern collection of CG knowledge that is recently available (Ghorbani et al. 2015; Pakmaram and Aliabadi 2020; Crisostomo et al. 2020; Ntim 2013). This is to evaluate whether the power of the largest shareholder has affected CGS quality in the Iranian capital market before and after the global crisis generated by the COVID 19 pandemic. The necessity of conducting this type of research is due to social, political, and economic necessity. Considering that the subject of the present research is based on economic issues, the above research can be considered an economic necessity because recognizing the impact of major shareholders' power and CG quality is important for investors. In addition, the importance of this study can be discussed from two further aspects. From an atheoretical point of view, since no research has been performed on the above subject so far, the present research can help the academic development of this research subject; moreover, from a practical point of view, considering that the present study is economically necessary, its findings can be beneficial for investors who intend to invest in Iran and other (emerging) developing countries.

The structure of the rest of this article is as follows: In Section 2, the theoretical foundations and development of research hypotheses are formulated. Section 3 presents the research methods, while Section 4 includes the analysis of the results. Finally, Section 5 provides an overview of these research findings based on conclusions and limitations.

## 2. Theoretical Foundations and Development of Hypotheses

### 2.1. Corporate Governance

The recent COVID-19 pandemic generated unprecedented challenges for businesses in terms of CG. With the onset of the epidemic in January 2020, corporate board members could not predict future risks (Kumar and Rao 2021) and could not take mitigation measures. Additionally, companies may not have been prepared for this stressful situation. Some companies indeed stress testing. However, they are more aimed at academia, and mitigation action plans are not ready to address these risks. Therefore, business boards could not direct corporations to safe ports. In May 2020, the OECD disseminated a survey of 37 countries and their national CG initiatives (Crews 2021). One of the most controversial



issues in the international arena is CG. The disintegration of several companies, hostile takeovers, and anti-social treatment in some companies have enhanced the focus on this issue. The widespread belief that CG can improve corporations' performance and shareholder protection has increased global attention (Rossi et al. 2015; Ngatno and Youlianto 2021; Hermuningsih et al. 2020; Akbar et al. 2020). Therefore, the role of CG is important in several ways. First, the establishment of CG causes scarce resources in the economy to be used efficiently. Second, resources are allocated to efficient investments. Third, CG helps managers focus on improving their firms' performance. Fourth, CG allows the CEO or board to choose the best tools to control scarce resources. Fifth, CG forces institutions to accept regulations. Weak corporate governance (CG) in Asian countries is often recognized as one of the key factors in reducing the growth of stock markets and listed companies during financial tension (Johnson et al. 2000; Lemmon and Lins 2003; Sun and Gao 2020). Consequently, various forms have been commissioned to better promote CG by many sectors, including international organizations, governments, market legislators, and the stock exchange organization. CG includes internal and external mechanisms to reduce representational problems between shareholders and managers owing to the segregation between ownership and management (Jensen and Meckling 1976). Many researchers have made efforts to address the challenges of CG both during health epidemics and post-epidemic.

Hsiao et al. (2022) suggested that CG can diminish the impact of systematic risk during the COVID-19 pandemic. There is no requirement to enhance the proportion of independent directors if board members have a sense of governance and relevant professional background (Hsiao et al. 2022). According to Le and Nguyen (2022), CG principles moderate the connections between the consequences of the COVID-19 pandemic and business continuity, i.e., effective CG principles could accelerate commerce to diminish the adverse effects of the COVID-19 pandemic on business continuity. Moreover, GCG principles could help a corporation elevate its ability to respond to oscillations in the external surroundings of the business by taking appropriate measures (Le and Nguyen 2022). According to Tampakoudis et al. (2022), CG mechanisms pertain differently to borrowers' overplus before and after the COVID-19 pandemic (Tampakoudis et al. 2022). Nurdiani and Anas (2022) indicated that GCG and risk management had significant effects on business performance during the COVID 19 pandemic (Nurdiani and Anas 2022).

GCG supports the board and executives achieve the corporation's goals and interests (Warrad and Khaddam 2020) and allows managers to control corporations, thereby maximizing the value of corporations for their shareholders and employees (Ngatno and Youlianto 2021). Akbar et al. (2020) stated that CG aims to protect shareholders' interests (Akbar et al. 2020). The relevant literature on CG revealed several principles, including clearness and publication of information (Desoky and Mousa 2012), the size of the board of directors, freedom of the board from managers, directors' financial experience, board committees, the role of foreign auditors, and segregation of CEO and chairman (Aggarwal 2013). Moreover, several other studies highlight corporation size, the board size, board financial experience, board meetings (Saleh et al. 2021), internal audit, and internal control (Suyono and Hariyanto 2012), as well as the proportion of non-executive directors, institutional ownership, and ownership (Agyei-Mensah 2016). Batool et al. (2021) argued that the COVID-19-related quarantine had a considerable impact on all sectors of the economy. Zulfiqar et al. (2020) investigated the existence of a possible link between certain indicators such as stock market performance and national governance for a cluster of 25 developed countries over a long time period, from 1996 to 2018. An investigation of the relationship between governance index and stock performance showed that higher governance quality reduces agency and transaction costs, increasing returns for shareholders. Many research studies have provided theoretical discussions and empirical findings on these dimensions of CG. El-Chaarani et al. (2022) argued that CG measures regarding the presence of independent members on the board of directors, high ownership concentration, and absence of political pressure on board members positively affected bank financial performance. CG mechanisms, such as the presence of women on boards, a moderate board size, and

anti-takeover tools, had no significant impact on a bank's performance during a financial crisis (El-Chaarani et al. 2022). In addition, Trivedi et al. (2021) examined spillovers related to market volatility and correlations between several developed and emerging European stock markets. They concluded that recent and past events have significant impacts on present volatility during the sample period from January 2000 to July 2018 (including the time of the global financial crisis of 2007–2008). Almaqtari et al. (2020) suggested that a study of CG practices in India and GCC countries showed that several businesses still deviate from the stipulations of CG bylaws. Therefore, correctors and policymakers can give more consideration to compliance with these codes (Almaqtari et al. 2020). Grove et al. (2021) stated that CGS must accept its failure in managing the COVID-19 sanitary crisis and that there is a bias toward shareholders, thus ignoring workers (Grove et al. 2021).

Ltifi and Hichri (2021) stated that GCG positively affects social responsibility awareness in corporations, by studying pecuniary institutes' recommendations during COVID-19 (Ltifi and Hichri 2021). Khatib and Nour (2021) argued that, although all characteristics of companies—including corporate performance, governance structure, dividends, and liquidity—have been affected by the COVID-19 pandemic, there is not much difference between before and after the COVID-19 epidemic (Khatib and Nour 2021). Jebran and Chen (2021) considered that businesses may be exposed to at least a single recognized governance mechanism and can learn these governance specifications to be productive during the challenging times of the COVID-19 pandemic. Independent risk management committees, institutional ownership, independent boards, shareholders, and family ownership are several required and effective governance mechanisms, compared with other governance features during the COVID-19 pandemic crisis (Jebran and Chen 2021). The indispensable role of CG lies in synchronizing board actions. It is a control and surveillance system in which the board of directors oversees the work of management to magnify shareholder value (El-Chaarani et al. 2022). Rouf (2017) suggested that real assets, the percentage of female managers, the leadership structure of a firm's board of directors are positively related to the level of voluntary disclosure, and the rate of shares owned by a firm's internal persons is negatively associated with the level of voluntary disclosure (Rouf 2017). In their research, Rossi et al. (2015) stated that CG has become a favorite topic in the international arena. Recent financial scandals (Enron, Tyco, and WorldCom) have enhanced positive views toward the relationship between CG and performance because of its apparent significance for the economic health of corporations and, more broadly, its impact on society (Rossi et al. 2015). The focus of businesses is to enhance revenue and quarterly profits to maintain stock prices. Based on a report by the Congressional Financial Plan Office, the US federal government will spend more than USD 4 trillion by 2020 to maintain the US economy.

Similarly, during the global financial crisis of 2007–2008, CG faced similar challenges in that the board was unable to give sufficient time to complete its tasks. Many board members had no technical background; some had no banking experience. According to May and Mackin (2020), large organizations with leaders and major skilled workforces should be held responsible for corporate failures during the COVID 19 pandemic. They recognized the need for a change in CG practices because of the inability of the board of directors and consultants to better predict or respond to the crisis (May and Mackin 2020). Other researchers conducted similar empirical studies and emphasized the failure of delegations to deal with the crisis (Gelter and Puschunder 2020).

## 2.2. Shareholder Power

This research addresses a significant challenge regarding governance that has engaged corporate legislation researchers and pecuniary economists for a long time (Bruner 2013; Bebchuk 2004)—namely, the power of share holders in making game-changing decisions in terms of mergers, sale of all assets, or dissolution would address managers' excessive tendency to retain their independence. In addition, the power of shareholders to make decisions related to downsizing, to contract the corporation's size, by ordering cash or

in-kind distribution would address organizational problems, as the power of shareholders to interfere could upgrade the corporation considerably (Hill and Thomas 2015). Thus, shareholder power to make laws-of-the-game decisions would ensure that the subsequent governance related to any other corporate law issue does not appreciably depart from shareholders (Bebchuk 2004; Midttun 2022; Charléty et al. 2019). The basic reason CG fractures need to be addressed by corporate legislation reforms, such as those implemented in recent legislation, is that shareholders of publicly commercial firms, in general, do not have the power to interfere and change available adjustments. With shareholder power to intermeddle, favorable changes can generally befall without outside legal interposition (Maher and Andersson 2002; Sepe 2016). For instance, shareholders were concerned that recent governance fractures would affect the prism modification aiming to improve procedures by which executive pay is set, requiring a breakaway from the positions of CEOs and board chairs, thus strengthening the independence of directors or auditors (Charléty et al. 2019; Rachagan and Sulaiman 2019). The increase in shareholder supremacy redefined the aim of business corporations as maximizing shareholder riches instead of ameliorating operational efficiency for the benefit of multiple stakeholders. Widyaningsih et al. (2017) stated that the right to cash flow has an affirmative effect on the business value, which is evident in the fact that the value of a firm grows with an increase in the cash flow of controlling shareholders (Widyaningsih et al. 2017).

