

Investigating How Corporate Governance Affects Performance of Firm in Small Emerging Markets: An Empirical Analysis for Jordanian Manufacturing Firms

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Received: January 11, 2016

Accepted: January 25, 2016

Online Published: December 16, 2016

doi:10.5539/ibr.v10n1p77

URL: <http://dx.doi.org/10.5539/ibr.v10n1p77>

Abstract

This paper aims at exploring how the mechanisms of corporate governance (audit committee size, CEO duality, board size, female board members and board composition) affect the firm performance. Based on data from 66 out of 69 firms, which represents (95.6%) of Jordanian publicly quoted manufacturing firms covering a five-year period (2008–2012), the use of multiple regression analysis was done for assessing how each of the mechanisms of corporate governance relates to firm performance. The empirical findings of this study suggest that size of firm and Tobin's Q and ROA shows a significant positive correlation, while leverage and ROA show significant correlations. Results indicate that CEO duality and size of board have negative correlation with ROA, while non-executive directors' proportion shows a positive correlation with ROA. No relationship was recognized between the female board members' proportion and audit committee size and ROA. Conversely, the variables of corporate governance do not show a relation with measure of market performance, which supports the argument that market-based performance measures are impartial when economic circumstances are normal in context of emerging markets. The paper provides insight into better understanding how the various mechanisms of corporate governance are related to the performance of firm given the scenario of a small emerging market of non-oil-producing country.

Keywords: Jordan, corporate governance, firm performance, manufacturing firms, small emerging market, non-oil-producing country

1. Introduction

In the last two decades, corporate governance has received a lot of attention by industrialists and researchers around the world because of the large corporations' downfall, such as Enron, Adelphi, Tyaco and Maxwell in the USA, England and rest of the countries (Sorour, 2014; Brown and Caylor, 2004). In response to corporate failure, in year 2002, Sarbanes-Oxley Act was implemented with the aim of improving corporate government mechanisms so that investors are protected, bringing about this by enhancing the corporate disclosures' reliability and accuracy that are made in accordance with the securities laws and for further purposes (Waweru, 2014; Wu, Lin, Lin, & Lai, C., 2009; Jain, Kim, & Rezaee, 2008). According to the Organisation for Economic Cooperation and Development (OECD, 2004), "good corporate governance is comprised of the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders, such as employees and creditors". It also "contributes to growth and financial stability by reinforcement of market confidence, financial market integrity and economic efficiency". However, those investors are looking for firms with better governance practices. In this context, many researchers have referred that a company having better quality of corporate governance brought into practice are able to raise investment funds at a lesser cost (Mishra & Mohanty, 2014; Mallin, 2004; Agrawal & Knoeber, 1996). Indeed, the Global Investor Opinion Survey conducted by McKinsey (2002) (as cited in Krafft, Qu, Quatraro, & Ravixl., 2014) suggests that "15% of European institutional investors consider corporate governance to be more important than financial issues such as profit performance or growth potential".

"Emerging markets play an important role in the global economy; they have high economic growth prospects, and they can offer an attractive opportunity for investors. However, investors face multifaceted risks in emerging

markets and require a much better understanding of firm-level governance factors" (Dallas, 2012). The term 'emerging market' was introduced in the 1980s to distinguish markets that were less developed than the US, Western Europe and Japan 'but which were considered to be in the process of rapid growth and urbanisation. They were also considered more risky, as a result of limited foreign direct access, currency controls, transparency and custody' (Dickson, 2013). There is no doubt that the emerging economies dominate the world in terms of geographic and population size, but the finance research wealth is still concentrated in the developed countries. Yet the growth of emerging markets has been smooth with the increase of various prodigious economies. The researchers are taking more interest in emerging markets because of the discovery of more "organizational and behavioral differences between firms in emerging markets and those in developed markets" (Fan, Wei, and Xu, 2011). Effective corporate governance is critical for firms in emerging economies (Okpara, 2011; Judge, Naoumova, and Koutzevol, 2003; Dharwadkar, George, and Brandes, 2000). "Good corporate governance can reduce emerging market vulnerability to financial crises, reinforce property rights, reduce transaction costs and the cost of capital, and lead to capital market development" (Minh and Walker, 2008). On the other hand, "weak corporate governance frameworks reduce investors' confidence and discourage foreign investment" (Al-Matari, Al-Swidi, Fadzil, & Al-Matari, 2012a). Indeed, how the corporate governance technicality impacts the performance of firm is generally accepted among governments and academicians (Basilico, Mestroni, & Mantovani, 2014; Ghazali, 2010; Khongmalai, Tang, & Siengthai, 2010; Nelson, 2005; Claessens, Djankov, Fan, & Lang, 2002).

Sheikh & Khan (2011) have referred that "most of the empirical research on internal governance mechanisms and firm performance has mainly been derived from data from developed countries such as the US and UK, which have many institutional similarities". This leads to contradictory and inconsistent empirical evidence. However, empirically, for firms present in the emerging markets with distinctive institutional structures, only limited data is available. The practice of corporate governance in emerging markets have been highlighted by the authors lately (Sheikh, Wang, & Khan, 2013; Kalezić, 2012; Klapper & Love, 2004). In this essence, Nadal (2013) argued that "the Middle East and North Africa (MENA) region has been one of the emerging markets in which corporate governance is considered as a relatively new concept". However, it is observed by Yurtoglu (2012) that corporate governance playing a significant role in emerging markets is generally accepted, however more research is required on specific channels or issues. The literature (e.g., Waweru, 2014; Dahawy, 2009; Fawzy, 2004) argued that since the structure of developing countries is different from one another; therefore, corporate governance for each and every country should be studied separately. This argument is consistent with Elbadawi and Gelb (2010), which indicated that the economies of the Arab World are structures, level of development, geographic location, and type of governance and institutions. Also, "economic development strategies are different between the oil-producing countries such as Saudi Arabia and United Arab Emirates and the non-oil producing countries such as Jordan and Tunisia" (Akkar, 2004). As a result, in this paper an attempt is made to fill in the gap left in other pieces of literature since this study establishes the association between internal corporate governance mechanisms, namely, size of board, size of audit committee, proportion of female members on board, CEO duality, board composition and performance in Jordanian publicly quoted manufacturing firms. Jordan is considered as a good example for a small emerging non-oil-producing country market for the following reasons:

