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The Impact of Corporate Governance Mechanisms on Value Relevance of Accounting Information: Evidence from Jordanian

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Abstract
This paper seeks to examine the relationship between corporate governance and the value-relevance of accounting information in Jordan. This paper uses board, audit committee related variables to proxy for corporate governance. Value-relevance is measured by the adjusted R 2 derived from a regression of stock price on earnings and equity book values following Olson's accounting-based valuation framework. This study used the multiple regression model. The study sample included the banking sector in Jordan, where the study period was from 2009 to 2016 The results of this study showed that there is a statistical relation between(the book value of the ordinary share, the audit committee, the board of directors' independence, and the size of the board of directors)and value relevance of accounting information. There was no statistical significance between (earnings per share, independence of the audit committee) and value relevance of accounting information. The results of the study showed that the independent variables (book value of ordinary shares, audit committee, board independence, size of the board of directors) were able to explain (81.8%) of changes in the dependent variable (the value relevance of accounting information). the variable (book value per ordinary share) alone could account for (73.8%) of the changes in the dependent variable (value relevance of accounting information), While the rest of the variables were able to interpret (8.0%) changes in the variable (the value relevance of accounting information). Overall, this study found a positive influence of corporate governance mechanisms on value relevance of accounting information for the entire firm in Bank sector in Amman Stock Exchange. Thus, it is recommended that further research be undertaken from different aspects, Different sectors and time periods.
Keywords: value relevance, corporate governance, accounting information

1.Background of the study

In the early years of the 21st century, real interest in the concept of corporate governance began to appear after the financial scandals that took place in the United States and several East Asian countries such as) Enron(,)worldcom) company, As a result of financial and administrative corruption, and weak mechanisms of control over the activities of companies, which led to a decline in investor confidence in corporate management and financial statements issued by **(Kuhn and Sutton,2006).**

As a result of the multiple financial lights that hit many of the world's giant that need to apply the principles and rules of corporate governance in many of the global economies, whether advanced or emerging, and one of the most important motives for the application of corporate governance is to restore confidence of dealers in the capital markets**(Mel Gill, 2002 +).**

Jordan, like other countries in the region, was affected by the repercussions of those crises and the Jordanian investor's confidence in the information provided in the financial reports was shaken This accounting information is considered the primary source for investors and other users to make appropriate decisions ,In view of the importance of corporate governance and the role it plays in regulating the relationship between management and stakeholders, the State of Jordan has prepared the Code of Corporate Governance Guidelines And abide by the provisions of this guide as of 1/1/2009 , **(Zallum 2013).**

Applying corporate governance correctly makes investors more confident of their investments and thus increasing their confidence in financial markets Good corporate governance provides them with fair protection of their rights and provides them with high quality accounting information that is appropriate to their decisions and reflects the true financial situation of companies.

Moreover, accounting information plays an important role in stimulating financial markets By providing information on the status of financial statements and statements of companies from financial centers and profits realized and expected in the future**(Khalil, 2005)**, Which highlights the role of accounting information by guiding investors and determining their future trends and the use of financial ratios and profitability that Derived from the financial statements that enable investors to make their right decisions **(Abdel Hamid, 1999)**

Where the role of accounting information becomes apparent when the publication is delayed or does not meet the requirements of the international accounting standards or when bias in its presentation or inaccuracy, all this affects the investor negatively And leads to weakness in the financial markets and therefore should be accounting information appropriate because it has a direct impact on the decisions of investors And to stimulate financial markets.

This study was conducted to identify The Impact of Corporate Governance mechanisms on Value Relevance of accounting information for bank sector in Jordan after adoption of the application of the corporate governance reform Because it is important to influence the decisions of investors and other users And increasing confidence in accounting information provided by departments that comply with corporate governance principles and rules.

2. Theoretical framework & previous studies

2.1 Theoretical framework

Due to recent financial issues such as enormous CEO compensation and mishap of basic corporate governance have led to the emergence of corporate governance as never before and many legislatives took the initiative to set up with the purpose to improve accountability and financial transparency where all of them confirm that good corporate governance improves firm's value.

Value relevance is the ability of accounting numbers to explain market price per share. Beisland (2009) describes value relevance as the capability of financial statement information to tap and summarize firm value. The main objective of accounting is to provide accounting information to decision makers through the financial statements on which users rely on their decisions and seek to make the right decisions by obtaining appropriate and accurate information. This information is influenced by the behavior of the management,

Therefore, there is a need to monitor and control the behavior of the management effectively. Corporate governance is one of the most important pillars for enhancing transparency and clarity, increasing control over management and its functions, and reducing fraud and cheating by some executive and corporate boards. Such negative behaviors may harm shareholders and investors as well as the company's reputation. Corporate governance practices increase the quality and the confidence of accounting information which is provided by the management, so this study seeks to answer the question about the impact of the level of corporate governance on the value relevance. This study might help us to enhance our understanding of the relationship between corporate governance and value relevance of accounting information specifically in Jordan and secondly we want to see whether the results are same with the other studies or not.