Recent research shows that the concept of ownership, normally centralized among a small number of major shareholders, has shifted toward an equally significant symbolic contradiction among major controlling shareholders and minority shareholders (Connelly et al. 2010; Luyckx et al. 2022). Furthermore, major shareholders can benefit minority shareholders by supervising managers (Agrianti et al. 2021; Aboud and Yang 2022), but also be noxious if they pursue personal aims different from maximizing profits or diminishing valuable management incentives (Burkart et al. 1997; Emuron et al. 2022). Outside the United States, the attendance of several major shareholders with considerable blocks of stock is common (Barca and Becht 2001; Daoud and Kharabsheh 2022). Data from 5232 European companies collected in a report by Faccio and Lang (2002) revealed that 39% of companies have at minimum two shareholders who have, at minimum, 10% of the voting rights, and 16% of the companies have at least three shareholders (Faccio and Lang 2002). Crisostomo et al. (2020) stated that large shareholders and controlling shareholders are comparable to a voting power that reduces equity costs (Crisostomo et al. 2020). Koirala et al. (2020) found that, in Spain, coalitions hurt dividends and interpreted this result as a mechanism for major shareholders to secure private interests in control (Koirala et al. 2020).

By contrast, Shive and Forster (2020) found that coalitions outside the control group positively affect performance in Spain (Shive and Forster 2020). Jiang et al. (2018) surveyed the impact of major investors and corporate investment that large shareholders tend to reduce potential over-investment and enhance future investiture performance. The influence of large shareholders on investiture performance is not different from the corporation's availability of resources. It is more prominent in companies with stronger governance and less information asymmetry, and large shareholders play a governing role. Thus, the corporation was found to be reduced (Jiang et al. 2018). Guthrie and Sokolowsky (2010) argued that companies enhance their revenues in the presence of major foreign shareholders in the range of stock offers but not in their absence. This finding supports several alternative explanations, including differences in incorporation characteristics, development, and strong capital utilization, suggesting that strengthening the power of large shareholders to reduce conflicts between shareholders and management can have unintended consequences of intensifying shareholder conflict in the present and the future (Guthrie and Sokolowsky 2010). Therefore, it is not surprising that theorists have provided competing explanations for the effects of several large shareholders. In one view, several large shareholders oversee managers as well as each other, and as a result, the corporation implements better corporate policies for several large shareholders (La Porta et al. 1999). On the other hand, they form control coalitions and conspire to expropriate minority shareholders (Bennedsen and

Wolfenzon 2000). In his research, Xi (2021) presented the extent to which the COVID-19 pandemic affects the voting behavior of Chinese shareholders. His findings provide strong empirical evidence that Chinese shareholders voted more consciously in the 2020 sample period than in the previous five years, highlighting the potential for shareholder activity in concentrated stock-owned economies. Moreover, some researchers suggested that is more important to contribute to minority shareholder protection during the COVID-19 outbreak by focusing on CG and primary remedies that shareholders may obtain during the current pandemic (Kaya 2021). Arora et al. (2021) considered that corporate social responsibility in the COVID-19 crisis plays a positive role in determining shareholder value, particularly in an emerging market where minority shareholder rights are weak (Arora et al. 2021).

### 2.3. Development of Hypotheses

Jensen and Meckling (1976) argued that agency theory is the foundation of CG studies, and agency issues also arise from the segregation of ownership from control. In public companies, shareholders (employers) delegate decision-making authority to their directors (representatives). In other words, control, albeit to varying degrees, is detached from ownership (Rahman Saresht and Mazloumi 2006). In terms of agency representation, a prevailing controlling shareholder has a stimulant to shape CGS to extract private advantage (Kang and Shivdasani 1995; Young et al. 2008; Kastiel and Nili 2021). The control system is centralized when ownership is in the hands of major shareholders, and it is decentralized when machetes are distributed. Since an important determinant of the CG mechanism is ownership centralization, allegedly the identity of the controlling owners plays a key role in the performance of ownership (Gursoy and Aydogan 2002; Zheng and Zhang 2021). Major shareholders make non-optimal investment decisions for their benefit through mergers and acquisitions without profit (Smii et al. 2021). Even if they hold managerial positions, major shareholders pressure the passage of anti-seizure laws and reduce the responsibility of their managerial performance (Holderness 2001). This moot point is acute in nationalities with weaker lawful conservation for shareholders and a great concentration of corporate ownership (Yao et al. 2010). Therefore, it can be said that the more independent the combination of the board of directors, the fewer the problems (Hermalin and Weisbach 1991). Therefore, due to the implicit relationship of the board members with the CEO, responsible managers may not be able to perform their supervisory duties effectively. At the same time, managers must take advantage of their position by controlling salary and benefit schemes and job security. Unlike executive directors, non-executive directors are independent of the corporation's management and, therefore, act more effectively in their supervisory role. Thus, from a theoretical viewpoint, the board of directors is composed of a high proportion of non-executive members (Muth and Donaldson 1998). In companies where the main shareholder has more influence, management oversight by current shareholders is more effective, and other control mechanisms are less essential.

Some researchers found a positive correlation between the actual performance of the firms and the concentration of ownership and attributed this relationship to better shareholder oversight (Gutiérrez and Pombo 2009). According to Kao et al. (2019), the size of the board becomes smaller when the ratio of independent managers is greater, and the corporation's performance is better when there is no duality of the executive director in the corporation (Kao et al. 2019). Saona et al. (2020) stated that management of earnings decreases with an increase in controlling shareholders' voting rights (Saona et al. 2020). Yücel and Vural (2022) suggested that, in recent years, performance appraisal in CG practices has become important, and dualities in the structure of the board and increasing the proportion of non-executive board members improve performance (Yücel and Vural 2022). The smaller the shareholder's share of the corporation is, the less benefit there will be from overseeing the manager's behavior, so there will be more focus on stocks, more oversight of the manager's behavior, and less opportunism; that is, the major shareholders of the corporation use their voting power to actively monitor the corporation's operations and decision making (Yeganeh et al. 2010; Abdollahi and Mashayekh 2012). Thus, it can be



argued that the best alternative to the CGS is powerful controlling shareholders who reduce the control exercised by the board. Therefore, an important internal control mechanism should be focused on high voter ownership that replaces the board's function (Bathala and Rao 1995; Bozec and Bozec 2007; Min 2018).

This research emphasizes the board's role in supervising management and preventing managers from extracting private benefits. It is crucial to protect shareholders in companies with weak board ownership. Conversely, in highly concentrated corporations, controlling shareholders have greater capability and fondness for overseeing the CEO. Thus, shareholder control could attenuate the CG structure as a whole, providing them with particular control interests (i.e., it has an influence on expropriation) and weakening the board structure because they can directly control the directors. (Replacement effect).

**Hypothesis 1a (H1a).** *There is a negative relationship between voter ownership concentration and the quality of board composition before the spread of COVID-19.*

**Hypothesis 1b (H1b).** *There is a negative relationship between voter ownership concentration and the quality of board composition following the spread of COVID-19.*

Cieslak et al. (2021) stated that the owner's role is reduced with the concentration of voter ownership and additional voting rights (Cieslak et al. 2021). According to Cao et al. (2022), minority shareholders participating in voting processes can play critical oversight roles over management, ameliorate the level of interior control, and diminish management overconfidence (Cao et al. 2022). Lizares (2022) argued that the concentration of ownership is positively correlated with the proportion of independent and non-executive directors on the board and the likelihood of CEO duplicity, indicating that councils are not entirely separate and are likely to have strong efficacy (Lizares 2022). Karim et al. (2021) stated that the impact of board ownership on board effectiveness has been partially confirmed (Karim et al. 2021). Government ownership has a significant positive efficacy from the perspective of the board. However, institutional ownership and family ownership have no important relationship with the effectiveness of the board and the voting system.

The concentration of voter ownership is one of the main tools for gaining power in the corporation (Hagan et al. 2022; Shi and Hoskisson 2021). This research confirmed its first hypothesis that the concentration of voter ownership is based on the standard of the board composition. The shareholder's agreement deviates from the law indicating the contribution of a single vote and the separation between the right to vote and the right to access cash flow, strengthening the largest shareholder's power (Liang et al. 2021; Yan 2021). Such segregation empowers major controlling shareholders and enables them to impound corporation control with minor investment. Therefore, this distinction between voting rights and the right to cash flows enhances the feasibility of exercising private power of interest (Levy 2009). On the other hand, a smaller board size and the presence of audit and payroll committees diminish agency costs to ameliorate shareholder voting rights, international financial reporting standards, and auditor quality (Owusu and Weir 2018).

