The Role of Corporate Governance on the Reduction of the Global Financial Crisis Implications: Evidence from Banking Sector of Jordan

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Abstract

This study aims to determine the role of Corporate Governance on the reduction of the global financial crisis implications on the Banking Sector of Jordan; in addition to that, it aims to review the latest CBJ regulation and directions which were issued during 2009 in order to motive the Jordanian Banks to expand the credit and lending to the public. In this study the researcher has used the CG Codes Pillars for Banks, and the monthly reports issued by CBJ. In order to reach the desired results, a postal questionnaire was sent to all of the risk managers and internal audit managers operating in the Jordanian Banks. The research results show that our respondents have good level of education and experience, a multiple regression test was carried out to test the relationship between the independent variables: Commitment to Corporate Governance, Functions of the Board of Directors, Board Committees, Control Environment, and Transparency and Disclosure codes, and the dependent variable: Reduction of the global financial crisis implications.; independent variables are able to explain nearly 77% (R=0.765 P< 0.000) of the variance in Reduction of the global financial crisis implications, also it was found that calculated F = 32.675 is significant at 0.05 which means that there is an effect of independent variables on dependent variable. This indicates that there is a significant positive relationship between independent variables and (dependent variable). Thus, we reject the null hypotheses that assumed there is no significant role of independent variables. Meanwhile the coefficients factors and (T value at 0.05 level of significant) support this suggestion when taking the independent variable jointly, By using the Stepwise analysis, the study has found that the most independent variable which plays the effective role on the reduction of the global financial crisis implications was the Transparency and Disclosure Pillars with (R = 0.657). The study has found that the economy does not get the expected benefits from CBJ regulation. This study like other cross sectional studies is not free of limitations.

Keywords: Global financial crisis, Corporate governance, Central Bank of Jordan, IFRS, Risk management, Internal audit

1. Introduction

The financial crisis that began to take hold in 2007 has exposed significant weaknesses in the nation's financial architecture and in the regulatory system designed to ensure its safety, stability and performance. As asset prices deflated, so too did the theory that increasingly guided American financial regulation over the previous three decades — that private markets and private financial institutions could largely be trusted to regulate themselves.(Stein, 2009), During 2008, the stability of the global financial system came into question. Banks stopped lending to each other, thereby freezing credit globally. Global financial crisis is the worst financial events that swept the world since the Great Depression in the twenties of the past century, which almost led to the collapse of the global capital markets, which led, for example but not limited to the collapse of Merrill Lynch; and sold to the Bank of America. These events lead to a decline in societal wealth and welfare. Thus, if the firms can't ensure wealth and welfare of the community and the public interest; so that; will lead the governments to take charge of Corporate Governance, as in many countries of the world; where governments own many of the companies threatened to collapse. In light of this simplified analysis; This study aims to evaluate the role of

Corporate Governance in reducing the global financial crises implications on the banks of Jordan, and to evaluate the role of regulations have been issued during 2009 by the Central Bank of Jordan in response to the global financial crises on the reduction of the global financial crises implications on the Banks of Jordan. This sector plays the primary role in sustaining the national economy, through revision of the principles of corporate governance legislation and the (OECD) principles, as well as instructions of the Central Bank of Jordan and its role in insuring the commitment of banks in the application of these instructions. Rezaee, et al. (2003) stated that good corporate governance promotes relationships of accountability among the primary corporate participants and this may enhance corporate performance as it holds management accountable to the board and the board accountable to the shareholders. One of the best-known definitions of corporate governance is to be found in the Report of the Committee on the Financial Aspects of Corporate Governance: Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. CMA (2002) defined corporate governance as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accountability with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders. A number of commissions and committees have been established to address corporate governance in the USA, which include the Treadway Commission (1987) and the Blue Ribbon Committee (1999). Further, the Sarbanes-Oxely act of 2002 was signed into law and one of its major provisions was that listed companies establish audit committees (Joshi and Wakil, 2004). Firms with stronger monitoring by boards and shareholders may have taken more risk before the crisis, because managers that have accumulated firm-specific human capital and enjoy private benefits of control tend to seek a lower level of risk than shareholders that do not have those skills and privileges (Laeven and Levine, 2008).

This study has divided into five sections; the first one is concentrating on the introduction and research objectives, problem definition and research model, while the second one in focusing on the literature reviews that related to this study, the third section addresses the applied methodologies and procedures, while the final one figuring out he research findings and recommendations.

2. Study Objective

The objective of this research is to determine the role of corporate governance of the Central Bank of Jordan and regulations which were issued during 2009 on the reduction of the effect of the global financial crises implications on the banking sector of Jordan. After reviewing the literatures, motives for such researches are to evaluate and determine the feasibility of the corporate governance pillars applied by the Central Bank of Jordan. In addition to that; the study aims to evaluate to what extent do the regulations which were issued during 2009 by the Central Bank of Jordan - in response to the global financial crises – motive the Jordanian Banks to expand the credit and lending to the public. We found that this study is the first one up to the researcher's knowledge that determine and evaluate the role of corporate governance pillars on the reduction of the global financial crisis implications. A postal questionnaire has been developed and distributed to the Risk Managers and Internal Auditors.

