

Corporate Governance and Financial Statement Disclosure Quality in Jordanian Commercial Banks

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Abstract

The objective of this study is to measure the level of corporate governance and its effect on disclosure quality in commercial banks in Jordan. The study is implemented on the Jordanian commercial banks listed at Amman Bourse for the period 2008 to 2014. The study sample consists of (12) banks. The total data observations were (60) (bank/year) observations. The study used the level of compliance with disclosure instructions as a proxy for disclosure quality, and the structure of the board of directors as a proxy for corporate governance. The researchers used three hypotheses to achieve the objectives of the study. They used simple regression technique to test the hypotheses. The study results showed that there is a high and stable level of corporate governance in Jordanian commercial banks.

Keywords: corporate governance, disclosure quality, disclosure instructions, BOD structure

1. Introduction

Disclosure plays a major role in addressing the problem of Information Asymmetry among directors and investors at a certain foundation. In addition, it is considered a means by which an administration provides information about past events and predictions regarding opportunities of future growth to the current and future investors. Moreover, in due course accurate disclosure helps pricing of Securities in stock Markets correctly (Zhang et al., 2015). Thus, measuring the quality of disclosure helps judge the communication level and its accuracy between the administration and current stakeholders, expected investors, and supervisory bodies (Mohan, 2006).

Therefore, studies conducted during the 70s and 80 s addressed the professional criteria, financial statements, and audition practices which mix together to form Corporate Governance. This led to draw attention to its role in developing financial statements and increasing their credibility (Wright, 1996). As a result, this study will tend to connect between its two main variables: Financial Statement Disclosure Quality and Corporate Governance. This will be done by conducting an empirical study on the Jordanian Commercial Banks. The study will cover the period 2008-20014 aiming to investigate the impact of Corporate Governance on the Quality of Disclosure.

2. Problem Statement

Glassman (2003) asked an important question which is “Why are we interested in the financial report”? The answer was” because it is the economic engine and the information is the oil that makes it work smoothly”. Therefore, the information included within the financial report must be well-prepared and consist of high level of disclosure. This involves disclosure inside and outside the financial statements whether they were financial or non-financial information. It is worth to mention that the financially unmeasured information outside the financial reports might have an important current and future impact on stakeholders. Yet, the importance of disclosure quality lies in the fact that when it is high it helps reduce the state of uncertainty that surrounds various parties linked together by contracts and concerned with the foundation.

Banking sector is considered one of the important sectors in national and international economies. This sector gained this position because it contributes to push forward the economic process by providing money for enterprises owners. This sector forms 35% of the total amount value of firms’ shares listed in Amman Stock

Exchange (ASE) at the end of 2009. According to Association of Banks in Jordan (ABJ) (2014), during that period, market value of banks' shares stood at JDs 6 billion while total market value of exchanged shares stood at JDs 16.8 billion. In addition, the total of Credit facilities presented by banks to various economic sectors in Jordan valued at JDs 7.74 billion although these banks received JDs 13 billion deposits in 2009.

Because this sector plays a major role in providing liquidity for investment enterprises and attracting funds from depositors, the annual reports of banks should be of high quality. In order to achieve this goal, there should be a system that governs the relationships among major parties involved within the administrative process of banks which is known "Corporate Governance".

Accordingly, this study aims to answer the following questions:

- 1) Is there corporate governance at the Jordanian commercial banks?
- 2) What is the level of financial statements disclosure quality at the Jordanian commercial banks?
- 3) What is the impact of corporate governance level on financial statements disclosure at the Jordanian commercial banks?

3. Significance of the Study

This study is deemed significant in the sense that it tries to find results that may help investors make their investment decisions efficiently regarding the commercial banks which are considered important institutions in the national economy. Moreover, this study is essential for depositors who are the largest sector that gets benefit from banks since they offer the largest amount of money to them so as to be reinvested in the economy. It goes without saying that those depositors are concerned with the safety of their funds so as not to be lost because of bad decisions that may be made by banks' administrations (Hanley & Hoberg, 2012). Therefore, depositors need information about efficiency of banks' administrations and kinds of economic activities in which banks' invest. In addition, they need additional information regarding credibility and reputation of the bank's Board of Directors and its executive management (Hui & Matsunaga, 2015). Consequently, all of those factors affect greatly on disclosure at commercial banks.

4. Objectives of the Study

All profitable foundations seek to show their financial situations in a way that reflects their economic stability and make sure that numbers in the financial statements do not raise any controversy. From this point, an administration of a company, under certain operational conditions, might select a policy from the accounting policies that affect the accounting disclosure of the company's profits and its financial situation. This disclosure is deemed one of the main requirements of stock markets in which those companies are listed. The purpose of such disclosure is to provide sufficient information with high quality to be presented to investors, lenders, analysts, and researchers interested in the financial position of a company. Accordingly, the study aims to:

- 1) Measure the level of corporate governance at Jordanian commercial banks.
- 2) Measure the level of financial statement disclosure quality at the Jordanian commercial banks.
- 3) Test the impact of corporate governance on financial statement disclosure quality in the Jordanian commercial banks.

