Corporate Governance and Financial Firm Performance: Evidences from Jordan

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Abstract

Based on a sample of 105 listed companies in the financial sector on Amman Stock Exchange market over the period 2011 to 2013, this paper investigates the relationship between several attributes of corporate governance namely: board size, duality CEO, board experience, board independence, audit committee and managerial ownership, and financial firm performance. The results show that ownership structure and board composition have a strong impact on the financial companies' performance. Results indicate that financial firm performance with board independence has the highest performance and that as board size and board expertise increase the financial firm performance becomes more efficient. Furthermore, managerial ownership percentage has negative effect on financial firm performance. More interestingly, the current study used several sensitivity tests to verify the results and to provide further support for the main findings of this paper. The sensitivity tests are conducted as ways to mitigate the problems of endogeneity that can bias the interpretation of the results. The first set of tests estimated proposed model by using alternative measure of financial firm performance, including ROE and Tobin's Q, as both measures have been suggested by previous studies to influence the level of financial firm performance. However, the results which obtained by these analysis are similar to ones reported for the main analyze. This paper attempts add some valuable empirical evidence to the literature on Jordanian financial firm performance, helping to have an insight understanding of a significant determinant mostly associated with firm performance, namely corporate governance. According to the understanding of the importance of the existence of effective corporate governance mechanism in monitoring financial firm values, much progress and actions have to take place in Jordan to enhance the protection of financial firm ' shareholders and stakeholders' interests. Based on pertinent literature and empirical findings in other countries, this paper contributes to the financial firm performance literature in Jordanian context by investigating the relationship between performance and corporate governance mechanism in the financial sector, thus, provides an opportunity to look at various parts of the firm governance framework and the financial incentives that influence managers and owners.

Keywords: Corporate governance, Financial firms performance; Board size, Board Independence, Audit committee; Jordan.

1. Introduction

The globalization and technology have continuing speed which makes the financial arena to become more open to new products and services invented. However, financial regulators everywhere are scrambling to assess the changes and control disorders (Sandeep, Patel and Lilicare, 2002). International swept a wave of mergers and acquisitions are also the financial industry. In line with these changes, the fact remains unchanged that the countries need flexible sound financial systems with good corporate governance. This will lead to the promotion and development of the institution in order to survive in an open environment increasingly (Qi, Wu and Zhang, 2000; Coke; Renneboog, 2002 and Kashif, 2008). Improve corporate governance has become a major target in recent years for both academics and practitioners alike. More specifically, the issue revolves around the boards of directors in their role as observers of the senior management of the company. Carter and Lorsch(2004). One of the key aspects of good governance and reassuring companies is to assign clear accountability for the results of the company. In the performance of its supervisory role, the Board of Directors of appropriate operational measures needed to evaluate the performance of management.

Given the fury of activities that have affected the efforts of financial companies to comply with the various consolidation policies and the antecedents of some operators in the financial system, there are concerns on the need to strengthen corporate governance in the financial institutions. This will boost public confidence and ensure efficient and effective functioning of the financial system (Soludo, 2004). Consequently, financial institutions have strong interest in ensuring that there is effective corporate governance at every financial company.

Motivation to research into the governance of financial institutions is that financial crises are not random events, but are set in motion by the decisions of individuals and institutions operating within a given framework of laws and regulations. For each financial instrument that becomes a "weapon of mass financial destruction" or creates an economy-wide bubble, there is an underlying failure of incentives among the executives of financial institutions, their owners and creditors, and regulators. Corporate governance has the potential to identify problem spots where incentives are mismatched in a way that could lead to undesired firm behavior or even system-wide instability.

In Jordan, the legal status of many financial institutions as publicly listed companies means that corporate law treats them much like nonfinancial institutions. Perhaps accordingly, much of the research on the corporate governance of financial institutions has used governance and performance measurements based on value maximization. While we think this is a reasonable approach, we all know that the financial crisis was a powerful reminder that financial institutions are unique, and as such they demand both a different paradigm for evaluation and different metrics for measuring their governance and subsequent performance. One potential approach looks at financial institutions through potentially conflicting demands: safety and soundness against innovation and improvement.

Much of corporate governance theory and research is based on nonfinancial firms and is from the implicit viewpoint of the potential investor. The starting motivation is the existence of the modern corporation, where dispersed ownership is split from a professional management team. A viewer of this market structure may wonder why, with all the problems of moral hazard embedded in the structure and operation of the modern limited liability corporation, (Shleifer and Vishny 1997).

Many mechanisms govern financial institutions. All firms operate within a framework of laws, taxes, and social mores. Financial institutions face the added dimension of specific regulations and supervisory actions. Every major decision within the firm—entry, financing mix, investment, compensation, growth, and death—is highly influenced by internal governors such as the board of directors and risk officers and by external governors such as market participants, regulators, and legislators. These forces are not all equal and their interests do not always align because they do not always want the same outcomes or risk profile for financial institutions.

Recently corporate governance practices in Jordan have received increasing attention. Jordanian business leaders are trying to find solutions that will help Jordanian companies be more competitive on the global market, they have identified corporate governance as a key ingredient of the success formula towards achieving global competitiveness. Given the importance of credibility in financial reporting and good performance has raised the importance of good corporate governance in financial sector in Jordan.

On the basis of this principle consists of our questions about whether the existence of corporate governance and its application affect the financial performance of financial firms. So this study contributes to the growing literature by focusing on the relationship between corporate governance mechanisms and financial performance of the financial companies in developing countries like Jordan.

According to the above arguments, the study intends to answer the next research question:
What is the impact of corporate governance mechanisms on the financial performance of the financial companies in Jordan?

The purpose of this study is investigate whether corporate governance rules influence the financial performance of the firms and find out the relationship between characteristics of the board of directors of the corporate governance in terms of independence, number of members, their experience and the performance of financial companies listed on the Amman Stock Exchange. And also verify the existence of the Internal Audit Committee, and the percentage of ownership of the members of the senior management in the company's capital. Can be formulated to support the objectives of the second main objective of the study are as follows:
To study the relationship between corporate governance and financial performance of companies.
1) To measure whether it is corporate governance rules applied through real ways or not.
2) To explore the problems faced by financial companies in Jordan that may lead to negative performance.