3. Problem Definition

To achieve the research objective, the research problem can be represented by the following questions:

1) - What is the role of corporate governance on the reduction of the global financial crisis implications on the Banking Sector of Jordan?

The following questions can be derived from this problem that represents the problem elements:

- a. What is the role of Commitment to Corporate Governance (CG) on the reduction of the global financial crisis implications on the Banking Sector of Jordan?
- b. What is the role of Functions of the Board of Directors on the reduction of the global financial crisis implications on the Banking Sector of Jordan?
- c. What is the role of Board Committees on the reduction of the global financial crisis implications on the Banking Sector of Jordan?
- d. What is the role of Control Environment on the reduction of the global financial crisis implications on the Banking Sector of Jordan?
- e. What is the role of Transparency and Disclosure on the reduction of the global financial crisis implications on the Banking Sector of Jordan?

2) -To what extent do the regulations which were issued during 2009 by the Central Bank of Jordan - in response to the global financial crises - motive the Jordanian Banks to expand the credit and lending to the public?

4. Literatures Review

They were many literatures relevant to this study; In the UK a number of issues in the early 1990's most notably the collapse of the Maxwell business empire, stimulated discussions and debate about structures for controlling executive power (Power 2002). A code of best practice was published in December 1992 (The Cadbury Code) which included recommendations for companies to establish audit committees comprising independent non-executive directors (Power 2002). In the USA an increasing number of earnings restatements by publicly traded companies, coupled with allegations of financial statement fraud and lack of responsible corporate governance of high profile companies (e.g. Enron, Global Crossing, World com in the USA, Parmalat in Italy and MacMed, Masterbond and Leisurenet in South Africa) has sharpened the ever increasing attention on corporate governance in general and audit committees in particular. The fall of these companies raised concerns regarding the lack of vigilant oversight by their boards of directors and audit committees in the financial reporting process and auditing functions (Rezaee et al, 2003). Gospel and Pendleton (2005) suggest that corporate governance essentially deals with the relationship between capital, management and labor. They say that 'corporate governance is concerned with who controls the firm, in whose interest the firm is governed and the various ways whereby control is exercised.(2003), Kay and Silberston(1997) suggest a "trusteeship" model of corporate governance that emphasises "the evolutionary development of the corporation around its core skills and activities Corporate governance is about finance, about the relationship between employees, shareholders and management and about the evolutionary development of the core skills and activities of the corporation.

In its study of the corporate collapses at the beginning of this century (Enron and the like), the Economist Intelligence Unit (2003) concluded that 'companies are putting in place new governance processes but these processes do not necessarily lead to substantive changes; the form-over-substance problem is exemplified by efforts to supercharge the audit committee, rules and regulations may help shore up confidence in the market but they will not magically produce good behavior.

The legal protection of shareholder is the backbone of any corporate governance system. As a result, differences in legal protection of shareholders explain a substantial part of the differences in the ownership structures across countries (Shleifer & Vishny, 1997). For instance, minority blockholder owners can exercise their rights only in countries with a developed legal system, whereas majority ownership is a more viable option in countries with a weak legal system (La Porta et al., 1998). In his study (Al-Sa'eed, 2011) has found that the compliance with Jordan Securities Commission requirements has been evaluated as the most effective feature that influence the financial reporting in the Jordanian share-traded companies. Audit quality, internal control effectiveness, and understanding of AC's functions are coming next respectively. The informal relations of trusts and importance of reputations are, however, also connected to the viability of dispersed ownership hence also explaining some of the differences in ownership structure across countries (Franks et al., 2009). Furthermore, the level of legal protection of shareholders has an impact on how well management ownership aligns the interests of management and shareholders. The government regulated deposit insurance and the implicit guarantee that large banks will be bailed-out by the government in order to avoid bank runs and hence maintain financial system stability, reduce the efficiency of corporate governance mechanisms (Berlin et al., 1991). Furthermore, both Demirguc-Kunt & Detragiache (2002) and Barth et al. (2004) report that banking crises are more common in countries with generous deposit insurance systems. Moreover, the particular deposit insurance features, such as the funding and management of the system, have an even stronger connection to banking crisis than the mere existence of a deposit insurance system (Demirguc-Kunt & Detragiache, 2002). During the current financial crises governments across the world have taken measurable actions. In addition to liquidity and lending guarantees, interest rate cuts, capitalization and asset purchases to bail-out troubled banks, the explicit deposit insurance coverage has been increased substantially (The Economist, October 6th, 2008, The Financial times, October 13th, 2008). Moreover, in October 2008 the European Commission presented a proposal for amending the Deposit Insurance Directive from 1994. In addition to the increase in the minimum deposit insurance coverage, time to payout in case of bank failure is reduced and the use of coinsurance is terminated as a result of the new rules. Some criticism has been raised towards aligning the deposit insurance systems of the EU countries. For example, Huizinga (2005) points out that the deposit insurance coverage in relation to the GDP is much higher in the new-EU countries than in the old-EU countries, hence resulting in over-insurance in some countries.

