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Offering a Model to Describe the Relationship between Corporate Governance Factors and Return on Net Margin of Those Companies Accepted at Stock Exchange

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Abstract

The present study aims at offering a model to describe the relationship found between aspects of corporate governance factors including ownership structure, dependent and independent directors, and internal audit with gross profit margin of those companies accepted at Tehran stock exchange. The understudy statistical population consisted of 81 companies acting at Tehran stock exchange selected through systematic deletion method. The study was conducted based on financial statements of the understudy companies at a 6-year period during 2004-2009. Multiple linear regression test and T-test were used to test the research hypotheses. The results demonstrated that there is not any relationship between ownership aspects of institutional investors, managerial ownership, and availability of internal auditor and gross profit margin of those companies accepted at stock exchange. Also, there is a reverse and meaningful relationship between foreign ownership aspects, independent directors, free float stocks, and personal ownership and gross profit margin of those companies accepted at stock exchange. While, there is a direct and meaningful relationship between independent directors and gross profit margin of the mentioned companies.

Keywords: Corporation governance, financial performance, ownership structure, board composition, internal auditor, independent directors, free floats stocks, personal ownership, and gross profit margin.

Introduction

Separation of ownership from companies' management or, in other words, separation of ownership from companies control has potentially provided conditions for managers to make decisions in favor of their interests and against shareholders ones[1]. Conflict of interests interpreted as representative problem comes from two origins: i. Every beneficiary of joint stock companies has different priorities, and ii. They have not complete information about measures, knowledge and priorities of each other[2].

In fact, corporate governance has been introduced to promote and enhance efficiency of allocating peoples' savings to high yield investments during the last century. Experiences of capital market at global level especially bankruptcy experience of Enron and before that suggests that corporate governance has not appropriately established in the companies. According to trade law and corporation law of most countries, shareholders are owners of the companies. Ideally, managers, as representatives of the shareholders, should allocate commercial resources in a way that shareholders can obtain the highest rate of interest. Along with economical growth as well as developing commercial units of the country, shareholders control has practically reduced since shareholders are more dispersed and only few real shareholders can play a role in selecting board members as well as managing director. However, most shareholders motivate to invest in the companies to obtain profit rather than their control and management[3]. Therefore, all responsibilities are undertaken by the company managers. In this regard, the highest executive authority (managing director) is salient since he/she is responsible to direct the affairs to earn the highest income to the shareholders. In fact, board selected by the shareholders is chosen in most cases from those who introduced by the managing director[4].

Corporate governance mainly targets firms' long-term healthy life. Therefore, efficient corporate governance plays a role in supporting the investors and makes it possible to supervisors to rely on internal processes of the companies[5]. International financial institutes believe that amended procedures of corporate governance play a key role in economical boom and increasing employment rate through promoting the companies capabilities in competition to obtain global capital[6]. Several studies demonstrated that corporation governance in big companies is associated with better performance and higher organizational financial flow[7]. Promoting corporate governance in capital market is necessary to be sure of appropriate performance of companies, capital market, and enhancing trust of domestic and foreign investors. Corporate governance will result in increasing long-term investment and economical growth. Lack of appropriate corporate governance will lead to deprival of shareholders rights (especially minor shareholders), probable abuses of managers, flight of capital, and etc.,[8]. Policy makers state that propagating principles of corporate governance may result in stability of financial markets, investment encouragement, and economical growth. Companies have concluded that proper execution of corporate governance may be helpful in competition[9]. Therefore, appropriate corporate governance will lead to appropriate accountability and financial clarity[10].

The present study aims at offering a model to describe the relationship found between corporate government factors including rate of institutional shareholders ownership, managerial ownership, foreign ownership, personal ownership, board composition, internal audit and free float stock and return on net margin of those companies accepted at Tehran stock exchange.