**Hypothesis 2a (H2a).** *Competitiveness and the proportion of voting rights held by major shareholders positively affect the quality of corporate boards before the spread of the COVID-19 pandemic.*

**Hypothesis 2b (H2b).** *Competitiveness and voting rights of major shareholders hurt the quality of corporate boards after the spread of the COVID-19 pandemic.*

Queiri et al. (2021) concluded that elements selected for the board and ownership characteristics affect corporation performance. However, such efficacy has its commentary, similar to other securities markets in developing countries. For example, the proportion of independent boards, number of board meetings, government ownership, and individual ownership focused on corporate performance. Nevertheless, institutional ownership and board size positively affect corporation performance (Queiri et al. 2021). Herlambang

et al. (2017) found that GCG did not have a moderate effect on free cash flow for earnings management but was not significant. GCG had significantly weakened the financial leverage to manage earnings (Tri Wibowo 2021). Mehdi et al. (2017) found that, in emerging countries, the concentration of ownership and the board's independence significantly affect the dividend policy of companies with dual CEOs. Eventually, the results revealed that, during the recent pecuniary crisis, the determination to divide profits is inversely related to the duality of the CEO, the size of the board, and the frequency of board sessions (Mehdi et al. 2017).

**Hypothesis 3a (H3a).** *There is a negative relationship between the focus on voting ownership and the quality of the corporate governance system before the spread of the COVID-19 pandemic.*

**Hypothesis 3b (H3b).** *There is a negative relationship between the focus on voter ownership and the quality of the corporate governance system following the spread of the COVID-19 pandemic.*

Yousefnejad et al. (2020) argued that the ability of major shareholders without main shareholders is not enough to challenge their power to shape CGS. This distribution of ownership of an entity creates an owner role among shareholders. There will likely be a contradiction of interest between the largest controlling shareholder and other major shareholders (Yousefnejad et al. 2020). Mazraeh and Bagherifard (2018) suggested that ownership focus directly and considerably influences the relationship between financial efficiency and product market competitiveness (Mazraeh and Bagherifard 2018). Sheykhi (2020) stated that managers' ability affects corporation value, competition in the product market affects corporation value, and CG affects corporation value, as well as the relationship between managers' knowledge and corporation value (Sheykhi 2020).

**Hypothesis 4a (H4a).** *Competitiveness and the proportion of voting rights held by major shareholders negatively affect the quality of the company's corporate governance system before the spread of the COVID-19 pandemic.*

**Hypothesis 4b (H4b).** *Competitiveness and the proportion of voting rights held by major shareholders positively affect the quality of the company's governance system following the spread of the COVID-19 pandemic.*

One of the most important forms of depriving managerial rights over the stock market is the deprivation of the right to vote. The board of directors or general assembly of the corporation may decide to sell new shares to increase the corporation's capital. Nevertheless, the sale of new shares may disrupt the corporation's current management structure, violating its goals and objectives. Therefore, when deciding to enhance corporation capital, the voting rights of the new shareholders are perhaps limited in that the previous shareholders can maintain their influence on the management of the corporation as before, in which case the new shares will be published as shares without voting rights. In addition to maintaining its management structure, it can also enjoy the benefits of increasing capital. The corporation's founders are interested to increase their shares' power and management authority by using different strategies. This is achieved either by using different types of preferred stock with special voting rights or by limiting other shareholders' management powers and voting rights. The author called this action of the early shareholders "dual capitalism." The term was chosen because the founders, while attracting capital, also take over the corporation's management. The easiest way to create a dual investment is to develop special voting right or revoke the vote right for some of the corporation's shares (Beheshti and Paseban 2019).

### 3. Research Methodology

In terms of purpose and descriptive framework, this research was conducted based on the data collection methodology. Data collection was performed using the Exchange

Organization and the Exchange Organization Library. To construct the control variables and the accuracy of the analysts' predictions, the research and accounting database of the Iranian Stock Exchange (Securities Organization) was used. Regarding data analysis, first, Excel software version 2007 was used for the preparation of research variables from raw data, after which SPSS 22 and Eviews 10 statistical software programs were used for data analysis.

The research sample included Iranian companies, and the sample database was considered to be a time series from April 2011 to March 2021. The statistical population was the business companies listed on the Tehran Stock Exchange from 2011 to 2021 that meet the following conditions:

- i. Their fiscal year ends on March 20 of each year;
- ii. They have not changed their fiscal year during the research time;
- iii. The information on their financial statements from 2011 to 2021 should be fully available;
- iv. They should not be part of investment and financial intermediation companies (banks and leasing);
- v. Trading of the corporation's shares during the research period has not been stopped for more than six months on the Tehran Stock Exchange.

In Table 1, the statistical sample of this research, along with their characteristics, is presented, using a systematic elimination method.

**Table 1.** Research sample selection method.

Row	Terms and Restrictions	Number
1	All companies listed on the Tehran Stock Exchange.	349
2	Companies under review except for investment, holding, and financial intermediation companies.	(70)
3	Companies that have been listed on the stock exchange since 2011.	(51)
4	The company's stock trading during the research period has been stopped or canceled for more than 6 months on the Tehran Stock Exchange.	(26)
5	Their fiscal year does not end on March 20 of each year.	(32)
6	Their information and financial statements from 2011 to 2021 are not fully available	(50)
<b>Statistical Sample Selected For This Research</b>		<b>120</b>

Thus, a total of 120 companies met the above five criteria. Sample companies included coal mining, automobiles and parts, electrical appliances, cement–lime–gypsum, chemicals, base metals, ceramic tiles, non-metallic minerals, steel industry, transportation (warehousing and communications), food (apart from sugar-based products), metal ores, rubber and plastics, equipment and machinery for pharmaceuticals, food (sugar-based products). According to the classification of companies, the distribution of sample companies is given in Table 2. For this study, multivariate regression models with estimates and Eviews10 statistical software were used, resulting in a meaningful model. Regression was tested at a 95% confidence level. Table 2 describes the sample companies in the order of industry. This example is related to CG studies because it included companies with the most visibility and presence in the Iranian market. The sample companies constitute 93% of the total capital of the Iranian Stock Exchange.

**Table 2.** Sample companies by industry.

Number of Observations		Industry
%	N	
0.9	1	Coal mining
16.7	20	Car and parts
5.9	7	Electrical devices
13.4	16	Cement–lime–gypsum
8.4	10	Chemical
5	6	Basic metals
4.1	5	Tile and ceramics
5	6	Non-metallic mineral
3.3	4	Steel industry
3.3	4	Transportation (warehousing and communications)
6.6	8	Food (other than sugar-based products)
4.16	5	Metal ores
2.5	3	Rubber and plastic
5	6	Equipment and machinery
13.3	16	Pharmaceutical materials
2.5	3	Food (sugar-based products)
100	120	Total

Source: Author's computations.

### 3.1. Variables

Notwithstanding incrementing investigation on CG, measuring or evaluating the quality of CG is still a challenge. Although this article suggests various approaches (Crisostomo et al. 2020; Jebran and Chen 2021), there is no way to evaluate a CGS. Furthermore, CG practices do not appear to be independent of each other, complicating the correct assessment of CG (Jebran and Chen 2021).

In this research, we used a newly suggested index of CG quality that amalgamates a set of GCG practices highlighted as pertinent topics. Such CG practices (ICGQ) were examined and calculated in various ways, which are outlined in Table 3.

**Table 3.** Quality scores of corporate governance.

Agent Name	Operational Definition
Use of non-executive members on the board	Fewer than the ratio of non-executive members to total members than the ratio calculated for all companies one year, 0 otherwise 1
CEO stability	Change in CEO in the last two years 0 otherwise 1
Rotation of Institute Partners	No change in partners signing the corporation's auditor's reportage in the last two years 0 otherwise 1
Being a shareholder with the right to control	No shareholders have the right to control 0; otherwise, 1 (shareholders who have more than 50% of the corporation shares)
Concentration of ownership	More free float stocks of the corporation than the average free float stocks of all companies, zero; otherwise, 1
Dealing with affiliates	The ratio of transactions with affiliates of the corporation is higher than the average of all companies, zero; otherwise, 1

Source: Author's computations.



CG scores were created over time. A corporation with higher scores was considered to have a powerful CG, and as a result of these high scores, CG increased. If the corporation scores decreased, the CG also decreased (Ghorbani et al. 2015).

Regarding the composition of the board, in this investigation, two methods were used: First, a particular indicator was calculated for the quality of the board's composition (BOARDC), highlighting the separation of CEO and chairman and the ratio of external managers. ICGQ and BOARDC were dependent variables in particular suggestion models (1) to (8). Criteria for ownership structure (OWNSTR) were arranged in models (1), (2), (5), and (6). Ownership concentration was measured by the ratio of voting rights to the largest shareholder (VOC). Based on Hypothesis 1, the ownership focus was expected to negatively affect the quality of the board's composition, so private control interests (effects of expropriation) and, in particular, the quality of the board's design (replacement effects) were assumed. Second, competitiveness and the right to vote of the holders were analyzed. The difference between the right to vote and the right to money circulation increased the use of private control interests, which led to a negative impact on the quality of CGS (effects of expropriation) and, in particular, the quality of board composition. The role of management (effects of replacement) that existed before the COVID-19 pandemic and had a positive impact afterward. As suggested in the cited research articles, this investigation analyzed some of the corporation's possible CG factors.