The study focuses on financial companies listed on the Amman Stock Exchange (ASE) for the period from 2011 to 2013. The study considers only this period to be appropriate due to shortage of time and resource constraints. And the study focuses on the effects of board characteristics (independence, expertise and size), present audit committee, managerial ownership and duality on the firm's performance. These are related corporate governance measures and are perceived to have direct effects on firm's financial performance.

Besides that, it is required by the Jordanian Companies Ordinance that companies incorporated in Amman Stock Exchange (ASE) should disclose the applying of the governance rules in their annual reports, even though to date there are a lack of information about reality of implement in Jordan. This research covers the growing body of governance literature examining the relationship between corporate governance mechanisms and performance. It is also an important addition to corporate governance in financial sector literature due to the growing interest of accounting profession, business community and regulators in the relationship between governance mechanisms and performance. It also helps to understand the impact of ownership structure on financial performance.

2. Related literature and hypotheses development

The theoretical framework presented above will be used to develop the testable hypotheses for the study. The basis of the hypotheses is that the introduction of corporate governance best practices namely the corporate practices will be reflected in firm performance. Therefore, the hypotheses presented in this study will be tested to investigate the effect of corporate governance practices on firm performance in Jordan political and economic

environment.

The size of the board of directors is one of the mechanisms of the most important corporate governance, and to find out the relationship between the size of the board and corporate performance, is the use of variable size of the board in this study to see its impact on the performance of financial companies. We consider board size as a variable that can influence corporate governance practices and firm performance in this study. It is acknowledged that the board size and firm size are correlated (Dalton et al. 1999; Yarmack 1996) and board size is related to firm performance (Kiel and Nicholson 2003).

From an agency perspective, larger companies require bigger boards to monitor and control the management's actions (Kiel and Nicholson 2003). As suggested by agency theorist (Jensen 1993), an optimal limit should be around eight directors and (Lipton; Lorsch,1992) suggested the maximum size of the board should be ten members, as greater numbers will interfere with the group dynamics and hinder board performance. An alternative view is that it is not the size that is important, rather it is the number of outside directors (Dalton et al. 1999). Therefore in the academic literature, this variable is measured using total number of directors (Abdullah 2004; Kiel and Nicholson 2003).

The same method will be used in this analysis. For the relationship between the size of the board and the company's performance, there are two views say first that the smaller size will contribute more to the success of the company. And previous studies provide evidence on the role of board size in enhancing the monitoring of management. According to (Monks; Minow, 2004) larger boards are capable of committing more time and effort, and smaller boards are capable of committing less time and effort, to handling management. The size of the board is likely to influence the financial reporting process.

However, the second opinion is that the large size of the board leads to improved performance of the company. Sheikhs, Nadeem et al (2013), (Al-manaseer et al, 2012) saythe relationship between board size and performance is positively .Based on the statement above mentioned, this study proposes the hypothesis as follows:

H1: There is a positive relationship between board size and financial firm's performance

There are many studies that analyzed the relationship between corporate performance and the structure of the leadership board. Empirical evidence related to the duality proved that companies that have a separate command better performance of companies that combine functions. A similar theoretical debate between agency theory and stewardship theory revolves around the issue of the effectiveness of CEO duality (whether or not the CEO and chairman of the board is the same person) as a governance mechanism. As with board independence, agency theory and stewardship theory are associated with opposite predictions as to the effectiveness of CEO duality as a governance mechanism. On the one hand, agency theory argues that personal separation of the CEO and chairperson roles (CEO non-duality) is important to develop effective monitoring by the board. If the CEO and chair of the board is the same person, agency theory argues that this is likely to create abuse of power, since this person will be very powerful without effective checks and balances to control her or him.

Consequently, agency theory predicts that firms with separation of the CEO and the chair of the board – CEO non-duality – perform better than their counterparts without separation CEO duality (Fama and Jensen, 1983). On the other hand, stewardship theory argues that putting the roles of CEO and chair of the board in a single hand (CEO duality) is essential to unify and to remove ambiguity from firm leadership. According to stewardship theory, when the roles of CEO and chair of the board are performed by different people, they often have contrary objectives (Dalton et al. (1998) a meta-analysis). So, stewardship theory predicts that firms with CEO duality perform better than firms without such duality. Again, this theoretical state of the art is reflected in empirical work. Jointly, previous studies have produced mixed results as to the sign of the relationship between CEO duality and firm performance.

There are also studies have found the opposite effect with companies that have double the performance of the best, but the studies. Some researchers say that there are different situations in the structures of the Council of companies which were the subject of a more aggressive and found to take, compared to the corresponding acquired company is, the objectives of the seizure of the highest rate of driving separate. Finally It is worth mentioning (Berg and Smith, 1978, Rechner and Dalton, 1989) in their study said that there is no correlation between the duality and the performance of companies. Thus, in spite of the recommendations of the Cadbury, and the impact of duplication in performance is unclear.

According to the above, and trying to figure out the relationship between the Duality and the performance of companies this research proposes to develop this hypothesis in the following form:

H2: There is a positive relationship between the duality of CEO and financial firm's performance

According to previous studies that the members of the Board of Directors with the highest average age will have much more experience compared with the average age of the youngest. It is expected to contribute positively to the better performance of the company this experiment. Also, some studies suggest the members with large reconstruction have a kind of dictatorship when making decisions and that the decisions of these characteristics of the members of the Board may lead to risky decision, which may undermine the company's performance.

