Corporate Governance Disclosure Descriptive Analysis Approach: Evidence from Jordan

Ahmad Hamed Awwad Almanasir[a], B. Shivaraj[b]

[a] PhD Student, B.N. Bahadur Institute of Management Studies, University of Mysore, Mysore, India

[b]B.N. Bahadur Institute of Management Studies, University of Mysore, Mysore, India

Abstract

This study attempts to assess the corporate governance voluntary disclosure level among Jordanian Industrial public listed companies with the implementation of corporate governance code of best practices. The data are gathered from the analysis of companies' annual report and Amman stock exchange (ASE) DataStream for a sample of 43 companies over a period of 2010 to 2017. We developed a general voluntary CG index composing of 7 Jordanian Corporate Governance Codes. **Board of Directors characteristics** [CEO Duality (Dual), Board Independency (BIN), and Board Size (BS)], **Audit Committee characteristics** [Structure (ACS), Expert (ACE), Chairman (ACC) and Meeting (ACM)]. The preliminary results of this study reveal most of the company has complied well with the codes.

KEYWORDS: Jordan, corporate governance codes, Jordanian corporate governance index (JCGI), industrial sector.

1. INTRODUCTION

Corporate governance practices are essential for sustainable development and growth of an economy. In particular, the countries that have implemented sound corporate governance practices generally experienced a vigorous growth of corporate sector, and grasp more ability in attracting capital to lubricate the economy (Ahmed Sheikh & Wang, 2012).A well-defined and functioning corporate governance system can assist companies in attracting investment, raise funds and strengthen the foundation for corporate performance. Furthermore, good corporate governance shields a firm from vulnerability for future financial distress (Ehikioya, 2009; Mangena&Chamisa, 2008).Investors in general have started to demand governance ratings (Wei-An, 2008) to avoid undesirable outcomes a new trend that has introduced the issue of measuring the CG quality (Aguilera & Desender, 2012)by academics and commercial corporation (GMI Ratings, and Standard and Poor's).

In the context of Jordan, International Monetary Fund (IMF) and World Bank in 2012 have assessed the status of corporate governance in Jordan (IMF, 2012). The body had delivered a report on the degree of observance of standards and codes; Corporate Governance Country Assessment (ROSC) shed more light on some weaknesses in the model of corporate governance in Jordan. Nonetheless, the finding indicate that the corporate governance of Jordanian firms are still comparatively underdeveloped phase (Abed, Al-Badainah, &Serdaneh, 2012).

2. LITERATURE REVIEW

(Aman & Nguyen, 2013) based on Japanese firms listed on the Tokyo Stock Exchange, 2003, they show that good governance is associated with higher credit ratings. The most significant variables are institutional ownership and disclosure quality. This finding suggests that active monitoring (by large shareholders) and lower information asymmetry (through better disclosures) mitigate agency conflicts and reduce the risk to debtholders. Credit ratings are also found to increase with board size, consistent with a moderation effect in large decision-making groups. As a rule, firms are expected to benefit from better governance by being able to access funding at a lower cost and in larger amounts.

(Haldar & Rao, 2013) constructed a "CG Index" using six important governance mechanisms covering a total of 44 parameters. The analysis of Corporate Governance Index for a period of four years found a rising trend in the level of the corporate governance practices of Indian companies. Results show that there is a strong association between CG Index and the market performance of companies.

(Prommin, Jumreornvong, & Jiraporn, 2014) in their article “The effect of corporate governance on stock liquidity: The case of Thailand” explores the effect of corporate governance on equity liquidity in Thailand. The results show a significant relationship between governance and liquidity within firms over time. In particular, within firms, when governance quality increases, liquidity significantly improves. Forinstance, arise in governance quality by one standard deviation improves the liquidity ratio by 26.19%.