In terms of total assets (ROA), leverage of each industry and year (Lev), and market value of book value (BTM), the rationale for corporate growth opportunities (GOPPs) is that a corporation with rather an investiture opportunity needs supplementary funding. Hence, the quality of CGS becomes rather appropriate for accessibility to exterior funds (Yeganeh et al. 2010). The essence of corporate growth opportunities (GOPPs) is that a corporation with rather investiture opportunities needs more funding, so the quality of CGS is related to achieving more external funds. Growth opportunities (GOPPs) based on the report of the average  $q$  corporation, i.e., the ratio of the market value of the corporation (total equity to market value plus debt to book value) was obtained at book value (Ghorbani et al. 2015; Pakmaram and Aliabadi 2020). Impact of competition power (CONTEST) livestock variable for competition in the product market means that if the market competition is higher than the middle of the sample, it equals one. Otherwise, it equals zero, similar to the Herfindel–Hirschman index (HHI), presented in Equation(1).

$$HHI = \sum_{i=j}^N \left( \frac{SALES_{i,j}}{\sum_{i=j}^N SALES_{i,j}} \right)^2 \quad (1)$$

where  $SALES_i$ , and  $j$  is the total sales of corporation  $i$  in industry  $j$ .

### 3.2. Models

The multiple regression method was used in order to investigate the effect of the power of major shareholders and the quality of CG in member companies of the Iranian capital market. Following the literature, we used a cross-sectional econometric model (OLS) to verify the existence of a relationship between perspectives of the original model representation model. This method was used when the independent variables were correlated with each other and with the dependent variable. Therefore, the following regression analysis was used: In Model (1), we evaluated the correlation between voter ownership and BOARDC (a) before and (b) after COVID-19. OWNSTR stands for VOC concentration, and the right to turn money (segregation) is found in the estimates of a particular model.

In models (2) and (3), we evaluated the competitiveness and equity ratios of major shareholders with the quality of the BOARDC (a) before and (b) after COVID-19. The focus of VOC, or the difference between the right of control and the right of circulation (segregation), is found in the estimates of a particular model. Book value vs. market

value (BTM) and competitiveness (CONTEST), as well as the median debt leverage of each industry and year (Lev), were also included.

$$\text{BOARDC}_{i,t} = \beta_0 + \beta_1 \text{CONTEST}_{i,t} + \beta_2 \text{ROA}_{i,t} + \beta_3 \text{GOPP}_{i,t} + \beta_4 \text{SIZE}_{i,t} + \beta_5 \text{BTM}_{i,t} + \beta_6 \text{VOC}_{i,t} + \beta_7 \text{LEV}_{i,t} + \mu_{i,t} \quad (2)$$

$$\begin{aligned} \text{BOARDC}_{i,t}(\text{COVID19}) = & \beta_0 + \beta_1 \text{CONTEST}_{i,t} + \beta_2 \text{ROA}_{i,t} + \beta_3 \text{GOPP}_{i,t} + \beta_4 \text{SIZE}_{i,t} \\ & + \beta_5 \text{BTM}_{i,t} + \beta_6 \text{VOC}_{i,t} + \beta_7 \text{LEV}_{i,t} + \mu_{i,t} \end{aligned} \quad (3)$$

where

BOARDC: Quality of board composition before the COVID-19 pandemic;

BOARDC (COVID-19): Quality of board composition after the COVID-19 pandemic;

VOC: The concentration of voter ownership or the difference between the right of control and the right of circulation (segregation) found in the estimates of a particular model;

BTM: Book value vs. market value;

CONTEST: Competitiveness;

Lev: the median debt leverage of each industry and year;

ROA: Return on assets;

GOPP: Growth opportunity (Q-Tobin);

SIZE: Corporation size. Competitiveness and voting rights of major shareholders on the quality of corporate boards.

In models (4) and (5), we evaluated the influence of voter ownership concentration on the quality of CGS (ICGQ) (a) before and (b) after COVID-19. Similar to Model (1), OWNSTR stands for VOC or the difference between the right of control and the right of circulation (segregation) in a particular model's estimates. Book value vs. market value (BTM) and the median leverage of each industry and year (Lev) were also included.

$$\text{ICGQ}_{i,t} = \beta_0 + \beta_1 \text{OWNSTR}_{i,t} + \beta_2 \text{ROA}_{i,t} + \beta_3 \text{SIZE}_{i,t} + \beta_4 \text{BTM}_{i,t} + \beta_5 \text{VOC}_{i,t} + \beta_6 \text{LEV}_{i,t} + \mu_{i,t} \quad (4)$$

$$\text{ICGQ}_{i,t}(\text{COVID19}) = \beta_0 + \beta_1 \text{OWNSTR}_{i,t} + \beta_2 \text{ROA}_{i,t} + \beta_3 \text{SIZE}_{i,t} + \beta_4 \text{BTM}_{i,t} + \beta_5 \text{VOC}_{i,t} + \beta_6 \text{LEV}_{i,t} + \mu_{i,t} \quad (5)$$

where

ICGQ: (CG quality index) before the COVID-19 pandemic;

ICGQ (COVID-19): (CG quality index) after the COVID-19 pandemic;

OWNSTR: Voting ownership concentration;

VOC: The concentration of voter ownership or the difference between the right of control and the right of circulation (segregation) found in the estimates of a particular model;

BTM: Book value vs. market value;

Lev: The median debt leverage of each industry and year;

ROA: Return on assets;

SIZE: Corporation size.

In models (6) and (7), we evaluated the influence of competitiveness among shareholders and their voting rights on the quality of CGS (ICGQ) (a) before and (b) after COVID-19. With a similar approach to model (2), we used the VOC value or the difference between the right of control and the right of circulation (segregation) found in the estimates of a particular model. Book value vs. market value (BTM) and competitiveness (CONTEST), as well as the median debt leverage of each industry and year (Lev), were also included.

$$\text{ICGQ}_{i,t} = \beta_0 + \beta_1 \text{CONTEST}_{i,t} + \beta_2 \text{ROA}_{i,t} + \beta_3 \text{GOPP}_{i,t} + \beta_4 \text{SIZE}_{i,t} + \beta_5 \text{BTM}_{i,t} + \beta_6 \text{VOC}_{i,t} + \beta_7 \text{LEV}_{i,t} + \mu_{i,t} \quad (6)$$

$$\begin{aligned} \text{ICGQ}_{i,t}(\text{COVID19}) = & \beta_0 + \beta_1 \text{CONTEST}_{i,t} + \beta_2 \text{ROA}_{i,t} + \beta_3 \text{GOPP}_{i,t} + \beta_4 \text{SIZE}_{i,t} \\ & + \beta_5 \text{BTM}_{i,t} + \beta_6 \text{VOC}_{i,t} + \beta_7 \text{LEV}_{i,t} + \mu_{i,t} \end{aligned} \quad (7)$$

where

ICGQ: (CG quality index) before the COVID-19 pandemic;

ICGQ (COVID-19): (CG quality index) after the COVID-19 pandemic;

BTM: Book value vs. market value;

CONTEST: Competitiveness;

Lev: The median debt leverage of each industry and year;

ROA: Return on assets'

GOPP: growth opportunity (Q-Tobin);

SIZE: Corporation size, competitiveness, and voting rights of shareholders

In all models, subtitle  $t$  refers to the period, subtitle  $i$  relates to the corporation, and  $\epsilon_{it}$  is a random error term.

#### 4. Results

Table 4 shows the descriptive statistics of the main variables from 2011 to 2020. The CG quality index (ICGQ) is approximately 50%, and the board composition quality index (BOARDC) is approximately 44%. On average, the largest shareholder (VOC) vote is 62.5%.

**Table 4.** Descriptive statistics.

	Mean	Median	Std. Deviation	Variance	Skewness	kurtosis	Minimum	Maximum
BOARDC	0.442	0.4000	0.248	0.062	0.514	2.426	0.000	1.000
ICGQ	0.504	0.571	0.177	0.032	−0.083	2.669	0.000	1.000
ROA	0.149	0.122	0.154	0.024	0.636	3.912	−0.403	0.830
OWNSTER	74.533	78.240	17.823	317.671	−1.465	5.916	0.000	100.000
GOPP	1.389	0.695	2.378	5.655	8.014	104.498	0.023	42.824
Size	14.601	14.360	1.587	2.519	0.941	4.243	10.352	20.7686
BTM	0.459	0.379	0.506	0.257	0.692	52.470	−5.668	6.379
VOC	0.625	0.600	0.230	0.053	−0.989	4.208	0.000	1.000
Contest	0.057	0.0202	0.099	0.010	2.805	10.833	0.000	0.578
Lev	0.549	0.550	0.218	0.048	0.373	5.804	0.0127	2.077

Source: Author's computations.

The ICGQ is an indicator of the quality of CG, while BOARDC is an indicator of the quality of the board composition. VOC is the concentration of voter ownership held by the original voting shareholder. GOPP stands for growth opportunity, which Q-Tobin replaces. SIZE is the size of the corporation that Ln of total assets returns. ROA is the ratio of net income to total assets, Lev is the average debt leverage per industry and year, BTM is book value vs. market value, and CONTEST is the impact of competitive power. Based on the results, the median of the VOC variable is 0.62, which means that 62% of the data are fewer than this value, and the rest are more than this value. A significant point that can be deduced from the comparison of mean and median is the issue of the normality of data. One of the most important parameters of data dispersion is the standard deviation. An important point inferred from the standard deviation is to determine which variables to include in the regression model. As can be seen in the table, the standard deviation of the variables is not zero, so the studied variables can be entered into the model. If the skewness coefficient is zero, the society is perfectly symmetrical. If the skewness coefficient is positive, there is skewness to the right, and if it is negative, there is skewness to the left. For example, the skewness coefficient of the OWNSTER variable is −1.465, which means this variable has a skewness to the left and deviates from the center of symmetry by this amount.