Theoretical Foundation of the Research: Corporate governance system is regarded as a set of policies, methods and measures complied and executed to supply interests of companies beneficiaries. The corporate governance system aims at increasing assurance coefficient of companies' activities and management policies considering shareholders interests, in especial, and all beneficiaries, in general. Therefore, a meaningful relationship between corporate governance system and their financial performance may be expected. Effective governance leads to decrease of inappropriate outcomes resulting from conflict of interest between managers and owners including power abuse[11]. Recently, corporate governance has become a main and dynamic aspect of trade and is progressively considered. Corporate governance right is progressively imposed at global level. International organizations including Organization for Co-operation and Development (OECD) provide internationally acceptable standards in this regard. America and Britain continue promoting their corporate governance system and pay special attention to shareholders and their relations, accountability, improvement of board performance, auditors and accounting systems, and internal control. They consider those methods used in controlling and managing the companies. Additionally, minor investors, institutional investors, auditors, accountants, and other actors of money and capital market scene are aware of existence philosophy, necessity of amendment, and permanent improvement of corporate governance[10].

Megginson states that corporate governance system can be defined as a set of laws, regulations, institutions, and methods determining how and in favor of whom the companies are managed[10]. Wider definitions of corporate governance emphasize wider accountability considering shareholders and other beneficiaries. These wider definitions indicate to responsibility of companies against whole society, future generation and natural resources (environment). In this viewpoint, corporate governance system is in fact obstacles and leverages of inter- and intra-organizational balance for the companies guaranteeing that they will fulfill their responsibilities against all beneficiaries and act responsibly on all commercial activities. Additionally, logical reasoning in this regard is that shareholders interests can be supplied only through considering interests of beneficiaries because those companies which are responsible against beneficiaries are more successful and boomer in long term[10].

Generally, corporate governance includes legal, cultural and institutional arrangements determining direction of companies' movement and performance. The most important factors in this regard include shareholders and their ownership structure, board members and their compositions, company management directed by the director or senior executive manager, and other beneficiaries may affect the company movement. Ever-increasing presence of institutional and legal investors among owners of public corporation and their active effect on methods of governing and custodianship of the organizations as well as their performance are regarded as the most interesting points. Being assured of imposing proper governance of shareholders in managing the company is the most essential principle of corporate governance. However, there are special cases leading to encountering some obstacles by minor shareholders. Therefore, one of the most important categories in corporate governance is being aware of ownership structure and its ranking in accordance with standard scales so that it can be used to compile strategies required by establishing corporate governance[12]. Shareholders, especially institutional investors, play an important role in corporate governance system of the companies. Institutional investors can supervise company management and their influence on company management can be regarded as a basis to correspond interests of management with that of the shareholders group in order to maximize shareholders wealth. Ownership focus is known as an important approach in financial literature to control representative problems and improve support from investor's interests[13].

Audit can be regarded as a reliable disciplinary mean. Auditors can certify and confirm accuracy and versatility of audit methods used in financial reports and their presence as auditor acts as a disciplining factor. Therefore, auditors serve as an important social means in limiting managers' power in conventional relations. Auditors, as reliable representatives of company owners, take benefit of powerful positions and can act independently[10].

Desirable system of corporate governance leads to effective use of the capital by the firms. Also, it considers interests of wide range of beneficiaries and the society where it acts. Internal audit is one of the most important parts of corporate governance system and makes principles of the system assured that inappropriate risks are identified and managed[14]. Internal auditors evaluate the control imposed in corporate operation and provide their suggestions to improve it. In most cases, internal auditors act under supervision and control of financial managers due to focus on assessing the internal controls. A definition offered by Internal Institute of America (IIA) in 1999 clearly demonstrated evolution of internal auditor. It defines duties of the internal auditors as assessing and improving efficiency of risk management, control, and leadership processes[15].

Factors of corporate governance are as follows: i. Institutional ownership: it means the percentage of shares hold by public and governmental companies out of total stock capital such as insurance companies, financial institutes, banks, governmental companies, and other governmental sectors[16]; ii. Managerial ownership: it is defined as amount of company shares hold by the organization managers. In fact, it is percentage of the shares hold by family members of the board[16]; iii. Foreign ownership: it is those shares hold by foreign investors. It is, in fact, percentage of the shares hold by foreigners out of total capital shares of the company[16]; iv. Personal ownership: it means those shares of the company hold by personal investors. In other words, it is defined as percentage of shares hold by personal shareholders out of total shares of the company; v. Board composition: board is responsible for maintaining the owners' interests and fulfils its responsibility through controlling strategic decisions of senior management. Board composition means that how many members of the board are regarded as dependent or independent ones; vi. Independent directors: They are part-time members of the board without undertaking any executive responsibility in the company. The variable refers to ratio of independent directors to all board members. vii. Free float stock: it is defined as number of those shares which is expected to be transacted in a near future. They are hold by those shareholders who are ready to offer them to be sold if they encounter appropriate suggestion and price by others. In fact, number of shares hold by people is called free float stock. In other words, it refers to percentage of shares not hold by strategic owner[17]; viii. Internal audit: internal audit primarily aims at assessing controls found in the organization to be assured that commercial risks are always considered and the organization achieves its objectives in economically effective ways.

