CORPORATE GOVERNANCE PRACTICES OF JORDANIAN BANKS: ASSESSING THE IMPACT OF COMMITMENT ON BANK PERFORMANCES

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ABSTRACT

The study aims to examine the impact of Corporate Governance (CG) practices in terms of commitment of the banks in Jordan. A cross-sectional study design was used following a quantitative paradigm. Data was collected through a survey based on a close-ended questionnaire. The collected data was analyzed using statistical package of social sciences. The sample of this study includes 200 employees from the publicly listed banks in the Amman Stock Exchange. The findings have depicted a substantial impact of commitment on bank performance concerning the application of corporate governance practices. Similar findings were achieved for the board of director's functions, board committee, transparency, environment of internal control, shareholders treatment, and disclosure. The success of corporate governance in Jordanian banks requires the proper application of its rules, and this depends on the control of the Central Bank of Jordan (CBJ) and the banks' management. It is concluded that two sets of CG rules are related to banks' commitment to corporate governance.

Keywords: Banks Performance, Corporate Governance, Governance Practices, Jordan.

INTRODUCTION

Corporate governance plays an important role in protecting the interest of the shareholder by instigating and strengthening bank regulation (Isukul & Chizea, 2017; Chizea & Isukul, 2018). This enhances bank accountability, transparency, and integrity, which help in rational decision making. The board of directors play the main role in corporate governance as they analyze the progress of company, improve its quality, control management activities, and align bank and its stakeholder values and objectives (Alkurdi et al., 2019). Concerning the bank practices from a micro-level perspective, it is observed that board of directors perform various functions using a well-regulated decision and control mechanisms, which help ensure public safety and interest, protect the stakeholders' guarantees, and assure complied and transparent practicing of the business laws (Faleye & Krishnan, 2017; Osho, 2018). Thereby, the presence of an effective board of directors helps in better management of the risk and return while simultaneously ensuring a positive public representation.

Corporate governance helps in risk management, presenting a favorable company position from a financial and legitimate perspective (Orazalin, 2019). Al Attar and Jordan (2016) highlighted that the board of director's effective supervision helps in the optimized use of its resources. Whereas, Nour et al. (2020) stated that the presence of a board of director also contributes to the economy as it promotes the bank to induce in environment-friendly practices and better economic return either by banks' self-motivation or through compliance to the established regulations. Azeez (2015) supports this prediction and notes that the regulatory mechanism enables the bank to confidently practice its operations. Another study of Al-Ahdal et al. (2020) on the Indian Banking system showed that there is a positive and substantial impact of corporate governance on the financial performance of the firm. It shows that factors such as accountability of the board and audit committee had no impact on the return on equities. Naciti (2019) research on the corporate governance and board of director's compositions showed that the diversity of the board helped attain improved bank sustainability.

The findings of Bhagat and Bolton (2019) notes that corporate performance is substantially impacted by the director's ownership towards the bank, and his different mechanisms, which helps promote effective bank practices. Brogi & Lafgasio (2019) showed that the environmental consciousness has a positive impact on the bank. It also showed that this collaborates with the policymakers and implementers to ensure that transparent corporate governance practices are deployed. This transparency is also promoted by various scholars that show that this positively affects the bank's profitability, its consciousness, and its ethical practices, all aimed at sustaining a high corporate governance.

Previously, various studies have identified the role of corporate governance on bank performance in both developed and developing countries (Sami et al., 2011; Al-Ahdal et al., 2020). There is positive impact of the corporate governance on its performance (Ammann et al., 2011; Brown & Caylor, 2006), whereas, one of the studies have even reported negative impact of corporate governance on banks' performance (Akbar et al., 2016). Various previous studies have also highlighted the need for studying the corporate governance mechanism and its impact on the firm performance in the developing countries like Jordan (Ghabayen, 2012; Fallatah & Dickins, 2012; Albassam, 2014; Al-Ghamdi & Rhodes, 2015; Al-Sahafi, 2015; Mgammal, 2017; Buallay, 2017; Buallay, 2018).

