Design for Scientific RENAISSANCE

The Effect Corporate Governance on the Financial Performance of Jordanian Corporations industrial Sector

SAED ISMAIL ABU SALIM (PhDs)
Assoc. Prof. Dr. Besar Bin Ngah
Al Madinah International University Malaysia (MEDIU)
Saad_saleem2008@yahoo.com

Article Info

Received: 23.03.2018
Accepted: 03.05.2018
Published online: 01.06.2018

ISSN: 2231-8968

Abstract
This research investigates empirically the impact of corporate governance dimensions (Board size, Audit Committee Meetings, and Audit Committee Shareholdings) on the performance of Jordanian industrials companies. The study employs pooled data, and OLS estimation method to examine empirically the relationship between Jordanian industrials companies performance and corporate governance dimensions for 63 industrials companies quoted on the ASE. The study reveals a positive relationship between corporate governance dimensions: the number of board size and Audit Committee Shareholdings and Jordanian industrials companies performance. Whereas, the separation of the role of Audit Committee Meetings have a negative relationship with performance. In addition, the study reveals that industrials companies benefit from large size in offering services. This study is subject to some limitations. First, employing proxies for actual corporate governance mechanisms and industrials' companies performance outcomes may not accurately capture the actual mechanisms or outcomes experienced by industrials' companies in the marketplace. Second, due to the fact that the implementation of industrials companies' corporate governance has started in Jordan from 2009 the study is constrained to the period 2013-2014 financial data.

1. Introduction

This study aims to analyse the impact of company governance on firm performance in Jordan. company governance has been a vital analysis space, that deals with the varied governance arrangements wont to management the corporation inside the target of increasing shareholders (owners) wealth. A literature review reveals this importance, and highlights issues with conflict of interest between shareholders and also the management (Jensen and Meckling, 1976). once there square measure uneven data issues and imperfect written agreement relations between managers and shareholders, managers have incentives to pursue their own objectives at the expense of shareholders. for instance, managers may implement monetary and investment ways or might pay a lot of on luxury comes for his or her own interests instead of increasing the worth of the corporate. moreover, this conflict might end in transfer evaluation, whereby assets of the corporate that they manage square measure sold-out to a different company that they own below the market price.

Effective company governance ought to basically guarantee shareholders' price by guaranteeing the suitable use of firms' resources, enabling access to capital and up capitalist confidence (Denis and McConnell, 2003). this is often connected each to internal organisation and external market conditions; firm‘s responsiveness to external conditions is essentially addicted to the means the firm is managed furthermore because the efficaciousness of the firm‘s governance structure (Gregory and Simms, 1999). Some authors (e.g. Rwegasira, 2000) have argued that sensible company governance prevents the confiscation of company resources by managers, guaranteeing higher deciding and economical management. This leads to higher allocation of company resources and, ultimately, improved performance.

The majority of analysis regarding company governance and its impact on firm performance has been undertaken in developed countries and markets, notably the united kingdom and therefore the U.S.A., however comparatively very little is understood concerning company governance within the geographic region, wherever completely different cultural and economic concerns prevail. In recent years, despite the conflict among the centre East as a full, hefty progress has been witnessed within the Jordanian economy. within the Nineteen Nineties and 2000s, vital effort was created by the goat of Jordan to draw in investors and facilitate the economy of the country integrate with the world economy liberalised and structures of corporate governance were reformed (ASE, 2007).Furthermore.

The industrial underwriter governance methodology may well be a advanced framework. This governance framework encompasses a insurance’s stockholders, its managers and completely different employees, and thus the board of directors. industrials additional operate to a lower place a unique system of public oversight inside the variability of industrial supervisors and a comprehensive body of insurance laws and rules. The interaction between all of these elements determines but well the performance of industrial will satisfy the desires of its stockholders, whereas conjointly compliant with public objectives. For investors and regulators, this industrial underwriter governance framework is thus of crucial importance in associate degree passing insurance’s success and its daily operations. As a result, understanding the corporate governance of insurances is especially important as a result of the systematic risk that industrial activity poses for the economy at large as tested by the U.S. savings and loan crisis within the 1980’s, the Asian cash crisis inside the 1990’s and thus the additional fashionable supreme mortgage crisis (Alexander 2006). completely different reasons for this interest area unit industrial releasing and a rising role for market discipline and governance; substantial insurance consolidation and succeeding changes inside the management, board, and possession structure of the various insurance organizations.