(Erkensa. D, .et al. 2009) investigated the role of corporate governance in the 2007-2008 financial crisis, using a unique dataset of 296 financial firms from 30 countries that were at the center of the crisis. Paradoxically, they

found that while boards and shareholders appear to have executed their monitoring role by replacing poorly performing CEOs during the crisis, they also seem to have encouraged investments in subprime mortgage related assets that led to large losses during the crisis. Further exploration of the relation between governance and shareholder losses finds evidence consistent with shareholders having encouraged managers to take aggressive risks before the crisis, but does not find evidence consistent with boards having done so. Instead, there findings suggest that reputational concerns of board members explain why firms with more independent boards suffered from worse stock returns and recognized larger writedowns during the crisis. In particular, they found that firms with more independent boards were more likely to raise capital during the crisis, even though this came at a great cost to existing shareholders. In addition, they found that firms with more independent boards were more likely to disclose writedowns, which made it appear as if these firms recognized larger writedowns than other firms. Overall, results are inconsistent with the losses during the financial crisis being the result of lax oversight by boards and investors. Rather, results are consistent with risk-taking encouraged by shareholders and reputational concerns of directors having contributed to the losses. (Huizinga, H and Laeven, L, 2009) presented evidence of banks using accounting discretion to overstate the value of distressed assets. In particular, we show that the stock market applies far greater discounts to a bank's real estate loans and mortgage-backed securities than are implicit in the book values of these assets, especially following the onset of the U.S. mortgage crisis. This suggests that bank balance sheets overvalue real estate related assets during economic slowdowns. Caprio et al. (2007) examine the joint impact of shareholder protection laws and ownership characteristics on bank valuations while controlling for differences in bank regulation. They define the ultimate owners for the ten largest banks across 44 countries and categorise the bank as either widely held, controlled by a family or private individual, a state, a trust or foundation, a widely held non-financial corporation or a widely held financial company. They found that a great majority of the banks in the sample has concentrated ownership. When comparing the frequency of ownership type across countries with different regulatory environment, they found that widely held banks are more common in countries with strong shareholder protection and independent bank supervisory authority, that family ownership is more common in countries with strong bank supervisor authority, that state ownership is more common in countries with high restrictions on bank activities and low independence of bank supervisory authority. Moreover, they found that financial company ownership is more common in countries with strong shareholder protection, low restrictions on bank activities and low independence of bank supervisory authority, whereas non-financial company ownership is more common in countries with high independence of bank supervisory authority. On the joint impact of shareholder protection laws and ownership on bank valuation, which is the main focus of their study, Caprio et al. (2007) have found that the positive impact of ownership concentration on bank valuation is greater in countries where shareholder protection is weak. (Nogata.D, et.al, 2009) analyzed how corporate governance structures in an industrial country (Japan) affect firms' stock price performance during the current financial crisis. Results of this study show that Japanese firms that adopt stock option plans have suffered more from deteriorating stock price performance during the present financial crisis. Consistent with Adams (2009), this result suggests that managerial risk-taking incentives induced by stock-based compensations are responsible for declining firm performance during this crisis. Secondly, firms with more non-Japanese shareholders (cross-holding shareholders) experience larger (smaller) stock price reductions; Overall, results suggest that, for this financial crisis, corporate governance structures are important determinants of firm performance even in industrial countries. Finally, it is apparent that firms that rely on bank financing suffer more from deteriorating stock price performance. Similarly to results of existing studies, the results suggest that bank-dependent firms have difficulty in obtaining financing during a financial crisis. Previous studies have described that in emerging markets corporate governance structures affect stock price performance during the East Asian financial crisis (Baek et al., 2004; Johnson et al., 2000; Mitton, 2002; Lemmon and Lins, 2003). Those studies specifically examine emerging markets because minority shareholders' rights are not well protected in those markets (La Porta, 1998). For the case of the current financial crisis, however, it would be important to analyze how corporate governance structures affect stock returns in industrial countries such as the U.S. and Japan, where minority shareholders' rights are well protected.

5. Hypothesis Development

Based on the research questions and reviewing the literatures; study hypotheses have been developed as follows:

H 1: There is no role of corporate governance pillars on the reduction of the global financial crisis implications on banks of Jordan.

This hypothesis can be approved through approving the following sub-hypotheses:

H 1.1: There is no role of Commitment to Corporate Governance Pillars (CGP) on the reduction of the global financial crisis implications on the Banking Sector of Jordan.

- H 1.2: There is no role of Functions of the Board of Directors Pillars on the reduction of the global financial crisis implications on the Banking Sector of Jordan.
- H 1.3: There is no role of Board Committees Pillars on the reduction of the global financial crisis implications on the Banking Sector of Jordan.
- H 1.4: There is no role of Control Environment on the reduction of the global financial crisis implications on the Banking Sector of Jordan.
- H 1.5: There is no role of Transparency and Disclosure codes on the reduction of the global financial crisis implications on the Banking Sector of Jordan.
- H 2: The regulations which were issued during 2009 by the Central Bank of Jordan in response to the global financial crises do not motive the Jordanian Banks to expand the credit and lending to the public?