- 1) Jordan was among the ten countries of the first global Emerging Markets equity indices when launched in 1988 by MSCI index (Dickson, 2013).
- 2) Jordan was one of the first Arab countries to set up a corporate governance code, in 2007, for shareholding firms (El Husseiny, 2012).
- 3) The major part of research was done in establishing the association among mechanisms of corporate governance and performance of firm in a context of a large emerging market, e.g., Russia (Judge et al., 2003); Taiwan (Lin, 2011); Pakistan (Sheikhet al., 2013; Khatab, Masood, Zaman, Saleem, & Saeed, 2011); India (Mohanty, 2014; Kumar, 2012); Thailand and Malaysia (Al Mamun & Badir, 2014); Bangladesh (Rashid & Lodh, 2011); and Malaysia (Hussin & Othman, 2012; Yusoff & Alhaji, 2012). Other research was conducted in the Arab oil-producing countries' context, e.g., UAE (Hassan & Halbouni, 2013); Bahrain (Amba, 2014; Najjar, 2011); Saudi Arabia (Al-Matari, Al-Swidi, Fadzil, & Al-Matari, 2012b); and Kuwait (Al Matari et al., 2012a). Only two empirical studies were conducted in Jordan. The first is Al-Haddad, Alzurqan, & Al-Sufy (2011); this study did not address mechanisms of corporate governance such as ownership structure, CEO duality, board compensation, size of board, subcommittees of board, etc. The second study by Tomar & Bino (2012) focused on financial organisations, specifically Jordanian banks.

- 4) As the World Bank classifies Jordan is comes as an upper-middle income country (World Bank, 2014).The Heritage Foundation founded an Index of Economic Freedom according to which Jordan has the 4th freest economy among the North Africa and Middle East region and in the world it has the 39th freest economy (The Heritage Foundation,2014). Also, in the 2014 Global Competitiveness Index (GCI), Jordan was ranked 64th out of 144 countries and ranked as the 42nd best innovation in the world (World Economic Forum, 2014). Jordan ranked 42nd on the 2013 Global Retail Development Index, which lists the retail markets of the world that are most popular and attractive (Globalization, 2013).

2. Review of Literature and Development of Hypothesis

2.1 Corporate Governance and Firm Performance

"Since the early work of Berle and Means in 1932, a number of theories have been developed on corporate governance concerning its nature and significance, such as agency theory, stewardship theory and stakeholders' theory, of which agency theory has had the greatest influence" (Fanta, Kemal, & Waka, 2013; Alipour, 2013). Agency theory suggests opportunistic behaviour, that is, "the aim of managers is maximization of their own expected interests and they have sufficient resources to do so" (McCullers & Schroeder, 1982:p.13).Tornyeva & Wereko (2012) stated that "the investors have funds to invest, but because of some constraints, such as inadequate expertise to manage their investment, they employ managers to do that for their benefit".Therefore, among stakeholders and managers a conflict of interest exists (Chaghadari, 2011; Leeand Chen, 2011). "One of the theoretical principles underlining the issue of corporate governance is the agency theory developed by Jensen & Meckling (1976) resulting out of the separation of ownership and control" Tornyeva & Wereko, 2012).According to Kawira (2012), "the agency theory is concerned with analysing and resolving problems that occur in the relationship between the principal (the owner) and their agents (the management)". Consequently, agency theory suggests that implementing an appropriate governance structure by adopting mechanism of corporate governance could result in a reduction in these disagreements by examining of performance of managers and lining up the targets of management compliant with stakeholders' objectives (Chaghadari, 2011; Fama & Jensen, 1983; Jensen & Meckling, 1976; Tomar & Bino, 2012; Waweru, 2014).

Various corporate governance definitions are being proposed in current business literature (Jamali, Hallal, & Abdallah, 2010).Shleifer & Vishny (1997) in their study propose the definition of corporate governance, "as a way in which suppliers of finance to corporations assure themselves of getting a return on their investment)". Kim (2006) argued that "corporate governance refers to the rules and standards that define the relationship between company management and stakeholders associated with the company: employees, suppliers, lenders, creditors, consumers, shareholders and bondholders". A broad definition for corporate governance is given by Brickley & Zimmerman (2010). According to them "corporate governance is the system of laws, regulations, institutions, markets, contracts, and corporate policies and procedures; these procedures include the internal control system, policy manuals, and budgets, which direct and influence the actions of the top level decision-makers in the corporation". As explained by the OECD (2004):"Corporate governance can be taken as a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring the performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, as a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth".