Some factors affecting corporate governance are as follows: i. Company size: it is total assets of the company when the balance is set[18]; ii. Leverage (financial): it is defined as percentage change of each share profit against one percent of change in the profit before interest and tax[19]; iii. Liquidity: company capabilities in fulfilling its financial commitments[19]; iv. Risk: probability of difference between real return and the predicted one[19].

Financial performance used to determine weak and strong points of a company management is a means to consider existence of signs and complications in the company rather than the original problem. Using financial ratios, changing processes as well as the relationship found between financial information of a company during different time intervals and management performance in preparing appropriate methods for future financial movements of the company can be selected[20]. Capital market activists require accurate knowledge of commercial units in order to optimally allocate the financial resources. Therefore, they always look for information related to commercial units to be used in making appropriate decisions[21]. Managers take benefit of some degree of flexibility and freedom of action in reporting their financial performance. They may abuse it opportunistically in their management[22]. Profitability ratios indicate to general performance of the companies and analyze profitability rate of the company as well as how it is realized[19]. In this research, financial performance is measured by profitability ratios.

A summary of history of the related researches can be found as follows: Shen and Chih studied effects of corporate government on profit management and indicated to less profit management in companies with appropriate corporate government. They suggested that company size always affects Income smoothing and there is a turning point for leverage effects. Additionally, high growth companies less profit return are interested in profit leveling but appropriate government may mitigate its effects[23].

In their study, Ramasay and Mather evaluated the relationship between profit quality and some aspects of company government principles. Results of the study indicated to a non-linear relationship between ownership percentage of board members and profit quality. Additionally, there is a positive relationship between external independent managers ratio and profit quality. Meanwhile, there is not any relationship between board size and profit quality level considering all commitments[24].

Davidson and Dadalt evaluated role of board members, audit committee, and executive committee in preventing from profit management of the company. Results of the research demonstrated that there is a relationship between board composition and audit committee with the possibility that a company is encouraged to profit management. Members of audit committee and board with company and financial knowledge are less related to existence of voluntary current commitment items. Also, board member and audit committee meetings are related to decreasing the voluntary current commitment items. Activities of audit committee and board as well as financial expertise of its members are of important factors in limiting the managers' tendency to be encouraged toward profit management[25].

Mohammadzadeh Salteh presented a pattern to describe the relationship between corporate government and profit quality. Results of the present study demonstrated that companies with sufficient government system have high profit quality in comparison with companies with insufficient government system in spite of considering or ignoring the government capabilities of the company. Comparing with strong government system, companies with weak government system have not necessarily less profit quality[26].

In their research, Aghaie and Chalaki evaluated the relationship between features of corporate government and profit management in those companies accepted at Tehran stock exchange. The results pointed out to the negative meaningful relationship between two features of institutional ownership and independency of board and profit management. There is not any meaningful relationship between other features of corporate government and profit management[27].

Raeisi conducted a study under title of effects of the relationship found between quality of corporate government and company performance on the companies ranking considering corporate government and evaluating its effects on company performance. The results referred to lack of any meaningful relationship between quality of corporate government and company performance[28].

Ghanbari studied the relationship between mechanisms of corporate government and performance of those companies accepted at Tehran stock exchange. The results demonstrated that presence ration of independent directors does not affect the company performance. There is a direct and positive relationship between availability of internal auditor and company performance. Informative clarity dose not relate to the company performance. There is a direct and positive relationship between institutional investors and the company performance[29].

Momeni evaluated effects of government type on the performance. In this study, public and personal ownership were compared considering their effects on companies' performance. Criteria of performance evaluation of the study include liquidity ratio, activity ratio, debt ratio, profit margin, margin efficiency of ordinary shares. The research considered 100 companies in a seven year time interval[30].