6. Research methodology

Based on the aim of the study and review of the literatures, the study attempted to answer the following research question: What is the role of corporate governance pillars on the reduction of the global financial crisis implications on banks of Jordan? To get the appropriate responses to the first study question; A postal questionnaire survey was deemed the most appropriate research tools to answer the study questions. The questionnaire was contained of five parts that represent the corporate governance pillars which is Commitment to Corporate Governance (CGP), Functions of the Board of Directors, the board committees, Control Environment, and transparency and disclosure codes. It is an effective tool to seek opinions, attitudes and descriptions about role of corporate governance pillars. A listing of Share-Traded Jordanian Banks was available from the Amman Stock Exchange as of 31 December 2009. A total of 16 banks' Shares were traded on that day. It was decided to distribute the questionnaire to all those companies, unit of analysis were decided to be the risk managers and internal audit managers with confidence level of 95% and internal level of (10). The response rate of the questionnaire survey was (94%), where only (30) out of (32) questionnaires were returned. In addition to that, an empirical analysis was conducted to evaluate the feasibility of regulations which were issued during 2009 by the Central Bank of Jordan in response to the global financial crises to motivate the Jordanian Banks to expand the credit and lending to the public.

7. Data analysis and research findings

The research sample (see table (1)) showed that (96%) of the research sample hold Bachelor and Master Degrees which means that the research sample has sufficient level of education to answer the questionnaire items, while (60%) of the respondents were specialized in accounting and management, this result is a good indicator about the respondents ability to understand the questionnaire items, on the other hand; nearly more than (53%) of the respondents (10 years and above) have a good level of experience to answer the research questionnaire without any difficulties. In the meantime; (50%) of the respondents have a sufficient knowledge and training in Risk Management and Corporate Governance, which enhances the objectivity of answers, take into consideration that nearly (54%) of the respondents have a continued follow up of the financial crises implications. Overall; the demographic features of the research respondents shows the target sample is relevant to answer the research questions.

Insert Table 1 here

8. Descriptive Statistics

Mean and standard deviation were used to describe attitudes of the Corporate Governance code Pillars, The study has found (see table (2)) that there are positive attitudes toward the Pillars concerning their role on the reduction of global financial crises implications; because their means were above the mean of the scale (3) (e.g. all the attitudes were above 4). It has found that the Transparency and Disclosure Pillar code has the highest mean (4.591); which means that this pillar code has the most effect on the reduction of the global financial crises implications on the Jordanian Commercial Banks; meanwhile the Functions of the Board of Directors Pillar code have the lowest mean (4.234).

Insert Table 2 here

As per table(3); it's clear that the means and standard deviations for all the items were above the mean of the scale(3); which represents a satisfactory indication about the importance and effect of each item on the reduction of the global financial crises implications on the Jordanian Commercial Banks. The most important items in the code pillars were belong to (Transparency and Disclosure Codes) in terms of disclosure and compliance with International Financial Reporting Standards (IFRS), compliance with changes in IFRS, maintaining the

information channels with shareholders, depositors, financial markets counterparts, regulators and the public in general, the board acceptance of responsibility for the Bank's financial statements, and disclosure about the adequacy of internal controls with the means of (4.708,4.625,4.583,and 4.416) respectively.

Insert Table 3 here

9. Kolmogorov-Smirnov Z Test

(K-S) test was used to test the normality of the data (see table(4)) and it was found that calculated Z values are not significant at 0.05 levels which mean that the data is normally distributed.

Insert Table 4 here

10. Testing of Research Hypothesis

This study has used (t- test) for answering the research questions, Cronbach's Alpha test was used to test the reliability of the scale, the result was (α = 95.96%), is good because, it is greater than accepted value 60%.

To test hypothesis, (t-test) was used to examine the role of independent variables: Commitment to Corporate Governance, Functions of the Board of Directors, Board Committees, Control Environment, and Transparency and Disclosure codes, and the dependent variable: reduction of the global financial crisis implications. The (t-test) analysis allows testing the strength of relationships between several independent variables and one dependent variable, which is the case in this study. The results of (t-test) (see Table(5)) shows that the independent variables have a significant role on the reduction of the global financial crisis implications, where (calculated t) is greater than the (tabulated t);Thus, further analysis becomes possible to examine the amount of variance in the dependent variables that can be explained by independent variables.

11. Regression Analysis

In order to test if the independent variables are able to explain the variance in the dependent variable, a multiple regression test was carried out to test the relationship between the independent variables: Commitment to Corporate Governance, Functions of the Board of Directors, Board Committees, Control Environment, and Transparency and Disclosure codes, and the dependent variable: Reduction of the global financial crisis implications.; independent variables are able to explain nearly 77% (R=0.765 P< 0.000) of the variance in Reduction of the global financial crisis implications, also it was found that calculated F = 32.675 is significant at 0.05 which means that there is an effect of independent variables on dependent variable. This indicates that there is a significant positive relationship between independent variables and (dependent variable). Thus, we reject the null hypotheses that assumed there is no significant role of independent variables. Meanwhile the coefficients factors and (T value at 0.05 level of significant) support this suggestion when taking the independent variable as jointly as follows: Commitment to Corporate Governance, (9.094,0.00) Functions of the Board of Directors (11.715,0.00), Board Committees(12.268,0.00), Control Environment(12.269,0.00), and Transparency and Disclosure codes(16.339,0.00), while the overall T value for the main hypothesis (The role of Corporate Governance) is (14.091) which support the results the previous analysis.