In fact, Yusoff & Alhaji (2012) referred that "the need for good governance is emphasised by all reforms and standards developed not only at the country level but also at an international level (e.g., OECD Code, the Sarbanes-Oxley Act in the US, and the Combined Code in the UK)". In general, all definitions emphasized the corporate governance significance separately for those who own and those who control (Epps & Cereola, 2008). Also, the general welfare of the community is promoted by good corporate governance and should be of interest to the stakeholders (Aboagye & Otioku, 2010). The literature (e.g., Chung, Wright, & Kedia, 2003; Fernandes, 2008; Bhagat & Bolton, 2008; Mukhopadhyay, Mallik, & Dhamodiwala, 2012; Hassan & Halbouni, 2013) argued that well-governed firms improved organisational performance in both developed and emerging markets. This includes a resources allocated in a better way, improved set of investments, lesser cost of capital, higher financial performance, such as higher return on investment, reducing share price volatility, higher profitability and improved economic added value. However, though a common opinion is that the mechanisms of corporate governance positively impact performance of firm (Nelson, 2005; Dehaene, De Vuyst, & Ooghe, 2010; Stanwick & Stanwick, 1998; Katragadda, 2013; Hassan & Halbouni, 2013), there is no consensus about this relationship, because prior research showed inconsistencies between results in both developed and emerging

markets. For instance, previous researches (e.g., Nyamongo & Temesgen, 2013; Tornyeva & Wereko, 2012; Kowalewski, 2012; Ehikioya, 2009; Klapper & Love, 2004; Dehaene et al., 2001) have reported positive relationships among mechanism of corporate governance and performance of firms. A few other researches (e.g., Onakoya, Ofoegbu, & Fasanya, 2012; Bauer, Guenster, & Otten, 2004) showed a negative relationship. Alternatively, various studies did not yield any relationship between these two variables (e.g., Lampont, Latona, Seetanah, & Sannasee, 2012; Singh & Davidson, 2003; Labelle, 2002).

2.2 The Size of Board and Performance of Firm

For the purpose of checking the performance of managers and reducing agency problems essential for managing any organization an important mechanism is the board of directors (Hassan & Halbouni, 2013; Nyamongo & Temesgen, 2013; Li, Pike, & Haniffa, 2008; Cerbioni & Parbonetti, 2007). The empirical evidence indicates that board plays a significant part in management of the firm and related activities of it. Nevertheless, no consensus is found regarding the board size or whether what size board is better: larger or smaller (Ehikioya, 2009; Haniffa & Hudaib, 2006). However, the literature has provided two different views regarding the relationship type found among size of board and performance of firm. The first and widely believed view is that a limited board size improves firm performance (Cerbioni & Parbonetti, 2007; Nyamongo & Temesgen, 2013; Lipton & Lorsch, 1992; Jensen, 1993; Yermack, 1996). It is proposed by Lipton and Lorsch (1992) study that in order to enhance firm performance, the ideal size of board is between seven to nine persons. This will "ensure better coordination and accountability, reduce the free riding problem, and faster decision-making" (Tornyeva & Wereko, 2012). According to Jensen (1993), companies with a large-sized board tend to be less effective. Thus, it is better to have small boards, where having larger boards may be unproductive and the chairman of board might dominate in that case (Jensen, 1993). Several empirical studies support this view, in both developed and emerging markets, which reported that size of board and performance of firm are negatively associated (e.g., Gill & Obradovich, 2012; Nyamongo & Temesgen, 2013; Vo & Phan, 2013; O'Connell & Cramer, 2010; Wu et al., 2009; Bennedsen, Kongsted, & Nielsen, 2008; Yermack, 1996). The second view sees that the larger boards may benefit some firms in many ways, by providing them with a variety of people which aids in reducing environmental uncertainty and securing critical resources (Haniffa & Hudaib, 2006; Goodstein et al., 1994). A varied range of expertise could be found in bigger boards which aids in monitoring the management's action efficiently (Beasley, 1996; Waweru, 2014; Karamanou & Vafeas, 2005) Jensen & Meckling (1976) argued that bigger-sized boards reduce the cost of agency that results from management's low performance and this leads in achieving improved financial results. The following hypothesis will be tested, in light of the theoretical discussion above:

H1: The association between size of board and performance of firm is negative.

2.3 CEO Duality

Founded on the perspective of agency, CEO responsibilities should be distinguished from that of chairman which is a significant mechanism of internal governance (Judge et al., 2003; Chaghadari, 2011). When there is no separation; a situation known as 'CEO duality', there will be a higher agency problem, because the CEO will command the people who are responsible for checking and analyzing his performance (Chaghadari, 2011; Judge et al., 2003; Yermack, 1996). Based on agency theory, the differentiation can help management's dominance reduction over the board and strengthen the board, which enables it to monitor management effectively (Hassan & Halbouni, 2013; Cerbioni & Parbonetti, 2007; Van den Berghe & Levrau, 2004). Therefore, it is suggested by agency theory that duality of CEO and both of performance of firm and enhancement of the firm value are negatively associated (Boyd, 1995; Alexander, Fennell, & Halpern, 1993). However, the empirical studies give a mixed result on this issue of CEO duality and its association with performance of firm. For example, certain studies like Dehaene et al. (2001) report a positive relationship. Other studies (e.g., Chaghadari, 2011; Ehikioya, 2009; Bhagat & Bolton, 2008; Feng, Ghosh, & Sirmans, 2005) yielded a negative relationship. Studies such as Nyamongo & Temesgen (2013), Jackling & Johl (2009), & Brickley, Coles & Jarrell (1997) did not find any relationship. We test the hypothesis below, in light of the above theoretical discussion:

H2: The relationship between CEO duality and performance of firm is negative.