In Table 5, which is associated with Hypothesis 1 (a, b), the influence of deviation between the concentration of voter ownership and the quality of board composition is presented before and after the spread of the coronavirus (COVID-19) pandemic. The two panels A and B present no simple pattern across all columns. Voter ownership concentration

(OWNSTR) negatively affects the quality of BOARDS, both during and before COVID-19. In Table 6, related to Hypothesis 2 (a, b), the results of the impact of competitiveness and the proportion of voting rights of major shareholders on the quality of corporate boards before and after the spread of the COVID-19 pandemic are shown. Competitiveness and the ratio of voting rights held by major shareholders had positive effects before the pandemic and negative effects after the COVID-19 pandemic on the quality of BOARDS. In Table 7, corresponding to Hypothesis 3 (a,b), the results of the influence of the concentration of ownership and voting rights on the quality of the CGS (ICGQ) before and after the coronavirus are shown. Both panels A and B indicate that OWNSTR negatively affects the quality of the CGS (ICGQ) both during and before the COVID-19 pandemic. In Table 8, which corresponds to Hypothesis 4 (a, b), the results of the influence of competitiveness and the proportion of voting rights of major shareholders on the quality of the governance system before and after the pandemic are presented. Competitiveness and the balance of voting rights held by major shareholders negatively affect the CGS (ICGQ) quality before and after the COVID-19 pandemic.

**Table 5.** The influence of voter ownership concentration on the quality of board composition.

Panel A Focus on Voter Ownership with Quality Board Composition (BOARDC Dependent Variable)					Panel B Focus on Voter Ownership with Quality Board Composition (BOARDC Dependent Variable, t(COVID19))			
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Coefficient	Std. Error	t-Statistic	Prob.
OWNSTR	−0.000330	0.000133	−2.488490	<b>0.0130 ***</b>	−0.002255	0.001144	−1.971485	<b>0.0511 **</b>
ROA	0.176427	0.023272	7.580986	<b>0.0000 ***</b>	0.081724	0.11929	0.685082	0.4947
SIZE	−0.059858	0.005308	−11.27613	<b>0.0000 ***</b>	−0.027179	0.031311	−0.868031	0.3872
BTM	0.014133	0.002347	6.022361	<b>0.0000 ***</b>	0.012782	0.02914	0.438641	0.6618
VOC	0.524603	0.004156	126.2221	<b>0.0000 ***</b>	0.462856	0.117364	3.94378	<b>0.0001 ***</b>
LEV	0.043618	0.009272	4.704356	<b>0.0000 ***</b>	−0.129234	0.119981	−1.077116	0.2837
C	0.951786	0.076985	12.3632	<b>0.0000 ***</b>	0.755173	0.511478	1.476451	0.1426
R-squared	0.892934				0.780858			
Adjusted R-squared	0.878906				0.540571			
F-statistic	4.546123				3.249687			
Prob(F-statistic)	0				0			
Durbin-Watson stat	1.420179				1.846892			

\*\* 5% error level—\*\*\* 1% error level. Source: Author's computations. BOARDC = quality of board composition. OWNSTR = voting ownership focus. VOC = the concentration of voter ownership or the difference between the right of control and the right of circulation (segregation) in the estimates of a particular model. BTM = book value vs. market value. Lev = the median debt leverage of each industry and year. ROA = return on assets. SIZE = corporation size.



**Table 6.** The influence of competitiveness and the ratio of voting rights of major shareholders on the quality of companies' board of directors.

Panel A Competitiveness and Voting Ratio of Shareholders with Quality of Board Composition (BOARDC Dependent Variable)					Panel B Competitiveness and Voting Rights of Shareholders at the Quality of Board Composition (BOARDCi Dependent Variable, t (COVID19))			
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Coefficient	Std. Error	t-Statistic	Prob.
CONTEST	0.164051	0.062045	2.644066	<b>0.0083 ***</b>	−0.003457	0.001655	−2.088243	<b>0.0390 **</b>
ROA	0.156039	0.047384	3.293087	<b>0.0010 ***</b>	0.00069	0.000357	1.934444	<b>0.0556 **</b>
GOPP	0.006596	0.001857	3.551047	<b>0.0004 ***</b>	$6.12 \times 10^{-6}$	$3.29 \times 10^{-6}$	1.861164	<b>0.0653 *</b>
SIZE	−0.065024	0.016762	−3.879329	<b>0.0001 ***</b>	−0.000189	$9.65 \times 10^{-5}$	−1.961205	<b>0.0523 **</b>
BTM	0.018473	0.003402	5.42967	<b>0.0000 ***</b>	0.000197	0.000101	1.95523	<b>0.0530 **</b>
LEV	0.04952	0.018667	2.65287	<b>0.0081 ***</b>	−0.000690	0.000343	−2.009072	<b>0.0469 **</b>
VOC	0.527337	0.011954	44.11278	<b>0.0000 ***</b>	−0.499685	0.000166	−3012.976	<b>0.0000 ***</b>
R-squared	0.877633				0.896678			
Adjusted R-squared	0.861454				0.925696			
F-statistic	54.24642				435585.1			
Prob(F-statistic)	0				0			
Durbin-Watson stat	1.828048				2.466942			

\* 10% error level—\*\* 5% error level—\*\*\* 1% error level. Source: Author's computations. BOARDC = quality of board composition. VOC = the concentration of voter ownership or the difference between the right of control and the right of circulation (segregation) in the estimates of a particular model. BTM = book value vs. market value. CONTEST = competitiveness. Lev = the median debt leverage of each industry and year. ROA = return on assets. GOPP = growth opportunity (Q-Tobin). SIZE = corporation size, competitiveness, and voting rights of major shareholders that affect the quality of corporate boards.

**Table 7.** The influence of concentration of ownership on quality voting of the corporate governance system.

Panel A Focus on Quality Voting Ownership of the CGS (ICGQ Dependent Variable)					Panel B Focus on Quality Voting Ownership of the CGS (ICGQ i, t Dependent Variable (COVID19))			
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Coefficient	Std. Error	t-Statistic	Prob.
OWNSTR	−0.002196	0.000357	−6.158051	<b>0.0000 ***</b>	−0.000192	4.93E−05	−3.887164	<b>0.0002 ***</b>
ROA	−0.131906	0.0468	−2.818503	<b>0.0049 ***</b>	−0.039119	0.015687	−2.493714	<b>0.0141 **</b>
SIZE	0.087161	0.007492	11.63398	<b>0.0000 ***</b>	0.017565	0.005515	3.185025	<b>0.0019 ***</b>
BTM	−0.027654	0.00949	−2.913823	<b>0.0037 ***</b>	0.005782	0.005294	1.092051	0.2771
VOC	−0.209908	0.018737	−11.20307	<b>0.0000 ***</b>	−0.520680	0.052557	−9.906922	<b>0.0000 ***</b>
LEV	−0.045797	0.040476	−1.131480	0.2581	−0.017467	0.010322	−1.692135	<b>0.0934 *</b>
C	−0.411747	0.122881	−3.350778	<b>0.0008 ***</b>	0.657571	0.107096	6.139985	<b>0.0000 ***</b>
R-squared	0.636737				0.839485			
Adjusted R-squared	0.58914				0.80892			
F-statistic	13.37757				17.70184			
Prob(F-statistic)	0				0			
Durbin-Watson stat	2.064031				2.393695			

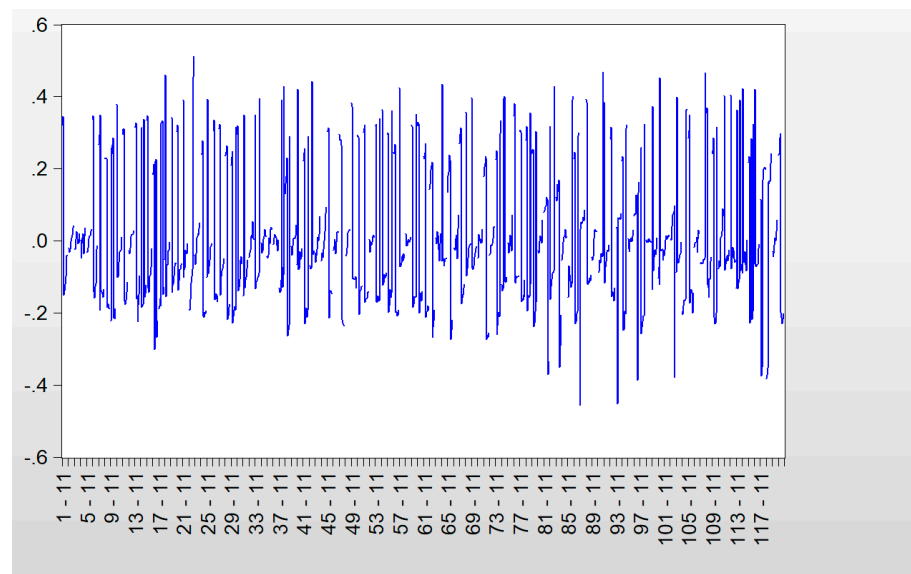
\* 10% error level—\*\* 5% error level—\*\*\* 1% error level. Source: Author's computations. ICGQ (CG quality index). OWNSTR = voting ownership focus. VOC = the concentration of voter ownership or the difference between the right of control and the right of circulation (segregation) in the estimates of a particular model. BTM = book value vs. market value. Lev = the median debt leverage of each industry and year. ROA = return on assets. SIZE = corporation size.