Insert Table 5 here

12. Stepwise analysis

By using the Stepwise analysis to evaluate the role of corporate governance pillars, to determine the manner in which they reduce the implications of global financial crisis, it shows in table (6) that the most independent variable which plays the effective role on the reduction of the global financial crisis implications was the Transparency and Disclosure Pillars with (R = 0.657). This result supporting that the Transparency and Disclosure Pillars are lined and complied with the requirements of the corporate governance principles that issued by the Organization of Economic Cooperation and Development (OECD), Those principles require the Banks to adapt the corporate governance principles to oversight the transparency and disclosure process as a function and responsibility of the management.

Insert Table 6 here

13. Multicollinearity Test

Variance Inflationary Factor (VIF) was used to test the multicollinearity of the variables (see table 7)); this test was used to verify that each independent variable is independent from other independent variables. It was found (see table (7)) that VIF < 5, so that there is no multicollinearity which means that the model used in this research is correct.

Insert Table 7 here

H 2: The regulations which were issued during 2009 by the Central Bank of Jordan - in response to the global financial crises – do not motive the Jordanian Banks to expand the credit and lending to the public?

Foreign currency reserves at the Central Bank of Jordan leapt by US\$ 25.9 billion or 0.2 percent, at the end of January 2010 compared with their level at the end of 2009; standing at US\$ 10,904.9 billion. The aforementioned level of reserves is equivalent to around 8.1 months of the Kingdom's imports of goods and services. Moreover, these reserves stood at US\$ 10,990.8 billion as of February 25, 2010; up by US\$ 11.108 billion, compared with their level at the end of 2009.

Domestic liquidity at the end of January 2010 was up by JD 72.1 million, or 0.4 percent, compared with its level at the end of the previous year to total JD 20,085.4 million. Furthermore, our government issued a blanket guarantee for all deposits through 2009. The outstanding balance of the credit facilities extended by licensed banks increased by JD 84.1.9 million, or 0.6 percent, at the end of January 2010 compared with its level at the end of 2009; standing at JD 13,401.3 million.

Insert Table 8 here

For the first time during 2010, the CBJ slashed the interest rates on its monetary instruments by 50 basis points as of February 21, 2010. Accordingly, the aforementioned rates became as follows:

- Re-Discount Rate: 4.25 percent.
- Interest Rate on Overnight Repurchase Agreements: 4.00 percent.
- Overnight Deposit Window Rate: 2.00 percent.

In the light of the above rates; CBJ has tried to motivate the economy through this slash, meanwhile the Jordanian Commercial Banks did not fully response and comply with CBJ motives. We could discover this by reviewing the table (9) which includes the Macro Prudential Indicators in Jordanian Banks.

The table (9) shows the high capital adequacy of our banks (in excess of 12% and around 19.3%), the high liquidity ratios (in excess of 100% and around 155.6%), and the low ratio of non-performing loans (around 6.4%).and low of coverage ratio (around 48.9%) that result from increasing nonperforming loans. Also Table (16) show low return on equity and return on assets (around 4.7% and 0.6%) that result from decreasing in Jordanian banks income during 2009 and high leverage ratio (in excess of 6% around 13%).

Insert Table 9 here

In the light of the second hypothesis, CBJ regulations which were issued in order to motivate banks to expand credit and loans, which in return expected to mobilize the economy. Again after reviewing the table (8) and explanation; the study has found that the economy does not get the expected benefits from CBJ regulation, and so the Jordanian Commercial Banks, especially when observing that most of Macro Prudential Indicators have increased. So that; the study has accepted the second hypothesis, in other words; the CBJ Regulations which were issued during 2009 do not motivate the banks to expand the credit and lending to the public.

14. Conclusions and Recommendations

The research results show that our respondents have good level of education and experience to answer the questionnaire items, (60%) of the respondents were specialized in accounting and management, this result is a good indicator about the respondents ability to understand the questionnaire items, on the other hand; nearly more than (53%) of the respondents (10 years and above) have a good level of experience to answer the research questionnaire without any difficulties. In the meantime; (50%) of the respondents have a sufficient knowledge and training in Risk Management and Corporate Governance, which enhances the objectivity of answers, take into consideration that nearly (54%) of the respondents have a continued follow up of the financial crises implications. In order to test if the independent variables are able to explain the variance in the dependent variable, a multiple regression test was carried out to test the relationship between the independent variables: Commitment to Corporate Governance, Functions of the Board of Directors, Board Committees, Control Environment, and Transparency and Disclosure codes, and the dependent variable: Reduction of the global financial crisis implications.; independent variables are able to explain nearly 77% (R=0.765 P< 0.000) of the variance in Reduction of the global financial crisis implications, also it was found that calculated F = 32.675 is significant at 0.05 which means that there is an effect of independent variables on dependent variable. This indicates that there is a significant positive relationship between independent variables and (dependent variable). Thus, we reject the null hypotheses that assumed there is no significant role of independent variables. Meanwhile the coefficients factors and (T value at 0.05 level of significant) support this suggestion when taking the independent variable as jointly as follows: Commitment to Corporate Governance, (9.094, 0.00) Functions of the

