THE IMPACT OF NOMINATION AND REMUNERATION COMMITTEE ON CORPORATE FINANCIAL PERFORMANCE

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ABSTRACT

This study is an attempt to achieve the main objective by examining the association between the nomination and remuneration committee and the corporate financial performance of the Jordanian companies. This study used OLS regression to test the relationship between independent variable and dependent variable as discussed in the section explaining the study method. The data comprised of 228 companies industrial and services. As this study Jordan attempts to bridge the gap in the existing literature by investigating the association between nomination and remuneration committee and corporate financial performance in the emerging market of Jordan. The findings indicated a significantly positive relationship between the nomination and remuneration committee and the corporate financial performance. Finally, this study provides recommendations for future research.

Keywords: Nomination and Remuneration Committee, Corporate Financial Performance, Amman Stock Exchange.

INTRODUCTION

Recent reviews of Corporate Governance research on corporate boards have specified that though much has been learned and already done, it’s time for reflection and the exploration of new directions in board research and focus on less researched areas. Jordanian Corporate Governance codes (2017) and reforms in Jordan have centered upon assisting the executive management and the board of a company to make the right decisions in order to achieve their stakeholders' objectives. So, among the sub-committees noted in JCGC (2017) settings, the nomination and remuneration committee, as compared to other committees, has received the least attention from researchers to the knowledge of the researcher. For this reason, the researcher conducted this study to fill the gaps in the theoretical framework and to indicate the importance of this committee (Eulaiwi et al., 2016; Abobakr, 2017).

The NRC is evolving to become one of the most prominent issues of the global economy; the NRC is recognizing the importance of growth and profitability of a company. By focusing on the NRC of the company and reporting their performance, there have been many discoveries of the possible benefits that companies may receive (Mintah, 2015; Chung & Wei, 2017). According to JCGC (2017), the NRC should ensure that the appointed board members have an appropriate balance of skills, age, gender, educational qualifications, experience, independence and knowledge of the company to enable them to discharge their duties successfully. Members should also receive a formal induction, and regularly update and refresh their skills and knowledge in the company (ASE, 2017). Many studies show that in firms with better governance, there are less instances of opportunistic behavior by managers. Better governance, indeed, helps to align the interests of managers and shareholders boosting the corporate financial performance. From the point of view of the researcher, the success of this committee means the success of the company because it followed all the procedures and methods to ensure the composition of the fullest (Kaczmarek et al., 2012). However, findings of past studies did not fully explore all related knowledge and understanding towards nomination and remuneration committee.

Thus, current study aims to investigate the relationship between NRC and corporate financial performance. From the knowledge of the researcher, previous studies are very rare and scarce specifically in in developing countries (especially in Jordan) and know the shortcomings of this committee. In addition, the current will highlights the issues and challenges from aspect of Jordan.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The NRC, which is one of the important committee of the board of directors, and the NRC it will help minimize agency conflict by ensuring that appointed board members work together to achieve shareholders interest. This means that the NRC plays an essential and important role in the success and failure of the company. The CFP of companies collectively depends on whatever the NRC has appointed to the board and who is part of the executive management team. The NRC has to ensure that the right candidate with the right profile is selected to heighten the probability of success for the company (Appiah & Chizema, 2016).

Several empirical studies have shown that an independent NRC that comprises independent members is less likely is influenced by the CEO or other executive directors in the director appointment process. This occurrence will increase the recruitment of directors with reputations for being active in exercising their control over the executive directors to raise the CFP (Cybinski & Windsor, 2013; Zajac & Westphal, 1996).

Most importantly, the NRC must be influential enough to introduce its own independent suggestions and not be influenced by the CEO or the executive directors. Finally, the existence NRC creates the value of the company. In addition, the board tends to have different and unique ideas, experiences and power of thinking and this serves as the basis for better outcomes during the decision-making process and policy making process and enhance the CFP (Pirzada et al., 2017).

The objective of this research is to determine if the presence of NRC can improve the CFP, and how it can enhance the overall ROA and EPS of a company. The NRC is one of the least researched subject areas in the effectiveness of board committees (for example, Cybinski & Windsor, 2013; Huse, 2011; Handa, 2018).

Due to the limited amount of empirical research on the effectiveness of the NRC, this research will be the first to materially assess its impact on Jordanian companies. Various CG regulatory reforms in the Jordan have also provided the impetus to investigate the extent to which the NRC is able to impact the CFP of a company. These will serve as the motivation of the research and help fill in any gaps in the current CG research literature. This paper focuses on the NRC impact on the CFP (ROA and EPS).

Agency theory primarily focuses on the separation of ownership and control, which exist in organizations (Berle and Means, 1932), and the relationship between the principal and the agent, which is intrinsically open to several problems (Berle and Means, 1932; Jensen and Meckling, 1976; Eisenhardt, 1989). The first is the problem with information asymmetry, where the agent has easier access to information within the company than the principal, and the second is the possibility of conflicts of interest between the principal and the agent as a result of divergent interests (Jensen and Meckling, 1976; Hill and Jones, 1992).

The findings are consistent with agency theory, which argues that the presence of NRC ensures that appropriate skills, talents and competencies are brought into the organization to help maximize shareholders' returns. This concludes hypothesis as,

H1: There is a relationship between nomination and remuneration committee and ROA.

H2: There is a relationship between nomination and remuneration committee and EPS.