Shariat Panahi considered ownership and its relation with performance and tested seven approaches to control managers' performance known as representative theory in the related literature. Out of approaches offered to control managers and their performance, there is only a meaningful relationship between the rate of using the debts by the company and possibility of taking the company ownership possession and company performance[31].

Methodology

The research statistical population was consisted of all industrial and other companies accepted at Tehran stock exchange during 2004-2009. Systematic deletion method was used to select 486 companies as the understudy sample. The research data and required financial information were provided through evaluating the reported documents and deeds, searching the internet site of Tehran Stock Exchange Organization, referring to financial statements and associated descriptive notes of the companies. Also, SPSS software package was used to analyze the data.

Variables of the study are categorized into three independent, modifier, and dependent variables (figure-1). It is supposed that modifier variables will decrease effects of independent variables on the dependent ones if they appear. They will change correlation rate found between dependent and independent variables. In this research, internal auditor means whether there is internal audit in the understudy companies. Accordingly, hypotheses of the present study include:

There is a correlation between ownership rate of institutional investors, managerial ownership, foreign ownership, personal ownership, dependent and independent directors' composition, internal auditor, free float stocks rate and gross profit margin of those companies accepted at stock exchange.

Result and Discussion

Statistical Data Analysis: Deductive and descriptive statistical methods were used to analyze the collected data. To statistically describe the data, central and dispersion indexes were used. Hypotheses 1-6 were tested using multiple linear regression method (at the level of deductive statistics). Comparing mean of two populations was used to test the hypothesis 7. Ultimately, the final model was presented.

Descriptive findings: Statistical descriptive of the research variables can be found in tables 1 and 2.

Coding method was used for the internal audit (IA) variable due to its nominal nature. A summary of the results have been provided in table 2 where code 1 represents availability of internal auditor and code 0 stands for lack of internal auditor.

Hypotheses testing: To test hypotheses 1-6, multiple linear regression tests with stepwise method was used to determine the best regression model. Comparing mean of two populations was used to test the hypothesis 7.

