THE EFFECT OF CORPORATE GOVERNANCE MECHANISMS ON JORDANIAN LISTED COMPANIES' PERFORMANCE

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ABSTRACT

Following the collapse of a number of companies listed on Amman Stock Exchange (ASE) during the period since 2001, the issue of corporate governance and firm performance has become a major concern in Jordan. There is an increasing attention among the various stakeholders, including the government and investors, towards reforms and practices of corporate governance that can enhance firm performance. Thus, this study is set to investigate the effects of corporate governance mechanisms (i.e. ownership structure, board characteristics, audit committee, internal audit and auditor quality) on the performance of Jordanian listed companies. The theoretical foundation of such a relationship is explained by agency theory, the resource dependence theory and the signalling theory. The Dynamic GMM estimator was used to estimate the relationship based on the data of 204 companies listed on ASE during the period 2009 to 2013. The findings suggest that performance is influenced significantly by board size, board independence, board meeting, CEO duality, political connectivity, auditor's brand name and independence. However, this association is not unique across measures of performance, namely accounting and market based measures. The relationship also varies between financial and non-financial industries, reflecting their uniqueness and significant difference in their structure. Overall, the impact of corporate governance on performance is shaped differently for financial and non-financial sectors as well as across the performance measures. The results of the study provide insight and significant implications for the stock market, industry players and policy makers in Jordan. It may pave way for those parties to consider a different governance structure within the boundaries of regulations which might help in enhancing the firm performance. Future research may adopt other governance factors as predictors of performance. Also, future research may apply primary data to examine the reasons why some governance variables are ineffective in performance enhancement. However, this study is limited by the time and resources available, hence, care need to be taken into consideration while interpreting the result of the study.

Keywords: Corporate governance, firm performance, board of directors, Jordan.

ABSTRAK

Berikutan kejatuhan beberapa buah syarikat yang tersenarai di Bursa Saham Amman (ASE) semenjak tahun 2001, isu tadbir urus korporat dan prestasi firma menjadi kebimbangan utama di Jordan. Perhatian terhadap pembaharuan dan amalan tadbir urus korporat yang boleh meningkatkan prestasi firma didapati semakin meningkat dalam kalangan pelbagai pihak berkepentingan, termasuk pihak kerajaan dan pelabur. Oleh itu, kajian ini dijalankan bagi menyelidik kesan mekanisme tadbir urus korporat (iaitu struktur pemilikan, ciri-ciri lembaga, jawatankuasa audit, audit dalaman dan kualiti audit) ke atas prestasi syarikat yang tersenarai di Jordan. Teori asas bagi hubungan tersebut dijelaskan melalui teori agensi, teori pergantungan sumber dan teori isyarat. Penganggar Dinamik GMM digunakan untuk menganggarkan hubungan berdasarkan data daripada 204 buah syarikat yang tersenarai di ASE dalam tempoh 2009 hingga 2013. Hasil kajian menunjukkan bahawa prestasi syarikat dipengaruhi secara signifikan oleh saiz lembaga, kebebasan lembaga, mesyuarat lembaga, dualiti Ketua Pegawai Eksekutif, kesalingkaitan politik, jenama juruaudit dan kebebasan. Walau bagaimanapun, perkaitan ini didapati tidak unik bagi pengukuran prestasi perakaunan dan pengurusan berasaskan pasaran. Hubungan ini juga berbeza-beza bagi industri kewangan dan bukan kewangan, mencerminkan perbezaan keunikan dan kesignifikanan dalam strukturnya. Secara keseluruhan, kesan tadbir urus korporat pada prestasi terbentuk secara berbeza-beza bagi sektor kewangan dan bukan kewangan serta seluruh pengukuran prestasi. Hasil kajian memberikan wawasan dan implikasi penting bagi pasaran saham, pengamal industri dan pembuat dasar di Jordan. Hal ini mungkin memberi laluan kepada pihak tersebut untuk mempertimbangkan struktur tadbir urus yang berbeza dalam sempadan peraturan yang mungkin dapat membantu meningkatkan prestasi firma. Kajian pada masa hadapan boleh menerima pakai faktor tadbir urus yang lain sebagai peramal prestasi. Selain itu, kajian akan datang juga boleh menggunakan data utama untuk mengkaji penyebab beberapa pembolehubah tadbir urus tidak berkesan dalam peningkatan prestasi. Walau bagaimanapun, kajian ini agak terhad dari segi masa dan sumber yang ada. Dengan itu, hasil kajian perlulah ditafsirkan dengan berhati-hati.

Kata kunci: Tadbir urus korporat, prestasi firma, lembaga pengarah, Jordan.

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LIST OF ABBREVIATIONS

AMOS	Analysis of Moment Structures
ASUU	Academic Staff Union of Universities
AVE	Average Variance Extracted
CLEEN	Centre for Law Enforcement Education
CMV	Common Method Variance
CWB	Counterproductive Work Behaviour
EFCC	Economic and Financial Crimes Commission
PhD	Doctor of Philosophy
PIN	Perceived Injunctive Norms
PLS	Partial Least Squares
Q2	Construct Crossvalidated Redundancy
R2	R-squared values
SEM	Structural Equation Modelling
SET	Self Efficacy Theory
SMEs	Subject Matter Experts
SPSS	Statistical Package for the Social Sciences
SRE	Self Regulatory Efficacy
SWT	*Subhanahu Wa Ta'ala*
USA	United States of America

CHAPTER ONE: INTRODUCTION

1.1 Background of Study

The collapse of several major companies and related financial frauds which occurred in most countries stirred uncertainties and doubt about the credibility of the operation and financial reporting procedures as well as the performance of the listed companies in Jordan (Hamdan, 2012). Professionals, organisations, regulatory bodies, and scholars have strongly suggested that some reforms and practices are instituted to enhance firms' performance, specifically the application of corporate governance mechanisms (Hamdan, 2011; 2012, Hamdan, Kukrija, Awwad & Dergham, 2012; Adeyemi & Fagbemi, 2010). For instance, the Jordanian Association of Public Accountants (JACPA), which was established in 1988, recommended the Jordanian auditors follow the international accounting and auditing standards. In 1997, the Amman Stock Exchange (ASE) joined the International Organization for Securities Commissions (IOSCO) that requires member countries to apply the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) extensively. In 1997, the Companies Law No. 22 was issued in Jordan. Specifically, the Companies Law No. 22 requires that all public shareholding companies, general partnerships, limited partnerships, limited liability companies, private shareholding companies, and foreign companies operating in Jordan prepare annual audited financial statements in accordance with the internationally recognised accounting and auditing principles (JSC, 2009).

Various efforts have been put in place to enhance the financial environment of the country, one of which is the enactment of different laws and regulations. In 2009, the

Jordan Securities Commission (JSC) issued the Corporate Governance Code to govern the shareholding companies listed on the ASE. The Code defines and stresses the responsibilities and formation of the board, its committees, and their monitoring roles over the management. Specifically, the Code defines the responsibilities of the board of directors as: (1) setting strategies, policies, plans and procedures to realize the objectives of the company; (2) taking necessary measures to ensure compliance with the laws in force; (3) setting a risk management policy to address the risks that the company may face; (4) setting procedures that forbid insiders in the company from using inside information to achieve material or moral gains; (5) taking necessary steps to ensure internal supervision on the company's work- in- progress, including ensuring compliance with the laws in force; (6) reviewing and evaluating the performance of the company's executive management; (7) adopting criteria for granting incentives, compensations, and privileges to members of the board of directors and executive management; and (8) setting a policy to organize relations with stakeholders in a manner that ensures fulfillment of the company's commitments toward them, safeguards their rights, provides them with adequate information, and maintains good relations with them (JSC, 2009). The enforcement of the corporate governance regulations is carried out by the JSC under the supervision of the Ministry of Industry and Trade.

In addition to the enactment of Corporate Governance Code, the establishment of the Amman Stock Exchange (ASE) in 1999 for trading public securities, the Securities Depository Centre (SDC) to safeguard investors and arbitrates transactions, and the Jordan Securities Commission (JSC) to regulate and supervise the equity market have assisted in the implementation and codification of legislation and regulations (e.g., the Securities Law of 2002, which is the forerunner of the Jordanian Cooperate

Governance Code (JCGC) of 2009, with the aim of enhancing investor confidence). Under these legislations and regulations, disclosure and transparency were reinvigorated and investors protected. These three important bodies were formed based on the Securities Law to monitor, regulate, and supervise companies listed on the ASE. The effect of each of the three bodies was reinforced with the Issuing Companies Disclosure, Securities Law of 2002 and Accounting and Auditing Standards in 2004. Also, the Co-operative Compliance Authority has achieved much progress by enforcing many basic corporate governance provisions of the Companies Law (JSC, 2009).

As a result of the consolidation of corporate governance via the employment of a set of economic, legislative and financial reforms targeted at enhancing accountability, transparency, and the rule of law in the economy (JSC, 2009), investor confidence in the economy increased. Also, the economy of Jordan demonstrated a stable development evidenced by the growing volume of trade and market capitalisation, which translated into a significant upsurge in the number of firms listed on the ASE from 161 in 2000 to 247 by 2013 (ASE, 2012; Marashdeh, 2014). However, as news about corporate governance scandals has spread all over the world in previous years, governments, organizations, and researchers have begun to re-investigate the influence of corporate governance on firm performance (Ahmed-Haji & Mubaraq, 2015; Baydoun et al., 2013; Marashdeh, 2014). Specifically, in Jordan, there is increasing attention of various stakeholders, including the government and investors, towards reforms and practices that can enhance firm performance (Hamdan, 2012).

Also, the weaknesses in corporate governance in the developing countries have attracted much attention (Oman et al., 2004; Allen, 2005). Unlike advanced or developed countries, developing countries with emerging markets may possess a well-developed financial infrastructure, but they are fraught with weak processes and systems of accounting, governance, regulations, and other financial infrastructure, as well as less efficient markets. Therefore, it is expected that a greater uncertainty and risk may emerge (Kearney, 2012). For example, risk and uncertainty, political instability, weak legislation, high levels of government intervention, and low levels of protection for investors constitute the challenges that are being faced by the developing countries' financial systems (Tsamenyi et al., 2007). Hence, there is a necessity for an effective corporate governance structure to be adopted (Marashdeh, 2014).

Incidentally, the extent of law enforcement is impacted by the corporate governance quality, which implies that weak corporate governance would encourage corruptions in different forms to thrive. As such, strong and effective corporate governance has to be established. Therefore, for the developing countries, efforts to establish a good corporate governance structure are needed because many are still in dire need of appropriate governance (Ekanayake, Perera, & Perera, 2010). Not only that, Tarraf (2011) linked the problem of poor corporate governance practices to financial crises. Hence, the subject of corporate governance remains a subject of interest amongst academics in both developed and developing nations (Reed, 2002; Mallin, 2004; Solomon & Solomon, 2004).

1.2 Problem Statement

Studies have shown that the performance of Jordanian corporate entities is quite low, and this unfortunate development has led to a decrease in the level of financial reporting quality and the loss of the reputation of a financial statement, which consequently jeopardises the confidence of shareholders and investors in the shareholding firms (Al-Sraheen, 2014). The problem has eventually attracted the attention of the stakeholders (Almajali, Alamro, & Al-Soub, 2012). The low-level of firm performance has also led to the liquidation of many firms, and several others have collapsed prematurely. According to the Companies Control Department (CCD) statistics, from 2000 to 2011, there were 44 bankruptcy cases involving Jordanian companies, of which 26 companies (59%) were from the industrial sector, 15 companies (34%) from the services sector; and three companies (7%) from the financial sector (http://www.ccd.gov.jo/2012). Among the liquidated companies in Jordan is Magnesia Company which lost JD130 million (Hamdan, 2012). The collapse of these companies has strongly impacted the society with increased unemployment, a low level of investment, and a weak and unstable economy. Ultimately, this scenario spelt doom for the Jordanian economy because the economy relies heavily on taxes from companies, besides external aid.