2. Literature Review

This section reviews research literature on the performance effects of corporate governance in industrial, including, Board size, Audit Committee Meetings, and Audit Committee Shareholdings.

2.1. Board size

Processing Re-write Suggestions Done (Unique Article) Board of administrators is one in every of essential and distinctive parts of each board dynamics and overall quality of corporate governance mechanisms that oversees the company's business conduct to confirm it's properly managed by their agents and to cut back agency price (Hassan & Ahmed, 2012; Mkrtchyan, 2013; Shleifer & Vishny, 1997). there's a accord within the previous studies within the literature that illustrate and admit that the effectiveness of board of administrators is achieved supported the amount of experience and data (Mkrtchyan, 2013). heterogeneous viewpoints are reviewed within the findings of the previous studies regarding effectiveness of the board of administrators. Some studies notice that the tiny board size will cause higher and explicit outcome than the larger one. Such a viewpoint planned that the tiny size of the board of administrators is simpler than the larger board for redoubled communication and coordination issues. Moreover, it'd cause decrease poor decisions created by an oversized cluster of the board (see Adnan et al., 2011; Haniffa & Hudaib, 2006; Johannes Vilhelm Jensen, 1993; Kumar & Singh, 2013; Mashayekhi & Bazaz, 2008; Rashid et al., 2010; Yermack, 1996). On the opposite hand, alternative viewpoints within the previous studies demonstrate that the larger the board of administrators the more effectiveness, knowledge, capabilities, and expertise; therefore this can cause higher performance (Jaafar & El-Shawa, 2009; Nicholson & Kiel, 2004). within the same vein (See, Adams & Mehran, 2012; Kajola, 2008; Kim et al., 2012; Tornyeva & Wereko, 2012) argued that the massive size of the board of administrators is one in every of the foremost vital company governance mechanisms that ends up in acquire higher performance. While, Sueyoshi et al. (2010) found insignificant association between board size and firm performance (Tobin's q). Therefore, we have a tendency to predict that increasing board size are associated with increasing firm performance..

The higher than arguments and also the findings of many empirical studies counsel a positive relation between industrials performance and also the variety of independent board members. supported this, the subsequent hypothesis is proposed:

<u>Hypothesis 1:</u> There is a positive relationship between the Board size and Jordanian industrials' financial performance.

2.2. Audit Committee Meetings

The number of audit committee conferences provides one proxy for audit committee conferences (Song & Windram, 2004). BRC (1999) recommends that audit committees of the listed corporations meet a minimum of once quarterly. Therefore, the numbers of audit board meeting is taken into account a very important attribute for his or her observance effectiveness (Lin et al., 2006).

A study by Menon and William (1994) declared that audit committee observance functions embrace composition and frequency of their conferences. From a sample of two hundred over-the- countries (OTC) corporations between 1986 and 1987, they realize that boards place confidence in audit committees to watch management. They conjointly found that larger corporations ar doubtless to own additional audit committee conferences.

Moreover, McMullen and Raghunandan (1996) tested audit committee observance effectiveness. supported a sample of 128 corporations that issue monetary fallacious reports, they found that corporations with monetary news issues ar less doubtless to own frequent committee conferences.