However, for financial reporting process, the board directors must have accounting knowledge in order to produce quality financial reporting either to control manipulation or to make information more transparent. (Lanfranconi; Robertson, 2002) pointed out that the collapse of Enron and WorldCom was due to the lack of knowledge of their board members. Specifically, in the Enron case, the board members did not understand its complex financial planning structures that used „special purpose entities". In the WorldCom case, the board members had no knowledge of basic accounting principles, as they were not aware of expenditure being capitalized instead of expensed.

Carcello et al, 2002.in his suggests that the members of boards of directors who have more experience in terms of a higher number of directorships are more likely to demand high-quality performance, which leads to a good performance. On the other hand, it can be argued that multiple directorships show enhanced quality of oversight by the board.

Some researchers say that, members of the Board with the highest average age may face pressure limited more to the changing business environment and this may hinder the implementation of more strategic decisions.

Weggeet, (2008) have said in their study despite the fact that there was a viewpoint conflicting about the relationship between the level Panel of experience and performance of the company, which is the theory of resource restraint and considers that the members of the board of directors with more experience to improve the methods of dealing within the business environment that work well in the group that will contribute positively to the company's performance.

According to the above, and try to figure out the relationship between the Board experience and the performance of companies the study proposes to develop this hypothesis in the following form:

H3: There is a positive relationship between board's working experience and financial firm's performance

Many empirical studies agree on the importance of independent directors in the company's success that companies that have a high proportion of independent directors in the face of financial pressures Council less frequency. (Lummi; Gueyie2001).Agency theory argues that a larger proportion of independent directors will promote better firm performance. This theory assumes that managers are individualistic, opportunistic and self-serving. Then, effective monitoring by independent boards is a key to making executives effectively pursue shareholder rather than self-interests.

The often implicit assumption is that independent directors are not hindered by tendencies to pursue private interests. Consequently, boards with more independent directors can perform managerial monitoring tasks more effectively (Eisenhardt, 1989; Fama, 1980; Fama and Jensen, 1983; Jensen and Meckling, 1976). On the other hand, stewardship theory argues that boards dominated by insiders are to be preferred to boards dominated by outsiders as managers are assumed to be collectivistic ally and reorganization oriented, as well as trustworthy.

An additional argument is that inside directors are better informed about their firms, which makes them better able to support effective decision-making than independent directors. Stewardship theory assumes that managers are good stewards of corporations by acting in the best interests of their principals. As a result, this theory predicts that insider-dominated boards will boost firm performance (Davis, Schoorman and Donaldson, 1997; Donaldson, 1990; Donaldson and Davis, 1991, 1994).This state of the art in the theoretical arena is mirrored in empirical work on the board independence–firm performance link. The Meta analytic study of Dalton et al. (1998) clearly reveals the positive findings on the relationship between board independence and firm performance. Daily and others, 2003 said that the probability of bankruptcy will be less when the business environment gets worse, if there are many of the independent members of the board of directors. So, the literature review indicates that, both on theoretical and empirical grounds, a clear and unambiguous prediction as to the effect of the proportion of independent board members on firm performance is difficult to make.

According to the above, and trying to figure out the relationship between the Board independence and the performance of companies this research proposes to develop this hypothesis in the following form:

H4: There is a positive relationship between board independence and financial firm's performance

The internal audit committee is very important inside a firm that the internal audit is regarded as the key element in the application of accounting systems which in turn, helps in evaluating the work of the department. The internal audit is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department's quality.

Moreover, an internal audit is a significant part of the CG structure in an organization and CG encompasses oversight activities taken by the board of directors and audit committees to make sure that the financial reporting process is credible (Public Oversight Board, 1994). Three monitoring mechanisms have been highlighted in the CG literature, namely, external auditing, internal auditing and directorship (Al Matarneh, 2011; Anderson et al. 1993; Blue Ribbon Committee, 1999; IIA, 2003).

The financial and corporate strategy of a company is underpinned by effective internal systems in which

the internal audit has an important role in raising the reliability of the internal control system, improving the process of risk management and above all, satisfying the needs of internal users. The internal audit support enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders (Eighme and Cashell, 2002). Taken together, the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders are interested in return on investments, sustainable growth, strong leadership, and reliable reporting on the financial performance and business practices of a company (Ljubisavljevic; Jovanovi, 2011).

Rehaily, 2008.said that the Audit Committee is considered one of the main pillars of corporate governance the audit committee in corporations play an important role in governance as a link between the regulators and the company's board of directors. The companies with a financial expert within the members of the Audit Committee by the worth more than about five times for those companies that do not include this kind of financial experts among the members of the audit committee by (Chan; Li, 2008).

According to the above, and trying to figure out the relationship between the Audit Committee and the performance of companies this research proposes to develop this hypothesis in the following form:

H5: There is a positive relationship between audit committee presents and financial firm's performance

Bhabra; others, 2003.Providedthat there is an indirect relationship between property panel and the company's performance. There are those who say the contribution of the ownership of the management regarded as a "knife-edged", where there is an optimal level of ownership of the board, which contributes positively to the company's performance.

The influence of managerial ownership on enterprise performance is related to the view that a firm's value depends on the distribution of ownership between managers and other owners, as first underlined by, (Berle; Means, 1932) and, later on, Jensen; Meckling (1976). Within this context and the so-called 'incentive argument', giving managers corporate shares makes them behave like shareholders. In an extreme case (Jensen and Meckling, 1976), we would have a firm with a single owner-manager and hence a complete alignment of the manager's and owner's incentives (no equity-related agency costs). The superior performance of firms with substantial managerial ownership could also be due to psychological reasons.

The theory of entrepreneurship, for example, promotes the idea that managers who are also large shareholders better perceive new business opportunities; as such, this theory complements the incentive theory somewhat since it provides an explanation of the positive effect of managerial ownership in firms with a relatively dispersed ownership structure. (Bull, 1989), for example, finds that due to this 'entrepreneur effect' firms that have been subject to a management buy-out normally perform better. After taking over the firm, managers in fact tend to concentrate on the maximization of the cash flow rather than on the mere maximization of current profits.