The literature on firm performance determinants in emerging markets is somewhat limited; most of the empirical studies were evidently carried out in the USA and other developed nations. More so are studies on the role of corporate governance in firm performance in Jordan. Some scholars argued that the instability of the Jordanian economy is due to the absence of the proper application of corporate governance (Al-Daoud & Al-Sraheen, 2015; Zureigat, 2014). Indeed, the World

Bank and the International Monetary Fund (IMF) (2004) have collectively evaluated the status of corporate governance in Jordan and concluded that corporate governance of Jordanian companies remains at a relatively immature stage. Abdullatif and Al-Khadash (2010), Ajeela and Hamdan (2011), and Bawaneh (2011) have also demonstrated that the liquidation of firms could be attributed, among others, to the weak corporate governance practices. Structural reforms, which include the introduction of effective corporate governance mechanisms as well as the emphasis on quality of audit, have been recommended to solve the problem (Hamdan, 2012a). Hence, Jordan provides a good case for studying corporate governance mechanisms, such as ownership structure, board characteristics, audit committee, internal audit, and auditor quality, and for assessing the effect of the mechanisms on firm performance, thereby contributing to the existing literature.

On ownership structure, Al-Fayoumi et al. (2010) indicated that a high proportion of shares in Jordanian firms are owned by managers, raising concern of the protection of investors' rights due to agency problems. Also, Isik, Gunduz, and Omran (2005) indicated that foreign ownership in Jordan is negatively associated with efficiency, implying that the closely-held and family-owned businesses do not have efficient structures. Equally, Zureigat (2011) reported that many firms in Jordan are family-owned companies; thus, the family companies may depend on factors related to personal relations in selecting an auditor, and this could have a negative effect on the firm performance.

The monitoring role of a board of directors in companies in Jordan is also purportedly to be quite weak. Abed, Al-Badainah, and Serdaneh (2012) attributed the weak monitoring function of the board of directors in Jordanian firms to the existence of more than 14 members in the board as well as the duality between CEO/Chairman roles. Such practice is not consistent with the Corporate Governance Code (2009) issued by the ASE, which recommends that the members of the board should not exceed 13 members and that the roles of the CEO/Chairman should be separated. Sharar (2007) reported that the current trend in Jordan is that the board of directors is controlled by the family owners, which may lead to a negative effect on firm performance.

An audit committee is regarded as an integral part of corporate governance. However, Nimer et al. (2012) found that the performance of the audit committees in Jordanian listed firms seems to be poor and ineffective due to the constraints on the audit committee members and also the lack of independence of their members. They also showed that most of the audit committee members have close relationships with the board of directors and the top management of the firms. These findings are not surprising because of the family ownership structure in Jordanian firms. However, as long as the audit committee's members are not entirely independent (Al-Sa'eed, 2011; Nimer et al., 2012), their role to monitor the management's performance in protecting investors' equity, especially small investors is not likely to be accomplished.

On internal audit, Sawalqa and Qtish (2012) found that Jordanian companies lack the necessary experience to deal with the current tools of internal audit evaluation.

Finally, auditor quality highlights the role of external auditors in ensuring the quality and reliability of the financial reports. Specifically, in Jordan, Al Daoud, Al-Sraheen and Alslehat (2015) indicated the negative role of non-audit services (NAS) on corporate performance in Jordan. The study reported that the key tasks of an external auditor and other NAS, such as consulting and tax services, could compromise the independence of the auditor.

Not only are there limited studies on the effect of corporate governance mechanisms on firm performance in Jordan, theories postulated for the developed nations may not be wholly applicable to the emerging markets because of many structural differences between the developed and developing economies, such as the political system, corporate capital structure, corporate governance, ownership structure, system of taxation, laws of taxation, and financial systems (bank-based in emerging markets). Emerging markets are also characterised by less information efficiency and a higher rate of volatility. Evidence also shows that emerging markets financial systems are smaller in size, which could restrict the application of empirical models developed for the developed markets. Furthermore, the literature indicates inconsistency in the extant research findings which could be attributed to the measurement of corporate governance and the differences in the period and environments within which past studies were carried out (Kyereboah-Coleman, 2007; Ahmed-Haji & Mubaraq, 2015). These gaps call for a new investigation to fill.

1.3 Research Questions

Based on the gaps identified in firm performance, the present study aims to answer the following questions:

1. What is the effect of ownership structure (managerial, family, institutional and foreign ownership) on the performance of Jordanian listed firms?

2. What is the effect of board characteristics (size, independence, meeting, CEO duality, gender and political influence) on the performance of Jordanian listed firms?
3. What is the effect of audit committee on the performance of Jordanian listed firms?
4. What is the effect of internal audit on the performance of Jordanian listed firms?
5. What is the effect of auditor quality (brand name, auditor independence) on the performance of Jordanian listed firms?

1.4 Research Objectives

Based on the research questions above, the following are the objectives of this research:

1. To examine the effect of ownership structure (managerial, family, institutional and foreign ownership) on the performance of Jordanian listed firms.
2. To investigate the effect of board characteristics (size, independence, meeting, CEO duality, gender and political influence) on the performance of Jordanian listed firms.
3. To assess the effect of audit committee on the performance of Jordanian listed firms.
4. To analyse the effect of internal auditor on the performance of Jordanian listed firms.
5. To examine the effect of auditor quality (brand name, auditor independence) on the performance of Jordanian listed firms.

1.5 Motivation of the Study

The need to investigate the relationship between corporate governance and firm performance is motivated by the recent interest shown by the government of Jordan in corporate governance, especially after the Jordanian Code of Corporate Governance (2009) was issued. The Code states that firms listed on the ASE must form boards and committees to apply corporate governance mechanisms. The JCCG (2009) also requires public companies in Jordan to apply corporate governance in enhancing the transparency and accountability of the financial statements and to control the directors' actions in an attempt to prevent manipulations in financial reporting. This kind of research is pertinent in the context of Jordan because the Jordanian economy has been adversely affected by internal and external factors.

The main internal factor is a low firm performance that has led to the decrease in the level of financial reporting quality and the loss of the reputation of a financial statement, jeopardising the confidence of shareholders and investors in the shareholding firms (Al-Sraheen, 2014). While the external factors are the effects of the Gulf War of 1990-1991, resulting in the influx of migrant workers and refugees, which has aggravated the unemployment level in Jordan. For example, more than 300,000 people returned to Jordan from Gulf countries during that period (World Bank, 2004). Also, the continuing strife in the West Bank and Gaza and the second Gulf War in 2003 have had a negative impact on tourism and investment in Jordan. Furthermore, Jordan was badly affected by the Palestinian Intifadah which began in September 2000. The Palestinian Intifada and Arab revolutions in 2011 affected firm performance negatively as most Jordanian companies' exports went to these neighbouring countries.

This study investigates the corporate governance-performance relationship in the context of Jordan. Jordan has its unique environment in which the results of previous studies conducted in other countries cannot be generalised due to the differences in culture, economy, and legal framework. Also, this study is motivated by the inconsistency and inconclusiveness of the findings of the extant research on the corporate governance-performance relationship (Kyereboah-Coleman, 2007; Ahmed-Haji & Mubaraq, 2015).

To the best of author's knowledge, previous studies on the association between corporate governance and firm performance focused in one industry in Jordan or excluded the financial sector from their investigations (ref) despite the fact that the financial sector is one of the biggest sectors in Jordan and constitutes approximately 40% of the entire market (ref). Hence, this study adds value to the literature by focusing on the financial sector using data from annual financial reports of Jordanian listed firms spanning the period of five years from 2009 to 2013.

The Jordanian Code of Corporate Governance was issued in 2009. However, after the Code was issued, empirical evidence on the relationship between corporate governance and firm performance is limited. Thus, there is a need for an empirical investigation that considers the impact of corporate governance on firm performance after the Code was established. The present research is also timely because the assessment of the Code must take into consideration the adequate length of time to determine its effectiveness. Prior research in Jordan tended to focus on a single cross-section of the period immediately after the issuance and implementation of the Code. Giving enough time allows the affected companies to adapt to the new system and for the impact to be seen.

One of the major concerns of cross-sectional studies is the endogeneity problem in the context of corporate governance and performance. Methodologically speaking, the analysis adopted in this study is unique because the concern is given to the problem of endogeneity. This study addresses the problem of performance and governance relationship in a dynamic framework by adopting a more advanced method, namely the general system method of moment (GMM) estimator. This panel approach improves the estimations as it controls for the potential sources of endogeneity. The GMM is appropriate in analyzing data, providing better estimation results. In short, thus, this study improves prior studies regarding the period and other methodological issues.

The current study also contributes to the literature by considering the role of political influence as a new dimension because of its significance to an emerging market such as Jordan. Political influence is added to the analysis to reflect its significant effect on the cultural environment of Jordan. Also, the empirical evidence regarding the performance consequences of women's board participation is inconclusive. Some studies found that the diversity that women bring to the boards and their distinctive management style improve the board's operations. On the other hand, others demonstrated that the limited experience of women in leadership positions and their lesser drive to advance to the top are characteristics that could diminish their effectiveness as board members (Nielsen & Huse, 2010; Dargnies, 2012). Such diversity of the board composition stimulates the researcher to investigate the role of women in the board in emerging markets such as Jordan by considering women participation as a new variable.

1.6 Significance of the Study

Since 1978, a substantial number of empirical research on corporate governance and firm performance emerged. However, the financial crisis in the global financial realm undermines the importance of corporate governance in resolving the global financial crisis (Siddiqui, 2014), implying that an inquiry regarding the relationship between corporate governance and firm performance has become more demanding (Siddiqui, 2014).

A survey of the literature on corporate governance-firm performance relationship demonstrates inconsistent and inconclusive findings. For example, some studies (e.g., Rashid & Islam, 2013; Siagian et al., 2013; Ujunwa, 2012) indicated a positive relationship between corporate governance attributes and firm performance. However, some other studies (e.g., Ahmed-Haji & Mubaraq, 2015; Hutchinson & Gul, 2004; Yammeesri & Herath, 2010) indicated otherwise. The mixed findings could, to a certain extent, be traceable to the variance in the periods during which those studies were carried out and the methodological styles and measures of performance adopted by those studies (Kyereboah-Coleman, 2007). In the longitudinal study carried out by Ahmed-Haji and Mubaraq (2015), all corporate governance factors (excluding independent chairperson) were found to have a significantly negative relationship with one or more measures of corporate performance. Shank et al. (2013) added that the mixed findings in the research on corporate governance could be due to the differences in definitions, measurement, and time periods. According to Skare and Hasic (2016), gauging the influence of corporate governance on the firm's performance and the consequent economic growth is fraught with methodological limitations. The findings across countries have also indicated inconsistency, suggesting that using different indicators (scores) for corporate governance brings about mixed (positive/negative) impacts on a firm's financial performance.

The bulk of the published research on corporate governance-firm performance relationship has been done in developed countries. Variations in the governance mechanisms and arrangements are determined by the differences in firm characteristics and countries. For example, in the USA, discrete shareholders play a significant role, and the primary agency conflict is between the owners and managers. Under this system, a significant risk to shareholders is fraudulent financial reporting. Hence, the existing corporate governance mechanisms are tailored to specifically alleviate these agency conflicts (Carcello, Hermanson, & Ye, 2011). Conversely, in some parts of the world, the scenario may be different from what it is in the USA due to certain factors relating to culture, legality, regulatory traditions, etc. As a result of this, the corporate governance mechanisms developed in an Anglo-American context may not fit well in the context of developing countries, such as Jordan (Carcello, Hermanson & Ye, 2011). Also, little is known about the impact of governance practices on firm performance in the wake of the 2008/2009 global financial crisis (Ahmed-Haji & Mubaraq, 2015). Specifically, little evidence is provided in the Middle East in general and Jordan in particular (Marashdeh, 2014) although the regulators, decision- makers, and scholars have demonstrated the importance of implementing corporate governance in Jordan (Bawaneh, 2011; Ajeela & Hamdan, 2011; Hamdan, 2012).

The limited studies on firm performance determinants in emerging markets are noted as most empirical studies have been carried out in the USA or the developed nations. Moreover, it has also been acknowledged that theories postulated from developed nations may not be wholly applicable to the emerging markets due to the differences in the emerging markets and developed markets such as the political system, corporate capital structure, corporate governance, ownership structure, system of taxation, laws of taxation, and financial systems (bank-based in emerging markets). Emerging markets are also characterised by less information efficiency and higher volatility. The markets are also smaller in size. In this regard, Al-Malkawi (2005) stressed the lack of empirical studies on the performance of firms in emerging markets, especially as in the case of Jordan.

Even though a few studies on Jordanian firms' ownership structure are available, they are limited in number. Due to the structural differences between Jordan and developed countries, the present study seeks to examine the factors affecting firm performance in Jordan, and by doing so tests whether or not the theories proposed and employed in developed markets can be employed in the emerging markets. The study's findings can offer a comparative insight.

