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IMPACT OF CORPORATE GOVERNANCE ON JORDAN STOCK EXCHANGE

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ABSTRACT:

Corporate Governance (CG) has often been deployed in response to corporate failure, crisis, fraud and abuse and incompetence. This study examines the impact of Corporate Governance on Jordan Stock Exchange. The data for this study is the secondary data on financial data available on Amman Stock Exchange from 2005 to 2016. Multiple regression analysis and Pearson correlation were used to test the three hypotheses and SPSS version 17 was used to perform the multiple regression and Pearson Product Moment Correlation and three hypotheses were tested in the study. The result of the first hypothesis revealed that a number of listed companies and ownership of companies did jointly predict firm performance in Jordan and relatively ownership of companies negatively predicted firm performance in Jordan while the number of listed companies positively predicted firm performance in Jordan. The result of the second hypothesis shows that there was a significant negative relationship between firm performance and dividend which implies that as dividend decreases, firm performance increases while the result of the third hypothesis shows that there was no significant relationship between firm performance and number of listed companies. The study concluded that that there was a significant relationship between corporate governance and firm performance in Jordan.

KEYWORDS: Corporate governance, firm performance, stock exchange, dividend, companies.

INTRODUCTION:

Corporate Governance (CG) has often been deployed in response to corporate failure, crisis, fraud and abuse and incompetence. Corporate governance refers to the private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on one hand, and those who invest resources in corporations, on the other", which simply indicates that corporate governance means to establish a set of rules and actions that facilitate the shareholders decision-making process (lu & Batten, 2001). CG designates a set of deceptive significant shifts in the way governments to seek to govern (Pierre and Peters, 2000).

Corporate governance is about putting in place the structure, processes, and mechanisms that ensure that the firm is being directed and managed in a way that enhances long-term shareholder value through accountability of managers and enhancing organisational performance.

Firm performance has been investigated in the accounting/management literature based on agency theory as a major dependent variable that would be achieved and enhanced as an important goal (Bauer et al., 2004; Haniffa & Hudaib, 2006; Klapper & Love, 2004). The main purpose of firm performance that stems from its concept is to consolidate the efficiency and effectiveness of the company and achieve its objectives being the main concern for the firm, in the long run, to survive (Al-Hawary, 2011).

Jordan has been witnessing rapid economic growth and a changing investment environment, due to a series of privatisation initiatives and a record high of Arab direct and indirect investments which makes it possible to attractinvestors. Since the mid-1990s, Jordan is fostering a transparent investment climate.

Jordan is a country with a population of 6 million people and a GNI of 4,390 USD. The country‘s population is comprised of 80% urban residents, with 38% of these being under the age of 14, making Jordan one of the youngest among the upper-middle income countries (World Bank, 2013). Jordan has few natural resources, with potash and phosphates being the main export commodities, as well as having limited agricultural land and a minimal water supply, which has ranked Jordan as the fourth poorest country in terms of water resources. 75% of jobs are in the services sector, which produces 70% of Jordan‘s GDP (World Bank, 2013). Business organisations in Middle Eastern countries (including Jordan) are characterised by high concentration of ownership, often in the form of family-controlled businesses. Corporate governance and investor protection are lower in Jordan than in the developed countries.

Aside from industry contributing as one of the major economic challenges Jordan faces, the country‘s government also has to deal with chronic rates of poverty, unemployment, inflation and a large budget deficit. As a means to improve economic growth, King Abdullah implemented a number of economic reforms such as the opening of the trade regime, privatising state-owned companies and eliminating some fuel subsidies, since his ascension to the throne in 1999. This has encouraged investment from overseas and has created a number of jobs for local residents. Unfortunately, the global economic slowdown and regional turmoil have suppressed the GDP growth of Jordan, with a negative impact noted in export-orientated sectors, construction and tourism (World Bank, 2013).

In 2011, the government of Jordan introduced two economic relief packages which were to be implemented as well as a budgetary supplement, with the view that these measures could improve the living conditions for middle to poorer classes. However, the country‘s finances were further impacted by a series of natural gas pipeline attacks in Egypt, which resulted in Jordan substituting more expensive heavy fuel oils as a means of generating electricity. Despite this, Jordan has enjoyed an influx of aid and investment from foreign countries, primarily those situated around the Gulf area, which has eased extra-budgetary expenditure. Nevertheless, the budget deficit is likely to remain high at 10% GDP, excluding grants (UNDP, 2013).