5. Empirical Studies

Ali et al. (2007) investigated the financial statement disclosure quality in family businesses in comparison with non-family businesses and show their relation to corporate governance. For the purpose of the study, they used the data of the American companies listed from 1998-2002 in S& P500 index. The number of the companies listed was 177 family run businesses and 223 non-run family businesses.

The study speculated that the family businesses suffer less than the other businesses regarding the proxy resulted from separation of ownership of the administration compared to the non-family businesses. However, they suffer more when it comes to the problem of proxy that appears between the controlling and non-controlling stakeholders. Results of the study showed that the profits of the family businesses are of quality higher than other businesses. Moreover, the results indicated that family businesses generally face problems regarding the proxy in a degree less than other businesses. As a result, this leads to lower manipulation of profits and therefore higher quality of those profits.

In comparison with non-run family businesses, it was indicated by the study that family run businesses show voluntarily disclosures less than corporate governance. This result is in line with the opinion which explains that family run businesses have motivations to reduce transparency in corporate governance in order to facilitate the

control of family members on the board of directors without the intervention of other stakeholders. Regarding financial performance disclosure, the study showed that family run businesses have better disclosure than the non-run family businesses.

Mohan (2006) investigated the relation between the quality of disclosure and a group of factors such as corporate governance in some of the American companies. The purpose was to investigate if the practices of good corporate governance affect the practice of good disclosure. The researcher utilized 70,000 files from EDGAR database. The data collected covered the period 1993-2005. Moreover; the study used size and texture of the board of directors, and standards of remunerations of the executive administration to measure corporate governance. The study presented various significant results. The most important result is what supports the theory which indicates that the companies that have powerful board of directors and independent directors, who are not put under pressure, have better disclosure practices with high quality. Moreover, the study indicated that institutional disclosure plays a major role in curbing the problem of Information Asymmetry between directors and stakeholders at the foundation.

Beeks and Brown (2006) conducted a study on Australian companies that support the phrase listed in Australian Stock Exchange's (ASX) principles list which explains that companies with better governance issue more balanced disclosures in a suitable time about good and bad news. The study adopted six scales and indicators of financial statements' informativeness. In this study, corporate governance was tested via the scales related to the board of directors in terms of size, composition, and independence. The sample of the study consisted of 250 companies that were evaluated by the report of corporate governance in 2002. The study showed that companies with good corporate governance have better financial statements' disclosure.

Beeks et al. (2006) conducted a study in Canada depending on Beeks and Brown (2006). Canada was selected for the study due to the fact that corporate governance instructions in Canada were developed in accordance with the improvement of the Australian instructions employed in ASX. The sample of the study consisted 216 Canadian companies. Results of the study indicated similar conclusions as that of Australia which indicated that companies with good corporate governance issue higher quality disclosures.

Singh (2006) investigated the impact of remunerations on directors and audits' behavior on the financial reports. The researcher adopted analyzing the literature review and building a mathematical model. The study proved that enhancing the link between management's remunerations and its expected performance may weaken the relation between management's remunerations and the actual performance which leads to lesser managerial performance. In addition, increasing the penalties imposed on the management reduces the quality of auditing. This helps find biased audits, but increasing their ability to access information boosts investors' utility.

Al-Qashi and Al-Khatib (2006) conducted an analytical and theoretical study aimed to overlook upon and analyze the reasons behind the collapse of one of world's most prominent companies (Enron) which caused one of the world's biggest audit companies to collapse (Arthur Anderson) after proving their involvement in financial tampering. Moreover, the study aimed to investigate recent changes of corporate governance occurred because of those collapses. Results of the study showed that collapsing those companies is mainly related to the low level of ethics of professionals and to the default of the stock market's role as a supervisory body for the listed companies. Moreover, the study indicated that there is a great difficulty in employing corporate governance by the audits and the listed companies. Furthermore, it was shown by the study that the problem is not related to the laws that govern corporate governance in general, but it is related to the ethics of those persons who apply those laws.

Labelle (2002) conducted a study on 162 Canadian companies in 1996 and 132 companies in 1997. The study aimed to provide experimental evidence of the link between corporate governance and quality of disclosure through testing various scales of corporate governance in Canadian companies. Results of the study proved that the relation was not statistically significant unless entity's size scale; and, in a lower sense, ownership structure are used.

Wright (1996) aimed to investigate the relationship between aspects of corporate governance and the practice of the American companies' financial report. The companies included in the study were 69 companies for the year 1989 and 82 companies for 1993. The findings of this study showed that there is an inverse relationship between the existence of inside directors or their relatives in the audit committee and the disclosure quality in the financial report.