1.7 Scope of the Study

The ASE comprises three different sectors: the financial, industrial and service sectors. This study chose all the sectors. The sample for this study was the annual financial reports of Jordanian listed firms over five year period from 2009 to 2013 when the corporate governance rules became mandatory for Jordanian firms.

1.8 Organization of Study

This study is divided into six chapters. In the first chapter, the background of the study and the problem statement are explained. Research questions and objectives of the study are also provided. The significance of the study, the scope. Chapter two contains the literature review and the summary of prior research related to firm performance and corporate governance. Also, discussions on the major theories in this study are offered. Chapter three describes the research framework and hypotheses development. Chapter four explains the methodology used in the current study. Specifically, the research design, sample and data collection, as well as operational definition, were thoroughly explained. Also, the statistical measurement of the independent and the dependent variables are presented.

Chapter five provides the descriptive analysis of the variables. Also, correlation matrix, regression assumptions, and hypotheses testing through multiple regression and additional analysis are presented. Finally, Chapter six discusses the findings presented in chapter five. The study implications, as well as the limitations of the current study and some suggestions and recommendations for future research, are provided. Finally, the conclusion of the chapter is offered.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a literature review on the topic under study. In particular, this chapter discusses the relationship between corporate governance (ownership structure, board characteristics, audit committee, internal audit, and auditor quality) and firm performance. An overview of the relevant theories that underpin the relationship is also presented.

2.2 Firm Performance

Firm performance has been a fundamental issue surrounding the business environment because firm performance facilitates a nation's growth. According to Hansen and Mowen (2005), firm performance is crucial to management because it encompasses the collective performance of individuals in the firm. The literature presents numerous definitions of firm performance, and there is no consensus on a single definition of performance (Barney, 2002). For instance, Orlitzky, Schmidt and Rynes (2003) reported that the definitions of accounting and market have been the popularly employed definition. In addition, among the stakeholders, firm performance is viewed as the overall wealth that the firm has generated preceding its distribution to a number of stakeholders.

Overall, the firm's success is reflected through its performance, i.e., how the firm performs over a certain time. Firm performance is ascertained by measuring the achievement of the company in a period specified. According to Almajali et al. (2012), the purpose of measuring achievement is to obtain instrumental information on funds in terms of their flow, uses, effectiveness, and efficiency. Pandey (2008), on the other hand, defined firm performance as a subjective measure of how well a firm uses asset from its primary mode of business to generate revenues. He further says that the term can also be used as a general measure of a firm's overall financial health position over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Evaluating performance of firms is critical in order to ascertain whether the business is viable.

2.2.1 Measurement of Firm Performance

As there is no single definition of firm performance, so too there is no consensus on measuring it. However, significant efforts have been exerted in the determination of measures of performance as follows.

2.2.1 Return on Assets (ROA)

Return on assets (ROA) can be described as the performance measure that is expansively utilized in the literature for accounting-based measurements (Finkelstein & D'Aveni, 1994; Weir & Laing, 2001; Kiel & Nicholson, 2003). Meanwhile, Bonn, Yoshikawa and Phan (2004) described ROA as the measurement that analyses the efficiency of assets employed. On the other hand, Finkelstein and D'Aveni (1994) referred to it as a short-term performance calculated as net income over total assets, and corporate managers are those responsible for operating the business and using the assets of firm. Furthermore, Epps and Cereola (2008) stated that ROA is the indicator to investors on the firm's earnings generated from capital assets investment.

With respect to its use, Hamid, (2008) stated that ROA mirrors the company's assets' profitability in the context of revenue generation.

Higher ROA means effective utilization of a company's assets in fulfilling the economic interests of shareholders (Haniffa & Huduib, 2006). In other words, ROA is an asset-use efficiency measure. As indicated by Klapper and Love (2002), ROA can be a key indicator to differentiate between business profitability and the rate of returns as the benchmark (risk adjusted weighted average cost of capital), and it is useful when measuring the net income production in terms of efficiency, from operations through the assets of the firms. Additionally, as reported by Miller, Boehlje, and Dobbins (2001), ROA can function as the indicator of management effectiveness in capital employment because a firm can still be efficient albeit being ranked as a poor capital user (Klapper & Love, 2002). It should also be noted that different companies have different ROA although ROA is typically computed as net income over total assets (Finkelstein & D'Aveni, 1994).

2.2.2 Return on Equity (ROE)

Regarded as an accounting-based measurement, return on equity (ROE) is a measure of firm performance in the corporate governance research domain (Baysinger & Butler, 1985; Dehaene, De Vuyst, & Ooghe, 2001). Since generating profits for investors is the key aim of firms, ROE assesses the profit attained by investors generated from the investments of shareholders (Epps & Cereola, 2008). As explained by Miller and Prather (2001), ROE reveals the rate of returns that presents information on the debt performance in the capital structure. It assists managers to comprehend the level to which financial leverage is supporting or going against the firm's business. Also, ROE is among the widely employed indicators in gauging a firm's performance and management. As demonstrated by numerous scholars (e.g., Omar, 2003; Abdullah, 2004; Ahmadu, Aminu & Taker, 2005; Chen, Cheung, Stouraitis & Wong, 2005; Limpaphaym & Connelly, 2006), ROE is computed as net income over average equity of shareholders.

2.2.3 Tobin's Q

Some of the most significant measures of the firm's value include Tobin's Q (Agrawal & Knoeber, 1996), which refers to the ratio of the market value of assets to the replacement value of assets. It also determines firm value in the financial markets. Tobin's Q is measured by the market value of equity plus the book value of the debt divided by the book value of the total assets (Aljifri & Moustafa. 2007; Baek, Kang, & Park, 2004).

2.3 Overview of Corporate Governance

Considering the numerous corporate failures that have recently occurred worldwide, the concept of corporate governance has been gaining a significant attention. It is also purported to contribute to the economy's growth potential (Rezaee, 2009).

Corporate governance is seen as complex and mosaic, containing laws, regulations, politics, public institutions, professional associations, and ethics. However, in emerging markets, these structures may not be readily available. It is not easy to establish an effective corporate governance system because this type of governance is complex and ambiguous primarily because of the ambiguous relationship between the state and the financial sectors. According to Chowdary (2003), the legal and judicial systems in these countries are found to be ineffective, and there are insufficient institutions while the already available ones are obsolete. Chowdary further added that the political systems of these countries are plagued with corruption, and there are also insufficient human resource competencies. Dallas and Bradley (2002) stated that all these factors can impact negatively the return on investment.

There are many government structure components in corporate governance. These components include labour, capital, and market organization with regulatory instruments. There are also processes that connect the structure with agents, for instance laws and procedures, rules and regulations, management control and accountability, and institutionalized norms (Alawattage & Wickramansinghe, 2004). Hence, governance is not merely board processes and procedures. Rather, governance also encompasses connections that exist among management boards, shareholders and stakeholders, which comprise employees and the community (Bain & Band, 1996; Chowdary, 2003). As such, corporate governance entails a collection of instruments that make certain the impending reception of capital providers of the same return on their investment considering that the firm's ownership is distinct from its control (Shleifer & Vishny, 1997).

Corporate governance institutions are different in the outsider and insider systems. The outsider system is usually applied to market-based economies, such as Australia, Canada, the UK, and the USA. In these countries, their economies are described by disseminated ownership with substantial liquid securities markets, cutting-edge legal and regulatory frameworks, sizeable disclosure standards, market transparency, and market for corporate control. All these contribute to firms' discipline. In this economic system, firms receive support from corporate law, stock exchange regulations, and corporate governance guiding principles. In comparison, the insider system is usually applied to relationship-based economies, such as Asia and Europe. The insider system is signified by moderate liquidity, high dependency on bank loans, weak securities market, concentrated ownership, control of shareholders, deficiency of transparency and standards of disclosure, and support from close business bodies (Banks, 2004; Clarke, 2007). According to Banks (2004), the insider system does not have sufficient and fitting regulations to ensure better functioning.

2.3.1 Concept of Corporate Governance

For public companies, the application of corporate governance structures helps them create long-term value defined by the creation and protection of value. Value creation is attained by focusing on shareholders by way of creating long-term strategies for sustainable performance (Rezaee, 2009). Meanwhile for value protection, the focus is on the responsibility of management and company monitoring. This is to protect the interests of both the shareholders and stakeholders (Rezaee, 2009).

OECD (2001) defines corporate governance as "the private and public institutions, comprising laws, regulations and approved business practices, all of which govern the relationship, in a market economy amid corporate management, and businessmen and investors of resources in corporations." As stipulated by the principles of the organization for economic cooperation and development (OECD), corporate governance encompasses a system that manages business corporations. The governance structures decide the dissemination of the rights and responsibilities amongst the many partakers in the firm, including the board, management, shareholders and stakeholders. The structures also provide the rules and regulations in deciding corporate matters, which facilitate the establishment of the company's objectives, the methods of objective accomplishment, and performance monitoring (OECD, 1999).

2.3.2 Corporate Governance in the World

Corporate governance is considered a crucial subject worldwide. As such, the mechanisms of corporate governance have been scrutinized by numerous past studies, particularly with respect to their relationship with a number of issues. In December 2001, Enron (an American company) collapsed and filed for bankruptcy. The event significantly increased the importance of corporate governance not only in the USA, but also in other nations. However, since the 1930's, scholars began to formulate the theoretical frameworks linked to corporate governance. Further, as reported by Demirag (2005), numerous dimensions have been linked to these frameworks, such as behaviour agents, institutional isomorphism, occupational communities, transaction costs, and reliance on resources and stakeholders' management.

The attempts to stabilize and strengthen the global markets necessitate effective corporate governance practices. In particular, these effective corporate governance practices help firms to improve their performance and bring in investment. These practices also facilitate firms in attaining their corporate aims, preserving the rights of the shareholders and fulfilling their requirements by providing explanation on the methods by which their business processes are undertaken (International Chamber of Commerce, 2006). Further, a set of corporate governance standards and regulations have been formulated by the OECD to provide assistance to governments in the process of evaluating and improving the legal, institutional, and regulatory framework that caters to corporate governance.

It should also be noted that nearly all countries have their own standards of corporate governance. Firms listed on the London Stock Exchange are observed through the Combined Code on Corporate Governance. The latest version of the Code (2003) comprises the Cadbury and Greenburg Reports on corporate governance, the Turnbull Report on Internal audit which after revision and republishing is now called the Turnbull Guidance, the Smith Guidance on Audit Committees, and also a number of articles taken from the Higgs Report. Meanwhile, the Financial Reporting Council (FRC) is the UK is the regulatory body that is independent.

The Wall Street Stock Market in the USA collapsed in 1929. This incident brought to light the occurrences of market manipulation, insider trading amongst firm directors, malpractice, and actions that violated shareholders' rights. In response to this, the US Congress passed the Securities Act in 1933 and the Securities and Exchange Act the year after. The purpose of the Acts was to improve the transparency of relationship with respect to corporate finance disclosure. The USA applies a corporate governance system that is different from that of the UK in the sense that the corporate governance method of the UK is principle-based while that of the USA is more rule-based. In fact, the USA's rule-based approach of corporate governance has become ingrained in the country. Through the years, a number of state and federal developments, for instance, constituency statutes and takeovers have been under the jurisdiction of state laws (FRC, 2007).

In the USA, the financial scandals by major firms, such as Adelphia Communication, Arthur Andersen, Computer Associates, WorldCom, Tyco International, Global Crossing and Quest Communications, led to major corporate crisis in the country in 2001. However, the largest case of bankruptcy in the country was the collapse of Enron. Accounting scam, regulatory failures, overloads of executives, and personal links with external auditors were found to have contributed to the crisis. The collapse compelled the US Congress to reform corporate governance. As a result, the reforms were added in the Accounting Industry Reform Act 2002 or also called the Sarbanes-Oxley Act (SOX). Similar to the reforms in the UK, the SOX manages agency issues where the emphasis is on preserving the shareholders' value maximization.

On March 2003, sound corporate governance principles and best practice recommendations were established by the Australian Securities Exchange (ASX) Corporate Governance Council. Then, a revision was made in 2009. Here, corporate governance is referred to as a system that provides guidance and management to companies. This system influences the setting up of the companies and also impacts on the companies' attainment of objectives. It also monitors and assesses the companies' risks and performance. As stated by the ASX's second recommendation, firms should have a board comprising an effective composition, size and commitment to allow them to undertake their duties and responsibilities sufficiently.