The focus on the economy of Jordan is also because of its underdeveloped capital market, which is substantial, dependent on the bank's intermediary role for funds channeling for effectively improving the firms' performance. Also, the academicians, researchers, as well as policy actors, have emphasized to study the factors that affect the financial institution's performance and its contribution to the economy of the country. Also, although various researches have been conducted on the banking sector of Jordan that are limited to the impact on audit fees (Abu Risheh and Al-Saeed 2014), accounting practices (Ghabayen et al., 2018), risk disclosure (Alkurdi et al., 2019), accounting information quality (Saaydah, 2012) and more, with no research analyzing the impact corporate governance practices considering bank commitment. Thereby, to bridge this gap, the study analyzes the corporate governance practices of Jordanian banks, as a mechanism of bank commitment. The study is the first to assess the impact of commitment towards corporate governance practices of the banks in Jordan.

LITERATURE REVIEW

Conceptually, "governance" can be defined as the rule of the rulers, typically within a given set of rules. Governance is the process by which authority is conferred on rulers, by which they make the rules, and by which those rules are enforced and modified. Thus, understanding governance requires an identification of both the rulers as well as the various processes by which they are selected, defined, and linked together and with the society generally (Agrawal & Chandha, 2006). The term governance in this context is used to describe the way in which a company is structured and controlled, the manner in which this accommodates the relative rights of owners, managers, financiers, and others (Bawaneh, 2011).

Bino & Omar (2012) considered a sample of 14 banks listed on ASE market over the period 1997 to 2006 to investigate the relationship between corporate governance namely:

ownership structure, board composition, and board size, and bank performance using a linear regression analysis. The results show that ownership structure and board composition have a strong impact on the bank performance. Results indicated that banks with institutional majority ownership have the highest performance and that as managers' and board member's ownership percentages increase the bank becomes more efficient, surprisingly board size (number of members) has no effect on bank's performance.

Bayrakdaroglu et al. (2012) investigated the relationship of value-based performance measures Economic Value Added (EVA), Market Value Added (MVA) and Cash Value Added (CVA) with corporate governance using data on 41 corporations listed on the Istanbul Stock Exchange-100 Index. Multiple panel regression was used covering the 1998-2007period. The findings indicate that EVA, MVA, and CVA increase if the CEO is a member of the board at the same time, and board size does not significantly affect performance. Ownership concentration is significantly related to all performance measures except for MVA; while, manager ownership is not a significant variable in increasing corporate performance. Foreign ownership is found to increase EVA, but decrease MVA.

Kalezic (2012) assessed the quality of corporate governance practice in Montenegrin corporate and banking system. Based on the OECD questionnaire on corporate governance, they surveyed 43 joint stock companies in Montenegro, with the aim of construing the corporate governance rating (CGR) for Montenegro companies and banks. The CGR provided a better prospective on the difference of corporate governance mechanisms developed in parallel withthe corporate andbanking systems of Montenegro. OLS and logic models were used to show that the general corporate governance practice in the banking system can be considered better compared to the corporate sector. However, the difference is not significant.

Bawaneh (2011) built understanding about how Jordan banking sector is affected by the Corporate Governance (CG requirements released by Basel Committee on Banking supervision (BCBS)) and Organization for Economic Cooperation and Development (OECD). The study revealed that Jordan Banking Sector has been paying CG a great deal of attention. Therefore, the Central Bank of Jordan issued Bank Directors Handbook of CG which has been developed with the objectives of enhancing the CG of Jordanian Banks. Further to issuing the Handbook, the CBJ is continuing its efforts to enhance CG by preparing the CG code which is intended to promote international best practice in the CG of Jordanian Banks, and asked each bank to keep this code under review and be developed and amended as required from time to time to meet the changing needs and expectations of the bank and the marketplace. As a result, banks in Jordan comply with CG requirements by acting in accordance with a request from the CBJ based on BCBS and OECD guidelines and requirements which enhance the CG procedures. Therefore, CG continues to gain attention and importance from parties concerned in Jordan but many steps need to be done in the future.