In order to cope with the deficit in 2012 Jordan‘s dependence on foreign assistance continued to grow. Due to the country‘s limited exposure to overseas capital markets, Jordan has remained relatively isolated from the international financial crisis, however it remains integrated with its neighbours through trade, remittances, foreign direct investment (FDI) and tourism, with links particularly strong in Arab Gulf economies.

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Policymakers in Jordan are making the most of the demographic opportunity of a well-educated, young population, hoping to build a dynamic, knowledge-based economy, as well as exploring nuclear power generation as a means to forestall energy shortfalls (OECD, 2013).

Jordan has suffered further financial blows in recent years, with numerous interruptions noted in the gas supply from Egypt. This forced the Jordanian government to switch to costlier heavy fuel, which was expected to result in a cost of 2.4 billion USD by the end of 2012. Despite these economic downturns, Jordan is above average in relation to middle-income countries when considering human development, consistently spending over 25% of GDP on education, health, pensions and social safety nets. Jordan also provides a high level of gender parity in access to basic public services. In 2003, the Jordanian government launched a comprehensive modernisation program, which attempted to change the basic education system, better aligning it with the knowledge-based economy of the country (World Bank, 2013).

With such emphasis on educational advancement, the school enrolment rates at varying levels of education are relatively high compared to similar incomelevel countries. The country enjoys above average ranks in science internationally, however, results in Mathematics remain below par. The growing population is putting further pressure on both the health and educational services, which has resulted in the government setting the target to expand access to higher quality education and to provide key skills in the economy. The past decade has seen Jordan endeavour to undertake a variety of structural reforms in varying sectors. Successes have been noted in the areas of education, health and privatisation/liberalisation and the government has been working towards social protection system reforms, which has resulted in marked changes in social protection systems, as well as improving the conditions for greater public-private partnerships in infrastructure and tax reforms, including the improvement of tax administration and management.

Despite these encouraging statistics, sound economic policies and additional reforms are necessary in order to reduce the potential impact further international crises could have on the country. Jordan remains vulnerable to fluctuations in the international oil market due to the dependency the country has on energy supplies from Egypt. In addition, high unemployment and dependency on remittances from Gulf economies remains a potential problem, as well as the increasing pressure on water and other natural resources (World Bank, 2013).

Objectives of the Study

The objectives of this study are:

- To examine the impact of corporate governance on firm performance in Jordan.
- To identify the relationship between corporate governance and firm performance in Jordan.

Hypotheses of the Study

$H_0$1: There is no significant relationship between corporate governance (number of listed companies and ownership of companies) and firm performance in Jordan.

$H_0$2: Dividend has no significant relationship with firm performance in Jordan.

$H_0$3: Number of listed companies has no significant relationship with firm performance in Jordan.

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Corporate Governance and Firm Performance

Gupta and Sharma (2014) examined a study to determine the impact of corporate governance variables on firm performance in Indian and South Korean companies. Results illustrate that corporate governance has limited effect on both the company's share prices as well as on their financial performance.

Onakoya, Fasanya and Ofoegbu (2014) conducted a study to explore the effect of corporate governance characteristics on bank performance in Nigeria. The final sample consists of 9 banks for the sample period of 2006-2010. It is found that both of Board size and ownership structure are positively impacted on return on equity. Nevertheless, the study found that corporate governance practices are negatively associated with companies' assets. In addition, Results show that there is no effect of board structure since it considers as a profitability measures predictor.

Guo and Kumara (2012) carried out a research to test the effect of corporate governance measures on firm performance in Sri Lanka. The study sample consists of listed firms from Colombo stock exchange. Findings found that size of theboard of directors is negatively associated with the value of the firm and effect of theproportion of outside directors on operating performance of a firm.

Nandelstadh and Rosenberg (2003) stated that organisations having poor governance structures delivered less value to investors, conversely firms with efficient governance procedures gave much.