(Chang, Chou, & Huang, 2014) They offering empirical evidence about the impact of corporate governance quality on the adjustment speed toward an optimal capital structure from Compustat data, covering the period 1993–2009. Corporate governance has a distinct effect on the speed of capital structure adjustment: weak governance firms that are under levered tend to adjust slowly to the optimal capital structure. Therefore, study found that both over levered and under levered firms with weak governance adjust slowly toward their target debt levels, though with different motivations.

(Fung, 2014) in his study “a corporate governance disclosure index as proxy of corporate governance quality: an empirical study on the property & construction companies in HongKong”. Study takes an alternative approach by constructing a corporate governance disclosure (CGD) score system based on the Hong Kong Stock Exchange (HKEx) code on CG 2005. 65 property and construction companies listed in HKEx in FY 2010-11 form the sample to test the new CGD score system. The CGD scores are found to have a significant positive relationship with firms’ performance.

(Albassam, 2014) in his study “Corporate Governance, Voluntary Disclosure and Financial Performance: An Empirical Analysis of Saudi Listed Firms Using A Mixed-Methods Research Design” the study examined balanced panel data of 80 Saudi listed firms from 2004 to 2010. This generated a total of 560 firm-year observations that were collected manually from the sampled firms’ annual reports. First, the constructed Saudi Corporate Governance Index (SCGI) showed that the introduction of the SCGC has helped improve voluntary corporate governance disclosure among Saudi listed firms. Second, this study found that board size, audit firm size, the presence of a corporate governance committee, government ownership, institutional ownership and director ownership have a positive influence on the level of compliance with the SCGC. In contrast, the analysis showed that the proportion of independent directors and block ownership are negatively correlated with the level of voluntary corporate governance disclosure.

(Miglani, Ahmed, & Henry, 2015) examined the role of voluntary adoption of corporate governance mechanisms in miti- gating the financial distress status of firms. Using a sample of 171 financially distressed and 106 healthy listed Australian firms over the 5-year period prior to the introduction of the ASX Corporate Governance Council Code in 2003, result supported for the argument that the adoption of certain corporate governance mechanisms is beneficial for firms, as reflected in a reduced likelihood of financial distress. Also find causal evidence that the voluntary adoption of particular corporate governance structures leads to lower levels of financial distress.

(Cuomo, Mallin, & Zattoni, 2015) reviews previous country-level and firm-level studies on corporate governance codes up to 2014 in order to highlight recent trends and indicate future avenues of research. The data show that research on codes increases overtime consistently with the diffusion and the relevance of the empirical phenomenon. Despite previous studies substantially enriching our knowledge of the antecedents and consequences of governance codes.

(Manoiu, Damian, & Strouhal, 2015) in their research entitled “corporate governance quality on specific case of romanian listed companies” They analysed the compliance of Romanian listed companies with corporate governance codes. The methodology employed is based on the analysis of the “Comply or Explain” Statement, published for the period 2009-2013. Most of the observed companies made a step forward in what concerns corporate governance principles and over the study period they disclosed more information on their statements. On the other hand, they found cases where the statements made over the studied period contained inconsistencies for some principles.

(Abbadi, Hijazi, & Al-Rahahleh, 2016) in their study “Corporate Governance Quality and Earnings Management: Evidence from Jordan”. The purpose of this paper is to investigate the effect of corporate governance quality on earnings management in Jordan. Using a panel data set of all industrial and service firms listed on Amman Stock Exchange (ASE) during the period 2009-2013; this paper provides evidence that earnings management is affected negatively by corporate governance quality. In particular; the results show that earnings management is affected negatively by overall categories of governance index represented by board of director, board meeting, Audit and nomination and compensation committee. Furthermore, results suggest that corporate governance quality has increased over time. Thus, its ability to constrain earnings management has also increased. It is recommended to industrial and service companies to boost their compliance with corporate governance code to improve the integrity and reliability of financial reports.