Further, the ASX Corporate Governance Council (2003) states that the boards in listed companies should be mostly independent, with the Chairman and the CEO playing a separate role. However, the ASX guidelines received criticisms for its mandate on the majority of independent directors because the guidelines mandate such without considering if it is the best method of serving the interests of the shareholders. For instance, some perceived that this issue of independence is very much exaggerated. Hence, the second edition of the Guidelines was circulated in August 2007, and these guidelines were perused by all listed companies for the financial year of 2008.

2.3.3 Corporate Governance in Jordan

Jordan is increasingly expressing its interest in corporate governance as the country attempts to improve the quality of financial statements. Following this, laws have been passed by the legislators so that public companies would abide by the policies of corporate governance. In September 2009, the Corporate Governance Code for Shareholding Companies for the ASE listed firms was released by the JSC. The Code provides the guidelines for the establishment and accountabilities of committees. According to the Code, the board is responsible for setting the strategies, policies, plans and procedures for attaining the goals of the company, taking the necessary steps to assure law compliance, setting the policy for risk management in order to manage the impending risks faced by the company, setting the procedures to prohibit the company's internal stakeholders from making use of internal information to gain personal benefits, taking the steps necessary to ensure internal supervision on the company's work and compliance to the laws, reviewing and evaluating the performance of the executive management, formulating the stipulations for awarding privileges, incentives and compensation to executive management and board of directors, and maintaining good relationship with the stakeholders (JSC, 2009). Additionally, the board is responsible for setting a policy for systematizing the relationships with the stakeholders. Here, the board must ensure that the policy will assure that the company will keep the promises it makes to the stakeholders, that the stakeholders' rights are preserved and that the stakeholders are provided with adequate and accurate information (JSC, 2009).

The description of the committees, including the audit committee, established by the board of directors, can also be found in the Code. The JSC (2009) stipulates that those appointed as members of the audit committee must have knowledge in finance/accounting. The JSC (2009) further stipulates that there should be least one member who has experience in the area of accounting or finance. In other words, the member must possess a certificate, academic or professional, in accounting, finance or other relevant fields. As required by the Code, the audit committee must conduct periodic meetings, and with the external auditor, at least one meeting. The responsibilities of the audit committee include deliberating matters pertinent to the appointment and working of external auditor, reviewing the communication between the company and the external auditor, monitoring the company's compliance with the laws and regulations as well as with the requirements of the regulatory institutions, monitoring changes in the company's policies related to accounting and in the accounts due to the processes of auditing, evaluating the internal audit and procedures of auditing as well as the auditor for internal audit and assuring no existence of conflict in the transactions, contracts or projects joined by the company and also other related parties. As stipulated by the JSC (2009), the audit committee has the authority to recommend the external auditor to the board of directors by way of election by general assembly, and recommend a candidate as internal auditor of the company and call for the external auditor as needed to discuss the work performed (by the external auditor).

In Jordan, the status of corporate governance was evaluated by the World Bank in 2004. Following this, a Report on the Observance of Standards and Codes (Corporate Governance Country Assessment [ROSC]) was released. The report presents several drawbacks found in the country's corporate governance framework despite being generally satisfactory. It noted that the development of the board practices was still in its early stage while the initial audit committee application was more or less sufficient. Further, minor findings on corporate governance scandal were also highlighted, and the report emphasised certain areas to be reviewed to improve the rights of the shareholders. Accordingly, a number of steps were proposed by the World Bank (2004) to improve the framework of corporate governance in Jordan. These recommended steps included concentrating on the board with regard to its roles, duties and functions, improving the law of the company in order to ensure the company's compliance with the principles of the OECD, and combining the regulations of the ASE, JSC and SDC, the three key entities that govern corporate governance in Jordan.

2.4 Ownership Structure

Ownership structure is a significant mechanism of corporate governance that influences the quality of corporate governance (Denis & McConnell, 2003). According to Berk and DeMarzo (2007), ownership structure also impacts the ability of corporate governance to minimize agency costs. Other researchers, such as Coffee (1999), and Dyck and Zingales (2004) reported that ownership structure and firm performance aid investors in procuring value via optimal firm ownership structure. In this study, ownership structure is considered in its four dimensions: managerial ownership, family ownership, institutional ownership and foreign ownership.

2.4.1 Managerial Ownership

Managerial ownership entails the equity percentage held by the insiders and the block holders (Holderness, 2003). Here, the insiders comprise the officers and directors of the firm. The term, 'insider ownership' could also mean the portion of shares (exclusive of operations) that belongs to the firm's officers and board of directors (Cho, 1998). Davies, Hillier, and McColgan (2005) described 'managerial ownership' as owning a stake in all the shareholdings of the board members.

Accordingly, the corporate boards are mandated to make or ratify all financial policies. Therefore, ownership of stocks amongst the board members should be supported so that these members could be motivated to effectively monitor the main corporate activities (Bhagat & Bolton, 2008).

Past studies examined the relationship between managerial ownership and firm performance. However, mixed findings have been reported. Specifically, Masulis and Reza (2015) found that managerial ownership leads to the improvement of manager-owner agency conflict because managers are also the owners of a majority of firm shares. Hence, the managers are encouraged to maximize job performance to realize superior performance. However, Calomiris and Carlson (2016) demonstrated that high managerial ownership causes management entrenchment, leading to serious agency problems. Wahla et al. (2012) showed that agency cost and managerial ownership are negatively related while firm performance and managerial ownership are positively related. Jensen and Meckling (1976) maintained that it is possible that high concentration could cause agency problems between the managers and the shareholders. As such, managerial ownership could be of value in averting agency problems. Not only that managerial ownership to a substantial degree can foster consistency between the interests of the managers and the external shareholders. As a result, the managers could be motivated to engage in activities that maximize value.

In addition, Demsetz (1983) argued that management's ownership stake that is expansive could make managers inclined to prioritize their own interests before the external shareholders'. If this happens, the value of the firm could decrease.

Li, Sun, and Yannelis (2016) revealed that increased effectiveness of managerial ownership significantly leads to an increase in firm performance. Budish et al. (2015) stated that a high managerial stake on firm ownership can act as a mechanism that influences the alignment of interests between managers and owners, which eventually affect firm market value. Holderness et al. (1999) found a positive link between managerial ownership and firm performance in cases where ownership is less than 5%. Nonetheless, at certain equity ownership levels, the cost of management perks may be higher than the value of loss resulting from the diminished firm value. In Jordan, the relationship between ownership of actual management (insiders) and performance of ASE listed industrial firms was examined by Al-Rawashdeh, (2007). Using fixed panel regression, the author showed that the percentage of shares that board members, directors, and top management owns adversely influence performance.

Previous studies also delved into the subject of alignment and entrenchment hypotheses. They posited a non-linear relationship to occur between managerial ownership and firm performance. Experts, including Morck, Shleifer and Vishny

(1988), McConnell and Servaes (1990), and Hermalin and Weisbach (1991) applied Tobin's Q as the firm's value proxy and concluded low levels of interest in managerial ownership but high level of it in entrenchment. In particular, Morck et al. (1988) found dominance of the alignment hypothesis between the 0% and 5% and above the 25% level. As for entrenchment, they found its effect to be dominant at the 5-25% range of ownership. Similarly, Stulz (1988) demonstrated that managers become deep-seated in their positions if the managerial ownership level is substantial, which contributes to the adverse relationship between ownership of managerial equity and the firm's assessment. On the other hand, Rose (2005) asserted that it is possible that managers who possess the control over a substantial portion of firm equity may have sufficient influence on maintaining the best conditions for employment, including a lucrative remuneration. As a result, the insiders who possess the control over the corporate assets of the firm have the capacity to bring in the external investors. These insiders can do this by taking the resources for their personal interests or by engaging in disfavoured investments that fulfil their own interests (Lemmon & Lins, 2003).

2.4.2 Family Ownership

A family business is characterized by ownership of two or more family members who are also members of the management team. Family ownership is common in the majority of countries worldwide. Businesses owned by families are characterized by a strong motivation of the owners to minimize agency costs while maximizing the firms' value. Demsetz and Lehn (1985) added that concentrated shareholders possess a substantial amount of economic motivation to supervise the managers and reduce agency costs. Further, it is common for families to invest a large portion of their private wealth in the company. The investment is also not well-diversified. As such, the focus is placed on the firm's survival, and this is a concrete reason for these owners to impose strict supervision on the management. According to Fleming, Heaney, and Rochelle (2005), and Fama and Jensen (1983), the monitoring costs are mostly shouldered by the families. Ting et al. (2016) noted that concentrated investors--like family owners--have substantial economic incentives to closely monitor managers, thus reducing agency conflicts and maximizing firm value.

The influence of family ownership over firm performance has been a controversial topic among economists and business scholars. For example, Ramos et al. (2016) demonstrated that family ownership and control tend to bring poor firm performance. On the other hand, some scholars have pointed out the benefits of family ownership, while others have shown that it leads to higher performance. Neilson, Achmad, and Tower (2009) studied the manufacturing firms in Indonesia for the period of 2003-2006. They used ROA as a proxy and found that a high level of concentrated shareholders by families may reduce corporate performance. They further added that family companies are inclined to engage in actions to fulfil the interests of the family members, including expropriating the wealth of the shareholders who are not family members. However, Wu et al. (2016) revealed that family ownerships are significantly and positively related to Tobin's Q.

Some scholars suggest that the reputation and long-term presence of the family in ownership, as opposed to firms where ownership and management turnover on a relatively continuous basis, allow the family firm to enjoy a lower cost of debt financing compared to non-family firms (Anderson & Reeb, 2003). Denying the disadvantages of family ownership, recent studies found that public family firms are significantly better performers than non-family firms. Confirming the results of the above mentioned study by Anderson and Reeb (2003) was a study performed with S&P 500 data from 1993-2003 by Spencer Stuart, a consulting firm. Equally still, an analysis done by Thomson Financial for Newsweek (2005) on the main six stock indexes in Europe, from London's FTSE to Madrid's IBEX, showed that family companies outperformed non-family firms. Again, Jaskiewicz (2006) found strong evidence to that effect using data from 293 listed companies from Germany and 419 public firms from France. Menéndez-Requejo (2005) conducted a study with a mixed database from more than six thousand firms in Spain, and most of them are private companies. Although she found significant differences in some performance indicators in favour of family firms, other indicators did not show such clear results. Chu (2009) conducted a study on 786 public family firms in Taiwan for the 2002-2007 periods. Using ROA as proxy, he found that family ownership has positive link with firm performance, particularly if family members take the top positions, including top management, CEO, chairperson or firm director. Accordingly, the link becomes less significant if family members do not hold any of the aforesaid positions. The potential effects of family-ownership will likely occur when family ownership interferes with the management and when family has control over the firm. Conversely, a study by Morck, Yeung, and Yu (2000) in Canada demonstrated that family ownership causes negative performance of the firm. The forthcoming generation will partially inherit the predecessor's entrepreneurial talent and expertise, which will slowly reduce to average skills, leading to an adverse impact on the performance of the firm.

In appointing managers and members of the supervisory board, the task of the family is to advocate for entrenchment, which may cause the value of the firm to diminish seeing that the external parties can hardly control the firm. Appointing heirs for family firms leads to unsatisfactory growth due to three factors: (1) inefficiencies associated with entrenchment; (2) substantial level of barriers against external control; and (3) low investment in innovation. In support of these claims, Barclay and Holderness (1989) contended that a high family stake causes the possibility of bidding by other external investors to decrease, and this consequently will reduce the worth of the firm in the market.

The performance of family firms is also found to diminish as the firm ages (Shleifer & Vishny, 1997). Firms in Hong Kong are mostly family firms. Owing to this, family ownership in Hong Kong has been found to influence performance. When ownership is at a significant level, the entrenchment effect is strengthened. If the family ownership can be monitored and employed for a good purpose, the performance of the firm can be improved. According to Ng (2005), high ownership-concentrated firms should concentrate on enhancing their practices of corporate governance so that their performance can be improved. Employing ROA, ROE or market-to-book ratio as proxies, Chen, Cheung Stouraitis and Wong (2005) found no positive link between 78 family-owned Hong Kong firms and performance. Meanwhile, Dekker, Steijvers, Depaire, and Lybaert (2014) studied 523 private family businesses in Belgium. Using factor analysis, they discovered five different dimensions of the professionalization construct. Further, based on the outcomes of regression, they concluded the existence of significant positive impacts imparted by the increasing non-family participation, implementation of human resources control systems and/ or decentralization authority, on firm's performance.