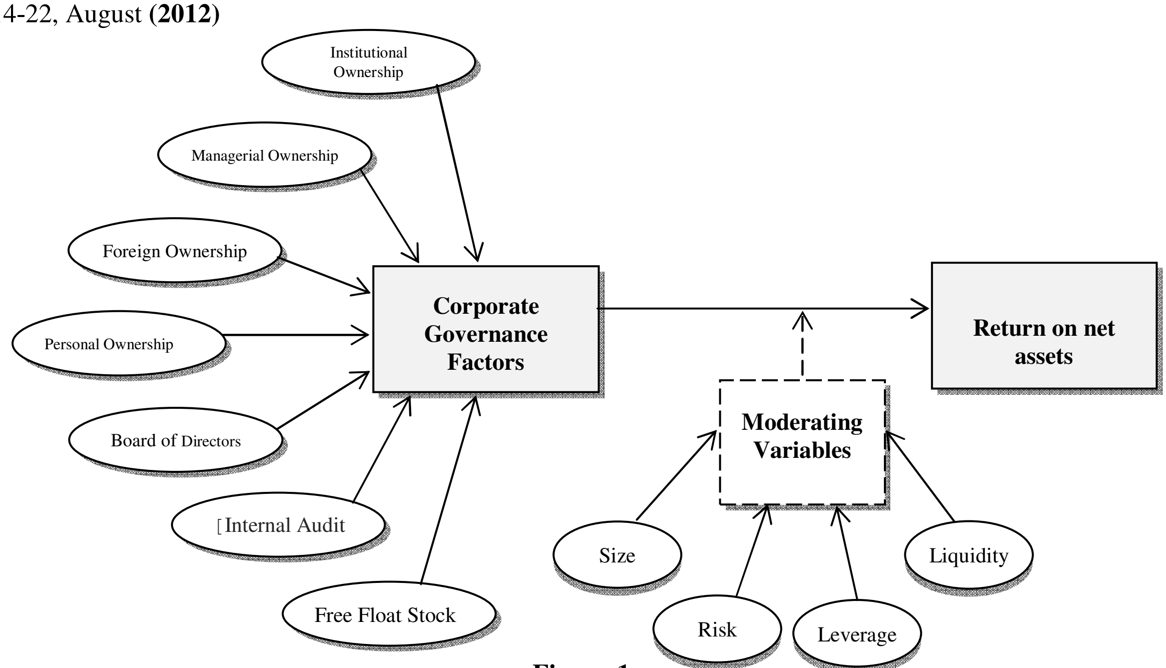

Figure-1
Theoretcal framework of study

Table-1
Descriptive statistics of research variables

Statistical index	Institutional ownership	Managerial ownership	Foreign ownership	Personal ownership	Independent directors	Free float stocks	Return on net margin	Gross profit margin	Size	Leverage	Current ratio
N	469	469	469	469	469	469	469	469	469	469	469
Mean	-3.2487	-2.0602	-0.3859	-7.479	0.5792	-5.4392	-4.8445	-3.8548	-5.1417	-0.077	-0.246
Median	-2.4298	0	0	-8.3488	0	5.783	-54.0715	-.69553	-5.1358	-0.1721	-0.2031
mod	0	0	0	0	0	-8.83a	-6.82a	-7.78a	-5.53a	0	0.04
Std.Deviation	3.71717	3.4636	1.58568	2.0295	0.83359	2.15275	1.63278	1.79297	0.21219	2.37777	0.92481
Variance	13.817	11.997	2.514	4.119	0.695	4.634	2.666	3.215	0.045	5.654	0.855
Skewness	-0.123	-0.79	-2.604	1.822	1.667	0.75	0.396	0.178	-0.072	0.89	-0.211
Kurtosis	-1.483	-0.378	12.438	3.378	2.393	0.558	-0.174	-0.17	1.326	6.072	1.447
Min	-9.14	-9.17	-7.78	-12.03	0	-11.79	-8.29	-10.72	-5.09	-9.77	-3.53
Max	6.7	9.21	9.21	0.02	3.89	2.22	0.12	-0.56	-4.17	13.93	2.77
Total	-1523.63	-966.23	-181	-3504.4	271.65	-2550.98	2290.84	-2734	-2445.11	-36.11	-115.39

Predictors: (Constant), Beta, Current. ratio, IND, MO, Leverage, FO, SIZE, PO, FFS, IO, Predictors: (Constant), Beta, Current. ratio, IND, MO, Leverage, FO, PO, FFS, IO, Predictors: (Constant), Beta, Current. ratio, MO, Leverage, FO, PO, FFS, IO, Predictors: (Constant), Current. ratio, MO, Leverage, FO, PO, FFS, IO, Predictors: (Constant), Current. ratio, Leverage, FO, PO, FFS, IO, Predictors: (Constant), Current. ratio, Leverage, FO, FFS, IO, Dependent Variable: ROA

Table-2
Descriptive analysis of variables (IA)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	312	66.5	66.5	66.5
	1	157	33.5	33.5	100
	Total	469	100	100	

Table-3
a summary of multiple linear regression models Summary[g]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.435[a]	.190	.172	1.48579	
2	.435[b]	.190	.174	1.48417	
3	.435[c]	.190	.176	1.48259	
4	.435[d]	.189	.177	1.48119	
5	.435[e]	.189	.178	1.48005	
6	.433[f]	.188	.179	1.47935	1.584

Table 4
Meaningfulness test of linear nature of multiple regression models ANOVA[g]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	236.617	10	23.662	10.718	.000[a]
	Residual	1011.063	458	2.208		
	Total	1247.680	468			
2	Regression	236.614	9	26.290	11.935	.000[b]
	Residual	1011.066	459	2.203		
	Total	1247.680	468			
3	Regression	236.573	8	29.572	13.454	.000[c]
	Residual	1011.107	460	2.198		
	Total	1247.680	468			
4	Regression	236.279	7	33.754	15.385	.000[d]
	Residual	1011.401	461	2.194		
	Total	1247.680	468			
5	Regression	235.651	6	39.275	17.929	.000[e]
	Residual	1012.029	462	2.191		
	Total	1247.680	468			
6	Regression	234.421	5	46.884	21.423	.000[f]
	Residual	1013.259	463	2.188		
	Total	1247.680	468			