(Nerantzidis, 2016) carried out a study titled “A multi-methodology on building a corporate governance index from the perspectives of academics and practitioners for firms in Greece” The authors’ analysis indicated that a well-designed CG index requires a combination of research methods in order to identify the best options to solve several methodological issues in index construction. For the application of this multi-methodology in Greece, the authors used two equal and independent samples to explore the different perspectives regarding the importance of the index criteria and sub-criteria.

This process provides evidence that the opinion of academics and practitioners in Greece tend to converge. Moreover, it is found that this multi-methodology produces the highest variation in CG scores and ranking orders, as opposed to a traditional approach, in measuring CG disclosure; an important issue with econometric implications.

(Al-Rahahleh, 2017) in her study titled " Corporate Governance Quality, Board Gender Diversity and Corporate Dividend Policy: Evidence from Jordan" investigated the impact of corporate governance quality and board gender diversity on the corporate dividend policy for a set of all non-financial companies listed on Amman Stock Exchange (ASE) during the period 2009-2015. The results documented that corporate governance quality and board gender diversity proxies have positive impact on corporate dividend policy. It is recommended to non-financial companies in Jordan to boost their compliance with the corporate governance code and adopt diversity policies to enhance the effectiveness of the boards and keep favourable relationships with their shareholders.

(Almanasir & Shivaraj, 2017)in their article "Voluntary Corporate Governance Disclosure Innovative Evidence: The Case of Jordan" . The results indicated that the proposed Jordanian Corporate Governance Index (JCGI) enhanced voluntary corporate governance disclosure among Jordanian listed firms over the examined years. Also showed varying levels of CG disclosures in different scenarios; 1) it is lower in firms with higher managerial ownership and 2) higher relative to the independent directors' proportion on the board, audit firm size, and audit committee presence with institutional ownership.

(Utama, Utama, & Amarullah, 2017) in their research paper "Corporate governance and ownership structure: Indonesia evidence" the study investigated simultaneous relations between corporate governance (CG) practice and cash flow right, cash flow leverage (the divergence between control right and cash flow right of controlling shareholders) The study used publicly listed companies (PLCs) excluding those from the Indonesian finance sector during 2011-2013 as the samples of the study. Two-stages least squares regression models were used to test the simultaneous relations between CG practice and ownership structure variables. The study develops a CG instrument to measure CG practice based on ASEAN CG Scorecard.CG practice has a positive influence on cash flow right and has a marginally negative impact on cash flow leverage, while cash flow right and cash flow leverage have a marginally negative impact on CG practice.

(Ghouma, Ben-Nasr, & Yan, 2018)in their article "Corporate governance and cost of debt financing: Empirical evidencefrom Canada" investigated empirically, the Globe and Mail corporate governance index on bond spreads in a sampleof Canadian listed companies. The index is composed of four sub-indices—board composition/structure, board compensation, shareholder rights, and disclosure—assessing the quality of the firm's governance. The empirical findings pointed to a decrease in the bond spreads for an improvement of the overall quality ofthe corporate governance index. When we analyze the impact of each of the sub-indices, only the quality of the board composition/structure as well as the disclosure quality seems to matter to bondholders.

3. OBJECTIVES

1. Explore and evaluate the level of compliance with the JCGC amongst Industrial Jordanian listed companies.

4. DATA AND RESEARCH METHODOLOGY

This research based on descriptive research. The descriptive research, analyzes the characteristics of a population. Hair (2010) reported that the descriptive approach used to describe some situation or attributes by giving measures of a certain activity or event. Data used in this study were obtained from companies' published annual reports, (ASE) website, for the years of 2010 to 2017.

4.1 Sample and Data

The study sample is obtained from 43 non-financial industrial companies listed in the Amman Stock Exchange (ASE) at the end of 2017. This period (2010-2017). This study selected the final sample based on two criteria: (i) the firm's annual reports have to be available for all eight years from 2010 to 2017, either in the Amman Stock Exchange website, the firm's website (ii) the availability of firms' financial statements and firms' stock market information for the eight-year period.