6. Literature Review and Theoretical Framework

Although novice studies addressed corporate governance, it had been discussed in the past indirectly. The concept of "corporate Strength", which was indicated to as strength to serve stakeholders only, was addressed as

well. However, others explained that business entities are private entities only in shape, but they should meet the interests of the society, the stakeholders, and those who get benefit from, the workers and the consumers (Becht et al., 2002).

Corporate governance boosts the relationship between stakeholders, board of directors, executive management, and the bodies who are associated with the entity (in the case of banks it includes depositors and the regulatory authority such as the central bank). This role helps specify the direction and the performance of companies. It is noteworthy that having good corporate governance at a commercial bank makes the executive management subject to accountability before the board of directors. On the other hand, it makes the board of directors subject to liability before the owners and other associated parties. Therefore, corporate governance is defined as a group of relationships between the executive management and its boards of directors and the stakeholders and others who are associated with that entity and have interests in (Basel, 1999). Moreover, it shows the composition that underlines the institution's goals, the means of fulfilling those goals, and supervising their achievement (Jordan Central Bank, 2003).

Furthermore, Good Corporate governance provides decent intensives for the board of directors and the management of the institution so as to reach the goals in line with its interests. In addition, it facilitates the process of finding effective supervision. As a result, entities will benefit efficiently from its resources. Thus, the existence of efficient risk management system is what allows balancing between the returns and the risks in accordance with the limit that a bank's position and strategy suggest. However, its efficiency relies on the existence of good corporate governance system otherwise the efforts exerted in managing those risks will be inefficient.

Good corporate governance reduces losses that may occur as a result of the disappearance of internal control systems due to the expansion of increasing taking risks. Having such good systems, involves independent control that binds a bank to its policies according to the assigned risk limit so as to protect depositors' rights as the goals of the central bank indicate.

From the perspectives of various parties that are watching or affected by banks' activities, it is important to highlight those banks which have corporate governance elements. The following points represent a summary of specialists' experiences in this field. They might be applied by banks in order to surmount any predicaments related to corporate governance. In addition, they are considered pivotal elements the process of corporate governance (Basel, 1999):

- 1) Setting strategic goals and a group of organizational values: it is hard to set activities for the entity without specifying strategic goals or organizational values. Therefore, the board of directors should set the strategies to control the bank's activities. Moreover, it should set the organizational values to itself, to the executive management, and to the employees. Yet, it is important that those values should take into consideration the importance of having solutions and discussions for the problems in due course.
- 2) Setting and boosting clear outlines for responsibilities and accountability at the entity: efficient boards of directors know well the powers and responsibilities assigned to it and to the executive management. All of them are aware that the lack of clarity of responsibilities and powers may lead to confusion, failure in accountability, and reduce the pace of response. Moreover, the executive management should draw accountability lines for the rest of employees.
- 3) Making sure that members of the boards of directors are qualified, understand very well their roles in corporate governance, and no one affects them: the majority of the boards of directors should be able to practice their powers. In addition, they should be independent of the management, major stakeholders, and the government's points of views. Thus, when the board of directors includes members who are qualified from outside the entity, or there is a supervisory commission or a committee independent from the board of directors, this enhances objectivity and independence.

In many countries the boards of directors at banks found that it is useful to form specialized committees that include risk management, audit, remunerations, and nomination committees (Stalla, 2007).

- 4) Making sure that there is adequate supervision by the executive management: the executive management at a bank is a main element of corporate governance. As the boards of directors supervise the executive management, the executive management supervises other operational management. Even at small banks, decisions are made by many persons.

- 5) Effective exploitation for done work by the internal and external audits and recognizing their supervisory role they provide: the role of the external and internal audits is pivotal for corporate governance. It is important

that the board should understand their role as agents and use the results of the audit as an independent examiner and supervisor of the information provided by the administration regarding the operations and the achievements of the bank (Fisher et al., 2016).

6) Stressing that remunerations systems correspond to the ethics ,goals, strategy, and the bank's supervision environment: failure in linking the intensives and remunerations system with the entity's strategy, might encourage the directors to achieve short-term goals to serve their own interests regardless the short and long -term risks a bank might face.

7) Transparency in the foundation of corporate governance: if there was a lack of transparency, it will be difficult to hold accountable the boards of directors and the executive management. This happens when stakeholders get significant information about the composition and the goals of a bank in order to judge the efficiency of the board and the executive management in running that bank.

6.1 Corporate Governance Reforms in Jordan

In November 2005, a cooperation agreement was signed in Jordan between the (ABJ) that includes all operating banks in the Kingdom and the International Finance Corporation (IFC). IFC is part of the World Bank which is concerned with financing and rehabilitating the private sector in the developing countries in order to improve the regulations of corporate governance at Jordan's banks.

This agreement was signed after talks regarding providing technical support to develop the principles of corporate governance at Jordan banks which boost national and international trust in this sector. Following good corporate governance has become a principle that is detected by institutions and companies, especially the banking institutions, all over the world.