2.2 Previous Studies

According to Forbes and Milliken (1999), board size affects board effectiveness in the following ways: First, larger boards are likely to have more knowledge and skills at their disposal and second, the abundance of perspective they assemble is likely to enhance cognitive conflict. On the other hand, larger boards are likely to have difficulty in coordinating the individual contributions of group members. According to them, this is because, with larger boards, it is more difficult for the company to use the knowledge and skills of all the board members effectively. Further, larger boards have difficulty in building personal relationships, trust relationships, maintaining cohesion and strong norms. Furthermore, Abdellatif (2009) analyzed the literature related to board size and composition, and concluded that the board size is negatively related to corporate performance and positively related to firm value. In some cases, in some developing countries, board size has no relation to firm value and performance. This study hypothesizes that the larger board of directors is not effectively influence the value relevance of accounting information.

Empirically, Klein (2002) found a negative relationship between board-independence and abnormal accruals. Furthermore, Davidson et al., (2005) showed that the majority of non-executive directors on the board are negatively associated with the likelihood of earnings management in Australia. Accordingly, this study hypothesized that the bigger number of independent non-executive members on the board of directors can affect positively the value relevance of accounting information.

According to Osma (2006), the boards of directors are expected to be more independent and efficient in fulfilling their monitoring duties when the CEO is not the chairman of the board. The agency theory argues that CEO dominance can lead to opportunistic behaviour which can reduce shareholder wealth (Stiles, 1998). Furthermore, Lin and Liu (2009) argued that, when the board of directors' chairman does not occupy the position of CEO, he or she will be able to govern the company in a more impartial manner, and thus, enhance the monitoring role of the corporate governance mechanism. This study is based on the hypothesis that there is a negative relationship between the CEO duality and value relevance of accounting information.

According to Bushman et al. (2004) and Karamazov and Vafea (2005), the quality of information improves by having more external directors on board. Many authors argued that a small board size can improve the quality of financial reporting as directors can communicate better and increase the information content and this reduces the scope for earnings management.

According to LaPorta et al. (2000), where he questioned the variances in governance standards among 27 countries and the results showed that countries with superior governance standards has got more valuation. There has been another study of inter-firm variation within one country where Gompers et al. (2003) for US, Drobetz et al. (2004) for Germany, Black (2001) for Russia and De Jong et al. (2001) for Netherlands and these studies generated a positive relationship between firm value and governance standards. Black, Jang and Kim (2004) did a research on market value and corporate governance structures of Korean firms and advocate that Corporate

Governance is an imperative aspect in explaining the market value of public companies in Korea.

Oyerinde (2009) investigates the value relevance of accounting data in the Nigerian Stock Market, with the objective of establishing the relationship between accounting numbers and share prices in the Nigerian Stock Market. The study measures value relevance by the correlation coefficient between stock prices and some accounting numbers. The study shows that accounting information has the ability to capture information that affects equity values and that there is relationship between accounting numbers and share prices in Nigerian Stock Market. This study however shows a number of serious limitations: the time scope for this study was narrow, such that conclusions from this study could not be compared to studies done in more matured markets. It also did not take into cognizance the factor of scale as well as the effects of heteroscedasticity.

Pourheydari, Aflatooni and Nikbakat (2008) compare the combined value relevance of dividends and book value with the value relevance of earnings and book value and their relationship with market value of shares in Tehran Stock Exchange from 1996 to 2004. Their results show a positive relationship between dividends, book value and earnings with stock market value. They also find that dividends have information content. The information content of dividends, combination of book values and earnings and combination of book values and dividends are approximately equal. The value relevance of all variables however was found to decline over time.

3. Research Methodology

3.1 Sample and Data Collection

For the evaluation of the value relevance and corporate governance of accounting information in Jordan is taken out as sample with all banks listed in ASE for a eight years period 2009-2016. Information has been collected from the annual report of companies and other relevant reports by those companies.

3.2 Modelling

The Ohlson valuation model (1995) will be used by employing panel data regression model to analyze the variables in this study. The model being used for the purpose of this study is built from the modified Ohlson (1995) earnings model of stock valuation,

1. pit=β0+β1Bvit+Eit
2. pit=β0+β1Bvit+β2AC.sizeit+Eit
3. pit=β0+β1Bvit+β2AC.sizeit+β3Bod.independenceit+Eit
4. pit=β0+β1Bvit+β2AC.sizeit+β3Bod.independenceit+β4Bodit+Eit

Where:

Pit is the price of a share of firm i at fiscal year-end.