However, the relationship between managerial ownership and firm performance might not be monotonic since beyond certain levels equity incentives may lead to the expropriation (rather than improvement) of the firm's value. By increasing their ownership and voting stakes, managers in fact gain the opportunity to expropriate some corporate funds on their own behalf and at the expense of other shareholders, namely to gain some 'private benefits of control'. According to (Barclay; Holderness, 1991), the private benefits of control are one of the main reasons for the existence of block holders around the world. If the desire to obtain these benefits overrules the incentive effect, managerial ownership could actually reduce a firm's value ('the entrenchment effect'). Excessive managerial ownership can also reduce the probability of a successful takeover and lead to 'positional conflicts (Stulz, 1988). Sheehan, (1988) report that firms with majority managerial ownership pay more compensation to their managers than firms where the majority of shares are held by outside owners. According to the above, and trying to figure out the relationship between the Managerial ownership and the performance of companies this study proposes to develop this hypothesis in the following form:

H6: There is a positive relationship between managerial ownership and financial firm's performance

3. Data and methodology

In this chapter undertakes a description of the various measures of corporate governance and firm's performance. Besides, this chapter provides a discussion of the research methodology, research design, target sample, data sources and data collection methods, and data analysis used to deal with the six hypotheses being tested. The analyses are based on the financial data obtained from companies listed on the Amman Stock Exchange (ASE) for the period 2011to 2013 .The research model includes control variables derived from earlier studies. Whereas this chapter is divided into the following parts:

3.1.Data selection

The objectives of the study were to conduct an investigation of the corporate governance rules of listed financial companies in Jordan and their effect on firm performance, and the extent of adoption of corporate governance principles. The sample was selected from 114 financial companies listed in the Amman Stock Exchange for the

period (2011 – 2013) The aim was to compare the extent to which they had adopted corporate governance rules and practices over the period. We have selected the sample data along with the following criteria:

1. According of the study aim we choose the financial sector's companies (banks, insurance companies and financial services companies)
2. Excluding listed companies that have not disclosed one or more of the corporate governance principles in their annual report.
3. The company is listed on Amman Stock Exchange during the study period (2011-2013).
4. Excluding listed companies that stopped trading during the study period.
5. If any required indicator is not available in the disclosure of company, this company is removed from the sample.

Finally and according the selection criteria and have the relevant financial data obtainable, we get **105** companies (out of 114 firms in total). This is a suitable sample, which will be examined in accordance with the standards imposed by the Jordan Securities Commission on the Amman Stock Exchange listed companies. In Table (4.1) the sample description is specified. The data and information required for the study were collected from the Amman Stock Exchange related websites, annual reports. In cases any annual report cannot be found in ASE website, it is obtained from the company's website.

Table (3.1) Sample Description
Number of annual reports used in the total sample sorted by sector

Sector	Population	Number of company-year observations(*3)	Sample	Sample(*3)
Financial	114	342	105	315
Industrial	72	216	-	-
Services	58	174	-	-
Total	244	732	105	315

Conceptual framework
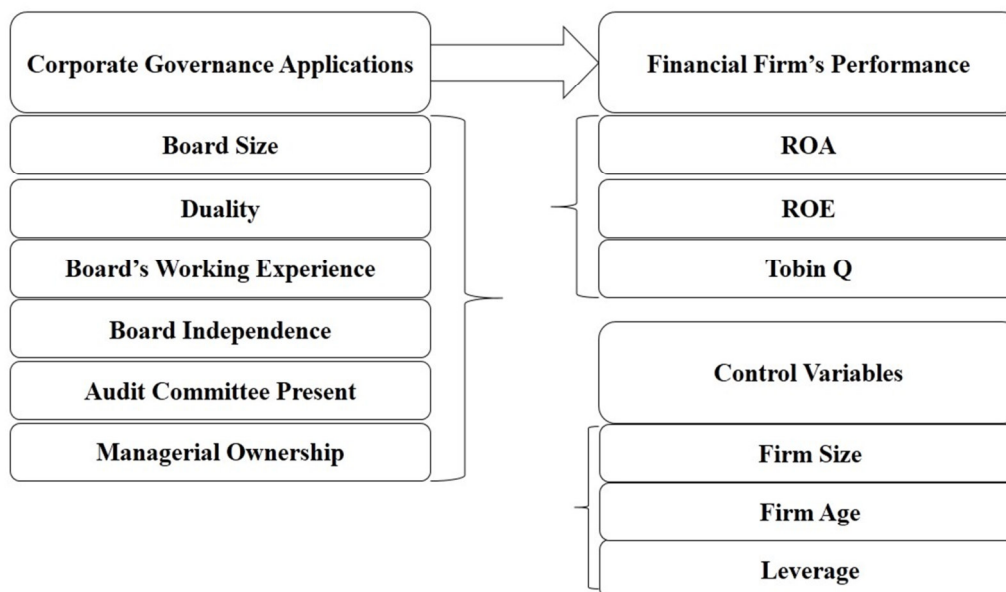
3.2.Model specification
The ordinary least squares regression (OLS) will employ to investigate the relationship between corporate governance and firm's performance in Jordan. The form of the fee regression model with the anticipated sign of the coefficients is as follows:

F.P. ROA =$\beta 0+\beta 1 Bsz+\beta 2 BD+\beta 3 B.exp+\beta 4 B.I+\beta 5 A.CP+\beta 6 M.O+\beta 7 FSz+\beta 8 Fg+\beta 9 Lev+e$
F.P. ROE =$\beta 0+\beta 1 Bsz+\beta 2 BD+\beta 3 B.exp+\beta 4 B.I+\beta 5 A.CP+\beta 6 M.O+\beta 7 FSz+\beta 8 Fg+\beta 9 Lev+e$
F.P. TOBIN Q=$\beta 0+\beta 1 Bsz+\beta 2 BD+\beta 3 B.exp+\beta 4 B.I+\beta 5 A.CP+\beta 6 M.O+\beta 7 FSz+\beta 8 Fg+\beta 9 Lev+e$

4 Analysis and Results
In this chapter, the results from the model introduced in chapter 4, are presented and interpreted accordingly. The relationship between corporate governance (board size, board experience, board independence, duality, Audit committee present and Managerial Ownership) and financial performance over a three-year period for the

objective of this study is covered. Therefore, this chapter will focus on the following points by careful review of the publications and summary of the important retrieved subjects that supported :Descriptive Statistics Univariate Correlation Analysis Multivariate analysis Robustness Tests Sensitivity Tests.