Al-haddad & Al-Zorqan (2011) examined the dividend policy of listed banking corporations in the Amman Stock Exchange (ASE) during the period (2000-2006). Dividend payout ratios and the related dividend policy's stability are also examined. The results depicted that the banking sector follows unstable cash dividend policies, by employing the panel data methodology. Andres & Vallelado (2008) considered a sample of large international commercial banks in Canada, France, Italy, Spain, UK and the US, to test hypotheses on the dual role of board of directors. The study found an inverted U-shaped relation between bank performance and board size, and between the proportion of non-executive directors and performance. The bank board composition and size are related to directors' ability to monitor and advice management.

Brown & Caylor (2006) represented corporate governance and equity prices by creating G-index, a summary of corporate governance based on 24 firm-specific provisions, and showed that more democratic firms are more valuable. Arun & Turner (2004) discussed the corporate governance of banking institutions in developing economies. This is an important issue given the essential role that banks play in the financial systems of developing economies and the widespread banking reforms. Based on a theoretical discussion of the corporate governance of banks, the study suggested that banking reforms can only be fully implemented once a prudential regulatory system is in place. An integral part of banking reforms in developing economies is the privatization of banks. Therefore, it is stated that corporate governance reforms may be a prerequisite for the successful divestiture of government ownership. Furthermore, the increased competition resulting from the entrance of foreign banks may improve the corporate governance of developing-economy banks.

Levine (2004) examined the corporate governance of banks. The results showed that banks capable of mobilizing and allocating fund, effectively reduces the cost of capital to firms, boosts capital formation, and stimulates productivity growth. Therefore, weak governance of banks reverberates throughout the economy with negative ramifications for economic development.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Rules of corporate governance have become one of the most important issues discussed in the world economies. They present an important factor that reinforces the success of economic and organizational reforms currently undertaken in the context of globalization, openness of economies towards each other, and global competition in light of conditions and requirements of international organizations. This offers acceptance of membership to countries or for dealing with countries of the world and with institutions and markets of these countries. Applying these rules and principles has become a slogan for public and private sectors, and a tool for enhancing confidence in any national economy and an evidence of the existence of fair and transparent policies for protecting investors and traders alike. It is also an indication to the level of professional commitments reached by the company's managements towards good governance, transparency and accountability, the existence of measures to limit corruption, and consequently raise the economy's attractiveness to local and foreign investments and bolstering its competitiveness. These rules are based principally on a number of legislations, mainly the Securities Law and related regulations, the Companies Law, and the international principles established by the Organization of Economic Cooperation and Development (OECD) (SDC, 2014).

The Central Bank of Jordan developed its vision to have an efficient and competitive banking system in Jordan that meets international standards of best practices in risk management and corporate governance, complies with applicable laws and regulations and satisfies the credit needs of the domestic economy thereby supporting the economic development of the Kingdom. The Central Bank of Jordan believes that Bank Directors have an integral role in the Banks success, a safe and sound banking system requires responsible and knowledgeable bank management with good corporate governance and risk management systems to support sound and prudent lending and other bank policies. Therefore, the Central Bank of Jordan in 2004 issued *Bank Directors Handbook of Corporate Governance* which has been developed with the objective of enhancing the corporate governance of banks in the Kingdom.

Research Model

After reviewing the major governance concepts for corporations in general, this study discusses two special attributes of banks that make them special in practice; greater opaqueness than other industries and greater government regulation that weaken many traditional governance mechanisms. Next, the study reviews emerging evidence on which government policies enhance the governance of banks and draw tentative policy and lessons. It is important to strengthen the ability and incentives of private investors to exert governance over banks rather than relying excessively on government regulators. These conclusions, however, are particularly tentative because considerably more research is needed on how legal, regulatory, and supervisory polices influence the governance of banks.