Furthermore, Hsu (2007) examined the association between audit committee conferences and firm performance that measured by mistreatment come back on assists (ROA) and Tobin's letter of the alphabet. supported a sample of latest U.S. 226 firms, He found that there's a positive relationship between audit committee conferences and firm performance. Similarly, Vafeas (1999) examined whether or not meeting frequency is expounded to firm performance. For a sample of 307 companies from 1990 to 1994, he found that meeting is reciprocally associated with firm worth. Board conferences will increase once share value declines. He finished that the frequency of the meeting is a vital component of board operations, the subsequent hypothesis is proposed:

Hypothesis 2: There is a positive relationship between the Audit Committee Meetings and Jordanian industrials' Financial performance.

2.3. Foreign Ownership

In the context of audit committees, the possession of upper equity possession by committee members has the probability of reduce drawback related to the collusion of administrators with the management to control earnings to their interest or inflate government pay that successively is probably going to eventually hinder their interest still. To align the interests of shareholders and outdoors administrators, World Health Organization square measure themselves agents of shareholders, corporations frequently grant shares to outside administrators. The results of study by Yermack (2004) showed that director equity awards square measure created in systematic and consistent method with the expectations of agency theory. what is more, Ferris, Jagannathan, and Pritchard (2003) have provided proof that outside administrators World Health Organization possess larger equity typically safeguard shareowner interests like reduce fraud judicial proceeding during a more practical method.

A study by Vafeas (2005) used information on 252 U.S. corporations between 1994 and 2000 to review the link between equity possession by audit committees and money coverage quality. He found that higher equity possession by committee members resulted to scale back the danger of those administrators colluding with management to govern earnings which is mostly according to the predictions of agency theory.

Similarly, rule and Khirshnan (2005) examined the stock possession by audit committee. employing a sample of 896 firm-year observations for the years 1996–2000, they reportable that stock possession by freelance audit committee administrators is absolutely associated with earnings management. The study of Beasley (1996) conjointly discovered that the likelihood of cheating and fraud reduces once stock possession by outside, together with gray, administrators (not essentially audit committee directors) on the board will increase. this might result to stock possession provides incentives for outdoor administrators to observe management.

However, the results of study by Wright (1996) have provided proof that an immediate money interest like stock possession by audit committee administrators might weaken the independence of administrators. A univariate check showed that the negative association of stock possession of audit committee administrators with the extent of analyst speech act ratings is weak. None the less, none of the studies has indicated distinction between freelance and dependent administrators. Such distinction is also terribly necessary to guage the standard of economic reportage. Another study by Shivdasani (1993) disclosed that possession by independent outside administrators reduces the likelihood of takeover bids, whereas possession by related outside administrators (with shut relation with managers) has no result, the following hypothesis is proposed:

Hypothesis 3: There is a positive relationship between the Audit Committee Shareholdings and Jordanian industrials' financial performance.

3. Methodology

3.1. Data and Sample

Processing Re-write Suggestions Done (Unique Article)

The information of the study consists of two kinds of information. First, industrials' financial information over the amount 2012-2014. the availability of {this information this data this information} is that the financial knowledge available on metropolis stock exchange. it's worth noting that the industrials' company governance laws were implemented starting from 2009. Second, the industrials' company governance information. the availability of this information is that the insurances' company governance manual unconcealed throughout 2012-2014. The study includes all Jordanian industrials corporations in operation within the Jordan. These industrials unit of measurement 63 industrials for 2 year throughout the quantity 2012-2014. The models that unit of measurement utilized inside the study unit of measurement tested mistreatment pooled sample. The pooled information is that the information that contains pooling of {your time} series and crosswise observations (combination of your time series and crosswise data) (Gujarati, 2003, p 636). The study employs the pool sample analysis as a results of the advantages of pooling the sample. it has been argued that the pool sample has many advantages. Pooling information generates plenty of informative information, plenty of variability, less collinearity among variables, plenty of degrees of freedom, and plenty of potency. moreover, aggregating data of the numerous observations minimizes the bias which may result if we've got an inclination to combination folks or companies into broad aggregates (Gujarati, 2003).