4.1. Descriptive Statistics

Descriptive statistic has been widely used in academic research on corporate governance (Abdullah 2004). Descriptive statistic measures the central tendency and dispersion. The most commonly used measures of central tendencies are mean, mode and median. The mean is the most important measure of central tendency Veal, 2005. The descriptive statistics used in this study consist of mean, maximum and minimum. The mean is calculated to measure the central tendency of the variables in 2011 and 2013.Descriptive statistic is also useful to make general observations about the data collected. It reports on the trends and patterns of data and provides the basis for comparisons between variables. In this study descriptive statistics provide a comparison of changes in the data for 2011 and 2013. It shows the extent to which companies have adopted the recommendations of the code of best practice on corporate governance and the trends of the firm performance variables.

Table (4.1) Variables Identification

Variables	Description	measurement
dependent variable		
F.P.	Financial Firms Performance	ROA, ROE, Tobin Q
ROA	Return on Assets	Net income after tax/ total assets
ROE	Return on Equity	Net income after tax/equity
Tobin Q	Tobin Q	Total market value of firm/Total assets value of firm
Independent variables		
BSZ	Board size	a total of board members
BD	Duality	variable takes the value (1) If the Chairman of the Board is the same as the company's CEO and (0) otherwise
B.exp	Board's working experience	a dummy variable takes the value (1) if the board of firm includes at least one member with finance or accounting expertise, and (0) otherwise
B.I	Board independence	measured as the ratio of percentage of outside directors to total directors
A.CP	Audit committee present	variable takes the value (1) if there is Audit committee and (0) otherwise
M. O	Managerial Ownership	It is percentage of equity owned by the insiders (Directors, managers) to all equity of the firm.
Control variables		
FSz	Firm size	Natural logarithm of book value of total assets
F.g	Years of establishment	Natural logarithm of years since establishment
LEV	Financial leverage	Ratio of total debt divided by equity

According to sample size, the primary sample size was (114) financial companies which listed on ASE and meet the selection criteria and have the relevant financial data obtainable, but the I have found that there are (9) companies considered as outliers, needed to be excluded because they provided data that causes outliers. Therefore the researcher excluded those companies from the sample size. However, a sample of 105 companies (114 primary sample – 9 companies consider as outliers) is sufficient to predict large effects and thus legitimizes the size of sample in this paper. Table (5.1) presents summary statistics (mean, standard deviation, minimum and maximum) for all variables which used in the study.

4.2. Performance measures

It's remarkable to note that the mean of return on assets (ROA) is about (10.8) JOD (Jordanian Dinar) ranging from (-13.300) JOD to (30.539) JOD with standard deviation equals (8.211) JOD. And the mean of return on equity (ROE) is about (8.04) JOD ranging from (-9.04) JOD to (25.670) JOD with standard deviation equals (10.431) JOD. Also the mean of Tobin's q (TQ) is about (1.71) JOD ranging from (0.71) JOD to (8.98) JOD with standard deviation equals (1.04) JOD.

Board size

According the board size, the table (5.1) exhibits the average number of board size is 8 members. However, the maximum number of board size is 13 members, which implies that some Jordanian financial companies (of the sample companies) don't follow the Jordanian corporate governance codes which recommends that the size of the board members should be small enough (minimum 5) for efficient decision-making and large enough

(maximum 13) for Directors to contribute their broad experiences and knowledge sufficiently.

Duality BD

Table (5.1) shows that around 22% of the financial Jordanian listed companies (of the sample companies) have duality (Chairman of the Board is the same as the Executive Director).Accordingly, these companies do not apply the rules of corporate governance, Where it is recommended not to combine the two functions, and must be separated.

Board independence

The independence of board directors, table number (5.1) shows that in Jordan board independence ranges from 0% to 91% with an average of 29%. This implies that board independence recognized in some financial Jordanian companies (of the sample companies). But on other hand, some Jordanian listed companies don't adhere to the rules of corporate governance with respect of board independence. Jordanian corporate governance code indicates that at least one third of the board members are independent members.

Board's members experience

Table number (5.1) shows that 60% of the members of board directors of study sample have financial expertise. It was also found that members in some listed companies don't have any financial expertise. In the meanwhile, all members in several other companies have that experience. Based on that , it can be concluded that greatest part of the Jordanian listed companies adhere to the rules of corporate governance with respect to the financial experience which indicated that the member of the board of directors should be qualified and enjoys adequate knowledge and experience in finance and administrative affairs.

Audit committee

Table (5.1) shows that around 75% of the financial Jordanian listed companies (of the sample companies) have internal audit committee. Accordingly, there are around 25% of the companies do not apply the rules of corporate governance, Where it is recommended that the every company should has internal audit committee.

The managerial ownership

In the table number (5.1) we can see that the managerial ownership ranges from 5% to 90%, with both a mean 45%, and standard deviation of 0.301. These statistics also are not surprising due to the nature of emerging markets investing and it goes in line with study of Fayoumi et al. (2010) which indicated that ownership in Jordanian public listed companies are much more owned by the insider.

Control Variables

The descriptive statistics of the control variables as in Table (5.1), shows that the mean for the natural log of total assets is (39.898) JOD. The company leverage measured in terms of total debts to total asset, averages (35.001). The descriptive statistics of the categorical control variables as indicated in Table (5.2) show that Average age of sample companies that are listed on the ASE is (15.970).