Board of Directors(11.715,0.00), Board Committees(12.268,0.00), Control Environment(12.269,0.00), and Transparency and Disclosure codes(16.339,0.00), while the overall T value for the main hypothesis (The role of Corporate Governance) is (14.091) which support the results the previous analysis. These results are in line with prior studies (Erkensa. D, et al. 2009), (Caprio et al. 2007), (Nogata.D, et.al, 2009), and (Adams, 2009). Overall, results suggest that, for this financial crisis, corporate governance structures are important determinants of firm performance even in industrial countries. Similarly to results of existing studies, the results suggest that bank-dependent firms have difficulty in obtaining financing during a financial crisis. Previous studies have described that in emerging markets corporate governance structures affect stock price performance during the East Asian financial crisis (Baek et al., 2004; Johnson et al., 2000; Mitton, 2002; Lemmon and Lins, 2003).

Mean and standard deviation were used to describe attitudes of the Corporate Governance code Pillars, The study has found that there are positive attitudes toward the Pillars concerning their role on the reduction of global financial crises implications; because their means were above the mean of the scale (3) (e.g. all the attitudes were above 4). It has found that the Transparency and Disclosure Pillar code has the most effect on the reduction of the global financial crises implications on the Jordanian Banks; meanwhile the Functions of the Board of Directors Pillar code have the lowest mean (4.234).

By using the Stepwise analysis to evaluate the role of corporate governance pillars, to determine the manner in which they reduce the implications of global financial crisis, it shows that the most independent variable which plays the effective role on the reduction of the global financial crisis implications was the Transparency and Disclosure Pillars with (R = 0.657). This result supporting that the Transparency and Disclosure Pillars are lined and complied with the requirements of the corporate governance principles that issued by the Organization of Economic Cooperation and Development (OECD), Those principles require the Banks to adapt the corporate governance principles to oversight the transparency and disclosure process as a function and responsibility of the management. Variance Inflationary Factor (VIF) was used to test the multicollinearity of the variables; it was found that VIF < 5, so that there is no multicollinearity which means that the model used in this research is correct. In the light of the second hypothesis, CBJ regulations which were issued in order to motivate banks to expand credit and loans, which in return expected to mobilize the economy. The study has found that the economy does not get the expected benefits from CBJ regulation, and so the Jordanian Banks, especially when observing that most of Macro Prudential Indicators have increased. According to those indicators the Jordanian banking does not expanding the Credit and lending to the public.

This study like other cross sectional studies is not free of limitations. The limitations should be seen as new opportunities for future research rather than deficiencies. Future research can apply the same research model in other context to proof the validity of the research model a cross context. Future research also can borrow the research model and apply longitudinal study to heal the cross sectional study problems. Based on the research results and limitations, practical recommendations can be provide as follows:

- 1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. 2 Companies should disclose the process for evaluating the performance of senior executives. 3 -The majority of the board should be independent non-executive directors. 4 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. 5 Companies should establish a code of conduct and disclose the code or a summary of the code as to:
- The practices necessary to maintain confidence in the company's integrity
- The practices necessary to take into account their legal obligations and the reasonable expectations of their Stakeholders.
- The responsibility and accountability of individuals for reporting and investigating reports of unethical practices. 6 Prudential supervision. 7 Accounting and disclosure requirements. 8- Legal and judicial systems. 9- Market-based discipline. 10- Entry of foreign banks. 11- Capital controls. 12 Restrictions on foreign-denominated debt. 13- Elimination of too-big-to-fail in the corporate sector. 14- Monetary policy and price stability. 15- Exchange rate regimes and foreign exchange reserves. 16 Facilitating the credit decisions.

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Table 1. Demographic characteristics of research respondents

Level of Education	Frequency	Percent (%)	Cumulative Percent
Bachelor	16	54	54
M.sc	12	40	96
PhD	2	6	100
Total	30	100	
Specialization	Frequency	Percent (%)	Cumulative Percent
Accounting	16	53.3	53.3
Management	2	6.7	60
Finance	10	33.3	93.3
Economics	2	6.7	100
Total	30	100	
Experience	Frequency	Percent (%)	Cumulative Percent
Below 5 years	0	0	0
above 5 years – below 10 years	5	17	17
above 10years – below 15 years	7	23	40
above 15 years – below 20years	9	30	70
Above 20 years	9	30	100
Total	30	100	
Knowledge and training	Frequency	Percent(%)	Cumulative Percent
IFRS and IAS	8	27	27
IAS(International Standards on Auditing)	4	13	40
Risk management	7	23	63
Corporate Governance	8	27	90
All of them	3	10	100
Total	30	100	
Follow up of the financial crises	Frequency	Percent (%)	Cumulative Percent
Continued	16	54	54
At most	10	33	87
Intermediate	4	13	100
Total	30	100	