4.2 Measurement of Corporate Governance Index (JCGI)

The index aggregates the provisions of the Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange (JSC, 2009). The Combined Code is composed of, addressing the board of directors and its Audit-committee. This Code had been adopted by the Amman Stock Exchange (ASE) as requirements for Jordanian listed firms to comply with the Code, or to provide justification in the case of non-compliance. Following prior studies that have followed their national or international codes of corporate governance e.g., (Albassam, 2014; Azlina&Kassim, 2013; Cheung et al., 2007; EI-Faitouri, 2012).The main source for constructing the index is the 2009 Jordanian Corporate Governance Coding[JCGC] (JSC, 2009).The constructed Jordanian corporate governance index (JCGI) investigates the aspects of corporate governance (board of directors and audit-committee) Table 1 displays the structure of the governance index and the provisions of the Combined Code that are used to structure the index. These provisions include the structure of the board of directors and audit-committee. Further, the Table shows accurate definitions of the index coding and how variables are measured.

Table 1: Definitions of constructed Jordanian Corporate Governance Index Variables

Corporate Governance Variable	Acronym	Explanation
Chairman and CEO	DUAL	A dummy variable equal to I if the roles of chairman and chief executive are not combined, 0 otherwise.
Board Independency	BIN	A dummy variable equal to I if third or more of directors on Board of Directors are independent directors. 0 otherwise.
Board Size	BS	A dummy variable equal to I if the members of board of dierictor shall be not less than five , 0 otherwise.

Structure	ACS	A dummy variable equal to I if the audit committee has two independent non-executive directors or more, 0 otherwise.
Financial expert	ACF	A dummy variable equal to I if the audit committee has at least one financial expert, 0 otherwise.
Chairman	ACC	A dummy variable equal to I if the chairman of the audit committee is independent, 0 otherwise.
Meetings	ACM	A dummy variable equal to I if the audit committee holds at least four meetings a year, 0 otherwise.

4.3 Descriptive Analysis

4.3.1 Descriptive statistics of the constructed Jordanian corporate governance index (JCGI).

As shown in Figure 1, the level of compliance has improved over the sample period.For example, as shown in Table 2,and figure 1, the aggregate corporate governance score for the JCGI is 44% in 2010, and significantly increased up to 79% in 2017 (a 29% improvement), with an average level of compliance over the eight years of 51%.