In the light of the development of the national economy at various levels, the need of rules and regulations for corporate governance has occurred in order to set a clear framework that organizes the relationships and the management. In addition, these rules and regulations identify duties and responsibilities that help achieve the strategic goals of the company and preserve the rights of the parties who have interests in that company.

Securities commission sought to prepare a guide that includes instructions for corporate governance for joint stock companies that are listed in ASE. These instructions basically depend on some regulations the most important of which are: the law of securities and its regulations, companies' law, and the international principles for corporate governance set by the organization of Economic collaboration and development (OECD) (Jordan Securities Commission, 2006).

One should not forget the role of the central Bank of Jordan when it issued a booklet of instructions for members of the boards of directors at the Jordanian banks. In that booklet the bank summarizes its vision regarding finding banking system that works efficiently and competitively and committed to the international standards in risk management and corporate governance. Moreover, such a system should be in line with the effective rules and regulations and able to meet credits needs for local economy and thus contributes to improving Jordan's economy.

6.2 Accounting Disclosure and Corporate Governance

Financial disclosure is a wide subject and consists' all accounting data and information necessary for achieving profits for users' especially correct decision making since disclosure is a relative term. However, it became important not to consider the financial statements as a goal but as a means to help parties make different decisions (Karami & Hajiazimi, 2013). For this reason, there are many definitions for "Disclosure" some of which address the meaning of disclosure at the financial statements. In fact this definition came due to the fact that it is a representation of important information to investors and other beneficiaries in a way that makes it possible to predict the project's success to gain profits and cover its liabilities in the future (Anagnostopoulos & Gkemitzis, 2013). Regarding other definitions, such as the definition of Hendriksen (1982), they address the informational role of accounting. According to this role, disclosure is defined as informing users of financial reports in a way that helps them make their correct economic decisions whether they were financial or investment decisions or related to identifying tax burden associated with joint stock companies.

The majority of disclosure definitions concentrate on providing all the groups with the information useful for good decision making. Because of this, the dissemination of detailed and insignificant information leads to lose useful and important information and misleads decision makers as well (Zalloum et al., 2013).

The importance of disclosure has appeared in Jordan after establishing ASE in 1978. Thus, disclosure got much attention from vocational and scientific bodies that issued a number of recommendations that are concerned with

the information that should be disclosed. At that time, the Jordanian Association of Certified Public Accountants (JACPA) adopted the international standards of accounting and issued a circulated note number 45 for the year 1989 which stipulates that accountants and auditors shall be committed to the international standards of Accounting as of 1/1/1990 (Al-Khateeb, 2002).

6.3 Significance of Financial Statement Disclosure at the Banking Sector

The issue of regulating the stock market has been significantly addressed at discussions concerned with the banking sector. The idea of regulation is linked to the impact of the practices of lenders, stakeholders, and the parties associated with banks on decisions concerned with investments, operational processes, and taking risks into consideration. The supervisory bodies at banks believe that regulating a market is supplementary for legal and supervisory activities in order to control the risks at the banking sector and how to manage them. For the purpose increasing the efficiency of the regulation of the market, the participants of the markets ask for sufficient information to evaluate the current and future status of a bank. This led to the existence of some suggestions to enhance disclosure at banks on the base that the expansion in disclosure provides important information on how lenders and investors evaluate an entity's conditions (Hirtle, 2007).

Reinforcement of accounting disclosure leads to empower the regulation of the banking sector and make it more transparent. The third point of Basel II (The main principles of Basel 2) and the organization of OECD in its issue (corporate governance at banks) indicated calling banks to provide better disclosure so as to allow the market to get a clearer vision about the bank's position regarding all risks. In addition, this would allow all parties concerned with the bank to price and evaluate it correctly (Huang, 2006).

Thus, numbers of profits only are not suitable to evaluate the position of banks whose main activity is to bear risks and supply money. As a result, the net profit number does not provide a clear image about the bank's position unless a full disclosure about all risks was issued. Moreover, the disclosure about the collected accounting figures such as (total of profit and loans) without a feasible level of details is considered less informative at banks compared to other sectors.

In addition to the above mentioned, some preparatory measures have been taken to standardize the financial reports for banks in order to make information's disclosure more comparable between banks. For example, the International Financial Report Standard⁷ (IFRS⁷) was published under the title (Financial Instruments: Disclosures) as an alternative to the International Accounting standard 30 (IAS30) under the title (Disclosures in the Financial Statements of Banks and Similar Financial Institutions). These standards ask the financial entities to provide wider detailed disclosures (Huang, 2006).

The significance of the disclosure of financial statements of banks has recently gained much concern because of the following reasons:

- 1) Issuing legislations to guarantee the rights of investors and depositors who are considered the back bone to any bank. Thus, there is no means to keep the information undisclosed claiming protecting the interests of the stakeholders.
- 2) Banks' commitment to the decisions of Basel commission that is concerned with disclosure, risks management, and capital adequacy (Grüning, 2011).
- 3) Issuing the IFRS⁷ that is concerned with the disclosure of the financial statements of banks by the International Accounting Standards Council (IASC). This standard replaced the IAS30 and came into force as of 1/1/2007.