**Table 8.** Competitiveness and the ratio of voting rights of major shareholders to the quality of the corporate governance system.

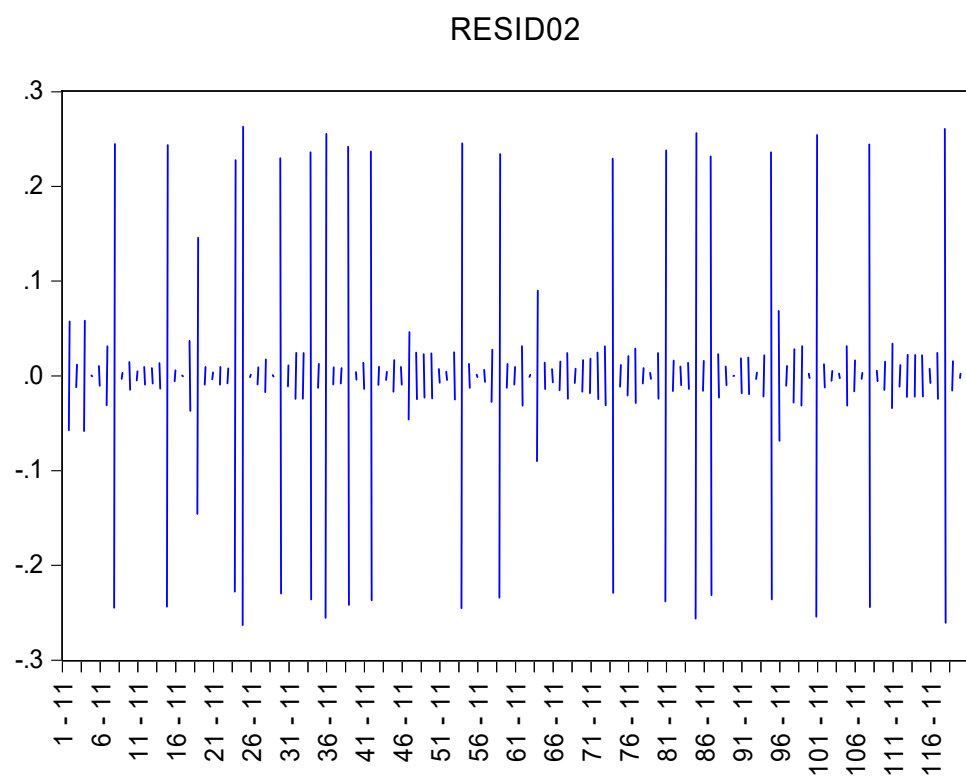
Panel A Competitiveness and Voting Rights of Shareholders with the Quality of CGS (ICGQ Dependent Variable)					Panel B Competitiveness and Suffrage Ratio of Shareholders with the Quality of CGS (ICGQ i, t Dependent Variable (COVID19))			
Variable	Coefficient	Std. Error	t-Statistic	Prob.	Coefficient	Std. Error	t-Statistic	Prob.
CONTEST	−0.449032	0.187456	−2.395396	<b>0.0168 **</b>	0.186225	0.010815	17.21896	<b>0.0000 ***</b>
ROA	−0.115109	0.048364	−2.380062	<b>0.0175 **</b>	−0.019173	0.005586	−3.432342	<b>0.0007 ***</b>
GOPP	−0.002432	0.003831	−0.634766	<b>0.5257</b>	0.000799	0.000343	2.330926	<b>0.0206 **</b>
SIZE	0.095248	0.007994	11.91471	<b>0.0000 ***</b>	0.00513	0.001068	4.804947	<b>0.0000 ***</b>
BTM	−0.033118	0.010306	−3.213410	<b>0.0014 ***</b>	0.013962	0.004144	3.369069	<b>0.0009 ***</b>
VOC	−0.204448	0.019363	−10.55869	<b>0.0000 ***</b>	−0.306397	0.01906	−16.07566	<b>0.0000 ***</b>
LEV	−0.062223	0.041446	−1.501281	0.1336	−0.019036	0.003505	−5.431583	<b>0.0000 ***</b>
C	−0.658868	0.121741	−5.412059	<b>0.0000 ***</b>	0.686374	0.018735	36.63659	<b>0.0000 ***</b>
R-squared	0.627461				0.896109			
Adjusted R-squared	0.578207				0.794005			
F-statistic	12.73909				47.33754			
Prob(F-statistic)	0				0			
Durbin-Watson stat	1.992852				2.54523			

\*\* 5% error level—\*\*\* 1% error level. Source: Author's computations. ICGQ = quality of corporate governance. BTM = book value vs. market value. CONTEST = competitiveness. Lev = the median debt leverage of each industry and year. ROA = return on assets. GOPP = growth opportunity (Q-Tobin). SIZE = corporation size, competitiveness, and voting rights of shareholders.

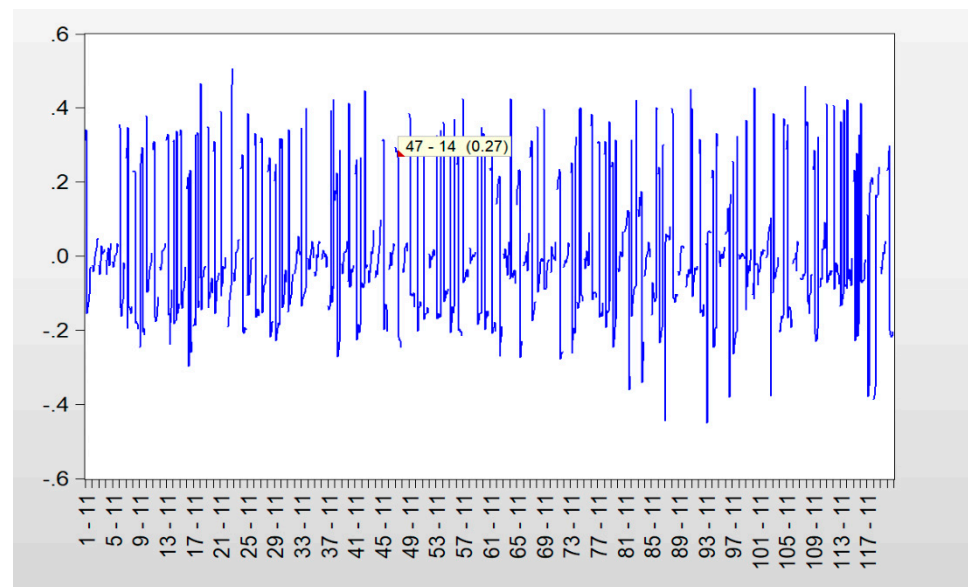
Based on the results presented in Table 5 for Prob., the F-statistic in both panels A and B is less than 0.05, and it can be deduced that the first model is significant for this hypothesis at a confidence level of 0.95. Additionally, the coefficient of determination (adjusted  $R^2$ ) for panel A is 0.87, which shows that the independent variable and control variables explain 87% of the changes in the dependent variable. For panel B, this value is 0.54, indicating that the independent and control variables explain changes in 54% of the dependent variable. Considering that the  $p$ -value for the coefficient of the OWNSTR variable is less than 0.05, the first hypothesis of the research is not rejected at the confidence level of 0.95. This reflects the negative impact of voter ownership concentration on the quality of board composition, both during and before COVID-19. In general, from the report above, it can be concluded that the influence of voter ownership concentration on the quality of business boards with the error level of 0.05 is significant and negative. See Figures 1–8.



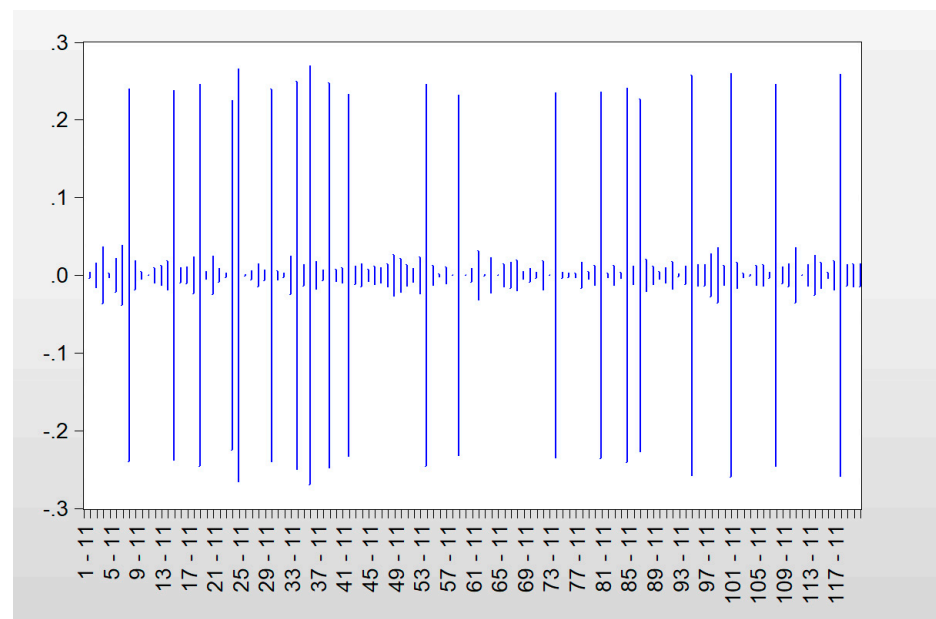
**Figure 1.** The influence of voter ownership concentration on the quality of board composition before the COVID-19 pandemic. Source: Author's computations.