Figure 1 presents the study variables, which include a commitment to corporate governance, the board of director's functions, board committees, control environment, shareholders treatment, and transparency and disclosure as independent variables; while, bank performance is the dependent variable.

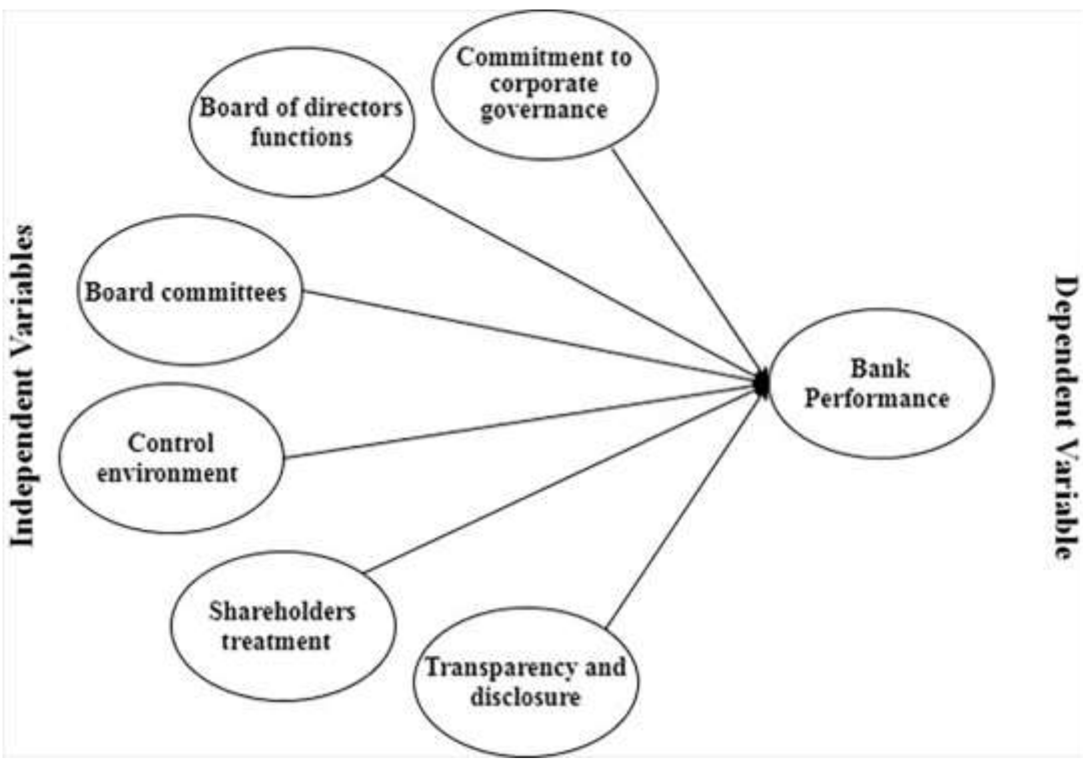

FIGURE 1
STUDY VARIABLES

The following linear regression model is used to test the research hypothesis:

$$P = a + B_1X_1 + B_2 X_2 + B_3 X_3 + B_4 X_4 + B_5 X_5 + B_6 X_6 + e$$

There are two main types of research hypotheses: The Null hypothesis (H0) and the Alternative hypothesis (Hα). The current study investigates the influence of a group of categories (the six independent variables) on the performance of Jordanian banks. Therefore, data were analyzed using this linear regression model with bank's performance labeled "P" as the dependent variable, and six independent variables were used in the regression to test the research

H0: There is no direct and positive relationship between applying the rules of the commitment to corporate governance and the banks performance.