Groups of family businesses are a widespread form of ownership structure in Jordan. Numerous firms, listed and unlisted, are operating in numerous sectors and are owned by families. The firms appear to be independent legally and have links with each other since the owner is from the same family. The agency theory appears to be inapplicable for these groups because the majority of shareholders and managers of the aforesaid companies are members of the family (Warrad et al., 2012).

A number of researches conducted in numerous countries have come to a conclusion that family business firms make a significant contribution to the economic activity of the country. Owing to this, the current study concentrates on the significance of family ownership and its impact on firm performance in Jordan.

2.4.3 Institutional Ownership

Institutional ownership refers to the ownership type of which financial bodies, such as financial institutions, pension funds or endowments, possess the ownership stake in a company. Institutions typically purchase substantial portions of the outstanding shares of the company. As indicated by Gorton and Kahl (1999), these institutions could exert substantial influence on the company's management.

Prior studies on the relationship between institutional ownership and firm performance produced mixed results. Dana (2015) conducted a study on whether there is a positive effect of institutional ownership on firm performance from 82 Jordanian non-financial firms spanning the period from 2005-2013. Both models used ROA or ROE as the dependent variable. No strong evidence was found on the relationship between both the institutional ownership and firm performance for Jordanian listed firms. Seifert, Gonenc, and Wright (2005) studied the impact of institutional ownership on firm value in four countries (Germany, Japan, United Kingdom, and United States) and found that the relationship is not consistent across countries. They concluded that these inconsistent results may reflect the fact that the influence of institutional investors is location specific. Chaganti and Damanpour (1991) and Lowenstein (1991) discovered only small amount of evidence to support the link between the two variables. Conversely, McConnell and Servaes (1990) revealed a positive link between the value of firm and ownership of institutional investors.

In the context of the role played by the institutional investors in corporate governance, institutional ownership functions as the measuring instrument of corporate governance. This follows the idea that institutional owners may have a direct effect on the performance of both the management and activities by way of their status as owners; they also impart indirect effect by way of their capacity to sell shares (Gillan & Starks, 2003). As concluded by Ozkan and Mancinelli (2006) in their study, institutional owners have a significant impact on the amount of CEO's compensation. In this regard, the role of institutional ownership is crucial in the firm's corporate governance. However, due to internal agency conflicts, Gorton and Kahl (1999) are of the opinion that even though the monitoring role of institutional owners may not be significant, the firm's governance is still monitored. Further, in line with Gorton and Kahl (1999), Faccio and Lasfer (2000) highlighted the weak role of both the institutional investors and board of directors in alleviating agency conflicts. Utilizing the occupational pension funds as proxy, they found no significant link between institutional ownership and the performance of the firm.

Charfeddine and Elmarzougui (2010) scrutinized the link between institutional ownership and firm performance. In the study, 35 companies listed on the French financial market for the 2002 to 2005 period were selected as a sample. Apart from evidencing the endogeneity of institutional ownership, the outcomes are also in support of the past studies that have scrutinized the endogeneity of ownership structure. As such, measured by Tobin's Q's as a proxy in a simultaneous equation system, they concluded that institutional ownership significantly and adversely impacts on firm performance. Chidambaran and John (2000) highlighted the crucial role played by large shareholders in communicating information to other shareholders. They contended that these large shareholders have access to confidential information kept by the management that is transmitted to the other shareholders. They further argued that if large shareholders are lending institutions, then they are instrumental to the firm's corporate governance because they have the capacity to control and monitor the management. In the context of corporate governance in Japan, Kaplan and Minton (1994) found that financial institutions or banks are a crucial component of corporate governance.

Further, a series of interviews were conducted by Solomon, Davey, Kurman, Moriarty, O'Connor, and Prey (2002) with fund managers in South Korea. Based on the findings, the authors concluded that Korean financial institutions are the key participants in the reformation of corporate governance. Meanwhile, Agrawal and Knober (1996) delved into the link between firm performances and control mechanisms. They asserted that institutional shareholders as control mechanism are sub-optimal because they are regarded as the external decision-makers. They further concluded the independence of other control mechanisms. That is, it is possible that the effect of one corporate mechanism on firm performance is nothing more than a cover-up. Along this line, Smith (1996) documented a significant positive link between institutional investors and firm performance.

Further, Al-Fayoumi et al. (2010) noted that the majority of institutional ownership comprises financial institutions and Social Security Corporations (SSC) while investment companies or developed mutual funds are non-existent. As such, it is anticipated that institutional ownership has a poor capacity in influencing or controlling the actions of the management. The researchers also discovered no proof of the active monitoring role of institutional ownership, which means that ownership is not dictated by the decisions of capital structure for monitoring and controlling the behaviour of managers in the firms in Jordan.

2.4.4 Foreign Ownership

Foreign ownership is characterized as whole or majority ownership of a business or resource in a country by non-citizen individuals or by firms whose headquarters are overseas (Arnold & Javocik, 2005).

There has been recent upsurge in foreign direct investment (FDI) by emerging-market firms. Traditionally, the flows of FDIs were from the developed countries to the developing countries. For the developing nations, these flows brought in advanced technology, organizational capital, and access to worldwide capital markets. Of late, there has also been a growing trend of capital flows among emerging-market investors who have obtained numerous assets in the developed countries. Accordingly, the substantial acquisition by firms from China and India that is currently occurring has become an issue in political debates. An acquisition bid by CNOOC, an oil company owned by the state of China to takeover Unocal, is an example of such. Subsequently, considerable argument arose in Washington, and eventually the takeover was averted. The acquisition of Tata Motors, an Indian company, by Ford's Jaguar and Land Rover divisions is another famous case that involves firms from the emerging market.

In relation to the above, a number of research studies have been conducted to examine the causal relationship between foreign ownership and firm performance. In their study amongst the Venezuelan firms, Aitken and Harrison (1999) documented that foreign ownership among these firms is correlated with enhanced productivity. Meanwhile, using the plant-level data, a study on the same subject by Arnold and Javocik (2005) in Indonesia concluded that foreign ownership leads to a significant improvement in productivity in the acquisition year and in the years after. A relevant study was also conducted by Petkova (2008) in which the Indian plant level data were used. The author found that foreign-owned plants demonstrated improvements in productivity three years following the inflows of FDIs. Ting et al. (2016) showed that foreign ownerships are significantly and positively related to Tobin's Q. However, government ownership is significantly and negatively related to firm performance.

Conversely, the adverse impacts of FDI on the domestic firms' productivity were documented by Aitkin and Harrison (1999). Meanwhile, Javorcik (2004) concluded that positive FDI spill overs impacts on the domestic companies by way of backward associations. Chari, Chen, and Dominguez (2009) examined US firms that were acquired by the emerging markets' firms. The period of the study was between 1980 and 2007. The authors concluded that foreign ownership has a positive link to increased firm profitability and firm performance. Another study by Kansil and Singh

(2017) demonstrated that domestic firms are more profitable in terms of return on equity after taxes, which indicates that foreigners invest to take advantage of the technological and economic prospects. Foreign multinationals are also found to be less efficient in terms of asset management which can be shown by their lower turnover ratios than their domestic counterparts. When the performance of the foreign firms is evaluated on the basis of the country of origin, Western European firms are measured to be the most profitable and efficient ones.

Jordan is unique in the sense that the association between foreign ownership and firm performance can be scrutinized since the issuance of shares is currently privatized. By way of state holdings' management, the listed firms in Jordan are the top priority to the government. In fact, the government of Jordan is in support of the foreign firms' takeover and the listed firms' contribution in developing the economy. In the early 1990's, the government of Jordan started to implement the Economic Adjustment Programme, which is a comprehensive economic package that includes privatization. Also, after the economic crisis that occurred during the same time frame, the government decided to practice self-reliance.

Privatization in Jordan is an effort of the government to join the global market arena. Accordingly, Jordan joined the European Union (EU) and gained access to the WTO. However, within the domains of public sector institutions and corporations, there is still a substantial degree of inefficiency, particularly in terms of policies relating to administration and employment, use of public funds, administrative archaism, services and debt status. Comparatively, within the domains of private firms and foreign firms, due to higher efficiency level, higher returns and better job opportunities have been reported (JSC, 2009).

Issuance and revisions on several key regulations and laws, including Privatization Instructions and Bank Law were attempted by the Jordanian government in 2000 to encourage and attract investment from Jordanians. A private strategy was also established by the JSC (2009) to encourage and lure foreign investors into the capital markets. As reported by Zureigat (2011) and Hamdan (2012), among the objectives stipulated by the strategy include encouraging efficiency, transparency and fairness in the market, guaranteeing a high level of earnings quality, and lessening the problem of information asymmetry between the managers and the shareholders. The JSC should also maintain its current strategy in an attempt to encourage and lure foreign investments into the listed firms in Jordan and also apply the new instructions that could bring in foreign investments (Zureigat, 2011). Therefore, privatization in the country and foreign ownership are expected to influence performance of firms. Mohandi and Odeh (2010) also observed that foreign ownership improves the firm performance.

Table 2.1:
Major Studies on the Relationship between Ownership Structure and Firm Performance

Author/ year	Sample	Ownership structure	Main Results
Lanouar Elmarzougui 2011	for 35 companies listed on the French financial market from 2002 to 2005.	Institutional ownership	The empirical results provide evidence on the endogeneity of institutional ownership and support previous studies arguing the endogeneity of ownership structure. In that case, institutional ownership was found to have a significantly negative impact on firm performance as measured by a proxy for Tobin's Q in a simultaneous equation system
Chu (2009)	examined 786 public family firms for the years 2002-2007	Family ownership	Reported that family ownership is positively related to firm performance (proxied by ROA). This positive relationship is particularly significant when family members are in firm position like CEOs, top management, chairpersons or firm directors. Nevertheless, the association becomes less when family members are not in any of these positions indicating that the potential family-ownership effects will likely be realized when family ownership is mixed with management and control of families.
Chari, A., Chen, W., & Dominguez, K. M. (2009)	US firms that have been acquired by firms from emerging markets over the period 1980-2007	Foreign ownership	Findings suggest that foreign ownership positively relates to higher firm profitability and firm performance.

2.5 Board Characteristics

Previous studies provided mounting evidence that the characteristics and functioning of the board of directors are related to firm performance, to the allocation of power within the company, and how this allocation affects the distribution of rents. The board of directors represents the highest form of internal audit to monitor top management, including the CEO (Fama & Jensen 1983). This study looks at the characteristics of the board, particularly with respect to its size, independence, meeting frequency, CEO duality, and board gender as well as their impact on firm performance. The aforementioned characteristics, as laid down by Druckeriv (1992), are detailed in the sub-sections below.

2.5.1 Board Size

The firm's board of directors is crucial to the firm's corporate governance. Corporate boards of directors play a central role in the corporate governance of modern companies, and hence understanding this relationship is very important towards our understanding of the corporate governance.

Much of the public debate on board structure has centred on pressure for smaller board size. It is argued that although larger board size initially facilitates key board functions, there comes a point when larger boards suffer from coordination and communication problems and hence board effectiveness (and firm performance) declines (Nath, Islam & Saha, 2015). The empirical evidence appears to support this view. Agoraki, Deli, and Staikouras (2010) reported that larger sized boards are less effective than smaller sized boards due to difficulties in the coordination of task.

Sundgren, Eisenberg, and Wells (1998) argued that decision-making by boards that are larger in size are not as cohesive compared to their smaller counterparts. These large boards are also plagued with lower motivation and satisfaction level issues due to the common problem of lack of participation. Further, larger boards appear to be less inclined to partake in strategic decision-making (Judge & Zeithaml, 1992) and are more difficult to coordinate owing to the significant interactions amongst members which consequently generates adverse impact on firm performance (Gladstein, 1984).

The trend for large boards has led to the decline of board effectiveness and firm performance (Lipton & Lorsch, 1992; Jensen, 1993). In fact, most researchers have noted the significantly adverse link existing between size of board and corporate performance. That being mentioned, if larger board sizes trigger negative performance, then, a reasonable board size should be determined in order to improve governance. Consequently, Lipton and Lorsch (1992) and Jensen (1993) suggested that a board should have no more than eight or nine members. The authors further warned that a board that comprises more than the stipulated number of members may be faced with problems in coordinating and communicating which will consequently cause the board itself to be ineffective. Also, it should be noted that such findings on board size have substantial implications in terms of the regulations, even though there is no universal acknowledgement with respect to the findings' interpretation.