Table (4.2) Descriptive Statistics of the Dependent, Independent and control Variables

Variables	Mean	N	STDEV	Min	Max
dependent variables					
ROA	10.798	315	8.211	-13.300	30.539
ROE	8.04	315	10.431	-9.04	25.670
T. Q	1.71	315	1.04	0.71	8.98
independent variables					
BSZ	8.101	315	2.213	5.000	13.000
BD	0.220	315	0.367	0.000	1.000
B.exp	0.600	315	0.189	0.000	1.000
B.I	0.298	315	0.262	0.000	0.911
A.CP	0.753	315	0.501	0.000	.813
M. O	0.486	315	0.301	0.054	0.901
Control Variables					
FSZ	39.898	315	1.756	22.241	66.491
F.g	15.970	315	0.987	2.000	35.012
LEV	35.001	315	35.430	0.321	249.598

Source: 2011 – 2013 Research data, author's computations.

Elements of corporate governance with performance

Table (5.2) shows that the performance (dependent variables) has strong correlation corporate governance rules; **1-** board size (BSZ) of (0.020) with (ROA) and is significant at the 5% level, board size (BSZ) of (0.097) with (ROE) and is significant at the 5% level, board size (BSZ) has negative correlation with (TQ) (-0. 970). **2-**board duality (BD) of (0.169) correlation with (ROA), board duality (BD) of (0.098) with (ROE), and we can see the correlation between duality and Tobin's q of (-0.115). **3**- board experience (Bexp) is positively correlated with (ROA) of (0.090) and significant at the 5% significance level, board experience (Bexp) is positively correlated with (ROE) of (0.087) and significant at the 5% significance level, board experience (Bexp) is positively correlated with (TQ) of (0.034) and significant at the 5% significance level, **4-** board independence (BI) of

(0.058) with (ROA) and is significant at the 5% level, board independence (B.I) of (0.053) with (ROE) and is significant at the 5% level, board independence (BI) of (0.034) with (TQ) and is significant at the 5% level. **5-** The present internal audit committee (ACP) of (0.197) with (ROA) and is significant at the 5% level, audit committee (ACP) of (0.128) with (ROE) and is significant at the 5% level, committee (ACP) has positive correlation with (TQ) (0.117) and is significant at the 5% level. **6-** Managerial ownership (MO) of (-0.079) negative correlation with (ROA), (MO) of (0.351[*]) with (ROE) and is significant at the 5% level, (MO) of (0.062) with (TQ) and is significant at the 5% level.

Control variables correlation with performance

In the table number (5.2) shows the correlation between the control variables and firm performance, as firm size (FSZ) of (0.309[**]) with return assets (ROA) and is significant at the level of 1%. Firm age (Fg) of (0.136) with return assets (ROA) and is significant at the level of 1%. Leverage (lev) of (0.020) with return assets (ROA) and is significant at the level of 1%. Firm size (FSZ) of (0.297[**]) with return on Equity (ROE) and is significant at the level of 1%. Firm age (Fg) of (0.100) with return on Equity (ROE) and is significant at the level of 1%. Leverage (lev) of (0.054) with return on Equity (ROE) and is significant at the level of 1%. Firm size (FSZ) of (0.329**) with Tobin's q (TQ) and is significant at the level of 1%. Firm age (Fg) of (0.407[**]) with Tobin's q (TQ) and is significant at the level of 1%. Leverage (lev) of (0.0821) with Tobin's q (TQ) and is significant at the level of 1%.

4.3. The correlation between Independent Variables

some of the independent variables are significantly correlated with each other, although their correlations do not indicate multi- collinearity as a serious problem, e.g., board size (Bsz) and board independence (BI) have a correlation coefficient of (0.399**) with p=0.001. On other side, board size (Bsz) and the duality (BD) are correlated at 1% with correlation coefficient (0.110), board experience (Bexp) with board independence (BI) have correlation coefficient of (0.176**) and it's significant at the 1% significance level. Furthermore, correlation among the variables used in this study may provide interpretation to the regression and to a possible multi- collinearity problem. In this respect Judge et al. (1988) suggest that correlation values below do not pose a potential multi-collinearity problem. However, care needs to be exercised when interpreting the Pearson correlation coefficients; this is because they cannot provide a reliable indicator of the association in a manner that controls for additional explanatory variables (Pallant, 2001). Therefore tests were performed in section (5.4) for detecting the multi-collinearity among the independent variables in the model.

Table (4.3) Correlation Statistics for Variables used in the Analyses

Variables	ROA	ROE	T Q	BSZ	BD	Bexp	BI	ACP	MO	FSZ	Fg	LEV
ROA	1.000											
ROE	0.578[**]	1.000										
TQ	0.292[**]	0.398[**]	1.000									
BSZ	0.020	0.097	-0. 970	1.000								
BD	0.169	0.098	-0.115	0.110	1.000							
Bexp	0.090	0.087	0.1503	-0.138[*]	0.094	1.000						
BI	0.058	0.053	0.034	0.399[**]	-0.293	0.176**	1.000					
ACP	0.197	0.128	0.117	0.033	0.200	0.012	0.407	1.000				
MO	-0.079	0.351[*]	0.062	-0.175[**]	0.191	0.086	-0.181[**]	-0.187	1.000			
FSZ	0.309[**]	0.297[**]	0.329**	0.288[**]	0.150	0.023	0.160[**]	0.383	-0.240[**]	1.000		
Fg	0.136	0.100	0.407[**]	0.040	0.167	0.021	-0.083	0.132	0.030	0.060	1.000	
LEV	0.020	0.054	0.0821	0.192	0.088	0.172[**]	0.061	0.018	0.069	0.319[**]	-0.131	1.000

1. Note: **indicates significant at 1% level; * indicates significance at 5% level (two-tailed).
***Where is: ROA** = return on assets; **ROE**=return on equity, **TQ**=Tobin's Q, **BSZ**= Board size, **BD**=Board duality, **BEXP**=Board experience,*
***BI** = Board independence, It is measured as the ratio of percentage of outside directors to total directors, **ACP**= Audit committee present, **MO**= Managerial ownership, as percentage of equity owned by the insiders (directors, managers) to all equity of the firm; **FSZ**= company size, natural logarithm of total assets at the end of the year; **Fg**= is firm age, **LEV**= Company leverage, dividing short-term debt and long-term debt by total assets.*

4.4. Multivariate Analysis

The ordinary least squares (OLS) regression model is used as the method of data analysis. The hypotheses developed in chapter (3) are tested using the ordinary least squares regression model. The model is similar to the cross-sectional performance regression model used by many researchers. Performance model is estimated for 2011, 2012, and 2013 then for the three years al-together. The results of all these models are almost quantitatively similar to each other. The results of the year's analysis are presented in Table (5.3).