H1: There is a direct and positive relationship between applying the rules of the commitment to corporate governance and the banks performance.

H0: There is no direct and positive relationship between applying the rules of the functions of the board of directors and the banks performance.

H2: There is a direct and positive relationship between applying the rules of the functions of the board of directors and the banks performance.

H0: There is no direct and positive relationship between applying the rules of board committees and the banks performance.

H3: There is a direct and positive relationship between applying the rules of board committees and the banks performance.

H0: There is no direct and positive relationship between applying the rules of control environment and the banks performance.

H4: There is a direct and positive relationship between applying the rules of control environment and the banks performance.

H0: There is no direct and positive relationship between applying the rules of the treatment of shareholders and the banks performance.

H5: There is a direct and positive relationship between applying the rules of the treatment of shareholders.

H0: There is no direct and positive relationship between applying the rules of the transparency and disclosure, and the banks performance.

H6: There is a direct and positive relationship between applying the rules of the transparency and disclosure, and the banks performance.

METHODS

Research Design

A cross-sectional research design was used for analyzing the corporate governance practices in terms of financial performance of banks in Jordan. A quantitative paradigm of research was used, which helps present the findings in a numerical and statistical way that is easier to implement. The use of this design is also endorsed to be effective by the previous researches, which were able to gather concrete and reliable findings (Ghabayen et al., 2018).

Research Population and Sample

The population of the study comprises employees employed at 15 Jordanian Banks. A sample of 200 participants was purposively selected for determining the impact bank commitment has on bank performance. The inclusion criteria required the banks is their presence in the list of Amman Stock Exchange (that were around 15 only); whereas, it required participants to be at an executive level with at least two years of banking experience. It also required them to be above 20 years of age, and with a period of at least six months with the current employer.

Data Collection

The data was collected through a survey based on a close-ended questionnaire. All the items of the questionnaire were self-administered, derived from the previous studies. The questionnaire items were divided into two parts, where one collected demographical information of the participants, while the other collected information concerning the impact of the corporate governance on the performance of Jordanian bank. The questionnaire followed a 5-point Likert Scale that ranged from strongly agree to 5 strongly disagree. Prior to the distribution of the questionnaire, its validity and reliability were assessed. Such as three experts in social sciences were consulted who reviewed the questionnaire concerning its content, structuring, understandability as well as validity. Based on the received feedback, the researcher changed, removed, or revamped the questionnaire. Whereas, the Cronbach alpha value was computed for the reliability of the questionnaire, which was observed to be 0.899, depicting increased reliability of the questionnaire.

Ethical Consideration

Approval from the institutional review board (IRB) was obtained before starting with study procedure. Also, the researcher communicated the study objective, significance, and scope to the participants prior to their participation. The participants were also communicated about the anonymous as well as the confidential handling of the data. A written consent form was then attained to show their willingness for participation.

Data Analysis

In order to introduce a suitable framework for the data interpretation, results of the data analysis will be discussed in two parts: the descriptive data results and the analytical data results. The results were analyzed using Statistical Package of Social Sciences. The significance value for this study was kept at (p-value < 0.05).

RESULTS

Initially, the demographic variables of the study are assessed, which show different statistics concerning the gender, age, qualification as well as employment duration of the firm. The table below provides that the majority of the participants were male (n=119), while the number of female participants was comparatively low (n=81). It also showed that most of the participants in the sample were aged between 25 to 30 years (n=69), followed by the age group of 31-36 years (n=56). Also, the qualification statistics show that the majority had a graduate degree (n=77), followed by the participants who had completed their masters (n=60); while only a few were Ph.D. (n=41).