**Figure 2.** The influence of voter ownership concentration on the quality of board composition after the COVID-19 pandemic. Source: Author's computations.

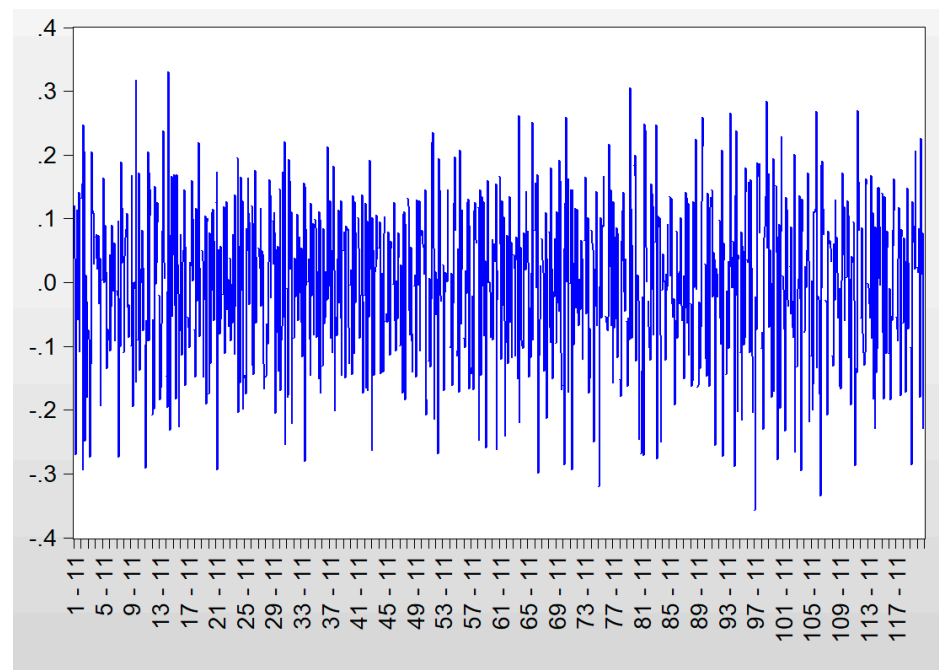


**Figure 3.** The influence of competitiveness and voting rights of major shareholders on the quality of corporate boards before the COVID-19 pandemic. Source: Author's computations.

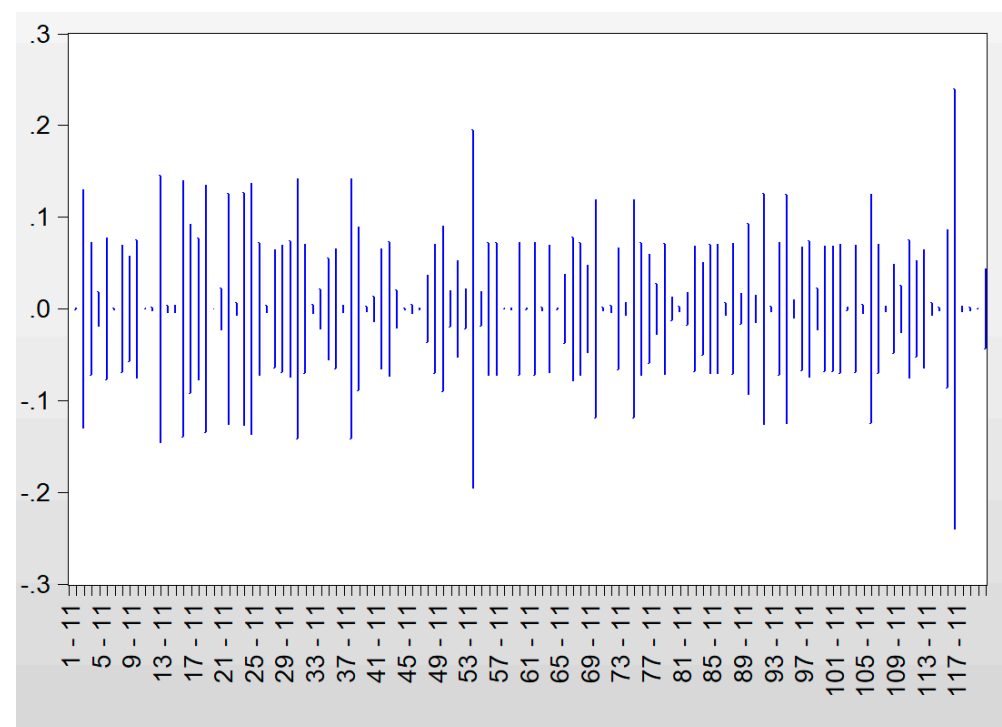


**Figure 4.** The influence of competitiveness and voting rights of major shareholders on the quality of corporate boards after the COVID-19 pandemic. Source: Author's computations.

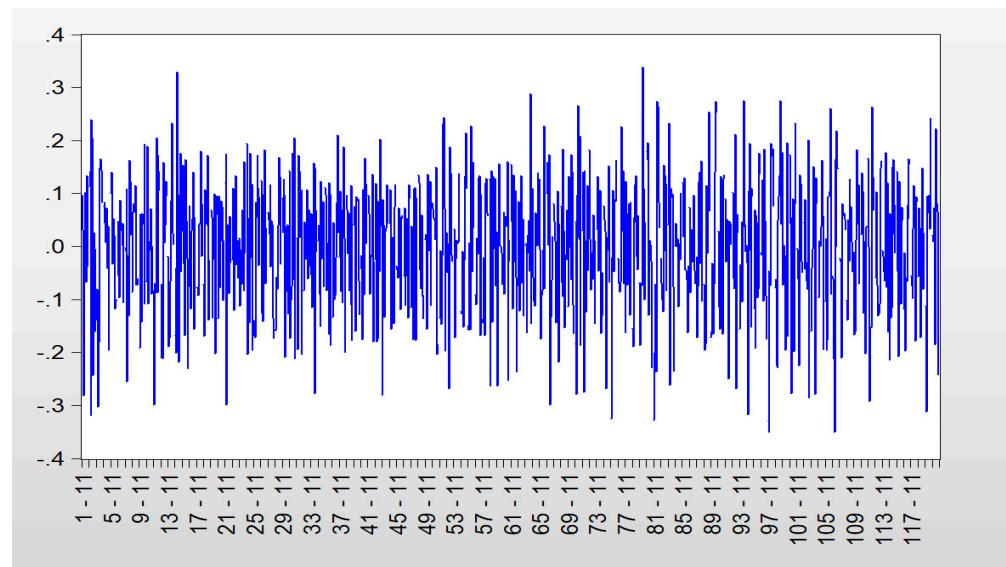




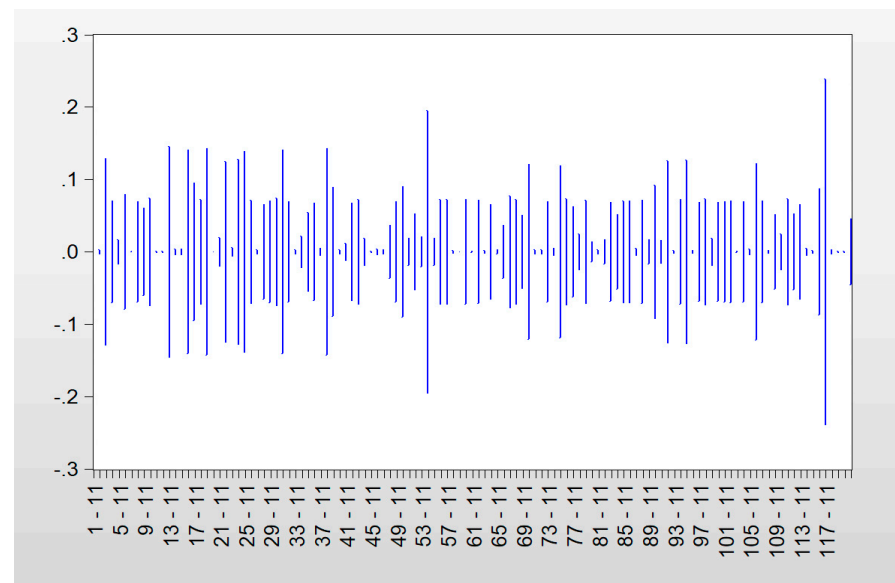
**Figure 5.** The concentration of quality voting ownership before CGS. Source: Author's computations.



**Figure 6.** The influence of concentration of voting ownership on the quality of CGS after the COVID-19 pandemic. Source: Author's computations.



**Figure 7.** The influence of competitiveness and voter ratio of major shareholder holders on the quality CGS before the COVID-19 pandemic. Source: Author's computations.



**Figure 8.** The influence of competitiveness and voting rights of major shareholders on the quality of CGS after the COVID-19 pandemic. Source: Author's computations.

As can be seen, the graphs before and after the COVID-19 pandemic are in the same direction.