EPSit is the reported net profit after tax (NPAT) but before abnormal items per share of firm i for year t.

BVit is the book-value per share of firm i at the end of year t.

Bod size is Board of directors size measured by the actual number of board members

Bod independence is Board of directors independence measured by ratio of number of independent board members to board size

AC size is auditing committee size measured by the actual number of AC members.

3.3 Hypotheses of the study

Study hypothesis: There is a statistical significant impact at the indication level of ($\alpha \leq 0.05$) to the corporate governance mechanisms (board of director size, board of director independency, auditing committee, and auditing committee independency) on the value relevance of accounting information.

Where the following assumptions can be derived from the main hypothesis

H1: There is a significant statistical effect of Board of Directors size on the value relevance of accounting information.

H2: There is a significant statistical effect of board of directors independency on the value relevance of accounting information.

H3: There is a significant statistical effect of auditing committee size on the value relevance of accounting information.

H4: There is a significant statistical effect of auditing committee independency on the value relevance of accounting information

4. Analysis and Findings

This part contains the study results which aim to identify the impact of corporate governance mechanisms on accounting information importance value: (listed Jordanian company manual), and will display the study results according to the following study hypothesis:

Study hypothesis: There is a statistical significant impact at the indication level of ($\alpha \leq 0.05$) to the corporate governance mechanisms (board of director size, board of director independency, auditing committee, and auditing committee independency) on the value relevance of accounting information.

To verify the hypothesis trueness, multiple linear regression analysis tests were used to identify the finding of impact of corporate governance mechanisms, board of director size, board of director independency, auditing committee, and auditing committee independency) on the value relevance of accounting information, as follows:

(1The statistical description for corporate governance mechanisms :

Table(1)
Arithmetic means and standard deviations

Corporate governance mechanisms	Arithmetic means	standard deviations
Earning profit share	2120.	1510.
Book value per ordinary share	2.286	1.504
board of director size	10.505	1.902
board of director independency	2480.	2270.
Auditing committee	3.476	9910.
Auditing committee independency	4660.	3460.

(2Test moral and explanatory force for the multiple and used linear regression analysis model, through the following :

- **Multicollinearity test:** Linear correlation test was used to ensure the non-existence of high correlation between corporate governance mechanisms, by relying on variance inflation factor test (VIF), and tolerance variation test for each of the corporate governance mechanism, knowing that the (VIP) must not exceed the value of (10), and the tolerance variation test value must be greater than (0.05), table (2) clarifies that :

Table (2)
Test results: variance inflation factor and tolerance variation for corporate governance mechanisms

Independent variables	Tolerance	(VIP)
Earning profit share	3500.	2.855
Book value per ordinary share	3770.	2.650
board of director size	8680.	1.151
board of director independency	7920.	1.263
Auditing committee	8790.	1.137
Auditing committee independency	7570.	1.322

It notes from table (2) that (VIF) test values for all of the corporate governance mechanisms less than (10), while the tolerance variation value for all of the corporate governance mechanisms is greater than (0.05), therefore it's possible to call for the non-existence of high correlation problem between the corporate governance mechanisms. After entering independent variables in the multiple linear regressions analysis by using Stepwise method, which used to see any of the corporate governance mechanisms have impact of statistical significant on the dependent variable (the value relevance of accounting information).

- **Variance analysis (ANOVA): V**ariance analysis for the entered variables has been calculated in the formula, after entering the corporate governance mechanisms variables, as shows in table (3).

Table (3)
Variance analysis (ANOVA) results for verifying the strength and morale of the multiple linear regression analysis models

	Variance source	Square totals	Degree of freedom	Square averages	F-value	Statistical significance
1	**Regression**	463.735	1	463.735	293.449	*0^{b}00.
	Residual	162.770	103	1.580		
	Total	626.505	104			
2	**Regression**	495.945	2	247.972	193.728	*0^{c}00.
	Residual	130.560	102	1.280		
	Total	626.505	104			
3	**Regression**	509.639	3	169.880	146.816	*0^{d}00.
	Residual	116.866	101	1.157		
	Total	626.505	104			
4	**Regression**	516.867	4	129.217	117.858	*0^{e}00.
	Residual	109.638	100	1.096		
	Total	626.505	104			

Statistical significant at level ($\alpha \leq 0.05$) *

(book value per ordinary share) :b

(book value per ordinary share, auditing committee) :c

book value per ordinary share, auditing committee, management board) Mechanism of :d

(independency
of (book value per ordinary share, auditing committee, management board Mechanism :e
(independency, management board size

It notes from table (3) that statistical significance values at (0.00), which is less than the statistical significance level of (α≤0.05) in (book value per ordinary share, the auditing committee, board of director independency, board of director size), and didn't show any statistical significance at the mechanisms of (EPS, and auditing committee independency), which indicates the finding of an explanatory and moral force for the use of multiple linear regression analysis model between the independent variables (book value per ordinary share, the auditing committee, the management board independency, and the management board size) and the dependent variable (the appropriate value of accounting information). Table (4) shows model summary for the multiple linear regression analysis model.