7. The Empirical Study

7.1 Hypotheses

The first hypothesis: There is not a good level of corporate governance at the Jordanian commercial banks.

The second hypothesis: There is not a good level of financial statement disclosure at the Jordanian commercial banks.

The third Hypothesis: The level of corporate governance does not affect the financial statement disclosure quality at the Jordanian commercial banks.

7.2 Measurement of Variables

This study investigates the impact of corporate governance on financial statement disclosure quality at the Jordanian commercial banks. Thus, this chapter explains how financial statement disclosure quality and the level of corporate governance are measured.

7.2.1 Measuring Financial Statement Disclosure Quality

The quality of disclosure is somewhat difficult. Some of the previous studies adopted financial analysts' classifications for the quality of disclosure. Moreover, other studies used other indicators. On the other hand, some of the studies found it sufficient to use the critical accounting policies as an indicator to financial statement disclosure quality. However, some studies such as the study of Hasan et al. (2007), and Frost et al. (2005) adopted the extent of the commitment to the instructions of the disclosure to serve as an indicator for disclosure quality. In addition, other studies used classifications for the quality of the disclosure such as the classification issued by the Certified Internal Controls Auditors (CICA) Labelle (2002). Moreover, some studies adopted the standard provided by *Standard and Poor's* for transparency and disclosure in 2002 which provides an analysis that includes 98 articles for the disclosure (Mohan, 2006). Therefore, this paper studies the quality of disclosure adopting the scale of the degree of commitment to the regulations of disclosure. Abo-nasar(2011) revealed the Jordanian companies' lack of full compliance with disclosure according to accounting and financial Reporting standards

Since the study is conducted on the banking sector in Jordan, it will rely on the instructions of disclosure issued by the Securities Commission of Jordan which were issued in accordance with the provisions of article 12/F of the Securities Code 76 for the year 2002. Thus, the study depends on those instructions so as to investigate the level of commitment to these instructions as an indicator to the quality of disclosure following the steps of Hasan et al. (2007) and Frost et al. (2005).

It is mention worthy that the purpose of the instructions of disclosure used in the study was to amend those regulations issued in 2005 and added two articles to them. The articles of the previous instructions were 22 and became 24 but did not affect the findings of the study.

Those instructions were divided into 24 as explained in index (1). The extent of their implication by the sample of the study was measured depending on five-year data of 2010 till 2014. Moreover, the study utilized the actual annual reports of banks in order to test the extent of the commitment to the instructions. In addition, the marks were distributed as follows:

- a. 1 for commitment
- b. 0 for lack of commitment

After that, those marks were calculated then divided by 24 which is the number of the articles. Then, the result was multiplied by 5 to present degrees that range between 0-5 in a way that when the indicator goes up, the quality of disclosure increases. This five point rating scale was adopted following Paprocki and Stone 2004.

7.2.2 Measurement of Corporate Governance

This study measured the level of corporate governance through one of its most important indicators that is the structure of the board of directors. For this purpose, six elements were used in measurement as explained in Appendix (1). The level of these elements' existence in the board was tested via studying the annual reports of banks under investigation and for a five-year period which starts in 2010 and ends in 2014. Number 1 was given to refer to the availability of the element at the board while 0 was given the unavailability of the element. After that, the results were calculated and divided by 6 which is the number of the elements. Then, the finding was multiplied by degrees ranges between 0-5 in a sense that when the indictor rises up the force of corporate governance at banks goes up.

It is worth to mention that there are 51 indicators to measure the level of corporate governance (Brown & Caylor, 2004), but the study used 6 indicators only that are associated with the structure of the board of directors because of the following reasons:

- 1) Novelty of the issued legislations related to corporate governance in Jordan and their optional application.
- 2) The existence of many corporate governance standards which banks consider confidential and unable to be published.
- 3) Numbers found in the annual reports as total but not in details. This makes it lack its informational merit. For example, consultancy expenditures fees listed in the income list and the details contain fees of special consultancy related to the audit office different from the fees of auditing.

It is noteworthy that this study was implied on a five-year period that begins in 2010 and ends in 2014 .Because the central bank issued a guide about corporate governance in 2010, it was not possible to measure this indicator previously to this date.

7.3 Population and Sample of the Study

The population of the study is all the commercial banks in Jordan. According to the Jordanian Corporate Guide which was uploaded to ASE's website in Aug 2014, the number of the commercial banks in Jordan is 13 (see Appendix 2) as in Mardini (2012, pp. 319-321). Two banks, the Jordanian Islamic Bank for Finance and Investment and the Industrial development Bank, were excluded from the study because they have different working system. After studying the purposes of these two banks' business, it was noticed that there are differences between them and other commercial banks. The goals of the Industrial Development Bank are: supporting, encouraging, and financing industrial and touristic projects and vocational initiatives. Moreover, it aims to do financial intermediation activities at ASE in addition to the business of finance lease. On the other hand, the goals of the Jordanian Islamic Bank for Finance and Investment focus on all organized banking, financing, and investing activities away from usury. However, the commercial banks' goals under investigation focus on doing all banking activities in and outside Jordan.