Predictors: (Constant), Beta, Current ratio, IND, MO, Leverage, FO, SIZE, PO, FFS, IO, Predictors: (Constant), Beta, Current. ratio, IND, MO, Leverage, FO, PO, FFS, IO, Predictors: (Constant), Beta, Current ratio, MO, Leverage, FO, PO, FFS, IO, Predictors: (Constant), Current ratio, MO, Leverage, FO, PO, FFS, IO, Predictors: (Constant), Current ratio, Leverage, FO, PO, FFS, IO, Predictors: (Constant), Current ratio, Leverage, FO, FFS, IO g. Dependent Variable: ROA

In testing hypothesis 7, internal auditor is regarded as the independent variable divided into two populations based on availability or lack of internal auditor. The first population known as (1) indicates availability of internal auditor while the second population introduced by (0) refers to lack of internal auditor. Results obtained from performing equality test of means of two populations for hypothesis 7 with GPM dependent variable are seen in tables 7 and 8. Meaningful level resulted from Leven test equals 0.158 and is bigger than 5% which demonstrates that there is not much difference between standard deviations. Therefore, meaningful level related to equality test of means of two populations equals to 0.361, i.e. availability of internal auditor does not affect gross profit margin.

Conclusion

There is a meaningful correlation between institutional ownership rate and return on net margin of those companies accepted at stock exchange.
There is a meaningful and reverse correlation between foreign ownership and free float stock and return on net margin of those companies accepted at stock exchange.

There is not any correlation between dependent and independent directors, managerial ownership, and personal ownership and return on net margin of those companies accepted at stock exchange.

Results of the research indicate to increase of return on net margin through increasing percentage of institutional investors. Also, increasing number of the dependent and independent managers in the board composition does not affect increasing the return on net margin. Additionally, increasing foreign ownership rate and free float stock will result in decreasing return on net margin of those companies accepted at stock exchange.

Table 5
Predictive variables left I coefficients[a] regression model Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-5.455	1.817		-3.003	.003		
	IO	.028	.024	.064	1.189	.235	.606	1.650
	MO	-.011	.020	-.024	-.566	.571	.978	1.022
	FO	-.129	.045	-.125	-2.883	.004	.943	1.061
	PO	-.034	.044	-.042	-.765	.445	.581	1.722
	IND	-.012	.089	-.006	-.135	.893	.862	1.161
	FFS	-.105	.037	-.138	-2.853	.005	.756	1.324
	SIZE	.013	.354	.002	.038	.970	.837	1.195
	Leverage	-.073	.029	-.107	-2.511	.012	.978	1.023
	Current ratio	.614	.076	.348	8.094	.000	.957	1.045
	Beta	-.009	.025	-.016	-.364	.716	.947	1.056
2	(Constant)	-5.522	.504		-10.957	.000		
	IO	.029	.022	.065	1.287	.199	.693	1.442
	MO	-.011	.020	-.024	-.566	.572	.982	1.019
	FO	-.128	.044	-.125	-2.905	.004	.958	1.044
	PO	-.034	.044	-.042	-.768	.443	.593	1.685
	IND	-.012	.089	-.006	-.136	.892	.862	1.160
	FFS	-.105	.037	-.138	-2.858	.004	.756	1.323
	Leverage	-.073	.029	-.107	-2.519	.012	.981	1.020
	Current.ratio	.614	.076	.348	8.111	.000	.959	1.042
	Beta	-.009	.025	-.016	-.363	.717	.950	1.053
3	(Constant)	-5.543	.480		-11.547	.000		
	IO	.029	.022	.065	1.296	.196	.695	1.439
	MO	-.011	.020	-.024	-.561	.575	.984	1.017
	FO	-.129	.044	-.125	-2.939	.003	.969	1.032
	PO	-.034	.044	-.043	-.789	.430	.601	1.664
	FFS	-.106	.035	-.140	-3.084	.002	.851	1.175
	Leverage	-.074	.029	-.107	-2.535	.012	.984	1.016
	Current.ratio	.614	.076	.348	8.120	.000	.961	1.041
	Beta	-.009	.024	-.016	-.366	.715	.950	1.052
4	(Constant)	-5.539	.479		-11.553	.000		
	IO	.028	.022	.064	1.283	.200	.696	1.437
	MO	-.011	.020	-.023	-.535	.593	.989	1.011
	FO	-.129	.044	-.125	-2.932	.004	.970	1.031
	PO	-.032	.043	-.040	-.747	.455	.612	1.633
	FFS	-.107	.034	-.141	-3.092	.002	.851	1.175
	Leverage	-.073	.029	-.106	-2.517	.012	.989	1.011
	Current.ratio	.614	.076	.348	8.131	.000	.961	1.041
5	(Constant)	-5.519	.478		-11.555	.000		
	IO	.028	.022	.063	1.260	.208	.697	1.434
	FO	-.128	.044	-.124	-2.922	.004	.970	1.031
	PO	-.032	.043	-.040	-.749	.454	.612	1.633
	FFS	-.107	.034	-.141	-3.097	.002	.851	1.175
	Leverage	-.072	.029	-.105	-2.504	.013	.990	1.010
	Current ratio	.617	.075	.350	8.205	.000	.967	1.034
6	(Constant)	-5.192	.196		-26.513	.000		
	IO	.037	.018	.084	1.988	.047	.990	1.010
	FO	-.124	.043	-.120	-2.849	.005	.988	1.012
	FFS	-.097	.032	-.128	-3.039	.003	.991	1.009
	Leverage	-.072	.029	-.106	-2.507	.013	.990	1.010
	Current ratio	.624	.075	.353	8.349	.000	.980	1.021