Large boards are generally at a disadvantage when it comes to coordination cost, member differences and the problems of free- riders. First of all, as explained by Jensen (1993), the coordination and communication problems arise following the challenges faced in organizing board meetings and attaining the consensus of board members, which lead to ineffective and inefficient decision-making. Secondly, as explained by Lipton and Lorsch (1992), large board size weakens the cohesiveness of the board because the members are likely to have different aims, may not have clear communication with one another, and may not achieve a consensus due to differing perspectives. Thirdly, as explained by Lipton and Lorsch (1992), the issue of free-riding among board members will increase because the cost to an individual director's incapacity in exercising due diligence corresponds to the board size. As highlighted by Jensen (1993) and Lipton and Lorsch (1992), as board size increases, the inefficiencies will offset the primary advantages of having more directors, which contributes to the low levels of corporate performance. As such, an ideal board size should not exceed eight or nine (Lipton & Lorsch, 1992); or seven or eight members (Jensen, 1993).

Bebeji et al. (2015) examined board size and the performance of banks in Nigeria. They revealed a significant and negative impact, which signifies that an increase in board size would lead to a decrease in ROE and ROA. On the other hand, board composition has a significant and positive effect, which signifies that an increase in board size would lead to a decrease in ROE and ROA. The overall conclusion of the study is that corporate governance has a significant effect on the performance of banks.

However, advocators of the resource dependence theory stress that the selection of the boards is to increase the provision of essential resources to the firm (Pfeffer, 1972; Pfeffer & Salancik, 1978; Klein, 1998; Hillman & Dalziel, 2003). Klein (1998), for instance stated that there is need of the CEO increase in accordance with the firm's dependency on the outside resources. As such, a bigger size board links the organization to its outside environment to obtain crucial resources. According to Pfeffer (1982), and Pearce and Zahra (1992), it is also common for organizations to form large size boards that comprise directors with various backgrounds as a way to deal with resource dependencies and regulations pressure. Further, Coles, Daniel and Naveen (2008), and Chaghadari (2011) demonstrated that for large firms, board size has a positive influence on firm value, which indicates that it is possible that a large board is the optimal element for the firm to maximize its outcomes. Meanwhile, Yu (2008) documented that small size boards are more inclined to fail in dealing with earnings management. In other words, boards that are of small size may be affected by firm management or block-holders. However, their large counterparts would have more capacity for monitoring the top management's actions. However, in studying the link between sizes of board and accounting conservatism utilizing the asymmetric timeliness, Ahmed and Duellman (2007) concluded that size effects of the board have no link to the asymmetric timeliness of earnings.

It should be noted that the relationship between board size and performance is dictated by both the firm's and the national institutional characteristics. In other words, the relationship between these two variables varies from firm to firm. As an example, countries that possess different institutional backgrounds have differing functions of the board. As such, the performance of firms with different board size is expected to differ as well. Since board size is determined by firm specific characteristics, the impact of board size on performance may differ according to these characteristics. Consistent with this, Coles et al. (2008) found that the impact of board size on firm value is positive for large firms, and hence large board size may be an optimal value maximizing outcome for such firms.

A number of recent papers (Lehn et al., 2004; Boone et al., 2006; Coles et al., 2008) show that board size is determined by firm specific variables such as Tobin's Q, profitability and firm size. Since firm performance has a negative impact on board size, previous studies have been heavily criticized for not adequately controlling for endogeneity problems (Wintoki, 2012). To address this, Wintoki (2012) employed a generalized method of moments (GMM) estimator that allows board size to adjust to past performance and finds no relationship between board size and firm performance.

In Jordan, the Code of Corporate Governance (2009) has specifically defined that the number of board members should be at least five to thirteen (JSC, 2009). Further, the memorandum of association of the company requires at least one third of the members to be independent. However, as stipulated by the Code of Corporate Governance, the company's internal system will decide on the actual number of members (within the mandated range) (ASE, 2007; Al-Attar Abed & Suwaidan, 2012). As such, the current study looks at the relationship in Jordan's setting in a more comprehensive manner. The Code of Corporate Governance for the ASE listed Shareholding Companies was published by the JSC in 2008, which marks a big step towards reforming corporate governance in the country.

There is now fast growing literature focusing on the determinants of board size and structure in the context of developing countries. However, in the context of the Arabian nations, particularly Jordan, the research on the same domain is still very limited, compelling the current study to scrutinize the determinants of board size in Jordan. One such study was conducted by Al-Zoubi (2012) who discovered an adverse relationship between board size and earnings management amongst listed companies in Jordan.

In a nutshell, a big board offer a superior level of knowledge and skills exchange. Nonetheless, there are also issues that come with large board size like coordination problems, member consensus difficulty and free-rider problems. The related literature also presents mixed results with respect to the influence of board size on firm performance, which motivates the current study to examine the matter further.

2.5.2 Board Independence

Board independence is characterized by the majority of the external directors having no connection with the top executives of the firm, and little or no business contacts with the company in order to avert conflicts of interests. It is expected that an independent board would strictly monitor the executives of the firm to reduce the probable incidence of managerial opportunistic activities while encouraging shareholders' value.

Leung et al. (2014) found that board independence has a positive link with firm performance. Abidin, Kamal, and Jusoff (2014) demonstrated that most independent non-executive directors on the board have a positive influence on firm performance due to the independent directors' different backgrounds, characteristics and expertise.

However, Fuzi, Halim and Julizaerma (2016) showed a mixed association between proportions of independent directors and firm performance. They argued that the highest number of independent directors might not necessarily enhance firm performance. Thus, the existence of independent directors on board should be monitored in order to bring positive shareholder values.

Existing empirical studies have also demonstrated that boards comprising many external and foreign directors are associated with superior performance when compared to boards comprising mostly executive insiders who are related to the non-executive directors of the firm (Ameer, Ramli & Zakaria, 2010; Chaghadari, 2011; Jackling & Johl, 2009). A board of larger size imparts a positive influence on firm performance because the higher exposure to the outside environment leads to a certain amount of resources. Therefore, a large board size positively influences performance of the firm. Additionally, reinforcing the board and other firm-level corporate governance independence could help make the board stronger (Collier & Zaman, 2006), leading to the promotion of FDIs with substantial implications to the economy of the country.

Coles, Daniel and Naveen (2004) indicated that most research on board independence has been performed utilizing data gathered from large public firms. This type of firm, as pointed by the authors, has an ambiguous relationship between independence and firm performance. However, such is not the case with smaller firms. In fact, the relationship appears to be clearer for smaller firms. Studies are also indecisive on whether or not the decisions made by the non-executive directors are better or otherwise. Conversely, some scholars, including Fosberg (1989), Chin, Vosand Casey (2004), and Klein, Shapiro and Young (2005) could not conclude the association between the presence of non-executive directors on the board and firm performance.

An empirical study conducted by Hsu (2010) in the USA found an adverse link between board independence and firm performance. Ponnu and Karthigeyan (2010) discovered no positive impact of external directors on corporate performance in

Malaysia. In line with Ponnu and Karthigeyan's (2010) study, Yammeesri and Herath (2010) also found no significant impact of both independent and grey directors in enhancing the value of the firm in Thailand. Again, Kota and Tomar (2010) are also in agreement with Yammeesri and Herath (2010) when their study concludes the failure of non-executive independent directors in undertaking their monitoring tasks in India.

Altuwaijri and Kalyanaraman (2016) examined the link between board independence and firm performance by applying two varied measures of board independence drawn from agency theory and stewardship theory. Agency theory suggests that external directors who are free from any stake in the firm are in a better position to closely monitor the top management and align their goals in line with the shareholders' interests. Their result shows a positive link between board independence and firm performance when the former is measured as the ratio of independent directors to board size. However, stewardship theory argues that the independent directors may not contribute to firm performance because they may not endow the top management with the requisite freedom to pursue the organizational goals. Besides, the independent directors may not be well equipped with the required expertise and specialized knowledge specific to the firm to provide the strategic direction. Close supervision of top management in any way is not required as they are motivated by their self-interests like the need to achieve and the need to be successful. They tend to act as good stewards of organizational resources in order to pursue their goals. Pursuit of the managers' goals will automatically lead to shareholders' wealth maximization. If independent directors dominate the board and crowd out the internal and executive directors from the board, their presence may not contribute to enhanced firm performance. They tested the hypothesis that board independence will have a positive influence on firm performance if it is at the minimum. However, excess representation of independent directors on the board may not contribute to firm performance. They found that board independence has a positive relationship with firm performance, but excess independence of the board has no association with firm performance.

External board members are also more persistent in their monitoring role as they are responsible for guaranteeing strong financial performance (Johnson et al., 2002). Along the same line, independent directors seated on the board are free to work and are not subjected to get controlled or influenced by the major shareholders, management or other relevant parties or from all three. They are also more likely to monitor management's fraudulent activities as they do not have any economic or psychological relationship with the management (Hsu, 2010).

Additionally, the independent board serves as a monitoring device to control management activities. The board independence usually requires that members are not closely related to the company but have vested economics or financial interest on the firm's residuals. Hence, it could be further argued that such independent board members can significantly contribute to decision making of the board by bringing more objective views to the evaluation of the performance of the board management.

Though the depth of directors' independence is more formal than substantial, the percentage of independent directors on the board is still relatively minor in most of the developing countries (Ali Ahmad & Ali, 2005).

Furthermore, Fama and Jensen (1983) claimed that external directors have the reputations and social status, which work as incentives in monitoring management and ensuring the effective running of the company. The board independence also assists in reducing the agency problem that shareholders should request to replace internal directors by external ones to achieve effective management monitoring (Hermalin & Weisbach, 1998).

Sulong and Mat-Nor (2009) stated that the governance function of the independent non-executive directors in Malaysia is weak. In relation to this, Rita Benoy Bushnon, the CEO of Minority Shareholders Watchdog Group (MSWG) commented that the independent directors of firms who have been in service for a significant duration are inclined to form a ‘buddy’ relationship with the management. As stated by Satkunasingam and Shanmugam (2006), preserving their independent attitude towards the firm’s matters is not an easy task. Therefore, to ensure better outcomes, it is instrumental to have directors from diverse backgrounds, i.e., directors of different gender, race and expertise (Meng, 2009). It should also be noted that the management has the prerogative to bring in non-executive directors to the board. However, the appointed directors may not have the capacity or willingness to impose discipline on the management.

Being highly independent does not make a board superior performer. As suggested by agency theory, directors earn respect when they could independently perform their supervisory duties, protect the assets of the firm, and make the managers answerable to the stakeholders to assure the success of the firm. Monitoring practices that assist in sustaining the shareholders’ and the management’s interests and preventing the management from chasing their own personal interests are claimed to have a positive association with firm performance (Fama, 1980). Thus, the proponents of the agency theory anticipate that the board of directors who are independent of the management will generate improved firm performance.

As stipulated by the ASE policy, the board of directors of the listed firms in Jordan must include members who are independent to guarantee objectivity of decisions. According to ASE (2007), the independent members are instrumental for giving assurances that there is balance of influence among the parties, including the executive management and the principal shareholders. As such, the decisions made would be in line with the interests of the firm. In support of the above claim, the study by Gompers, Ishii and Metrick (2003) found a positive relationship between corporate governance and company performance, in support of agency theory.

Furthermore, Sharar (2007) is of the opinion that Jordan should abolish the policy that necessitates the directors to possess a stipulated amount of shares as a qualification for board membership. The removal of such policy would encourage memberships from the independent, technical and professional experts, seeing that the current trend in Jordan is that the board of directors being controlled by the family owners.

2.5.3 Board Meeting

The formal meetings of board of directors are usually conducted at certain times. In these meetings, members engage in discussions on policy and business matters. The firm's chairperson or an appointee heads the meeting and the minutes are recorded. The principle of collective responsibility stipulates that the directors must adhere to the meeting resolutions since the purpose of meetings is to allow the members to attain consensus on the company's activities. According to Vafeas (1999), the board typically comprises the President, Vice President, Secretary and Treasurer. Aside from these people, there may be other officers.