A cross-sectional, time-series country analysis could be a ton of advantageous than cross-country analyses. a country analysis avoids endogeneity problems. race analyses can also underestimate the importance of country-specific laws. This study examines the monetary performance of industrials company operational with constant legal institutions, company governance environments, macro and organic process economic stages, accounting standards, etc. industrials at intervals identical country face constant legal protection and institutional constraints; so a country analysis can avoid the endogeneity problems between possession structure and institutional environments. above all, many studies have shown that variations in legal institutions build a case for teeming of the cross-country possession variations (Shleifer, and Vishny, 2002).

3.2 The Model

The linear model used in this study (which was in line with what is mostly found in the literature) is as follows:

BP=α + β3BSit+β4 ACME it+β5 ACS it+e.

Where:

BP: is the measure of industrials' financial performance. The study employs four financial performance measures for this purpose:

a. Profit Margin (PM). It equals the industrial (i) net interest income (credit interests - debit interests) for year (t) divided by its assets.

b. Earnings per share (EPS). It equals the industrial (i) net profit for year (t) divided by its number of shares.

α: is the intercept .

BS: Board size.

ACME: Audit committee meeting.

ACS: Shareholdings held by audit committee.

4. Empirical Results and Discussion

4.1. Descriptive Statistics

Table 1 below shows the descriptive statistics of all the variables used in the study.

Table 1: Descriptive statistics for the whole sample

	Mean	Minimum	Maximum	Std.Dev.	Observation
BS	7.322	3	10	2.154	50
ACME	0.855	1	1	0.433	50
ACS	0.523	1	0.750	0.295	50

It is noted from Table one that the proportion of the amount Of board size sitting on the board is regarding 9. The descriptive statistics to boot indicate that 75% Of the sampled industrials firms have separate persons occupying the posts of the chief got and additionally the board Chair, whereas 25% of the businesses have the same person occupying the two posts. One can there infers That the majority of the boards of the sampled industrial firms area unit freelance. Finally, the standard proportion Of non-Jordanian possession is forty third whereas Jordanian possession to total possession is 57%.

4.2. Regression Results and Discussion

Table 2 presents the main results of the empirical examination

Table 2: The results of Multiple Regression analysis:

	PM	EPS
BS	0.00156*	-0.00010
ACME	-0.00537 **	-0.00063
ACS	0.00815 **	0.00176***
R2	20.2%	67.7%
Observation	45	45

* Statistically significant at 10%.

** Statistically significant at 5%.

*** Statistically significant at 1%.

As in Adams and Mehran (2003), the study finds negative and statistically necessary relationship between Jordanian industrials corporations performance (ACME) that's to keep with hypothesis one. this might indicate that insurances corporations board with too many directors face wide problems with coordination, communication, and decision-making, furthermore as a result of the danger of excessive executive director management.

We observe a positive relation between the proportion of outsiders (ACS) and performance. This result supports the argument that adding outside administrators to the board improves the supervising of management and reduces the conflict of interest among stakeholders,

The corporate government variable encompasses a negative and statistically vital impact on the PM, that is contrary to hypothesis 3. This result's per Gustav Theodor Rechner and chemist (1991) World Health Organization according that corporations with twin structures had higher financial performance than different companies. what's additional, this leads to line with

Anderson and Anthony (1986) suggestion of the mixture of chairman and company government so as to avoid ambiguity in responsibilities.
The results of the link between the foreign possession and Jordanian industrials firms performance is obvious with the four performance proxies -positive and significant- that's in step with hypothesis3. This result's on-line with the results of some analysis in developing nations (e.g., Claessens, Demirgüç-Kunt, and Huizinga 2001, Bonin, Hasan, and Wachtel 2005). this might be due to the superior access to capital markets or technologies. moreover, there may even be cross subsidies from the parent banking organization in another nation, along with the ability to manage with very little or no financial capital, using the parent organization to take in risks. As well, to the extent that Jordanian foreign owned industrials firms serve international shopper bases in many nations, the booking location of the costs and revenues associated with these shoppers may even be discretionary. Tax issues could to boot shift revenues or costs. Finally, the positive impact may even be as a results of fewer restrictions or credit handiness on these industrials firms.