Regarding the sample of the study, the researchers found it suitable to conduct a survey for the population of the study to have a sample similar in size to the population of the study. The researchers excluded Societe Generale Bank because of the lack of sufficient information about it. Thus, the sample and the population of the study became 12 banks.

7.4 Methods of Data Analysis

This study adopts various methods of statistical analysis that are in line with its goals. The study mainly utilized the SPSS software to analyze data. The following is a description to the statistical methods used in this study:

1) Arithmetic Mean

The study used the Arithmetic Mean as one of the measures of central tendency. It was utilized to describe the data of the study and find its Arithmetic Means so as to give a general view of these data and specify the general direction over the life course of this study.

2) Standard Deviation

The study utilized this standard as one of the Measures of dispersion. It was used to describe its data and find the average of contrast of the observations with the median which gives an indication about the dispersion and contrast of data.

3) One Sample t-test

This test is utilized in order to judge the statistical significance of the Arithmetic Mean for a variable.

4) Simple Regression Analysis

It is used to the modeling of the relation between the dependent and the independent variables. The relation can be described as what follows:

$$y = a + bx + \dots + \epsilon$$

y: the dependent variable

x: the independent variable

a: the static variable

b: the slope, the coefficient of the independent variable

ϵ : standard error

Since the core of this study is investigating the impact of corporate governance, which is the independent variable, on the quality of the disclosure which is the dependent variable, the linear regression model is the best to be adopted. Therefore, the questions of the study are linked to the three main hypotheses. As a result, to answer the questions of the study, the hypothesis must be tested.

8. Data Analysis and Hypotheses Test

8.1 Test of the First Hypothesis

The first hypothesis suggests that there is no good level of corporate governance at the Jordanian Commercial Banks. This hypothesis will be tested by adopting the t- test of the arithmetic mean of the indicator of corporate governance used in this study (the level of corporate governance increases in direct proportion to the indicator of corporate governance level used in this study). In testing the first hypothesis of this study which suggests there is no good level of corporate governance at the Jordanian commercial banks, corporate governance was tested by

adopting the board of directors' structure indicator. In addition, the annual average of the commercial banks was measured for the five-year period that began in 2010 and ended in 2014. This is in line with the instructions of the Central Bank that suggested the disclosure about corporate governance as of 2010.

Table 1 shows the annual arithmetic mean of corporate governance which was measured on the basis of a five-point rating scale (0-5). The results were good as the arithmetic mean ranges between 3.108 in 2013 and 3.264 in 2011 and 2012. This indicates a high degree of corporate governance at the commercial banks. It can be noticed from Table (1) that the results of the five years were convergent as the standard deviation of data ranges between 0.598 and 0.858 which indicates constancy and convergence at the corporate governance level. This constant level signals the commitment of the banking sector's entities to the instructions of the Central Bank although they are new and kept unmodified until the conclusion of this study. It is noteworthy that those instructions correspond to those of Basel II commission.

As for the statistical test of corporate governance, the t-test was adopted to the arithmetic mean. Results of the test, as shown in Table (2), show that the value of t stood at 2.267 and the level of significance was 0.027 which is an acceptable value at the level of significance 5%. Accordingly, this suggests reject H0 hypothesis and accepts H1 since it was proved that there is a good level of corporate governance adopted at the Jordanian commercial banks.

Table 1. The arithmetic mean of corporate governance's level from 2010-2014

Year	Arithmetic Mean	Standard Deviation
2014	3.94	0.598
2013	3.108	0.625
2012	3.264	0.750
2011	3.264	0.750
2010	3.195	0.858
Means for all years	3.205	0.700

Table 2. Results of t test for the arithmetic mean of corporate governance from 2010-2014

Arithmetic Mean	Standard Deviation	T value	The level of significance
3.205	0.700	2.267	0.027

- Statistically significant at 5%

8.2 Test of the Second Hypothesis

The second hypothesis supposes that there is no good level of financial statement disclosure quality at the Jordanian commercial banks. Therefore, the study will adopt the t-test for the arithmetic mean of the indicator of financial statement disclosure quality. It is mention worthy that financial statement disclosure quality goes up in direct proportion to the indicator of the disclosure quality. Following Hasan et al. (2007) and Frost et al. (2005), the quality of disclosure was measured through the degree of commitment to the instructions of disclosure issued by the securities Commission.