2.4 Size of Audit Committee Its Relation with Performance of Firm

The size of audit committee is taken as a very significant mechanism in corporate governance. According to Al-Matari et al (2012b), "an audit committee refers to people who are generally responsible to oversee the financial reporting and communication within the firm". "The primary objective of the audit committee is reviewing the financial information that will be provided to the shareholders and other stakeholders, the systems of internal controls, which management and the board of directors have established, and all audit processes"

(Bean, 1999). Accordingly, "the audit committee plays an important role in the credibility of financial information produced by the firm and to increase public confidence in the financial statements" (Tornyeva & Wereko, 2012). It is indicated by the literatures like Kajol (2008) and Anderson, Mansi, and Reeb (2004), that the larger the audit committee and as its number of members increases, more experts are available to look over the internal controls of financial and accounting processes, bringing greater transparency to creditors and shareholders, positively impacting financial performance of the firm (Anderson et al., 2004). However, empirical studies, relating to the audit committee size and performance of firm relationship, have provided mixed results. In this essence, a positive relationship is reported by some empirical studies, e.g., Tunisian companies (Bouaziz, 2012); the insurance sector in Ghana (Tornyeva & Wereko, 2012); Kuwaiti companies (Al-Matari et al., 2012a); and companies from four African countries, to be precise South Africa, Ghana, Kenya and Nigeria (Kyereboah-Coleman, 2007). Other studies reported a negative relationship, e.g., Italian banking groups (Romano, Ferretti, & Rigolini, 2012). While in Nigerian manufacturing companies no association was established by Aanu, Odianonsen, & Foyeke, (2014). The hypothesis below will be tested, in light of the above theoretical discussion:

H3: The relationship between size of audit committee and performance of firm is negative.

2.5 Board Composition (Non-executive Directors)

The ratio of independent non-executive directors on the board who have no affiliation, for the purpose of management's inspection are referred to by the board composition mechanism (Rashid & Lodh, 2011; Uadiale, 2010; Clifford & Evans, 1997). The high number of outside directors is there with the purpose of making sure that managers are answerable to the shareholders, which is more likely to enhance performance, to have more power over the self-interested managers and to decrease financial fraud and protect the interests of shareholders (Waweru, 2014; Romano & Guerrini, 2012). In this essence, it is argued that the outside directors' percentage in board affects the performance of firm (Ramdani & Van, 2009). Also, O'Sullivan and Wong (1999) stated that effective monitoring by outside non-executive directors will lead to improve performance of firm. As the agency theory states, more effective monitoring is done by outside directors regarding the management's actions since they are not related to the managers of the firm (Fama & Jensen, 1983). However, the prior studies that are done in order find what association is there among the composition of board and performance of firm give mixed conclusions. For instance, some studies like the Coles et al., (2001), Bhagat & Black, (1999), and Yermack, (1996) reported a negative relationship. Other studies (e.g., Tomar & Bino, 2012; Jackling and Juhl, 2009; Kyereboah-Coleman & Biekpe, 2006; Dehaene et. al., 2001) established that the relationship is positive and no relationship has been founded by some studies (e.g., Fosberg, 1989; Hermalin & Weisbach, 1991; Vegas & Theodorou, 1998). The following hypothesis will be tested, in the light of above discussion:

H4: A relationship between board composition and performance of firm is positive.

2.6 Female Board Members and Performance of Firm

Females' being part of the corporate boards of directors is gender diversity and reflects a diversified characteristic of this board which is thought as a tool that will enhance the variety of board (Dutta & Bose, 2006). This variety facilitates the development and evaluation of solutions to complex problems, because it includes a greater knowledge base (Francoeur, Labelle, & Sinclair-Desgagne, 2008). Also, this variety will provide firms with more valuable external resources (Hillman, Cannella, & Harris, 2000). It has been argued that women have essential qualities that are needed for good governance, since women are generally more meticulous, decent at decision-making, polished in accounting and finance and risk adverse (Azmi & Barrett, 2013). It is observed by Carter, D'Souza, Simkins, & Simpson (2010) a unique information set is generated by gender diversification on board and result in better corporate governance. Virtanen (2012) and Adams and Ferreira (2009) are of the opinion that with women part of the boards, there are fewer attendance problems, more active monitoring and they showed more active participation and made more use of power as compared to their male counterparts. Smith, Smith, & Verner (2006) suggest three reasons for the importance of females on a board. Firstly, female board directors are able to understand the market better than male members, which lead to better knowledge and thereby decision-making of better quality. Secondly, if the board has more gender variation it would be good for the firm's public image, and this will lead to improved firm performance. Thirdly, when females on boards are appointed to particular executive positions, this will positively affect environmental awareness of board members. It is concluded by the study of Bart and McQueen (2013) that "females on boards are significantly better than males in decision-making because of their complex moral reasoning (CMR) abilities". They also added that "CMR involves acknowledging and considering the rights of others in the pursuit of fairness by using asocial cooperation and consensus building approach that is consistently applied in a non-arbitrary fashion. The

dramatic importance of this is highlighted when one considers that the role of directors is solely to make decisions or, more precisely, to help the board make decisions". There is theoretical agreement among scholars that supporting women on boards contributes to improved firm performance (Dang, Nguyen, & Chi Vo, 2013). However, with regards to the gender variety on board and performance of firm, relationship, the results provided by empirical studies are inconsistent. For instance, a positive relationship is concluded by numerous empirical studies, e.g.; Italy (Romano et al., 2012); Spain (Campbell & Mi'nguez-Vera, 2008) and the Netherlands (Lückerath-Rovers, 2013). The other researchers concluded that relationship does not exist between female board proportion and firm performance, e.g., Nordic countries and Germany (Rose, Munch-Madsen, & Funce, 2013); the USA (Horváth & Spirollari, 2012); Pakistan (Yasser, 2012); and UK (Haslam, Ryan, Trojanowski, & Atkins, 2010). Nevertheless, a few studies do report a negative relationship as well. For example, Norwegian non-financial firms were investigated by Bøhren and Strøm (2007); their conclusion was that gender diversity in board and performance of firm are significantly negatively related. A study by Shrader, Blackburn, and Iles (1997), in the same line done on US firms, also concluded that percentage of women on board and firm performance are negatively related. The following hypothesis will be tested, in light of the above theoretical discussion:

H5: The relationship between proportion of female board members and performance of firm is positive.

