

The Relationship between Corporate Governance and Research and Development Expenditures of Pharmaceutical Companies Listed on the Tehran Stock Exchange

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Abstract

Introduction: Drugs are one of the strategic industries in meeting the basic needs of the society. In this vein, research and development activities have special place in this industry. Nevertheless, based on the agency theory, it can be expected that the management of the reporting entity would not be willing to bear such expenses because of the lateness and high risk of research and development activities. To solve this problem corporate governance policies can be highly effective in managing the agency issue and protecting the interests of the society.

Method: This study is a quasi-experimental and it is considered as an analytical and applied study regarding its purpose and implications. The statistical population included 25 pharmaceutical companies listed on the Tehran Stock Exchange from 2005 to 2017 and multivariate regression model as well as the generalized least squares were administered to test the research hypotheses.

Results: The results indicate that the board of directors' independence and the ownership of institutional investors develop a positive and significant relationships with research and development expenditures. On the other hand, it was observed that there is a negative and significant relationship between the ownership of major shareholders and research and development expenditures.

Conclusion: The findings reveal that research and development policies of the companies are affected by corporate governance. Therefore, in order to provide an appropriate setting for research and development activities in the knowledge-based industries such as the pharmaceutical industry, it is required to pay more attention to corporate governance.

Keywords: Corporate Governance, Pharmaceutical Industry, Research and Development Expenditures.

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