Table 3 shows the arithmetic mean and the annual standard deviation for the quality of disclosure at the Jordanian commercial banks under study. The scale of the quality of disclosure was divided into grades that range between 0-5 (the level of disclosure quality goes up in direct proportion to the degrees of the indicator). The levels of the quality ranged between 2.639 in 2010 and 4.097 in 2014 and increased gradually through the study. It is worth to mention that the instructions of disclosure in Jordan were first issued in 1998 and were applicable to the statements of 1999. Moreover, it was noticed that the level of the commitment to these instructions increased dramatically through the course of the study especially after their issue in the last years. Regarding the standard deviation of the data, its values ranged between 0.786 and 1.169 which are relatively low so they indicate convergence in the study's data.

During the last three years included in this study, it was noticed that they got the highest levels as they indicated means higher than three degrees at the quality scale adopted for the purpose of the study. This may be a result of the rapid development of the legislations that aim to improve the information disclosed in the statements in a way that helps the investors make right investment decisions.

In order to test the level of the quality of disclosure, the t-test was adopted for the arithmetic mean. The result

and the statistical significance are shown in Table 4. The Table shows that the T value was 2.397 and its significance is 0.020 which is statistically acceptable at the 5% level. These values lead to reject the HO hypothesis and accept the H1 since a good level of financial statement disclosure quality at the Jordanian commercial banks was noticed.

Table 3. The arithmetic mean of the level of financial statement disclosure quality from 2010-2014

Year	Arithmetic Mean	Standard Deviation
2014	4.097	1.100
2013	3.715	1.161
2012	3.385	1.169
2011	2.899	0.826
2010	2.639	0.786
Mean for all years	3.347	1.122

Table 4 Results of t- test for the arithmetic mean of the level of financial statement disclosure quality from 2010-2014

Arithmetic Mean	Standard Deviation	T value	Level of significance
3.347	1.122	2.397	0.020

- Statistically significant at 5%.

8.3 Test of the Third Hypothesis

This hypothesis indicates that the level of corporate governance does not affect financial statement disclosure quality at the Jordanian commercial banks. This study adopts Simple Regression Analysis so as to test the impact of the independent variable on the dependent one which is considered by the study as a linear relationship between the two variables. It is worth to mention that Linear Regression Analysis was adopted because the two variables are considered continuous Variables.

In order to test this hypothesis, the impact of the indicator of corporate governance on the indicator of disclosure was tested. Table 5 shows the results of the analysis of the data by which it might be observed that there is no statistical significance for the impact of corporate governance's indicator on the indicator of the quality of the disclosure. It is indicated in Table 5 that the value of F is 1.52 and its level of significance is 0.223 which is above 5%. On the other hand, it is shown that the value of T is 1.233- and its level of significance is 0.223 which are not statistically significant. In addition, the variable of corporate governance explains only 2.6% of the quality of the disclosure as indicated by the coefficient of determination. This might be linked to the newly implemented instructions of corporate governance recommended by the central Bank. Although the results of the implementation of corporate governance are constant, this does not mean it affects the quality of disclosure. Accordingly, the third (H0) hypothesis, which supposes that there is no significant impact of corporate governance on financial statement disclosure quality of the Jordanian commercial banks, will be accepted.

Table 5. Results of regression analysis for measuring the impact of corporate governance on the quality of disclosure from 2010-2014

variable	T-value	T level of significance	The coefficient of determination R2	F-value	F level of significance
Corporate Governance	1.233-	0.223	0.026	1.52	2.223

9. Discussion of Results and Recommendations

9.1 Discussion of Results

This study aimed to measure the level of corporate governance and the quality of the disclosure of the financial statements at the Jordanian commercial banks. Moreover, it aimed to examine the impact of corporate governance on financial statement disclosure quality. Results of the study show that the level of corporate governance at the Jordanian commercial banks compared to the structure of the board of directors was high. This was proved due to the fact that boards of directors at those banks are characterized with qualities that make them qualified to lead these institutions competitively. In addition, the level of corporate governance, through the

course of the study, was convergent and of low fluctuations. This belongs to the new legislations recommended by the Central Bank which was adopted by the commercial banks. It is noteworthy that the Central Bank recommended that the commercial banks adopt the guide of corporate governance in 2010 in accordance with Basel II's recommendations.

Because these legislations are new and because of considering the international experiences in this field by the banks, the commercial banks competed to adopt these legislations hoping they will qualify them to compete nationally and internationally.

The study also found that there is a high level of disclosure at the Jordanian commercial banks especially during the recent years included in the study. Moreover, the quality of the disclosure increased gradually through the course of the study. This result might have occurred because of the improvement of the regulatory and accounting legislations. Moreover, the accounting standards are constantly improved and the instructions concerned with the disclosure issued by the Securities Commission went hand in hand with the development of accounting legislations. It is noteworthy that those instructions sought to achieve best disclosure level to meet the interests of the investors. In addition, those instructions sought to meet the investors' need to current and specific information regarding the outcomes of the companies' businesses considered as an investment.

Furthermore, the study showed that corporate governance does not affect the quality of disclosure. This might be a result of the newly issued Central Bank's guide that recommends the implication of corporate governance. Since the guide was issued in 2010 and the instructions are not legally binding, they may need more time to positively affect various variables.