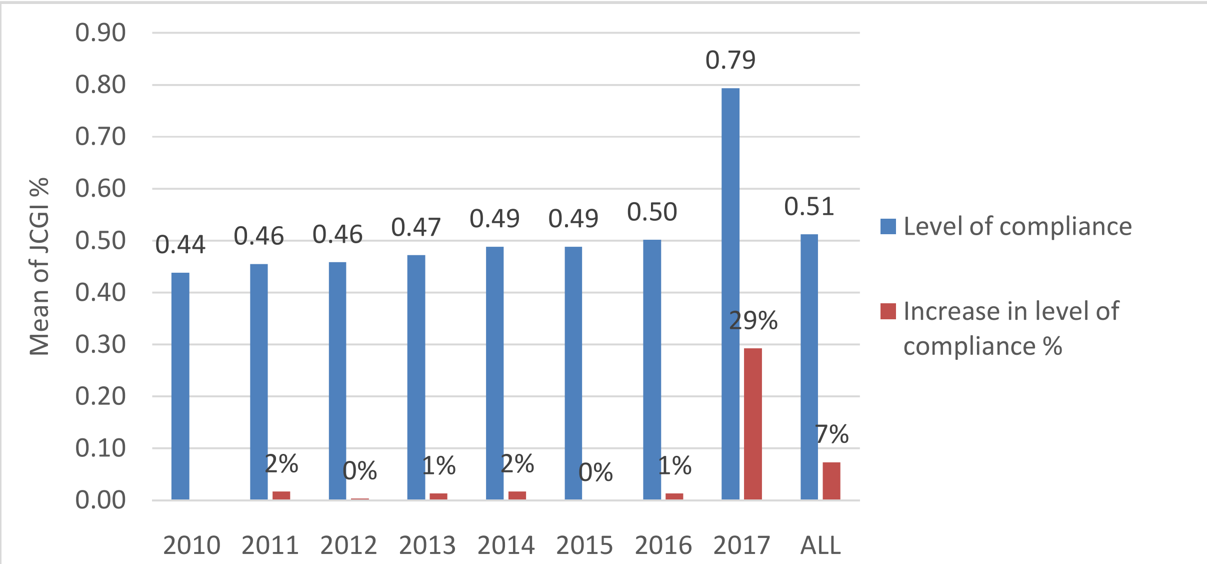

Figure 1: Level of compliance with the JCGC using computed means

This percentage is consistent with the finding of (Almanasir & Shivaraj, 2017). They report that the level of compliance with corporate codes among Jordanian listed firms is 69%. Also, this result is consistent with studies conducted in other emerging countries. For example, Albassam (2014) report that 44% of Saudi listed firms complied voluntarily with the corporate standards.

Table 2: Summary descriptive statistics for the Jordanian Corporate Governance Index (JCGI)

	ALL	2010	2011	2012	2013	2014	2015	2016	2017
JCGI for all firm years									
Mean	54.91	44.02	45.07	46.02	47.35	49.00	48.93	50.26	79.47
Median	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00	100.00
STD	18.88	17.71	19.77	19.60	20.33	21.65	23.17	24.42	28.23
Min	.29	.14	.14	.14	.14	.14	.14	.14	.14
Max	.86	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 3 shows the level of compliance with the JCGC. The comparison between the provisions shows that each provision has a range between 0% and 100%. A provision that reported high scores indicates perfect compliance by all 43 firms, for example Board Size (BS) over the sample period 99 %. However, a provision reporting low scores implies less compliance by any of the sampled firms during the study period, for example Frequency of AC meetings (ACM) 14%.

Table 4 shows that all ***Board of Directors* provisions** relatively high levels of compliance (84% or more). This indicates that about 84% of the sampled firms complied with these provisions. However, Board Sub-Committees (Audit Committee) provisions had compliance scores of 24% or less. Thus, 24% of the sampled firms complied with the ***Board Sub-Committees (Audit Committee)* provisions**. The low level of compliance with these governance mechanisms are not consistent with the Corporate Governance Code (2009) issued by Amman Stock Exchange (ASE) may be explained by: (i) weak implementation and enforcement by regulatory bodies, such as the Amman Stock Exchange (ASE) and the Securities Depositary Commission (SDC). This is consistent with the finding of (Abed, Al-Badainah, & Serdaneh, 2012; Abu Haija, 2012). And (ii) unwillingness by firms to comply with some corporate governance provisions.

Table 3: The level of compliance with the JCGC provisions among the firms (%)

Jordanian Corporate Governance Index (7 Provisions)	2010	2011	2012	2013	2014	2015	2016	2017	***Average***
Yearly Average of level of Compliance	44	46	46	47	49	49	50	79	***51***
1- Board of Directors	***88***	***90***	***90***	***91***	***92***	***90***	***90***	***95***	***91***
Chairman and CEO (DUAL)	84	86	88	88	93	86	86	95	***88***
Board Independency (BIN)	81	81	84	86	84	84	84	91	***84***
Board Size (BS)	98	100	98	98	98	100	100	100	***99***
2- (Audit Committee)	***11***	***13***	***13***	***15***	***17***	***18***	***20***	***67***	***22***
Majority of AC is non-executive	14	16	16	19	21	19	21	70	***24***

(ACS)									
Financial expert of AC (ACF)	14	16	16	19	21	19	21	70	***24***
AC's chairperson is independent (ACC)	14	16	16	19	21	19	21	70	***24***
Frequency of AC meetings (ACM)	2	2	2	2	5	15	19	60	***14***

4.3.2 Descriptive Statistics of the JCGI based on the Sub- provisions

As shown in Tables above the provisions that constitute the JCGI consist of two sub-provisions, which are: board of directors (BOD) with 3 provisions, and Board Sub-Committees (Audit Committee) with 4 provisions.