Bocean and Barbu (2005) conducted a study on corporate governance and firm performance.The findings show that corporate governance matters for economic performance, insider ownership matters the most, outside ownership concentration destroys market value, direct ownership being superior to indirect.

Methods

The data for this study is the secondary data on financial data available on Amman Stock Exchange from 2005 to 2016. Multiple regression analysis and Pearson correlation were used to test the three hypotheses and SPSS version 17 was used to perform the multiple regression and Pearson Product Moment Correlation. This study examines impact of corporate governance on firm performance in Jordan.

Analysis of Results

The first hypothesis examines the relationship between corporate governance (number of listed companies and ownership of companies) and firm performance in Jordan. This hypothesis was performed using multiple regression analysis.

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Table 1: Summary of Multiple Regression Analysis showing the relationship between corporate governance (number of listed companies and ownership of companies) and firm performance in Jordan

Predictors	B	t	P	*R*	*R^2*	*F*	*P*
No of listed companies	.789	4.260	<.05				
Ownership	-.954	-5.169	<.05	.878	.721	15.184	<.05

The result revealed that a number of listed companies and ownership of companies did jointly predictfirm performance in Jordan (R^2 = 0.721 F (2,11) = 15.184, p<.05). When combined number of listed companies and ownership of companies accounted for 72.1% of the change observed in firm performance. Also result revealed that ownership of companies (β = -.954, t=-5.169; p<.05) negatively predicted firm performance in Jordan while a number of listed companies (β = .789, t=4.260; p<.05) positively predicted firm performance in Jordan.

The second hypothesis examines the relationship between firm performance and dividend and the hypothesis was performed using Pearson Product Moment Correlation.

Table 2: Pearson Product Moment Correlation showing relationship between Firm performance and Dividend

Variables	Mean	SD	N	r-cal	P	Remark
Firm performance	66.5667	30.9842	12			
Dividend	3.1750	1.0498	12	-.901**	<.01	Sig

**Correlation is significant at the 0.01 level (2-tailed).

The result obtained from the test is shown in Table 2. The table shows that there was a significant negative relationship between firm performance and dividend (r= -0.901, p<.01). This implies that as dividend decreases, firm performance increases.

The third hypothesis examines the relationship between firm performance and number of listed companies and the hypothesis was performed using Pearson Product Moment Correlation.

Table 3: Pearson Product Moment Correlation showing relationship between Firm performance and Number of listed companies

Variables	Mean	SD	N	r-cal	P	Remark
Firm performance	66.5667	30.9842	12			
No of listed companies	241.8333	21.3747	12	.305	>.01	Not Sig

**Correlation is significant at the 0.01 level (2-tailed).

The result obtained from the test is shown in Table 3. The table shows that there was no significant relationship between firm performance and number of listed companies (r= 0.305, p>.01). This implies that a number of listed companies does not influence firm performance in Jordan.

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DISCUSSION AND CONCLUSION:

This paper examines the effect or corporate governance on firm performance. It investigated a number of listed companies, dividend and ownership of companieson firm performance in Jordan. The result of the first hypothesis revealed that a number of listed companies and ownership of companies did jointly predictfirm performance in Jordan and relatively ownership of companies negatively predicted firm performance in Jordan while thenumber of listed companies positively predicted firm performance in Jordan. This finding is in line with Guo and Kumara (2012) who carried out a research to test the effect of corporate governance measures on firm performance in Sri Lanka and found that size of board of directors is negatively associated with the value of the firm and effect of proportion of outside directors on operating performance of a firm.

The second hypothesis shows that there was a significant negative relationship between firm performance and dividend which implies that as dividend decreases, firm performance increases.The third hypothesis shows that there was no significant relationship between firm performance and number of listed companies.

The finding of this paper agrees with Bocean and Barbu (2005) who showed that corporate governance matters for economic performance, insider ownership matters the most, outside ownership concentration destroys market value, direct ownership being superior to indirect. In conclusion, the study provides evidence that there is a significant relationship between corporate governance and firm performance in Jordan. The study was conducted in Jordan market and it is considered to be a small sample to be studied and it is considered to be an emerging market. Further studies may be conducted on the on another region of Middle East countries.

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