9.2 Recommendations

The study suggests the following recommendations:

- 1) Adopting other corporate governance's standards stipulated by the instructions of the Central Banks.
- 2) creating a long-term database by the Securities Commission so as to allow researchers gain the information easily in a way that copes with the goals of the commission that are concerned with achieving transparency in the financial disclosure.
- 3) Forming a specialized body at the Securities Commission that issues a periodical about the level and quality of disclosure at the joint stock companies listed in ASE. This body should identify the standards of quality assessment taking into account the extent of commitment to the disclosure instructions. In addition, it may identify other standards after consulting professionals in this field. In fact, this suggestion came out of the fact that the quality of disclosure is not easy to be measured, so it will be useful to consider other countries' experiences in this field.
- 4) Considering the issue of special guidelines to corporate governance by the central bank that replaced the previous instructions in order to be abiding. In addition, there is a need to consider the choice of disclosure more frequently and be like the annual reports.

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Appendix

Appendix 1. Elements of Corporate Governance Measurement –Structure of the Board of Directors

No	Element
1	Percentage of the shares possessed by the leading shareholder is no more than 20% of the subscribed shares.
2	The board of directors consist 7 to 13 members.
3	The percentage of the shares owned by the main three leading shareholders is no more than 50% of the subscribed shares.
4	50% of The board of directors' members is independent members.
5	There is a separation between the positions of chairman of the board and the executive director.
6	Directors minimally possess 1% of the shares and maximally hold 20% of the subscribed shares.

Appendix 2. Instructions of Disclosure- Disclosure Quality's indicators (Mardini, 2012)

No	Disclosure Annual Reports
1	A description of the Company's main activities, with their respective geographical locations, size of capital investment and number of employees.
2	A description of the Subsidiary Companies, the nature of their business and their areas of activity.
3	A statement that indicates the members of the Board of Directors' names and the names and ranks of Senior Executive Management with a brief resume of each.
4	The names of the Company's large shareholders and the number of shares owned by each of them where such constitutes (5%) or more in comparison with the previous year.
5	The Company's competitive position within its sector and main market segments, as well as its share of the Local Market, and International Market if possible.
6	The extent of dependence upon specific suppliers and/or major clients (Local and International) where this constitutes (10%) or more of the total purchases and/or sales or revenues.
7	A description of any government protection or any concession granted to the Company or to any of its products pursuant to Laws, Regulations or otherwise, with a specification of the effective period thereof; as well as a description of any Patents or Licensing Rights obtained by the Company.
8	A description of any decision by the Government, International Organizations or otherwise with a material effect on the Company's business, products or competitiveness, and a disclosure of the Company's implementation of international quality standards.
9	The issuing Company's organizational chart, the number of its employees and their classes of qualification, and its personnel qualifying and training programs.
10	A description of the Company's risk exposure.
11	The Company's accomplishments supported by quantitative indicators and a description of significant occurrences to the Company during the fiscal year.
12	The financial impact of non-recurrent transactions during the fiscal year, which are not part of the Company's main activities.
13	A chronology of the realized profits or losses, dividends, shareholders' net equity and the prices of securities issued by the Company, for a minimum period of five years or for the period since the establishment of the Company, whichever is less, together with graphic representation thereof where possible.
14	An analysis of the Company's financial status and of the results of its activities for the fiscal year.
15	Important prospective developments including any new expansions and projects; the Company's proposed plan for at least one upcoming year; and the Board of Directors' forecasts for the outcomes of the Company activities.
16	The amount of auditing fees for the Company and its subsidiaries and any other fees received or receivable by the auditor.
17	A statement that indicates the number of securities issued by the Company which are owned by any member of its Board of Directors, any member of its Senior Executive Management or any of their relatives; a list of companies controlled by any of such, provided all of the above is benchmarked against the preceding year.

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- 18 The benefits and remunerations of the Chairman, members of the Board of Directors, and Senior Executive Management, during the fiscal year, including payments received by any of them such as fees, salaries, bonuses, and otherwise, and their travel and transport expenses within the Kingdom and abroad.
 - 19 A statement that indicates the donations and grants made by the Company during the fiscal year.
 - 20 A statement that indicates the issuing Company's contracts, projects and engagements concluded with its Subsidiaries, Sister Companies or Affiliates, as well as those with the Chairman of the Board of Directors, members of the Board of Directors, the Chief Executive Officer or any employee of the Company or relatives thereof.
 - 21 The Company's contribution to environmental protection and local community service.
 - 22 A declaration from the Board of Directors that there are no substantial matters that might affect the Company's continuity during the next fiscal year.
 - 23 A declaration by the Board of Directors affirming its responsibility for the preparation of the financial statements and for providing an effective system of controls within the Company.
 - 24 A declaration affirming the correctness, accuracy and completeness of the information and data stated in the report, signed by the Chairman of the Board of Directors, the Company's General Manager, and the Financial Manager.
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