Table(4)
Model summary for the simple linear regression analysis

Model	R	R^2	Adjusted R^2	Standard error of estimation
1	0[a]860.	7400.	7380.	1.25710
2	0[b]890.	7920.	7880.	1.13137
3	0[c]902.	8130.	8080.	1.07568
4	0[d]908.	8250.	8180.	1.04708

(book value per ordinary share) :a
(Mechanism of (book value per ordinary share, auditing committee :b
book value per ordinary share, auditing committee, management board) Mechanism of :c
(independency
of (book value per ordinary share, auditing committee, management board Mechanism :d
(independency, management board size

It shows from table (4) that multiple coefficient value (R) is (0.908), limitation coefficient value (R^2) is (0.825), and adjusted coefficient (R^2) is (0.818), which indicates that independent variables (book value per ordinary share, the auditing committee, the management board independency, and the management board size) were able to explain (81.8%) of changes occurring in the dependent variable (the appropriate value of accounting information).

It also notes from table (4) that (book value per ordinary share) mechanism was able to interpret alone (73.8%) of changes occurring in the dependent variable (the appropriate value of accounting information), while the rest of the variables were able to explain only (8.0%) of the changes occurring in the variable (the value relevance of accounting information). The variables that have impacts on the dependent variable, and of statistical significant were defined through the coefficients moral test of the standardized multiple linear regression formula and the non-standardized, as shown through table (5).

Table(5)
Coefficients moral test of standardized multiple linear regression formula and non-standardized

Model	multiple linear regression	Non-standardized coefficients		Standardized coefficients	T-value	.Seq
		Std. error	B	Beta		
1	Constant	2240.	0.497-		2.220-	*0290.
	Book value per ordinary share	0820.	1.404	8600.	17.130	*000.
2	Constant	4290.	2.397-		5.587-	*000.
	Book value per ordinary share	0740.	1.380	8450.	18.663	*000.
	Auditing committee	1120.	5630.	2270.	5.016	*000.
3	Constant	4190.	2.066-		4.929-	*000.
	Book value per ordinary share	0710.	1.402	8590.	19.860	*000.
	Auditing committee	1070.	5670.	2290.	5.317	*000.
	management board independency	4670.	1.605-	0.148-	3.440-	*010.
4	Constant	6220.	3.271-		5.260-	*000.
	Book value per ordinary share	0690.	1.381	8460.	19.956	*000.
	Auditing committee	1070.	4980.	2010.	4.650	*000.
	management board independency	4620.	1.828-	0.169-	3.952-	*000.
	management board size	0570.	1470.	1140.	2.568	*0120.

Statistical significant at level (α≤0.05)

It shows from the table above (5) there are statistical indications for all constants of the multiple linear regression formula models at statistical significance of (0.00), which is less than the level of statistical significance ($\alpha \geq 0.05$), and indicates the existence of morality for the fixed multiple linear regression formulas, and also found statistical indications at the statistical significance level ($0.05 \geq \alpha$) for variables (book value per ordinary share, , board of director independency, board of director size, and the auditing committee) with statistical indications (0.00), which is less than the level of statistical significance ($\alpha \geq 0.05$), and indicates the acceptance of the hypothesis that states: “there's an impact of the corporate governance mechanisms (book value per ordinary share, board of director independency, board of director size, and the auditing committee) on the value relevance of accounting information”.

5. Conclusions and recommendations

The objective of the study is to examine how Corporate Governance impact on value relevance of accounting information and it find relation between(the book value of the ordinary share, the audit committee, the board of directors' independence, and the size of the board of directors)and value relevance of accounting information. There was no statistical significance between (earnings per share, independence of the audit committee) and value relevance of accounting information. It is noted from the results of the study that there is a clear effect of the corporate government and its mechanisms on the value relevance of accounting information, especially after the reforms carried out by the Jordanian government and obligating the companies to implement them on 1/1/2009. It is also noted from the results of the study that the accounting information published in the financial statements is relevant, where the variable (the book value of the ordinary share) were able to explain (73.8%) of changes in the dependent variable (the value relevance of accounting information), other variable were able to explain (8.0%) changes in the variable (the value relevance of accounting information).

Where the researcher recommends through the results of this study to Increased attention to the application of the rules of corporate governance and its principles, which has an important impact on the company and users of accounting information, increase the investors' confidence of information provided by management. Study more governance mechanisms that are expected to have an impact on the value relevance of accounting information During different time periods and on other sectors.

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