This research focuses on industrial and services companies because they are heavily regulated and have unique capital structure, which can impact their CFP (Yermack, 1996; Guest, 2009). A secondary reason for choosing industrial and services companies was because they are very important for industrial expansion and capital allocation (Ross, 2003; Zagorchev & Gao, 2015). However, to the best of our knowledge there is no study which directly measures between NRC and CFP. Given the number of previous studies that have tied many of the aforementioned board structure to corporate bankruptcy (Jermias & Gani, 2014).

RESEARCH METHOD AND THE STUDY MODELS

The current study sample comprises of 228 companies for the years 2015 and 2016 and excluded financial firms as they differ in structure, methods and accounting practices from the sample (Barontini & Caprio, 2006; Bøhren & Strøm, 2010). Data of the firms is obtained from their annual reports compiled in Amman Stock Exchange (ASE). The CFP was measured by accounting-based measurement, (ROA and EPS). It is a forward-looking measurement reflecting the shareholder expectations regarding future performance of the firm, which is based on past or current performance (Ganguli & Agrawal, 2009; Shan & McIver, 2011; Wahla et al., 2012). As a traditional measure, (ROA, EPS) measures the expected firm long-run performance (Bozec et al., 2010) as opposed to market value of equity which measures the firm's growth opportunities arising from factors external to managerial decisions and this is exhibited through the companies' level (Shan & McIver, 2011; Demsetz & Villalonga, 2001).

Table 1
SUMMARY OF VARIABLES MEASUREMENT

N0	Variables	Acronym	Operationalisation
Dependent variables (DV)			
1 2	Return on Asset Earnings per Share	ROA EPS	Earnings (before tax) divided by total assets of the firm Net income divided by number of shares outstanding
Independent Variables (IV)			
3	nomination and remuneration	NRC	measured by '1' if company has nomination and remuneration committee and '0' otherwise

The CG variable namely, nomination and remuneration committee (NRC) was studied. Table 1 offers the variable measurement summary. In sum, the relationship between nomination and remuneration committee was studied by using the following model:

$$ROA= \alpha 0+\gamma 1*NRC + \varepsilon$$

$$EPS= \alpha 0+\gamma 1*NRC + \varepsilon$$

DATA ANALYSIS AND RESULTS AND DESCRIPTIVE STATISTIC

The continuous variables' descriptive statistics included the mean, standard deviation, and minimum and maximum, which are obtained with the help of SPSS, version 21(Table 2).

Table 2
DESCRIPTIVE STATISTICS OF VARIABLES

	N	**Minimum**	**Maximum**	**Mean**		**Std. Deviation**
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
NRC	228	0.0	1.0	0.408	0.0326	0.4925
ROA	228	-91.90	3.47	-0.342	0.7684	10.969
EPS	228	-1.07	7.20	0.3454	0.1222	1.846
Valid N (listwise)	228	-	-	-	-	-

CORRELATION ANALYSIS

In this study, the correlation analysis was carried out through the multiple linear regressions. Pallant (2011) stated that "*correlation analysis is useful in describing the strength and direction of the linear relationship between two variables"* (Table 3).

Table 3
RESULTS OF PEARSON CORRELATION ANALYSIS

		NRC	**ROA**	**EPS**
NRC	Pearson Correlation	1	0.164*	0.161*
	Sig. (2-tailed)	-	0.013	0.015
	N	228	228	228
ROA	Pearson Correlation	0.164*	1	0.167-
	Sig. (2-tailed)	0.013	-	0.012
	N	228	228	228
EPS	Pearson Correlation	0.161*	0.167*	1
	Sig. (2-tailed)	0.015	0.012	-
	N	228	228	228

*p>0.05

Regression Results of Model (Based on Accounting Measure)

The finding suggests the existence of NRC is associated with higher performance Tables 4 & 5. Thus, hypothesis *H1* is supported. This finding is consistent with previous studies that found a positive relationship between NRC and CFP such as Appiah & Chizema, 2016; Cybinski & Windsor 2013; Mintah, 2015. One probable clarification for the positive significant association between NRC and CFP is that this result is supported by Agency Theory, which postulates that the board has to be stricter when it comes to monitoring of management to ensure financial performance.

Table 4
REGRESSION RESULTS OF MODEL (DEPENDENT= ROA)

Variables	**R-square**	**Standardized Coefficients Beta**	**t-value**	**Sig.**
(Constant)	0.027	-	-1.965	0.051
NRC	-	0.164	2.503	0.013

Table 5 REGRESSION RESULTS OF MODEL (DEPENDENT= EPS)				
Variables	**R-square**	**Standardized Coefficients Beta**	**t-value**	**Sig.**
(Constant)	0.026	-	0.632	0.528
NRC	-	0.161	2.453	0.015

CONCLUSION

This study is considered to have achieved its main target, which is to test the relationship between the NRC and CFP among Jordanian companies. Moreover, this study added variable to the body of knowledge such as, NRC. The present study employed several assumptions to examine the association between independent variable and dependent variable as discussed in the research methodology section. The data used for this study comprised of 228 companies and according to the findings, a significant positive relationship exists between the NRC and CFP in Jordanian listed companies.

This study has many recommendations for future studies. Firstly, this study examined the direct relationship but there is a lack of previous research examining the moderating or mediating effect of other variables on the relation between NRC and CFP such as, board diversity, culture, regulation, among others that will lead to help in improving performance. Secondly, future authors should investigate the relationship between NRC and CFP in-depth, by adding new variables such as size, independence, expertise, meeting and gender. Thirdly, this study recommends future authors to study the relationship between NRC and CFP through other theories such as, stewardship theory, institutional theory and stakeholder theory as these theories may be more suitable for this environment. Finally, future authors should extend proxy of firm performance and integrate between accounting and marketing measurement as this may lead to effective performance in both the short-and long-term.

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