3. Dependent Variable (Firm Performance)

The dependent variable in our analysis is the firm performance and its calculation are done using return on assets (ROA) and Tobin's Q (Q-Ratio). The two measures were used for such a purpose in the previous literature (e.g., Gama & Rodrigues, 2013; Kowalewski, 2012; Kyereboah-Coleman, 2007; Klapper & Love, 2004). Accounting based the capacity of the company's asset of producing profits is ROA and it is taken as a reliable profitability ratio (Romano et al., 2012; Hussin & Othman, 2012). A market-based measure, Tobin's Q, gives a good approximation for the intangible assets value, for instance quality managers, goodwill, growth opportunities and market power (Hassan & Halbouni, 2013; Gani & Jermias, 2006).

4. Control Variables

4.1 Firm Size

Dunerv and Kim (2005) study shows that larger the firm size, in general, would have more financial and human resources that enable them to effectively implement higher-level corporate governance mechanisms. Large sized firms have more diversified capabilities, greater capacity to produce internal funds, can attain economies of scale and have a broader scope, and performance of firm is positively impacted by this (Sheikh et al., 2013; Short & Keasey, 1999; Majumdar & Chhibber, 1999). The studies of Waweru (2014), Vaona and Pianta (2008) found that between size of firm and financial performance a relationship exists and the quality of corporate governance is positively impacted by this. Empirical studies, such as Sheikh et al. (2013) and Ehikioya (2009), reported that size of firm and financial performance are positively related. However, contrary to this, the study of Ghazali (2010) reported a negative relationship between them.

4.2 Leverage

Since debt affects the firms' financial performance, it becomes necessary to use leverage as a control variable (Kyereboah-Coleman & Biekpe, 2006; Al-Matari et al., 2012b). According to Anand et al. (2006), a crucial reason for adoption of corporate governance practices of high-quality by the firms, is that they need the external financing. Taking monetary loan in order to invest in securities, besides the money that the shareholders contribute is Leverage (Amba, 2014). A positive relationship was found by Khatab et al. (2011) and Brown and Caylor (2006) between leverage and corporate governance quality. However, contrary to this, Al-Matari et al., (2012b) and Majumdar & Chhibber (1999) established that leverage and performance of firm are negatively associated with one another.

5. Methodology

5.1 Sample

To investigate how do mechanisms of corporate governance affect the performance of firm is the objective of current study. In order to accomplish this, the Jordanian manufacturing firms that are part of the Amman Stock Exchange (ASE) were selected for this study, as a sample. Due to missing information or insufficient data necessary to conduct this research, 66 firms out of 69 firms, which represents (95.6%) of Jordanian manufacturing firms, were considered for the final analysis. Annual reports as well as the financial statements developed annually for the firm were used for gathering of the data. A five-year period data from 2008 to 2012 was collected. Thus, the panel data of 66 manufacturing firms for five years led to 330 observations. The sample

firms related to eleven industry classifications, namely: mining and extraction, paper and cartons, food and beverages, chemical, pharmaceutical and medical industries, printing and packaging, textiles, leathers and clothing, tobacco and cigarettes, glass and ceramic, electrical, and engineering and construction. Table 1 shows the CEO duality frequency statistics, and Table 2 shows audit committee, outsider board members and board size means. It is worthwhile to indicate that just four females were represented on boards in our sample firms.

Table 1. CEO duality frequency statistics

Sector	CEO (duality)	
	CEO (not Chairman)	CEO (Chairman)
Mining and Extraction Industries	8	3
Paper and Carton Industries	3	2
Food and Beverages	6	5
Chemical Industries	8	2
Pharmaceutical and Medical Industries	3	2
Printing and Packaging	3	1
Textiles, Leathers and Clothing	4	1
Tobacco and Cigarettes	2	0
Glass and Ceramic Industries	1	3
Electrical Industries	2	1
Engineering and Construction	3	3
Total	43	23

Table 2. Audit committee, outsider board members and board size means

Sector	Audit committee	Outsider board members	Board number
	Mean	Mean	Mean
Mining and Extraction Industries	4	3.090	9.181
Paper and Carton Industries	3.8	1.8	8.6
Food and Beverages	3.909	1.909	8.636
Chemical Industries	3.7	2.4	7.8
Pharmaceutical and Medical Industries	2.8	2.4	8.2
Printing and Packaging	4.5	3	12
Textiles, Leathers and Clothing	3.6	2.8	8.6
Tobacco and Cigarettes	3	3	9
Glass and Ceramic Industries	4	3	10.5
Electrical Industries	3.333	2	8.333
Engineering and Construction	3.833	3.166	9.333

5.2 Statistical Analysis

In order to test the research hypotheses developed in the above section, regression analysis technique was employed. The regression analysis techniques is one of the key statistical process that is used for estimating the relationships between the several independent or predictor variables (female board members proportion, board composition, audit committee size, size of board and CEO duality) and a dependent or criterion variable (performance of firm, that was calculated using Tobin's Q [Q-Ratio] and return on assets [ROA]), for the purpose of regression analysis there were two control variables present as well (i.e. Leverage & firm size). These variables' measurements will appear in next sub-section.