Table 2. Mean and Standards Deviations

Corporate Governance code Pillars		Mean	Standard deviation
1	Pillar Code1: Commitment to Corporate Governance.	4.354	.729
2	Pillar Code2: Functions of the Board of Directors	4.234	.516
3	Pillar Code3: Board Committees	4.295	.517
4	Pillar Code4: Control Environment	4.296	.513
5	Pillar Code5: Transparency and Disclosure	4.591	.477

Table 3. Means and Standard Deviations per Item

able 5. Means and Standard Deviations per item		
Items	Mean	S.D
1- Commitment to Corporate Governance:		
1- The Bank has compiled this Code (Corporate Governance), which has been	4.500	.7223
approved by the Bank's Board and is published.		
2- The Bank has published the Code in his website.	4.291	.9545
3- The Bank has formed a corporate governance committee of the Board, to direct the	4.291	.9079
preparation, updating, and implementation of the Code.		
4- The Bank on an annual basis publicly reports its compliance with the Code	4.333	.8160
2- The Functions of the Board of Directors:		
5- The Board of Directors has overall responsibility for the operations and the financial	4.625	.5757
soundness of the Bank and ensures that the interests of shareholders, depositors,		
creditors, employees, and other stakeholders, including the Central Bank of Jordan, are		
met.		
6- The Board sets the Bank's strategic goals, as well as overseeing the executive	4.583	.5835
management of the Bank.		
7- The Board as a whole ensures and certifies that internal control systems are	4.458	.6580
effective.		
8- The Board ensures that all dimensions of the Bank's risk are managed properly.	4.583	.6538
9- The position of Chairman of the Board is separated from that of General Manager.	4.291	1.3344
10- The Chairman ensures high standards of corporate governance by the Bank.	4.333	.6370
11- The Bank intends that the composition of the Board is determined in order to	4.250	.7940
obtain the optimal mix of skills and experience.		
12- To foster an independent element within the Board, the Bank's policy is that the	4.333	.8681
Board should have at least three independent, non-executives, Directors.		
13- There is a formal annual evaluation of the General Manager by the Board.	4.125	.9469
14- The Board, through the Nominations and Remuneration Committee, at least	3.833	1.0901
annually assesses its own performance as a Board.		
15- The Board ensures that the Bank maintains a high degree of integrity in its	4.250	.8469
operations. Formal policies, including a Code of Conduct.		
16- The Bank as part of its lending and credit approval process assesses the quality of	3.833	.9163
corporate governance in its corporate borrowers, especially public shareholding		
companies.		
17-The Bank assesses the strength or weakness of their corporate governance practice	3.541	.6580
in the borrower's risk assessment		
3- Board Committees		
18- There is a formal and transparent process for appointments to the Board	4.333	.6370
Committees		
19- The Audit Committee has all the duties and responsibilities required by the	4.458	.6580
Banking Law and other relevant laws and regulations, including the duties to		
review:(20-22)		
20- The scope, results and adequacy of the Bank's internal and external audits	4.708	.5500
21- The accounting judgments that are intrinsic to the financial statements	4.500	.6593
22- The Bank's internal controls.	4.541	.5882
23- The Audit Committee has, by a specific provision in the written charter of its	4.583	.6538
functions and responsibilities, the ability to obtain any information from executive		
management		1
24- The Nominations and Remuneration Committee comprises a minimum of three	4.041	.9990
non-executive Directors, the majority of which (including the Committee chairman)		
are independent.		
25-The Nominations and Remuneration Committee nominates all Board appointments,	3.666	1.0495
duly considering candidates' abilities and qualifications		
26- The Nominations and Remuneration Committee recommends to the Board the	4.041	.9545
remuneration (including monthly salary and other benefits) of each Director and the		
General Manager.		
9		

27- The Nominations and Remuneration Committee ensures that the bank has a	4.000	.9325
remuneration policy, which is sufficient to attract and retain qualified individuals	4.2.50	
28- The review of risk management is handled by a Risk Management Committee.	4.250	.6756
This Committee is comprised of Directors and may also include executive		
management.		
29- Risk Management Committee. reviews and approves the risk management	4.416	.8297
strategies and policies of the Bank		
4- Control Environment		
30-The Bank's structure of internal controls is reviewed at least once a year by internal	4.458	.7790
and external auditors.		
31- The Board provides a statement in each Annual Report on the adequacy of the	4.458	.5882
Bank's internal controls over its financial reporting. This statement contains		
32- The Bank's established Internal Audit Committee	4.500	.8340
33- Bank should be adequately resourced, trained, remunerated, and be provided full	4.666	.5646
access to Bank records		
34- The Internal Audit reports may be discussed with the departments and operational	4.500	.8340
units being reviewed		
**The primary responsibility of the Internal Audit function, conducting risk focused		
audits, is at least the review of:35+36		
35- The Bank's financial reporting (ensuring that significant financial, managerial, and	4.583	.6538
operating information are accurate, reliable, and timely).	7.505	.0336
36- compliance with internal policies, international standards, procedures, and	4.583	.7172
applicable laws and regulations	4.505	./1/2
	3.500	1.1795
37- The Bank requires the regular rotation of the external audit between auditing firms.		
38- The external auditors' report is submitted to the Audit Committee as well as the	4.083	1.0598
Annual General Assembly. The external auditors meet the Audit Committee, without		
executive management present, at least once per year	<u> </u>	
**The responsibilities of the Bank's risk management department include: (39-46)		
39- the analysis of all risks including credit risk	4.375	.7109
40- the analysis of all risks including market risk,	4.291	.7506
41- the analysis of all risks including liquidity risk	4.166	.9168
42- the analysis of all risks including operational risk;	4.333	.8165
43- the development of methodologies for the measurement and control of each risk	4.000	.9325
44- the provision of information on risk metrics and on the Bank's risk profile to	4.041	.8064
Senior management and to the Board.		
45- the provision of risk information for use in the Bank's public statements and	4.000	.6593
reporting.		
46- The Bank's policy is that it has an independent compliance function which is	4.500	.6593
adequately resourced, trained and remunerated, in accordance with the Central Bank's		
instructions in this regard.		
5- Transparency and Disclosure		
47- The Bank is required to disclose in accordance with the International Financial	4.708	.4643
Reporting Standards (IFRS) and the Bank's own disclosure practices, beyond those	,	
required by the Central Bank of Jordan.		
48- The Bank is required to comply with all changes that have been happened in	4.625	.4945
accordance with the International Financial Reporting Standards (IFRS).		,
49- The Bank commits to maintaining the following information channels with its	4.625	.5757
shareholders, depositors, financial market counterparts, regulators and the public in	1.023	.5757
general		
50- The Board accepts responsibility for the Bank's financial statements and the	4.583	.5835
contents of the Annual Report, for their accuracy, and for their completeness.	4.505	.5055
51- The Bank in its Annual Report includes statement by the Board of the adequacy of	4.416	.6538
	4.410	.0556
internal controls.		