Table 1
DEMOGRAPHIC DETAILS OF THE PARTICIPANTS

Gender	Frequency (n)	Percent (%)
Male	119	59.5
Female	81	40.5
Age		
25-30 years	69	34.5
31-36 years	56	28
37-42 years	33	16.5
Above 42 years	42	21.0
Education Profile		
Intermediate	22	11.00
Bachelors	77	38.5
Masters	60	30.0
Diploma/Ph.D.	41	20.5
Experience level		
2 to 5 years	80	40.0
6 to 10 years 10-15 years	98	49.0
Above ten years	22	11.0
Total	200	100.0%

Table 2 shows the correlation test of the dependent variable performance with control environment, board committees, transparency and disclosure at p<0.05. Table 3 provides descriptive statistics for the variables used in regression analysis. It shows that treatment of shareholders and Board committees' commits on an average of 9%, as the rest have low percentage on average. As noted earlier, data from 34 surveys were used in the regression analysis; the model was with low significant at the value of 1.7 and was with low significant at an adjusted R square of 27%.

Table 2
CORRELATIONS (PERSON'S CORRELATIONS)

		Performance	Commitment to Corporate Governance	Functions of Board of Directors	Board Committee	Control Enviro-nment	Treatment of Shareholders	Transparency & Disclosure
Performance	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	34						
Commitment to Corporate Governance	Pearson Correlation	0.320	1					
	Sig. (2-tailed)	0.065						
	N	34	34					
The Functions	Pearson	0.032	0.067	1				

of the Board of Directors	Correlation							
	Sig. (2-tailed)	0.858	0.705					
	N	34	34	34				
Board Committees	Pearson Correlation	0.098	0.224	0.343*	1			
	Sig. (2-tailed)	0.583	0.203	0.047				
	N	34	34	34	34			
Control Environment	Pearson Correlation	-0.195	0.392*	0.044	0.038	1		
	Sig. (2-tailed)	0.268	0.022	0.806	0.833			
	N	34	34	34	34	34		
Treatment of Shareholders	Pearson Correlation	0.242	0.244	-0.131	-0.065	0.218	1	
	Sig. (2-tailed)	0.168	0.164	0.461	0.716	0.216		
	N	34	34	34	34	34	34	
Transparency and Disclosure	Pearson Correlation	0.104	0.513**	-0.216	-0.013	0.414*	0.228	1
	Sig. (2-tailed)	0.557	0.002	0.219	0.940	0.015	0.195	
	N	34	34	34	34	34	34	34

Table 3
DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
Performance	34	4	5	4.56	0.504
Commitment to Corporate Governance	34	4.50	7.50	6.6471	0.88360
The Functions of the Board of Directors	34	3.50	7.50	6.4412	1.16622
Board Committees	34	5.00	11.67	9.5196	1.92484
Control Environment	34	4.00	7.50	6.5588	0.95952
Treatment of Shareholders	34	7.33	11.67	9.5784	1.16141
Transparency and Disclosure	34	1.50	7.50	6.3088	1.51765
Valid N	34				

Table 4
REGRESSION ANALYSIS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig. 0.004	
		B	Std. Error	Beta			VIF
1	(Constant)	3.232	1.028		3.145		
	Commitment to Corporate Governance	0.230	0.118	0.404	1.950	0.062	1.599
	Control Environment	-0.221	0.098	-0.420	-2.240	0.034	1.310
	Treatment of Shareholders	0.103	0.075	0.237	1.366	0.183	1.119
	The Functions of the Board of Directors	0.023	0.079	0.053	0.290	0.774	1.246
	Transparency and Disclosure	0.009	0.069	0.029	0.137	0.892	1.625
	Board Committees	0.005	0.047	0.021	0.114	0.910	1.901

Table 4 shows relation of roles (independent variables) among performance (dependent variable); therefore, a Variance Inflation Factor (VIF) is performed to test the effect of these independent variables among dependent variables. The VIF quantify the severity in relation to the effect of multiple regressions. If the results for VIF are greater than 5, then the effect of multiple regressions is high. In relation to results, as there was a correlation between some of the independent variables, the VIF effect of multiple regression is minimal as the values are less than 5, which is acceptable.