R-squared is a statistical measure of how close the data are to the fitted regression line. It is also known as the co-efficient of determination, or the co-efficient of multiple determinations for multiple regressions. In this study the values of R squared are almost close to each other and consistently move around 69% to 72%. The adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The adjusted R-squared increases only if the new term improves the model more than would be expected by chance. It decreases when a predictor improves the model by less than expected by chance. The adjusted R-squared can be negative, but it's usually not. It is always lower than the R-squared. It gives an idea of how much variance in the response variable would be accounted for if the model had been derived from the

population. The adjusted R-squared improved approximately from 67% to 70%. However, table (5.3), shows the multiple regression results for the year 2010, 2011, 2012, and the whole years together respectively. The dependent variable is performance the independent variables are corporate governance characteristics.

Board size (BSZ)

The study points out that board size is significantly and positively associated with company's performance the positively signed coefficient (p- value = 0.036**). The result indicates that as the board size increases, the likelihood of financial statement frauds also increases. Further, a large board is less effective due to slowness in decision making, is more risk averse and creates a free rider problem. According to the Jordanian code of corporate governance documents that the number of board members has been left to the internal system of the company, but it should not be less than 5 members and not more than 13 either. Thus it can be argued that the board size consider as important dominant determinant of performance.

Duality BD

The study points out that Duality is significantly and positively associated with performance of Jordanian companies, the positively signed coefficient (P-value = 0.037**). The result indicates that as the Duality increases, the board's chairman is also the CEO of a firm (known as a duality of the CEO), firm's performance is improved. This finding is supported on the basis of the managerial theory. This study also finds the empirical evidence to support the view that experienced board members will contribute positively to firm's performance and board's compensation, being the link between the benefits of shareholders and that of firm's management, will also contribute positively to firm's performance. This finding is also supported on the basis of the agency theory and stewardship theory is associated with opposite predictions as to the effectiveness of CEO duality as a governance mechanism. On the one hand, agency theory argues that personal separation of the CEO and chairperson roles (CEO non-duality) is important to develop effective monitoring by the board.

Board experience (B.exp)

The positively signed coefficient (p- value = 0.069*) supports the study's argument and hypothesis. This finding suggests that the members of boards of directors who have more experience are more likely to improve performance. Nevertheless, the result is different from some previous studies which conducted that board members who possess financial expertise enhance the quality of oversight by the board.

Board independence (BI)

The result indicates that there is a positive and significant relationship (p-value = 0.078) between board independence and firm's performance. And it seems logical, because an independent board will be more concord about discharging its monitoring role. Clearly, independent board members are more concord about their personal exposure if managers misbehave and, they are more interested in performance testing in order to minimize the risk of managerial behavior, then that could affect their personal liability. This suggests that companies with greater board independence will look up to improve its performance.

Audit committee present (ACP)

The hypothesis of the variable: there is a positive association between internal audit committee and the company's performance found in annual reports. The internal audit committee is positively associated company's performance. With the significant at the (p-value = 0.027**), thus, H5 is supported. This indicates that the existence of the internal audit committee may have positive impact on the performance.

Managerial Ownership (MO)

The investigation into relationship between managerial ownership and financial firm's performance and the results shows that managerial ownership has positive association with firm performance with the coefficient is (-0.093) (p-value =0.050**).

Model 1; F.P. ROA $=\beta_0+\beta_1 Bsz+\beta_2 B.D+\beta_3 B.exp+\beta_4 B.I+\beta_5 A.CP+\beta_6 M.O+\beta_7 FSz+\beta_8 F.g+\beta_9 Lev+e$

Table (4.4) Multiple Regression Results for 2011, 2012, 2013 and the Whole Years (Year-wise).Model 1(ROA).

Variables	2011		2012		2013		Whole years	
	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value
Intercept	5.976	0.000	7.021	0.000	5.001	0.000	6.134	0.000
Independent variables								
BSZ	0.119	0.031**	0.087	0.061*	0.138	0.019**	0.120	0.036**
BD	0.102	0.020**	0.992	0.032**	0.105	0.047**	0.095	0.037**
Bexp	0.071	0.070*	0.039	0.079*	0.080	0.043**	0.061	0.069*
BI	0.090	0.040**	0.047	0.061*	0.059	0.049**	0.068	0.046**
ACP	0.054	0.012**	0.036	0.052 *	0.062	0.076 *	0.047	0.027**
MO	-0.110	0.039**	-0.081	0.057*	-0.109	0.027**	-0.093	0.050**
Control variables								
FSZ	0.459	0.000***	0.489	0.000***	0.501	0.000***	0.551	0.000***
Fg	0.206	0.090*	0.257	0.003***	0.239	0.007***	0. 244	0.011**
LEV	0.142	0.028**	0.090	0.059*	0.110	0.029**	0.111	0.044**
F-statistic	16.322		15.798		14.959		40.092	
Sig.F	0.000		0.000		0.000		0.000	
R-squared	0.709		0.721		0.692		0.696	
Adjusted R2	0.673		0.701		0.677		0.679	

***indicates significance at 1% level; ** indicates significance at 5% level and * indicates significance at 10% level. The reported p-values are all tow-tailed. All variables are defined in previous sections.