5.3 Variables and Measurements

The independent variables, in this study, are the dimensions of the corporate governance. These variables include size of board, size of audit committee, proportion of female members on board, CEO duality and board composition. The entire board members number is the Board size (Al Mamun & Badir, 2014; Vo & Phan, 2013; Hassan & Halbouni, 2013; Horváth & Spirollari, 2012; Romano et al., 2012; Koufopoulos, Lagoudis, Theotokas, & Syriopoulos, 2010; Haniffa & Hudaib, 2006; Yermack, 1996). The ratio of the outside directors on board to the total number of board directors of firms is the board composition is (Al Mamun & Badir, 2014; Agrawal & Knoeber, 1996; Al-Matari et al., 2012b; Koufopoulos et al., 2010 & Romano et al., 2012). Board female participation is the female members on board divided by the total number of members of board (Al Mamun & Badir, 2014; Vo & Phan, 2013; Horváth and Spirollari, 2012; Campbell & Mínguez-Vera, 2008). The size of audit committee is the total number of members present in the audit committee (Al-Matari et al., 2012b; Bouaziz, 2012; Anderson et al., 2004). A dummy variable is used to represent CEO duality, the value of this is '1', given that the chairman of the board and CEO are the same one person, and the value equals '0', if this is not true (Al Mamun & Badir, 2014; Hassan & Halbouni, 2013; Sheikh et al., 2013; Haniffa & Hudaib, 2006; Daily & Dalton, 1997). The Control variables: size of firm calculation is done using natural logarithm of the total assets (Gama & Rodrigues, 2013; Romano et al., 2012; Hussin & Othman, 2012). Consistent with Hussin & Othman (2012), and

leverage computation employs long-term debt divided by the total assets. Performance indicators: ROI is calculated by net income divided by total assets (Hassan & Halbouni, 2013; Valenti, Luce, & Mayfield, 2011; Chaghadari, 2011). Tobin-Q calculation is done by dividing company's market value by the assets of firms' replacement value (Gama & Rodrigues, 2013; Ghazali, 2010; Gani & Jermias, 2006).

6. Research Findings

Based on analysis of data, the correlation matrix given in Table 3 illustrates the control variables (leverage & size of firm) and the dependent variables (i.e. Tobin's Q & ROA) correlation. In specific, the size of company shows a positive ($r= 0.321$) and a significant ($p= 0.009$) correlation with Tobin's Q and a positive ($r= 0.258$) and significant ($p= 0.037$) correlation with ROA. The other control variable, leverage, has significant correlations with ROA ($p= 0.041$) ($r= 0.198$).

Table 3. Correlation matrix: control variables (leverage and size of firm) and the dependent variables (ROA & Tobin's Q) correlated

		Company Size	Leverage	ROA	Tobin's Q
Company Size	Pearson Correlation	1	.117	.258*	.321**
	Sig. (2-tailed)		.350	.037	.009
	N	66	66	66	66
Leverage	Pearson Correlation	.117	1	-.198*	-.076
	Sig. (2-tailed)	.350		.041	.545
	N	66	66	66	66

* Correlation is significant at the 0.05 level (2-tailed).

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

It can be deduced using the Table 4 results that the control variables explain 6.7% ($p= 0.114$) of ROA, whereas the board size explains 6.4% ($p= 0.129$). The value of standardised beta (b) shows that board size ($p= -0.036$, $b= -0.81$) is related negatively with ROA which is statistically significant. Therefore, hypothesis H1 is accepted in this regard.

Table 4. Regression results of performance of firm (ROA) on size of board and control variables

Dependent variable	Standardised Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
ROA				
(Constant)			0.045	.030
Company size	.259	0.342	0.038	.012
Leverage	-.015	-0.042	0.904	.734
Board size		-0.81		-0.036
Change in R²	.067	.064	0.114	.129

The multiple regression analysis results show that the control variables explain 10.4% ($p= 0.031$) of Tobin's Q, whereas the board size explains 0.4% ($p= 0.594$). The value of standardised beta (b) shows that board size ($p= 0.570$, $b= 0.071$) is related positively with Tobin's Q and the correlation is insignificant (see Table 5). Hence, we reject the hypothesis H1 due to this.

Table 5. Regression results of firm performance (Tobin's Q) on size of board and control variables

Dependent variable	Standardized Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
Tobin's Q				
(Constant)			.005	.005
Company size	-.316	-.345	.011	.011
Leverage	-.039	-.030	.747	.809
Board size		.071		.570
change in R²	.104	.004	.031	.594

The Table 6 results illustrate that 6.7% ($p= 0.114$) of ROA is explained by the control variables, whereas CEO duality explains 5.3% ($p= 0.118$). The value of standardised beta (b) shows that CEO duality ($p= 0.009$, $b= -0.39$) is related negatively with ROA and relationship is statistically significant. Therefore, hypothesis H2 is accepted in this regard.

Table 6. Results of regression performed for firm performance (ROA) on control variables and CEO duality

Dependent variable	Standardised Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
ROA				
(Constant)			.045	.050
Company size	.259	.260	.038	.039
Leverage	-.015	-.022	.904	.861
CEO duality		-.039		0.009
Change in R ² / Durbin-Watson	.067	.053	.114	.118

The analysis results show that the control variables explain 10.4% ($p=0.031$) of Tobin's Q, whereas CEO duality explains 2.3% ($p=0.205$). The value of standardised beta (b) shows that CEO duality has ($b=0.153$, $p=0.205$) an insignificant positive relationship with Tobin's Q (Table 7). Hence, we reject the hypothesis H2 by looking at these results.

Table 7. Results of Regression of performance of firm (Tobin's Q) on control variables and CEO duality

Dependent variable	Standardized Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
Tobin's Q				
(Constant)			.005	.006
Company size	-.316	-.319	.011	.010
Leverage	-.039	-.020	.747	.868
CEO duality		.153		.205
change in R ²	.104	.023	.031	.205

The analysis indicates that CEO duality is related positively to Tobin's Q but it is statistically insignificant. Relationship between CEO duality and ROI, however, emerges to be negative.

The results presented in Table 8 show that the control variables explain 6.7% ($p=0.114$) of ROA, whereas the size of an audit committee explains 0.4% ($p=0.595$). The value of standardised beta (b) shows that the audit committee size has ($b=0.067$, $p=0.595$) an insignificant positive relationship with ROA. Therefore, hypothesis H3 is rejected in this regard.