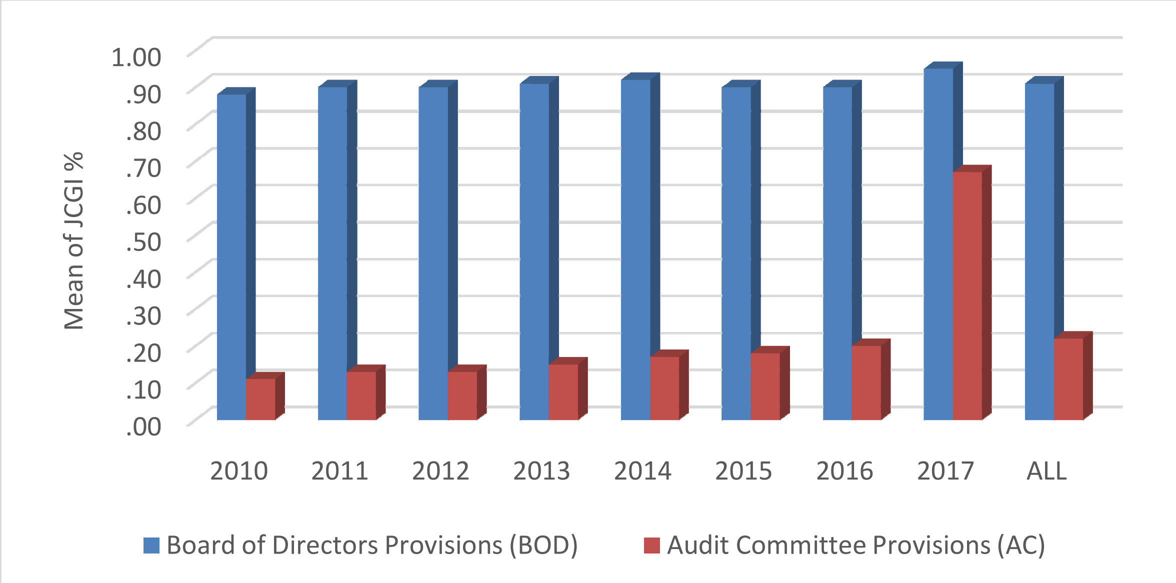

Figure 2: A comparison of the level of compliance based on the JCGI sub- provisions.

As shown in Figure 2, there are variations in the aggregated level of compliance based on the sub- provisions. The key results can be summarised as follows. First, the sampled firms show greater compliance with the provisions related to the board of directors (BOD). Specifically, 91% of the listed firms complied with the board of directors provisions, whilst 21% complied with the provisions relating to Board Sub-Committees (Audit Committee). The high level of compliance with the board of directors (BOD) provisions relates to the nature of these provisions, which have been imposed by regulatory bodies, such as the ASE. In contrast, the low level of compliance with the board sub-committees' (Audit Committee) provisions is due to the absence of good corporate governance practices prior to governance reforms.

5. SUMMARY AND CONCLUSION

There are dramatic changes in the level of compliance with the Jordanian corporate recommendations over the period. The level of compliance varies between about 99% in the case of established board size, which means a high level of compliance by listed firms over the period; and less than 25% regarding the audit committees'practices per year, which means a low level of compliance.

However, a high level of compliance proves that listed companies follow the recommendations of the Corporate Governance Codes. The governance index has increased in all its corporate governance aspects over time. For example, appointing an independent non-executive director as a senior member of the board Independency (BIN)has increased from just over 81% in 2010 to 91% in 2017. This significant change is clearer in the characteristics of audit committees. The Table shows that the number of audit committees holding three meetings or more per year has risen from just over 2% in 2010to about 60% in 2017. Further, having a financial expert among the audit committees' members has increased from 14 % in 2010 to 70% in 2017.