5. Conclusions

Several studies are conducted on the examination of the link between industrial performance measures and company governance mechanisms, however the outcomes of those studies are mixed. This study examines the link that exists between insurer performance, victimisation 2 proxies, (margin of profit, and earning per share) and 3 company governance mechanisms board composition, chief government standing and foreign ownership). victimisation pooled information analysis technique, this study examines the empirical relation between Jordanian industrials corporations performance measures and company governance mechanisms for 63 industrials corporations quoted on the ASE for the years 2012-2014.
Several studies area unit conducted on the examination of the link between industrial performance measures and company governance mechanisms, but the outcomes of these studies area unit mixed. This study examines the link that exists between underwriter performance, exploitation 2 proxies, (margin of profit, and earning per share) and three company governance mechanisms (Board size, Audit Committee Meetings, and Audit Committee Shareholdings). exploitation pooled info analysis technique, this study examines the empirical relation between Jordanian industrials companies performance measures and company governance mechanisms for 63 industrials companies quoted on the ASE for the years 2012-2014.

Consistent with hypothesis one and three the study reveals positive relationship between the quantity of board size and therefore the Audit Committee conferences and Jordanian industrial companies' performance. The positive relationship between the board size and industrial company performance is anticipated and in keeping with hypothesis1, whereas the negative impact between the Audit Committee conferences and Jordanian industrials companies' performance contradict hypothesis a pair of. this could indicate that the mix of chair and corporate executive facilitate in avoiding ambiguity in responsibilities in Jordanian industrial company. Finally, the study finds that industrials corporations enjoy massive size in giving services. These results and conclusions could also be of interest to regulators as they counsel that there could also be a desire for insurance firm regulation within the space of company governance which might balance the interests of executives, board of administrators and shareholders. The regulation of industrials corporations and monetary establishments is very important thanks to the numerous role that these establishments play within the markets and negative repercussions that area unit intimate once the risk-taking of industrials corporations isn't properly regulated. like any company governance study, this study is subject to some limitations. First, using proxies for actual company governance mechanisms and industrials companies performance outcomes won't accurately capture the actual mechanisms or outcomes seasoned by industrials companies among the financial marketplace. Second, attributable to the actual fact that the implementation of industrials corporations company governance rules has started in Jordan from 2009 the study is forced to the 2012-2014 financial data. This limits the pliability to generalize results to different amount.

References

Adams, R. and Mehran, H. (2003), “Is Corporate Governance Different for Bank Holding Companies?” Economic Policy Review (Federal Reserve Bank of New York) Vol. 9 No. 1, pp. 123-142.

Alexander, K. (2006), "Corporate governance and corporation: the role of regulation in reducing the principal-agent problem." Journal of Banking Regulation, Vol.7, pp. 17-40.

Bonin, J., Hasan, I. and Wachtel, P. (2005), Bank performance, efficiency and ownership in transition countries, Journal of Banking & Finance, Vol. 29, pp. 31-53.

Claessens, S.. Demirgüç-Kunt, A. and Huizinga, H. (2001), “How Does Foreign Entry Affect Domestic Banking Markets?” Journal of Banking and Finance, Vol. 25, pp. 891-911.

Gujarati, D. (2003), Basic Econometrics, McGraw-Hill, New York Handley-Schachler, M. and Gao, S.S. (2003), “Can the Private Finance Initiative Be Used in Emerging Economies? – Lessons from the UK’s Success and Failure Cases”, Menagerie Finance, Vol. 29, No. 5, pp. 35-50.

Shleifer, A., Vishny, R. (2002), “Stock market driven acquisitions”, Journal of Financial Economics, Vol. 70, pp. 295–311.

Rechner, P. L., and Dalton, D. R. (1991), “CEO duality and organizational performance: A longitudinal analysis”, Strategic Management Journal, Vol. 12, pp. 155–161.