The corporate board meetings' frequency and corporate performance have a significantly non-monotonic relationship. This signifies that it is possible that a fairly small/large number of corporate meetings influence performance positively. As suggested by agency theory, frequent meetings conducted by corporate boards result in the increased capacity of the board in monitoring, supervising and advising the management. As such, the financial performance of the firm could be enhanced. The frequency of board meetings can lead to the improvement of the firm performance as frequent meetings translate to more opportunities to monitor and review the performance of management (Hsu, 2010). Akpan (2015) examined the relationship between frequency of board meetings and company performance using a sample from 79 companies listed on the Nigerian Stock Exchange from 2010 to 2012. The result shows that the board meetings are negatively associated with firm performance.

Al-Daoud, Saidin, and Abidin (2016) investigated the impact of corporate board meeting on the performance of firms listed on the Amman Stock Exchange using a sample of 125 firms from non-financial sectors from 2009-2013, which was a critical period where the implementation of the code of corporate governance became mandatory since 2009. The new corporate governance guidelines of the Jordanian Stock Market issued in 2009 propose that the board of listed firms should meet at least six times annually. The findings of the study indicate that board meeting is significantly and positively related to corporate performance, supporting agency problem where more meetings indicate a higher ability of directors to monitor their engagement and greater discussion could lead to better decisions thereby enhancing performance. Furthermore, the findings of the study provide important implications for policymakers on the importance and effectiveness of the routine board meetings. However, it should be noted that some firms are yet to comply with the recommendation of having at least six meetings every year. According to Vafeas (1999), it is common to see board meetings being used to evaluate the intensity of the board's activity and the value of the board's attributes.

Board meetings have been perceived as resources, and critics against those who are involved in numerous firms as directors are in support to this claim. Such directors have impaired ability in regularly attending meetings to enable management supervision (Byrne, 1996). Thus, board of directors who meet regularly are more inclined to shoulder their duties for satisfying the interests of the shareholders.

Directors could gain benefits from board meetings because through meetings, the directors could engage in discussions, establish strategies, and supervise the managers. However, as indicated by Vafeas (1999), meetings also incur costs, for instance, costs related to travel expenses, directors' fees, and also cost in the form of managerial time. Thus, it is necessary to have the most optimal meeting frequency so that costs associated with the meetings could be offset.

Additionally, Lipton and Lorsch (1992) reported that the effectiveness of the board is mainly dampened by the minimal time available for task completion. Thus, as stated by Lipton and Lorsch (1992), and Byrne (1996), having frequent meetings gives the board sufficient opportunity to perform its duties successfully and in a manner that satisfies the interests of the shareholders. Conger, Finegold, and Lawler (1998) are also in line with Lipton and Lorsch (1992), and Byrne (1996). They emphasized that the frequency of board meeting is a crucial resource to improve the effectiveness of the board. Therefore, as concluded by Zahra and Pearce (1989), the board process has a significant impact on its task performance. Conger, Finegold, and Lawler further added that it is also crucial that meetings held by the board are effective to enable successful tasks completion. In relation to this, Vafeas (1999) documented a significant link between board meetings and firm performance.

Additionally, the importance of board meetings is also highlighted in other facets of board performance. As an example, audit work quality has been found to be linked to board meeting frequency (Carcello, Hermanson, Neal, & Riley, 2002). Also, audit work of superior quality strengthens the interests of the shareholders besides enhancing firm performance (Carcello, Hermanson, Neal, & Riley 2002). In agreement with the notion above, Beasley, Carcello, Hermanson, and Lapides (2000), who studied the association between audit committee meeting frequency and financial statement fraud, found that fraudulent companies usually have less frequent meetings. However, the conclusion made by Lipton and Lorsch (1992) and Jensen (1993) does not support the above notions. In particular, these researchers stated that board meetings have no value due to time constraints, where time allocated is too short for directors to exchange ideas.

In line with the agency perspective, Jensen (1993) is of the opinion that boards that demonstrate a higher level of diligence in shouldering their responsibilities also appear to demonstrate a higher level of supervisory effectiveness. Letendre (2004) further added that it is important for boards to have an adequate number of meetings to deliberate matters, and it is also equally crucial for boards to improve firm performance on a regular basis. All these, according to Jensen, will ease the monitoring of management and improve firm performance. Lawler, Benson, Finegold, Lawler, and Conger (2002), in their study on the relationship between board diligence and meetings frequency, found a positive relationship between board practices and firm performance by way of effective governance. Thus, board meetings and other practices appear to significantly impact effectiveness of board and consequently, the performance of firms.

However, the scenario may be different for the less developed countries where the institutional background, corporate governance practices, legal practices and effectiveness of corporate board meetings may be different. Therefore, for these countries, the board meetings may have different effects on firm performance. In the context of Jordan, the board of directors should hold regular meetings so that they could deliberate on the firm’s situations, any arising issues or new suggestions (Makhlouf, BintiLaili, & Basah, 2014). As required by the Jordan corporate governance code JCGC, in a fiscal year, the board of directors should conduct at least six meetings. However, studies that address the issue of board of directors’ meeting and its impact on firm's performance in Jordan are still very few. Additionally, in Jordan, there is still insufficient knowledge of management and supervision.

Based on the discussion above, the current study examines board meeting frequency with respect to its importance and influence on firm performance in Jordan.

2.5.4 CEO Duality

CEO duality is characterized by a CEO taking the board chairman’s position while at the same time assuming the CEO position. The primary task of the board of directors is to represent the shareholders in supervising management activities. A unified command at the firm's top allows positive information to be transmitted to the shareholders. It is also much simpler to have the CEO to control the board, which consequently poses a challenge to the board when monitoring the management on the shareholders' behalf. According to Lechem (2002), the position of a board chairman is linked with responsibility, power and influence. The tasks of the chairman include making sure that the differing opinions are taken into account and ideas are brought forth for discussion to enable smooth decision-making.

In the context of the board, CEO duality is an instrumental mechanism of the control structure. With regards to CEO duality, dichotomy arises with respect to how the firm would be best run: Is the firm best served by strong leadership (stewardship theory) or by effective monitoring (agency theory). The purpose of this dichotomy is to offer a proxy for the chairman's independence degree. A CEO who is also a chairman is perceived to give a centralized focus of goal attainment and demonstrate substantial amount of firm leadership. In addition, Coles and Hesterly (2000) claimed that CEO duality will cause the CEO to spread his/her power base and cause the role of the board in monitoring and evaluating the top management to diminish.

Accordingly, Finkelstein and D'aveni (1994) summarized the key points of dichotomy by stating that the organization theory perceives that CEO duality generates leadership that is strong and clear. On the other hand, the agency theory views that due to minimization of board monitoring effectiveness, duality causes CEO entrenchment. Further, several scholars, including Cadbury (1992), and Higgs (2003) opined that the role of CEO and chairman must be separate. In short, on one hand, duality establishes a unity of command leading to effective decision making at the top of the firm. On the other hand, the consolidation of power can entrench a CEO and therefore prevent the board's ability to effectively monitor and discipline the CEO.

Leighton and Thain (1993) stated that the effectiveness of the board mostly relies on the effectiveness of CEO duality. Cadbury (1992) further added that the tasks of the chairman include running board activities, balancing the membership as approved by the board and the shareholders, making sure that all critical issues are addressed and assuring that all directors, executives and non-executives, are exerting maximum efforts to accomplish their tasks successfully. From a theoretical perspective, proponents of CEO duality argue that when a CEO also serves as board chair, the board's ability to effectively monitor a CEO's decisions is hampered, which creates greater opportunities for CEOs to advance their personal interests to the (possible) detriment of the firm's shareholders (Zhou et al., 2016).

Interestingly, there have been conflicting findings regarding this subject also. For instance, a study by Rechner and Dalton (1991) found the existence of a positive link between the non-existence of CEO duality and firm performance. On the other hand, a study by Boyd (1995) found that CEO duality aids firm performance. Donaldson and Davis (1991) and Davis et al. (1997) opined that enhanced performance is likely when top management (CEO) could fully control the firm by also assuming the position of the board chairman. The rationale is that such arrangement has less conflict potential. Apart from that with CEO duality, firms have better knowledge of the environment compared to firms that practice separate positions. Mohammadi, Basir and Loof (2015) studied the relationship between the CEO duality and firm performance using a database of over 11,000 Swedish firms from the year 2005 to

2009. The study found that CEO duality is positively correlated with firm performance, and the effect varies across environmental dimensions of munificence, dynamism and complexity. Using quantile regression, the study also shows that the positive impact of CEO duality increases by firm performance.

Daily and Dalton (1997), and Dalton, Daily, Ellstrand and Johnson (1998) are among the researchers who have found no substantial difference between companies that practice CEO duality and companies that do not. Likewise, the studies by Carapeto, Lasfer and Machera (2005), Wan and Ong (2005), and Schmid and Zimmermann (2007) have also found no significant difference with respect to firm performance between companies that practice CEO duality and companies that do not. Daily and Dalton (1997) concluded that separating the CEO from the chair position will cause the efforts to improve performance to be meaningless. Further, a number of studies, including those by Coles et al. (2001), Ahmadu, Aminu, and Taker (2005), Feng, Ghosh and Sirmans (2005), and Bhagat and Bolton (2008), have demonstrated that CEO duality has an adversely significant link to firm performance.

Thus, it is clear that research on the domain of corporate governance has generated differing outcomes. However, the leading view, which is grounded on agency theory, is that CEO duality reduces the boards' monitoring role over top management. As stated by Levy (1981) and Daynton (1984), duality may adversely affect firm performance.

Meanwhile, a study by Alabdullah, Yahya, and Ramayah (2014) found disputation in the shared belief that non-duality/duality leadership structures and more/less independent boards result in the improvement of firm performance in Jordan. The result shows the limitation of agency theory in elucidating the link between these two board characteristics and firm performance. The authors also concluded an adverse impact of board size on firm performance in non-financial companies in the country. With regards to CEO duality, it appears that even though almost all firms in Jordan have separate CEO and chairman, the mechanism appears to have no impact on firm performance. A probable rationale for this result, as stated by the study is that the cost of implementing this mechanism is higher than the impending benefits, which makes this mechanism eventually ineffective. Several environmental variables have also been taken into account. Their findings support those of Rechner and Dalton (1991), and Bonn, Yoshikawa and Phan (2004).

The focal point of this research is on the significance of CEO duality and its influence on firm performance in developing nations, particularly in Jordan because such relationship has not been considered there. Thus, the outcome of this study would become a valuable addition to the extant literature.

2.5.5 Gender of Board Members

Over the last few years, there has been an increase in the number of female members in the boardroom. Consequently, many have researched the subject of women joining the board of directors. These studies have presented the literature with valuable information and knowledge regarding the representation of women. Past studies have suggested that there should be more women joining the board and for a number of reasons, the number of men should be reduced (Burgess & Tharenou, 2002; Adams & Ferreira, 2004; Sealy, Singh, and Vinnicombe, 2007; Van EesHooghiemstra, van der Laan, & Veltrop, 2007) Brammer, Millington, and Pavelin (2007) further added that same gender directors on the board are not reflective of the society where the firm operates, and this signifies poor corporate governance and unexploited opportunity.

If corporate governance could not generate enhanced performance, the primary focus should then be on who runs the board; otherwise, the board's operations will be meaningless. This demonstrates the symbolic value of female members' appointment. The presence of women on the board appears to be directly linked to other facets of corporate governance, such as the significance of good stakeholders' relationships mentioned in agency theory (Jensen & Meckling, 1976), resource dependence theory (Pfeffer & Salancik, 1978), and stakeholder theory (Donaldson & Davis, 1991). Further, the inclusion of women in the board also supports the concept of diversity necessary for transparent and fair decision-making (Luoma & Goodstein, 1999). As an illustration, firms in Norway are required by law to have 40% female directors. Indeed, a debate on gender is instrumental for board evaluation, particularly with respect to its role and position. It is also posited that having women joining the board will improve the performance of the team seeing that teams that are diverse are linked with having better perspectives and ultimately, better decisions. The central premise is that as boards are dominated by men, increasing the share of female directors improves board heterogeneity. In particular, female directors may bring different work experience to the board, have different viewpoints on how to solve problems and/or take decisions, have different educational and international backgrounds, and a different approach to monitoring (Singh & Whittington, 2008; Adams & Ferreira, 2004), which in turn has a positive impact on firm performance.