REFRANCES

Abbadi, S. S., Hijazi, Q. F., & Al-Rahahleh, A. S. (2016). Corporate governance quality and earnings management: Evidence from Jordan. *Australasian Accounting Business & Finance Journal, 10*(2), 54.

Abed, S., Al-Badainah, J., & Serdaneh, J. A. (2012). The level of conservatism in accounting policies and its effect on earnings management. *International Journal of Economics and Finance, 4*(6), p78.

Abu Haija, A. A. (2012). The Application of Fair Value Accounting and Corporate Governance and their Relationship to Financial Statements Manipulation.

Aguilera, R. V., & Desender, K. A. (2012). Challenges in the measuring of comparative corporate governance: a review of the main indices *West Meets East: Building Theoretical Bridges* (pp. 289-322): Emerald Group Publishing Limited.

Al-Rahahleh, A. S. (2017). Corporate Governance Quality, Board Gender Diversity and Corporate Dividend Policy: Evidence from Jordan. *Australasian Accounting Business & Finance Journal, 11*(2).

Albassam, W. (2014). *Corporate governance, voluntary disclosure and financial performance: ban empirical analysis of Saudi listed firms using a mixed-methods research design*. Retrieved from

Almanasir, A. H. A., & Shivaraj, B. (2017). Voluntary corporate governance disclosure innovative evidence: the case of Jordan. *Journal of Reviews on Global Economics, 6*, 443-454.

Aman, H., & Nguyen, P. (2013). Does good governance matter to debtholders? Evidence from the credit ratings of Japanese firms. *Research in International Business and Finance, 29*, 14-34.

Chang, Y.-K., Chou, R. K., & Huang, T.-H. (2014). Corporate governance and the dynamics of capital structure: New evidence. *Journal of Banking \& Finance, 48*, 374--385.

Cuomo, F., Mallin, C., & Zattoni, A. (2015). Corporate Governance Codes: A Review and Research Agenda (Vol. 24, pp. 222-241): Wiley Online Library.

Fung, P. H. H. (2014). A corporate governance disclosure index as proxy of corporate governance quality: an empirical study on the property & construction companies in Hong Hong.

Ghouma, H., Ben-Nasr, H., & Yan, R. (2018). Corporate governance and cost of debt financing: Empirical evidence from Canada. *The Quarterly Review of Economics and Finance, 67*, 138-148.

Haldar, A., & Rao, N. (2013). *Corporate governance in India.* Paper presented at the Proc. of Annual Conference on Governance and Capital Markets, Indian Institute of Capital Markets, Mumbai.

Manoiu, S. M., Damian, M. I., & Strouhal, J. (2015). CORPORATE GOVERNANCE QUALITY ON SPECIFIC CASE OF ROMANIAN LISTED COMPANIES (Vol. 3, pp. 40--58): Vysoka skola podnikani, as (Business School plc).

Miglani, S., Ahmed, K., & Henry, D. (2015). Voluntary corporate governance structure and financial distress: Evidence from Australia. *11*(1), 18--30.

Nerantzidis, M. (2016). A multi-methodology on building a corporate governance index from the perspectives of academics and practitioners for firms in Greece. *Corporate Governance, 16*(2), 295-329.

Prommin, P., Jumreornvong, S., & Jiraporn, P. (2014). The effect of corporate governance on stock liquidity: The case of Thailand. *International Review of Economics & Finance, 32*, 132-142.

Utama, C. A., Utama, S., & Amarullah, F. (2017). Corporate governance and ownership structure: Indonesia evidence. *Corporate Governance: The international journal of business in society, 17*(2), 165-191.

Wei-An, L. (2008). *Corporate governance in China: Research and evaluation*: John Wiley & Sons Incorporated.