Table 8. Results of Regression of firm performance (ROA) on the audit committee size and control variables

Dependent variable	Standardised Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
ROA				
(Constant)			.045	.040
Company size	.259	.255	.038	.044
Leverage	-.015	-.003	.904	.983
Size of audit committee		.067		.595
Change in R ²	.067	.004	.114	.595

The regression analysis results show that the 10.4% ($p=0.031$) of Tobin's Q is explained by control variables, whereas the audit committee size explains 0.2% ($p=0.689$). The value of standardised beta (b) shows that the audit committee size has ($b=0.048$, $p=0.698$) an insignificant positive relationship with Tobin's Q (see Table 9 below). Hence we reject hypothesis H3 due to this.

Table 9. Results of regression performed for performance of firm (Tobin's Q) on the size of audit committee and control variables

Dependent variable	Standardized Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
Tobin's Q				
(Constant)			.005	.010
Company size	-.316	-.319	.011	.011
Leverage	-.039	-.030	.747	.806
Size of audit committee		.048		.698
change in R ²	.104	.002	.031	.689

The results presented in Table 10 show that the control variables explain 6.7% ($p=0.114$) of ROA, whereas the non-executive directors explains 7.4% ($p=0.98$). The value of standardised beta (b) shows that size of board ($b=0.24$, $p=0.042$) and ROA have a significant positive relationship. Therefore, hypothesis H4 is accepted in this regard.

Table 10. Regression results of firm performance (ROA) on the non-executive directors proportion in board and control variables

Dependent variable	Standardised Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
ROA				
(Constant)			0.045	.030
Company size	.259	0.342	0.038	.012
Leverage	-.015	-0.042	0.904	.734
Non-executive directors		0.24		0.042
Change in R²	.067	.074	0.114	.98

The analysis results show that 10.4% ($p=0.031$) of Tobin's Q can be described using the control variables, and only 0.4% ($p=0.491$) is explained by proportion of non-executive directors. The value of standardised beta (b) shows that board size has ($b=0.048$, $p=0.698$) an insignificant positive relationship with Tobin's Q (see Table 11 below). Hence we reject hypothesis H4 in this regard.

Table 11. Regression results of firm performance (Tobin's Q) on the proportion of non-executive directors present on board and control variables

Dependent variable	Standardized Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
Tobin's Q				
(Constant)			.005	.010
Company size	-.316	-.319	.011	.011
Leverage	-.039	-.030	.747	.806
Size of audit committee		.048		.698
change in R²	.104	.004	.031	.491

Table 12 finding illustrate that the control variables explain 6.7% ($p=0.114$) of ROA, whereas the size of an audit committee explains 0.01% ($p=0.986$). The value of standardised beta (b) shows that the female board members proportion has ($b=0.063$, $p=0.545$) an insignificant positive relationship with ROA. Therefore, hypothesis H5 is rejected in this regard.

Table 12. Results of regression of performance of firm (ROA) on female board members proportion and control variables

Dependent variable	Standardised Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
ROA				
(Constant)			0.045	.030
Company size	.259	.215	0.038	.034
Leverage	-.015	-.004	0.904	.883
Female board members		.063		.545
Change in R²	.067	.001	0.114	.986

The regression analysis results show that the 10.4% ($p=0.031$) of Tobin's Q can be described using the control variables, and only 0.5% ($p=0.789$) is explained by proportion of female board members. The value of standardized beta (b) shows that the female board members proportion has ($b=0.153$, $p=0.205$) an insignificant positive relationship with Tobin's Q (Table 13). Hence we reject hypothesis H5 in this regard.

Table 13. Results of regression of performance of firm (Tobin's Q) on proportion of female board members and control variables

Dependent variable	Standardized Coefficients		Significance	
	B		P	
	step1	step2	step1	step2
Tobin's Q				
(Constant)			.005	.006
Company size	-.316	-.319	.011	.010
Leverage	-.039	-.020	.747	.868
CEO duality		.153		.205
change in R²	.104	.050	.031	.789

7. Discussion

This study aims at investigating the relationship among the important mechanisms governing the corporate governance (namely, size of board, size of audit committee, proportion of female members on board, CEO duality and board composition) and performance of firm. Certain new evidences are revealed from this study