Table 4. K-S Z test

		Z-Test	Z Sig
H1	Corporate Governance code	.819	.513
H1-1	Pillar Code1: Commitment to Corporate Governance.	1.011	.259
H1-2	Pillar Code2: Functions of the Board of Directors	1.047	.223
H1-3	Pillar Code3: Board Committees	.884	.416
H1-4	Pillar Code4: Control Environment	.584	.885
H1-5	Pillar Code5: Transparency and Disclosure	1.235	.513

Table 5. T-test Results

	Calculated T	Tabulated T	T Sig
The role of Corporate Governance (H°1)	14.091	2.0687	0.000
Commitment to CG (H° 1.1)	9.094	2.0687	0.000
Functions of The Board of Directors (H° 1.2)	11.715	2.0687	0.000
Board Committees (H° 1.3)	12.268	2.0687	0.000
Control Environment (H° 1.4)	12.369	2.0687	0.000
Transparency and Disclosure (Ho 1.5)	16.339	2.0687	0.000

Table 6. Variables Evaluation through Stepwise analysis and Regression

Variables	R	R Square	Adjusted R Square	Std. Error of the Estimate
Transparency and Disclosure.	.657	.453	.442	.33515
Committed to Corporate Governance	.729	.554	.548	.30440
Control Environment	.752	.589	.560	.29400
Board Committees Functions of the Board of Directors	.773 .793	.620 .647	.574 .589	.28409 .27440

Table 7. Multicolleniarity Test for Independent Variables

		Collinearity Statistics	
Independent Variables		Tolerance	VIF
	Commitment to the CG	.536	1.867
	Function of the Board of Directors	.357	2.798
	Board Committees	.404	2.478
	Control Environment	.732	1.367
	Transparency and Disclosure	.734	1.363

Table 8. Main Monetary Indicators: JD Million and Percentage Change Relative to the Previous Year (%)

Year		end of	January
2009		2009	2010
US\$ 10,879	CBJ's Foreign Exchange Reserves	US\$ 8,068.1	US\$10,904.9
40.5%		4.2%	0.2%
20,013.3	Money Supply (M2)	18,435.5	20,085.4
9.3%		0.7%	0.4%
13,317.2	Credit Facilities, of which	13,203	13,401.3
2.1%		1.2%	%0.6
12,041.3	Private Sector (Resident)	12,012.2	12,120.8
1.4%		1.2%	0.7%
20,298.4	Total Deposits, of which	18,334.9	20,499.5
12.1%		1.3%	1.0%
15,865	In JD	13,746	16,078.5
18.9%		3.0%	1.3%
4,433.4	In Foreign Currencies	4,588.9	4,421
-6.7%		-3.5 %	-0.3%
16,256.7	Deposits of Private Sector (Resident), of which	14,515	16,417.5
13.7%		1.6%	1.0%
13,500	In JD	11,627.1	13,686
19.5%		2.9%	1.4%
2,756.7	In Foreign Currencies	2,887.9	2,731.5
-7.8%		-3.5%	-0.9%

Source: Central Bank of Jordan / Monthly Statistical Bulletin.

Table 9. Macro prudential indicators in Jordan

Macro prudential indicators	2008	2009/6
capital adequacy ratio	18.4%	19.3%
high liquidity ratio	141.2	155.6
non-performing loans/ Total loans	4.2	6.4
coverage ratio	63.4	48.9
return on equity	6.08	4.7
return on assets	0.9	0.6
Leverage ratio	12.9	13

Source: Central Bank of Jordan / Monthly Statistical Bulletin