Sueyoshi, T., Goto, M., & Omi, Y. (2010). Corporate governance and firm performance: Evidence from Japanese manufacturing industries after the lost decade. European Journal of Operational Research, 203(3), 724-736. http://dx.doi.org/10.1016/j.ejor.2009.09.021

Tornyeva, K., & Wereko, T. (2012). Corporate governance and firm performance: Evidence from the insurance sector of Ghana. European Journal of Business and Management, 4(13), 95-112.

Kim, S. H., Cha, J. M., Cichy, R. F., Kim, M. R., & Tkach, J. L. (2012). Effects of the size of the board of

directors and board involvement in strategy on a private club's financial performance. International Journal
of Contemporary Hospitality Management, 24(1), 7-25. http://dx.doi.org/10.1108/09596111211197773
Kajola, S. O. (2008). Corporate governance and firm performance: The case of Nigerian listed firms. European
Journal of Economics, Finance and Administrative Sciences, 14(14), 16-28.

Nicholson, G. J., & Kiel, G. C. (2004). Breakthrough board performance: How to harness your board's intellectual capital. Corporate Governance, 4(1), 5-23. http://dx.doi.org/10.1108/14720700410521925
Yermack, D. (1996). Higher market valuation of companies with a small board of directors. Journal of financial economics, 40(2), 185-211. http://dx.doi.org/10.1016/0304 405X(95)00844-5

Rashid, A., De Zoysa, A., Lodh, S., & Rudkin, K. (2010). Board composition and firm performance: Evidence from Bangladesh. Australasian Accounting Business and Finance Journal, 4(1), 76-95.
Mashayekhi, B., & Bazaz, M. S. (2008). Corporate governance and firm performance in Iran. Journal of Contemporary Accounting & Economics, 4(2), 156-172. http://dx.doi.org/10.1016/S1815-5669(10)70033-3
Kumar, N., & Singh, J. P. (2013). Effect of board size and promoter ownership on firm value: Some empirical findings from India. Corporate Governance, 13(1), 88-98. http://dx.doi.org/10.1108/14720701311302431
Hassan, S. U., & Ahmed, A. (2012). Corporate Governance, Earnings Management and Financial Performance: A Case of Nigerian Manufacturing Firms. American International Journal of Contemporary Research, 2(7), 214-226.
Jaafar, A., & El-Shawa, M. (2009). Ownership concentration, board characteristics and performance: Evidence
from Jordan. Research in accounting in emerging economies, 9, 73-95. http://dx.doi.org/10.1108/S1479
-3563(2009)0000009005

Mkrtchyan, A. (2013). The effect of director expertise on acquisition performance. Working paper, Penn State University.
Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. The journal of finance, 52(2), 737-783. http://dx.doi.org/10.1111/j.1540-6261.1997.tb04820.x
Adnan, M. A., Htay, S. N. N., Rashid, A., Majdi, H., Meera, M., & Kameel, A. (2011). A panel data analysis on the relationship between corporate governance and bank efficiency. Journal of Accounting, Finance and Economics, 1(1), 1-15.
Haniffa, R., & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. Journal of Business Finance & Accounting, 33(7-8), 1034-1062. http://dx.doi.org/10.1111/j. 1468-5957.2006.00594.x
Jensen, M. C. (1993). The modern industrial revolution, exit, and the failure of internal control systems. The Journal of Finance, 48(3), 831-880. http://dx.doi.org/10.1111/j.1540-6261.1993.tb04022.x.

Amman Stock Exchange (2007), available online at: www.ase.com.jo.
Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. *Journal of Financial Economics*, *3*(4), 305-360.
Denis, D. K., & McConnell, J. J. (2003). International Corporate Governance. *Journal of Financial and Quantitative Analysis*, 38(01), 1-36.
Rwegasira, K. (2000). Corporate Governance in Emerging Capital Markets: Whither Africa? *Corporate Governance: An International Review*, *8*(3), 258-267.
Gregory, H. J., & Simms, M. E. (1999). Corporate Governance: What it is and why it Matters. Paper presented at the 9th International Anti-Corruption Conference, Kuala Lumpur.