Dependent Variable: ROA

Table 6
Predictive variables deleted from excluded variables[d] regression model Excluded Variables[f]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics		
					Tolerance	VIF	Minimum Tolerance	
2	SIZE	.002[a]	.038	.970	.002	.837	1.195	.581
3	SIZE	.002[b]	.042	.967	.002	.838	1.194	.589
	IND	-.006[b]	-.136	.892	-.006	.862	1.160	.593
4	SIZE	.001[c]	.022	.982	.001	.840	1.191	.601
	IND	-.006[c]	-.143	.887	-.007	.863	1.159	.605
	Beta	-.016[c]	-.366	.715	-.017	.950	1.052	.601
5	SIZE	.000[d]	-.007	.994	.000	.843	1.187	.601
	IND	-.005[d]	-.117	.907	-.005	.865	1.157	.605
	Beta	-.014[d]	-.325	.745	-.015	.956	1.046	.601
	MO	-.023[d]	-.535	.593	-.025	.989	1.011	.612
6	SIZE	-.005[e]	-.110	.912	-.005	.859	1.165	.859
	IND	-.009[e]	-.199	.842	-.009	.875	1.142	.875
	Beta	-.009[e]	-.220	.826	-.010	.974	1.027	.972
	MO	-.023[e]	-.537	.591	-.025	.989	1.011	.973
	PO	-.040[e]	-.749	.454	-.035	.612	1.633	.612

Predictors in the Model: (Constant), Beta, Current ratio, IND, MO, Leverage, FO, PO, FFS, IOPredictors in the Model: (Constant), Beta, Current ratio, MO, Leverage, FO, PO, FFS, IO, Predictors in the Model: (Constant), Current ratio, MO, Leverage, FO, PO, FFS, IO, Predictors in the Model: (Constant), Current ratio, Leverage, FO, PO, FFS, IO, Predictors in the Model: (Constant), Current ratio, Leverage, FO, FFS, IO, Dependent Variable: ROA

Therefore, final model of the regression is as formula 1:

GPM= .084(IO) - .120(FO) - .128(FFS) - .106(Leverage) + .353(Current ratio)   formula 1

Table 7
Group Statistics

Std. Error Mean	Std. Deviation	Mean	N	ROA
.09293	1.64151	-4.7977	312	Without Internal Audit (0)
.12822	1.60657	-5.0571	157	With Internal Audit (1)

Table 8
Independent Sample T-test

	t-test for Equality of Means		Levenes Test for Equality of Variances		
	Sig.	F	t	Df	Sig. (2-tailed)
Equal Variances assumed	F	Sig.	1.627	467	.104
Equal Variances not assumed	.287	.593	1.639	318.821	.102

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