4.5.Sensitivity Tests

Previous literature suggests use of sensitivity tests in order to ensure the robustness of the proposed performance model 1 and the validity of study's findings. Thus, this research will use several sensitivity tests to verify the results .We have used Return on Equity (ROE) and Tobin Q to measure performance of the Jordanian companies. In table (5.6) and (5.7) the results from the robustness test are in accordance with the regression model performed earlier. Since the signs of the coefficients in table (5.6) and (5.7) are the same as in table (5.3) it can be concluded that results are robust. Therefore, after conducting the robustness test, results remain the same.

Model 2F.P. ROE $=\beta 0+\beta 1 Bsz+\beta 2 BD+\beta 3 B.exp+\beta 4 B.I+\beta 5 A.CP+\beta 6 M.O+\beta 7 FSz+ \beta 8 Fg+\beta 9 Lev+e$

Table (4.5) Sensitivity Analysis, (Model 2)(ROE)

Variables	Whole years	
	Coef.	p-value
Intercept	5.983	0.000
Independent variables		
BSZ	0.089	0.021**
BD	0.090	0.022**
Bexp	0.071	0.062*
BI	0.079	0.040**
ACP	0.036	0.551*
MO	-0.119	0.030**
Control variables		
FSZ	0.079	0.000***
Fg	0.041	0.059*
LEV	0.119	0.027**
F-statistic	26.089	
Sig.F	0.000	
R-squared	0.689	
Adjusted R-squared	0.662	

***indicates significance at 1% level; ** indicates significance at 5% level and * indicates significance at 10% level. The reported p-values are all tow-tailed. All variables are defined in previous sections.

Model 3 F.P.TOBINQ=$\beta0+\beta1Bsz+\beta2BD+\beta3B.exp+\beta4B.I+\beta5A.CP+\beta6M.O+\beta7FSz+\beta8Fg+\beta9Lev+e$

Table (4.6) Sensitivity Analysis, (Model 3) (TQ)

Variables	Whole years	
	Coepf.	p-value
Intercept	8.283	0.000
Independent variables		
BSZ	0.077	0.031**
BD	0.082	0.042**
Bexp	0.054	0.072*
BI	0.060	0.039**
ACP	0.042	0.531[*]
MO	-0.089	0.037**
Control variables		
FSZ	0.099	0.000***
Fg	0.031	0.054[*]
LEV	0.089	0.034**
F-statistic	23.089	
Sig.F	0.000	
R-squared	0.665	
Adjusted R-squared	0.655	

***indicates significance at 1% level; ** indicates significance at 5% level and * indicates significance at 10% level. The reported p-values are all tow-tailed. All variables are defined in previous sections.

5. Conclusions and Directions for Future Research

This study uses of secondary data in analyzing the relationship between corporate governance and financial firm's performance of the 105 financial companies listed in the Amman Stock Exchange. The secondary data was obtained basically from published annual reports of the selected firms. Relevant data for the study were retrieved from the Amman Stock Exchange Fact Book for 2011 to 2013 and corporate websites of the reviewed firms. The Pearson Correlation and regression analysis were used to find out whether there is a relationship between the variables to be measured (corporate governance and financial firms performance) and also to find out if the relationship is significant or not.

However, the t-test statistics was used to establish if there is any significant the relationship between the Corporate governance characteristics as independent variables (board size, duality CEO, board independence, board experience, internal audit committee and managerial ownership). Accounting measure of performance (return on asset, return on equity and Tobin's q) as identified by some previous studies were used as the dependent variable. Also this research has discussed corporate governance and firm performance in Jordan, which leads to the central argument of the study. Board structure was considered important for effective corporate governance and in improving firm performance. It was found that corporate governance resulted in accountability to shareholders through firm performance.

5.1.Limitations of the Study

This study is bound by several limitations. The measures used in the current study are only proxies for various constructs. The researcher knows that corporate governance variables which are used in this study might do not capture the actual monitoring processes taking place within the firm. And our definition of financial expertise is perhaps too broad and includes skills that may not necessarily contribute to the effectiveness of board director. Thus, future studies may decompose the current definition of accounting and financial expertise into more specific types of expertise.

The measures used in this study are merely proxies for various constructs. For example, board independence and board experience frequency variable are unable to determine the exact qualifications or independence of the members of the board of directors. And the issues discussed. Studying these processes requires a case study or qualitative research methods which we leave to future research.Many variables may constitute indices by which ownership structure is measured in an organization. In this study, the features of ownership structure that are examined are block holders and managerial ownership. Thus, this study suggests that future research better use more ownership constructs.

5.2.Contributions

This study has however contributed to the study of corporate governance in following ways; first, this research is

providing new empirical evidence about the relationship between corporate governance and financial companies' performance in Jordan. Second, since to the best of the researcher's knowledge, no study in Jordan has extensively covered corporate governance of financial as it relates to performance. Especially financial companies such as Banks, insurance companies and financial services companies in emerging country such as Jordan. Third, the result of this research could also alert Jordanian lawmakers in the financial sector about the fact that the code of Jordanian companies is merely just ticking the box and that the regulators should be more careful to make sure that the code is being applicable in terms of form and substance.

5.3.Recommendations for Future Research

Further research using a sample from the this sector can be carried out to find out whether there is consistency with regard to the relationship between corporate governance and company's performance .

This is first study that investigated the relationship between performance in the financial sector categories and corporate governance in Jordan. Thus, it contains three types of financial companies, banks, insurance and financial services, and therefore proposes a researcher for future research to investigate each group separately in order to avoid the difficulty of comparison between these categories.

Future research can conduct comparative study of Jordan with other developed or developing countries. This kind of studies will be useful to see the impact of diverse institutional setting on the company's performance. Moreover, these studies will be helpful in explaining how different regulatory requirement affect the firms performance in different institutional setting .

Further research using a sample from the this sector can be carried out to find out whether there is consistency with regard to the relationship between corporate governance and company's performance.

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