DISCUSSION

The results have clearly depicted that Jordan banks have an increased commitment to implement corporate governance that would further help in enhancing bank performance. This is in-line with the research results of Padachi et al. (2017), which showed a direct association between corporate governance and bank performance. These findings are also supported by the study of Hamid et al. (2016) on developing countries, which showed that corporate governance helps protect the shareholder’s minority. The findings showed a substantial association between the corporate governance and transparency and disclosure practices of the bank. These findings are endorsed by the results of Buriak & Viakhirieva (2017), which showed that transparent practices help build public confidence in the bank.

The study implies the need to include corporate governance and consider it while composing a bank board, as well as seek suggestions for improving or revising the corporate governance mechanism. It shows that CG implementation in the banks helps protect as well as enhance the economic, social, and environmental practices. It also suggests that managers should alter their management style to implement CG, and ensure that good corporate governance practice are executed in-line with the bank vision as well as daily practices. The transparency induced due to corporate governance helps in enhancing company sales, profitability, growth, as well as survival. The manager should also ensure that these are in-line with the CG practices followed in the domestic and international markets. The bank should also ensure that a certain budget is allocated for performing social responsibilities to promote accountability, build the confidence of the stakeholders as well as the market standing of the bank. It also suggested that continuous training programs can be held concerning the corporate governance practices for improving manager’s compliance as well as practices.

The study found that the application of CG in Jordanian banks has become a necessity. It helps them to compete with the rest of the banks and maintain its continuity. The success of corporate governance in Jordanian banks requires the application of its rules properly, and this depends on the control of the central bank of Jordan and the banks management. Furthermore, there is no difference in consistence with the application of corporate governance in Jordanian banks since the percentage of practicing it is above 60%, and this indicates that the governance rules are valid for application in every organization of any kind and are not dedicated to just one type. However, the results of this study are limited as it fails to study the effect of the size of board of directors on profitability of the bank. Similarly, it has not identified the adverse impact of audit committee on the profitability of the bank, as it is known that the size of the bank is an important factor with a positive contribution to its profitability.

The principle of transparency and disclosure about the financial situation of the bank helps to enhance the confidence of its clients and thus improve bank’s reputation and performance. All Jordanian banks have their own website to disclose their annual reports. According to the survey the percentage of commitment is about 59%. The study results imply that there are relationships between application of Corporate Governance rules (Commitment to Corporate Governance, The Functions of the Board of Directors, Board Committees, Control

Environment, Treatment of Shareholders, Transparency, and Disclosure) and the bank performance; however, they are significantly different.

This study also presents some recommendations in the process of improving corporate governance by increasing the role of the shareholders, and their interaction with the management of the bank. This means that the shareholders should actively exercise their rights and use their influence resulting in the management protecting the interests of the shareholders as best possible and ensuring an appropriate and balanced development of the bank both in the short and the long term.

CONCLUSION

The results of this cross-sectional study design provided that the corporate governance helps to promote effective work practices for managing risk as well as a valuable addition. It shows that the previous understanding of corporate governance has shifted where compliance with the established norms, laws, and listing standards has helped promote effective work performance and practices of Jordanian banks. The findings show that including corporate governance in the bank strategy helps improve its work transparency as well as a competitive edge. The survey of the bankers' opinions showed that bank commitment to the corporate governance practices, particularly disclosure and transparent working helps to develop an effective corporate governance pattern.

The findings further highlight new avenues for future research. Such as it indicates that future studies can explore new areas and variables concerning the implementation of the CG by the Jordan Banks. It also recommends that future researches can conduct a comparative analysis of Jordan with other countries, most preferably the Middle East, given the similarities in terms of settings. Also, economic consequences can further be investigated. Qualitative research data needs to be applied for a comprehensive analysis of the data followed by the impact political network has on the bank commitment for implementing corporate governance practices.

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