Based on the report of the results listed in Table 6 for Prob., the F-statistic is less than 0.05 in both panels A and B, and it could be inferred that the second model should be considered for this hypothesis at a confidence level of 0.95. The coefficient of determination (adjusted R<sup>2</sup>) for panel A is 0.86, which indicates that the independent variable and control variables explain 86% of changes in the dependent variable, and for panel B, this value is 0.92, which shows that the independent variable and control variables explain 92% of the changes in the dependent variable. Given that the *p*-value for the coefficient of the variable *CONTEST* and *VOC* is less than 0.05, the second hypothesis of the research is not rejected at the confidence level of 0.95. This indicates the negative impact of the proportion of voting rights held by shareholders on the quality of the board's composition, both during and before the COVID-19 pandemic. In general, based on the report above, it can be said

that the competitiveness and voting rights of the major shareholders before the COVID-19 pandemic had a positive effect but a negative effect after the pandemic on the quality of the board of directors.

Based on the report of the Prob (6) results, the F-statistic is less than 0.05 in panels A and B. It can be said that the third model should be considered for this hypothesis at the 0.95 confidence level. Additionally, the coefficient of determination (adjusted R<sup>2</sup>) for panel A is 0.58, indicating that the independent and control variables explain 58% of the changes in the dependent variable. For panel B, this is 0.80, which shows that the independent variable and the control variables explain 80% of the changes in the dependent variable. Considering that the *p*-value for the coefficient of the OWNSTR variable is less than 0.05, the third hypothesis of the research is not rejected at the 0.95 confidence level. This shows that both before and after the COVID-19 pandemic, the concentration of voting ownership negatively affects the quality of CGS.

Based on the report of the results in Table 8 for Prob, the F-statistic is less than 0.05 in both panels A and B; it could be deduced that the second model is significant for this hypothesis at a confidence level of 0.95. Additionally, the coefficient of determination (adjusted R<sup>2</sup>) for panel A is 0.57, which shows that the independent variable and control variables explain 57% of the changes in the dependent variable. For panel B, this is 0.79, indicating that the independent variable and control variables explain 79% of changes in the dependent variable. Given that the *p*-value for the coefficients of the variables CONTEST and VOC is less than 0.05, the fourth hypothesis of the research is not rejected at the confidence level of 0.95. This indicates the negative impact of voting rights on shareholders with the quality of the CGS, both at the time of COVID-19 and before, which is consistent with the results of Table 6; moreover, the ability to compete before the COVID-19 pandemic has a negative impact on system quality, which turned into a positive impact after the pandemic.

Table 5 shows that the concentration of voter ownership is intense and consistent with previous outcomes. The efficacy of the quality of board composition, which has any potential shareholder advantage in competing for power, prevails. The largest major shareholder seems to rely on specific CG mechanisms other than the board of directors, the composition of which can be complex and costly for managers to oversee. As can be seen from the COVID-19 table estimates, which reveal a negative effect, the board composition quality cannot be effectively offset by the proportion of voting rights held by major shareholders, assuming a non-significant coefficient of competitive power competition. As can be seen from the estimates in Table 7, the concentration of voting ownership negatively affects the quality of CG. In the results presented in Table 8, notably, the negative influence of the voting power of the largest major shareholder (VOC) is very strong. It neutralizes the ability of the other major shareholder to compete for its strength, thus forming CG. It is strong enough to secure its interests, and as can be seen, the ability to compete before the COVID-19 pandemic negatively affects CGS but has a positive effect after the COVID-19 pandemic.

## 5. Conclusions and Limitations

In many developed countries, corporate governance among different groups evolves in parallel with investor relations. In many large companies, this governance is moving in a direction that can meet the expectations of shareholders. In recent years, the board of directors, in a large number of companies, is closer to its shareholders each day. Therefore, to maintain the process of their activities in complex and changing environmental conditions, enterprises have to have systems and mechanisms in their structure that enable them to react quickly to environmental changes and, thus, continue to operate effectively. The new coronavirus (COVID-19) pandemic has continued to present unmanageable challenges and has earnestly influenced all businesses worldwide, mainly the activities of listed companies. This study presented the development of foregone research in which a set of CG variables was considered to examine their relationship to the power of major shareholders. In this

research, we analyzed how certain matters related to ownership structure—namely, the broadcast of power between major shareholders—affect the quality of CG. In this study, recent data on Iranian companies' CG were used. This study analyzed how several issues relevant to ownership structure, i.e., the distribution of power between main shareholders, influence the quality of CG in a significant emerging market. Iran is an appropriate case because it offers weak legal protection to investors, unlike other developing countries, including the Persian Gulf countries, and the ownership of Iranian companies is very concentrated.

Hence, it can be concluded that the concentration of ownership is a sign of the small presence of small shareholders among the shareholders of companies. In these companies, a small number of owners are usually involved in the management of business affairs and typically have considerable influence over management. This significant influence on the management of the corporation's affairs and its management can force the management to move in a direction that is not in the interest of small shareholders. Therefore, small shareholders are not willing to invest in this category of companies, as the risk of losing their capital is very high. Additionally, major owners are more reluctant to bring in more micro-investors. Similar to the entry of small investors into the corporation, their controlling power will be reduced.

This distribution of ownership creates an owner–owner conflict among shareholders. Although the impact of similar discussions on the value of corporations has widely been studied, there is still a need for new investigations on the efficacy of these antitheses in the design of corporate control mechanisms and the quality of CG. This paper used a new set of CG information about Iranian companies that have recently become available, and based on these comprehensive data and new suggestions presented in Iranian articles, the CG quality index (Modares Ahmad and Zohreh 2001; Saleh et al. 2021; Shekan and Kharrazi 2008; Sheykhi 2020), taking into account a set of GCG practices, was provided that extend beyond the requirements of the legal system.

The results of this study show that the concentration of ownership is detrimental to GCG practices. In particular, high levels of voter ownership concentration undermine the CGS. These findings are consistent with the effects of appropriation and alternatives to the CEO representation model (Aggarwal 2013; Sun and Gao 2020; Charléty et al. 2019; Rachagan and Sulaiman 2019). Ownership focuses on board composition, so the negative impact means that large shareholders of Iranian companies tend to have direct control over management and replace board performance without the need for an independent board that may restrict use. The interests of private governance reduce the problems of representation in companies, maximize the interests of shareholders, take into account stakeholders' interests, increase efficiency and effectiveness, and allocate resources in the best possible way, which are the main goals of every country's economy. Companies are looking to achieve this in most countries today by improving CG. Therefore, it is suggested that to achieve the above goals, the stock exchange ought to provide the ground for proper governance in companies. One of the most important areas is encouraging or even requiring shareholder intervention in the corporation's affairs. Recognizing the obstacles and reasons for the lack of motivation of shareholders to intervene in the affairs of companies, it is necessary to create the necessary incentives or legislation to remove those obstacles. The results show that the concentration of ownership negatively affects the quality of CGS, and the major shareholders cannot challenge the power of the main shareholders.

Based on the results regarding the expropriation hypothesis, the more voting shareholders there are, the less inclined they are to implement CG. Implementing an efficient CG practice is not a priority for these shareholders. This investigation also showed that motivation to control personal interests increases with the difference between the voting right and the turnover of the main shareholder. In addition, it affects BOARDS, and major shareholders' competitiveness and voting rights involve BOARDS before the COVID-19 pandemic and positively affect BOARDS after the COVID-19 pandemic. OWNSTR also negatively affects ICGQ during and before the COVID-19 pandemic, and major sharehold-

ers' competitiveness and voting rights also negatively affect ICGQ before the COVID-19 pandemic and positively after the pandemic.

This study showed that transparency and disclosure of CG regulations ought to be sufficient. Listed companies must meet all requirements of CG mechanisms; thus, the present study has significant implications for stock markets and policymakers in developing countries. It focused on CG monitoring mechanisms that ought to be implemented by companies listed on the Iranian Stock Exchange. Regulators and policymakers need to review existing CG rules and increase disclosure and compliance levels. Some companies still deviate from the requirements of CG regulations. Accordingly, policymakers can give more consideration to compliance with these codes. This study provided insights into CG mechanisms, especially in developing countries. Based on the findings of the present study, several suggestions can be made, which include the following:

- Managers and investors are advised to supervise properly implementing CGS mechanisms and focus more on appropriate functioning;
- The present research can be reexamined using another set of CG mechanisms (e.g., managerial ownership, family ownership, ownership concentration, etc.) and the results compared with the current developments;
- In the report on the size and industry of corporations listed on the Tehran Stock Exchange, a detailed investigation of the present research ought to be carried out based on separate samples of the two groups;
- It is suggested that further studies be performed by considering the different characteristics of CG, such as the financial knowledge of board members and its relationship with intellectual capital;
- Corporations listed on the Tehran Stock Exchange were studied in this paper, so it is suggested that this issue be examined in OTC companies in future research;
- The above research can be reviewed with other possible statistical methods, along with the addition of other effective variables, and with more observations in the coming years;
- Companies ought to define voting rights for shareholders based on turnover. This method gives more voting rights to more active shareholders because these shareholders are more aware of the characteristics and potential of the corporation;
- Companies ought to indirectly use shareholders' votes to elect the board of directors and members of the corporation's internal control (use of representatives). Therefore, companies ought to increase the authority of internal auditors to access information on the corporation's cash flow to increase information transparency;
- The board of directors' authority in controlling the cash flow ought to be limited to the approval of the auditors and the internal control system;
- Companies ought to use a weighted voting system so that the number of their shares weights each shareholder's vote.

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