based on the research findings here. It is also shown by these findings that size of firm is positively associated with performance of firm. This study's findings and conclusions of other studies, namely Al-Matari et al. (2012b), Ehikioya (2009) and Sheikh et al. (2013) are consistent. This indicates that larger firms have more financial and human resources, more capacity to generate internal funds, greater variety of capabilities and are more diversified. Also, a positive impact on firm performance is achieved since they have more ability to get economies of scale. The performance of firm and leverage is negatively associated and conclusions of other studies such as Amba (2014), Brown & Caylor (2006) & Khatab et al. (2011) are consistent with this. This result could be explained by the scenario in which high debts are faced by the firms; because of increasing their operations' cost, they pay higher interest rates in an effort to fulfill their commitments (Al-Matari et al., 2012b). Board size is related positively with Tobin's Q and relationship is insignificant according to this study's conclusion. On the other hand, relationship observed between size of board and ROI was negative. This adverse effect on performance of firm is coherent with other studies' conclusions, such as, Cerbioni & Parbonetti (2007), Haniffa & Hudaib (2006), Mishra, Randoy, & Jensen (2001), Nyamongo & Temesgen (2013), Yermack (1996) & Jensen (1993). These studies suggest that boards with many directors are ineffective as their roles instead being an active member of actual management process becomes more symbolic, and this may lead to domination by the board chairman. In the same vein, Hassan & Halbouni (2013) argued that a smaller board helps with making quicker decisions and can take the controlling function more effectively than a larger board. The findings of this research contradict the strong arguments that suggest that larger the size of board the more the value of firm is created (Fauzi & Locke, 2012). CEO duality and Tobin's Q are shown to be related insignificantly positive by the finding of this study. Yet, association among CEO duality and ROI emerged is negative. This result of adverse effect on performance is coherent with other studies' conclusion (e.g., Bhagat & Bolton, 2008; Chaghadari, 2011; Ehikioya, 2009; Feng et al., 2005). This finding is in contradiction to the argument that supports positive performance under the single leadership person (Sheikh et al., 2013). The results, contrary to this, support the literature that revealed that if role of CEO and the chairman are distinct from one another it is useful in reduction of CEO dominance over the board and lead to strengthening part played by the board in supervising management in an effective way. Moreover, holding of the position of board chair by CEO would result in an interest conflict and agency costs will be raised, which is very likely to lead to poor performance (Kyereboah-Coleman, 2007). An insignificant positive association is shown by the results of this finding, among the size of audit committee and the two indicators (ROI & Tobin's Q) used for performance of firm. The results agree with Aanu et al. (2014), who did not find any relationship in Nigerian manufacturing companies. This study is in contrast to Romano et al. (2012) according to whom the relationship in the Italian banking groups is negative. Also, this result is in contrast to Bouaziz (2012), Tornyeva & Wereko (2012) & Al-Matari et al. (2012a), who found a positive relationship. Larger number of members of audit committee could lead to more diversity and more experts, which benefit the firm in many ways, such as more internal controls of accounting and financial processes, and could, provide transparency to shareholders and creditors (Anderson et al., 2004). The NED proportion and Tobin's Q as insignificantly positive related as shown by the findings here. Yet, association among the NED proportion and ROI was established as positive. A similar relationship has been confirmed by previous studies (e.g., Tomar & Bino, 2012; Jackling & Johl, 2009; Kyereboah-Coleman & Biekpe, 2006; Dehaene et al., 2001). The result supports that because of their independence; outside directors have more ability to look over the management's action and performance. It is shown by the results that the percentage of women participation in board is insignificantly positively related to performance of firm (Tobin's Q & ROI). The findings of this study and conclusions of other studies, such as, Roseet al. (2013), Horváth & Spirollari (2012), Yasser (2012) & Haslam et al. (2010) are consistent. This finding is in contradiction to the literature that suggests that when diversification raises it would minimize the domination that takes place while making decisions and supports various different viewpoints (Fauzi & Locke, 2012). The fact that boards are dominated by men in Jordanian manufacturing firms, and very few women are represented on boards is clearly represented by this result. Other studies reported that the board comprises of a very small number of women (e.g., Carter et al., 2003; Fauzi & Locke, 2012). However, on average, the number of women on boards reported in these studies is still much higher than the average reported in this study. This study's results show that corporate governance mechanisms and measures of market performance (Tobin's Q) are not linked. The results of the study of Hassan and Halbouni (2013) are consistent with the result of this study; their research investigated similar relationships in United Arab Emirates' listed firms and did not find any relationship. They argued that the measures based on market performance are neutral given the economic circumstances are normal. It is worthwhile to note that our study was conducted under a normal economic circumstance, which supports the argument made by Hassan and Halbouni (2013).

8. Conclusion

This article provides results on the how the important mechanisms that comprise the internal corporate governance (namely, size of board, size of audit committee, proportion of female members on board, CEO duality and board composition) and firm performance are linked. This relationship was empirically conducted in the context of Jordanian publicly quoted manufacturing firms. The performance measures employed were ROA and Tobin's Q ratios. Board size is negatively related to (ROA) as shown by the results in above sections. CEO duality is related negatively to performance of firm (ROA) as illustrated by the results. The argument that CEO duality leads to a poor performance of firm and inefficiency of board directors is upheld by this result. Also, it is indicated by the findings that firm performance is independent of the size of audit committee. The results show that the proportion of NED positively affected firm performance (ROA). The findings indicate that board of directors is male dominated, and the female present in smaller proportion on boards makes it difficult to get accurate information about what is the association among percentage of female participation on board and performance of firm. Claim of previous studies (e.g., Hassan & Halbouni, 2013) are confirmed by the findings here, which indicated that market performance measures (namely, Tobin's Q) are neutral given the economic circumstances are normal in an emerging market context. A number of limitations are there in this research. The first limitation of this research is that it only covers the publicly quoted manufacturing firms, and it might not be right to generalize these results to other industry settings. In order to apply these results to other publicly quoted sectors in Jordan further research could be devised, which include financial and service firms. Also, for future research, firms operating in other emerging markets could be compared with this study's result and also the Arab oil-producing countries.

Secondly, investigation on five variables that relate to corporate governance was done in this study. Further research could include some other important factors, such as ownership structure, remuneration and nomination committees, boards' compensation and CEO tenure. The very small number of females on the boards of Jordanian manufacturing firms made investigation of our hypothesis difficult, studying similar relationships in other firms' contexts, such as the service or financial sectors, could shed more light on the role of women on boards. Our findings lead to a number of recommendations that can be used to enhance performance in Jordanian manufacturing firms. In particular, these firms could optimize the total member on boards of directors and non-executive directors' percentage present on board in order to improve their performance. Rather than giving too much attention to the audit committee size, the attention should go to other important variables, such as financial expertise in the audit committee, number of meetings and independence (Al-Aali, Chang, & HassabElnaby, 2014). In order to improve the corporate governance quality greater gender variety on board should be considered, which would result in better performance of firm. Also, distinguishing the CEO role from that of the chairman could enhance the firm performance for the surveyed firms.

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