In a related study, Luckerath (2013) scrutinized the gender of board members among 99 Dutch Female Board Index listed companies. The authors came to a conclusion that firms that have female directors display superior performance when compared to firms without female directors. It is noted that firms whose boards are very diverse are perceived as having substantial positive reputation by prospective employees. According to Rose (2007), these firms have strong competitive aspects, both external and internal. Thus, as argued by Pfeffer and Salancik (1978), the performance would be improved. Further, the society views a higher diversity level as being positive, and this will enhance the reputation of the firm. In agreement to this notion, Carter et al. (2003); Pfeffer and Salancik (1978); and Donaldson and Davis (1991) stated that internal company diversity as well as its management signifies a firm's superiority in serving the market.

As indicated by Kang, Cheng, and Gray (2007), diversity facilitates discussions and exchange of ideas, and consequently group performance. Opinion makers and media frequently report board diversity as instrumental to higher performance. The relationship between board diversity and performance has also been studied by non-profit firms, such as Catalyst (2007) and also consultancy firms, such as McKinsey and Company (2007). The outcomes show a positive relationship. Unfortunately, the studies by both firms have fundamental flaws methodologically. In particular, both studies do not ascertain whether or not the differences of performance measures have statistical significance. Further, the selection of companies in the prior study is grounded on a subjective condition.

Other empirical research on the link between diversity and business performance shows mixed findings. For instance, the study by Krishnan and Park (2005) on 679 Fortune 1,000 listed firms concludes a positive link between diversity and return on total assets. On the other hand, a study by Rose (2007) on the listed companies in Denmark found no link between diversity of board and Tobin's Q. In addition, within a wider range of perspectives, a heterogeneous board will show more conflicts in opinion and is also more time consuming. Rose (2007) further added that the existence of more perspectives could prolong the decision-making process, and eventually the board members may be at odds in terms of opinion. Actually, this phenomenon is rather common among diverse top management teams. Often times, these differences are costly due to the lack of coordination and also challenging to manage; eventually, this can impede the firm from improving its performance (Dwyer, Richard & Chadwick, 2003).

Alm, and Winberg (2016) examined the effect of gender diverse boards of directors on firm financial performance in Norway. Using a dataset of 55 Norwegian public limited liability companies listed on Oslo Stock Exchange from 2006 to 2013, a time-series study was employed to analyze the relationship and to further examine if the relation is positively moderated by the number of independent directors, the number of directors holding multiple board seats, and the education level of the directors. The analysis revealed no significant evidence that firm financial performance is positively impacted by gender diverse boards of directors. For Tobin's Q, there is even a negative relationship with regards to gender diversity of boards of directors on one hand and firm financial performance on the other hand.

Equally still, neither of the relationship is significantly moderated by independent directors, multiple directorships or education. The results therefore support the findings of a number of other studies which did not find any significant link between gender diversity of corporate boards and firm performance neither. Practical implications derived from these results are that decision-makers in society and politics need to be aware of the empirical evidence suggesting a non-existing or even negative impact of quota laws for gender diversity of boards of directors on firm financial performance.

With respect to the unique situation in Jordan, the country's department of statistics reported that in 2012, 50% of the issued ASE listed companies' shares were held by women, and the percentage of ownership has been increasing over the last three years. This phenomenon has motivated this study to scrutinize the influence of gender on firm performance (Jordanian Forum for Economic Development, 2013).

2.5.6 Political Influence

Political influence encompasses the firm's informal social relations with the government officials in diverse levels of administration, including the local and central governments and also the regulatory bodies, including the stock market or tax administrative organizations (Peng & Luo, 2000; Li, Zhou, & Shou, 2009).

The effects of political connections on firm performance have received great interest in recent corporate finance and political economy literature. The empirical literature highlights evidence that political connections increase firm profitability through various channels. For example, political connections may help firms secure changes in the regulatory environment (Li et al., 2008), ease access to bank financing (Cull et al., 2015), or gain lucrative access to public procurement contracts (Amore & Minichilli, 2016). By way of political influence, firms could obtain primary regulatory resources. In fact, Hillman, Zardkoohi, and Bierman (1999) stated that through political networks, firms could access the policy and industrial information. Suchman (1995) further added that political connections also boost the political legitimacy of firms or the degree to which the firms' actions are considered positive and fitting by the officials or agencies of the government. Hoskisson, Eden, Lau and Wright (2000) reported that the governments of the developing economies are swiftly trying to control the development of industry, propel business policies, and impact corporate operations.

Ambler and Witzel (2004) and Hillman, Zardkoohi, and Bierman (1999) asserted that the creation of ties with diverse government agencies is necessary for firms to survive. By way of superior political legitimacy and status, political connections offer an alternative enforcement instrument. Managers with strong political connections can resort to the government officials to have the business contracts enforced or bring to end illegal behaviours. Ambler and Witzel (2004) reported that the power of government connections can be exploited especially when the legal enforcements are ineffective, and the involvement of the government in these instances may work more efficiently compared to the legal process. Johnson, McMillan and Woodruff (2002) added that inefficient enforcement causes significant increases in legal action costs against illegal behaviours.

Past research has been inclined to perceive business and political connections as one and the same (Peng & Luo, 2000). Additionally, some researchers have portrayed the connection of one dimension (Gu, Hung, & Tse, 2008; Poppo, Li & Zhou, 2008). As such, the question of whether or not business or political ties play a crucial role in developing economies has no clear answer. According to Li and Atuahene-Gima (2001), the support of the government denotes the amount of support provided by the local government to all firms in the region. However, such general support is different from the regulatory resources obtainable by firms by way of political connections. In particular, general support is accessible to all firms in the region, irrespective of who they are (Luo, 2006). Equally, as claimed by Ambler and Witzel (2004), strong government support may diminish the worth of business ties. Further, if all the related information is made accessible to the public (by the government agencies), it would diminish the value of business connections in presenting such information. Likewise, Rao, Pearce, and Xin (2005) stated that if efficient infrastructure is made available by the government to allow economic exchanges and support, there will be less dependency on the managers' side on network legitimacy to ease their business transactions.

With respect to the regulatory resources attained from political connections, their value may be diminished when there is strong government support because a government that is supportive provides invaluable policy and industry information; using public channels, this policy and information can be transmitted. Such governments also make available the limited resources, including tax breaks and subsidies as stipulated by clear rules. This, as indicated by Rao, Pearce and Xin (2005), causes the political connections of firms to lose their exclusive value in gaining information and the government restricted resources. Meanwhile, Han, Wang and Yue (2004) scrutinized the political influences on the effectiveness of boards and firm performance. They found that when the state ownership is more than half (50% or state-dominating), the directors' reward and stock holdings would be valuable, while at less than that (non-state-dominating), their rewards and stock holdings will be ineffective/worthless. Blake and Jandhyala (2016) studied the link between the political actions and firm performance. The study found a negative effect of political influence on performance in all locations that share the common resources from political influence, even if those locations are not directly affected by the political action using a natural experiment and a difference-in-differences approach.

Political control drives costs. Politicians exploit firms so that they could fulfil their own political and social objectives. There also exists a contrasting viewpoint which perceives political control as preventive to management from serving personal aims. As such, it can be perceived that the overall effect of political control is dictated by the balance between political costs and agency costs. This, as stated by Shleifer and Vishny (1997) and La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000), suggests that controlling shareholders do not contribute to increased profits if their controlling rights cause the creditors and the minority shareholders to lose their wealth to the controlling shareholders.

Seeing that the issues on management and shareholders' incentive result from distinct sources and involve differing mechanisms, the current study decides to separately delve into the implications of political control over the two actors to allow the clarification on each actor, particularly in terms of their differences, taking into account the issues of incentive of managers as agency issues and the issues of incentive of shareholders as expropriation issues. These issues are relevant to Jordan, and, thus, the current research focuses on the significance of political influence and its impact on the performance of firms operating in Jordan. Table 2.2 shows the review of literature on the relationship between board characteristics and firm performance.

Table 2.2:

Major Studies on the Relationship between Board Characteristics and Firm Performance

Author/year	Sample	Board of Directors	Main Results
Chaghadari, M. F. (2011)	30 companies are randomly selected (2007)	Board independence, CEO duality and board size.	It is found that CEO duality has a negative relationship with firm performance and there is no significant relationship between these variables (board independence and board size) and firm performance (ROE and ROA).
Abidin, Z. Z., Kamal, N. M., & Jusoff, K.(2014).	Based on a randomly selected sample of 75 companies listed on Bursa Malaysia	CEO duality and board size.	It is found that board size has a positive impact on firm performance and negative effects of CEO duality on firm performance
Vafeas (1999).	For 307 firms over the 1990-1994 period	Board meeting	Board meeting frequency is related to corporate governance and ownership characteristics in a manner that is consistent with contracting and agency theories. The annual number of board meetings is inversely related to firm value. This result is driven by increases in board activity following share price declines.

2.6 Audit Committee

An audit committee is primarily responsible for monitoring the financial reporting of the firm, reviewing the financial reports and internal accounting controls, and supervising risk management practices (Klein, 2002). Furthermore, the audit committee provides assistance to the board in fulfilling their financial as well as fiduciary responsibilities towards the shareholders. Specifically, the audit committee is regarded as a key component of corporate governance.

The description of audit committee is not always grounded on the committee's form and composition. In fact, as indicated by Collier (1994), the definition of audit committee may differ according to firms. In other words, an agreed definition of this term is yet to exist. Still, for clarification purposes, a definition is necessary. In relation to this, the term, 'audit committee' has been described by Parker (1992) as a committee formed by the firm to enable the board of directors and external auditors to connect with one another. The committee typically comprises mostly non-executive directors and its task is to quantitatively supervise the company's activities.

Collier (1994) stated that an audit committee is deemed available if a sub-board committee exists with the membership being limited to non-executive directors or consisting of mostly independent and financially experienced non-executive directors. Among the tasks of the committee include reviewing the annual financial statements and the accounting principles and practices, consultation with external auditors and explaining their financial auditing statements, and gauging the adequacy of the financial control systems. The link between the company's possibility of attaining a clean audit report and the features of the audit committee among the industrial ASE listed companies in Jordan was scrutinized by Hamdan and Mushtaha (2011). Based on the outcomes, the authors concluded the existence of a positive impact by audit committee size on the external auditor's report. Additionally, the authors documented that the independence of the audit committee members, both of the executive and non-executive, has no influence on the external auditor's view.

In studying the link between the company's possibility of attaining a clean audit report and the features of the audit committee among the industrial ASE listed companies in Jordan, Hamdan and Mushtaha (2011) concluded that the audit committee's meeting frequency does not affect the external auditor's view. Thus, by looking into the relationship between audit committee's effectiveness and firm performance, this study attempts to lay down the evidences on the discussion of audit committee meeting.

Further, Al-Farah (2001) evaluated the activity of audit committees in the corporations in Jordan as perceived by the internal and external auditors. In addition to that the author also attempted to identify the major factors that assist in the efficient consolidation of such committees as perceived by the audit committee members of the companies operating in Jordan. The audit committees for the companies selected in this study are until the end of December 2000. The author highlighted several crucial findings in this study. First, the audit committees of the companies in Jordan are perceived as active by the internal auditors while the external auditors indicates otherwise. Secondly, the author determined a number of factors that consolidates the audit committee's role. These include the accounting or financial background of the audit committee members, the members of the audit committee being independent and the presence of written evidence.

In 2008, the audit committee concept was issued by the ASE that provided the directory of governance rules for firms. In Jordan, the ASE issued a guideline for the audit committee in 2008. According to the ASE, at least three non-executive members of the board of directors should be in the audit committee, of which, two are independent members and one is the chairman. In order to be eligible to be part of the audit committee, the potential members have to be well conversant with financial and accounting activities. As for the decisions reached by the committee, they must be accepted by the definite majority of the members. Additionally, prior to the approval, the certain written procedures are necessary in order to control the members' commitment and duties (Al-Farah, 2001).

According to agency theory, audit committees are crucial mechanisms to ensure that the agent is working to increase the wealth of all shareholders. The role of the audit committee in the internal corporate governance is to minimize the information asymmetry that could in turn result in decreased agency problems. More importantly, investors make use of corporate financial statements as their source of financial information. However, it is suggested that audit committees should possess some crucial characteristics, such as independent members, sufficient size, expert members, and frequent meetings, to perform their duties more effectively. The audit committee makes possible the direct communication between the board members and the internal directors and between external directors and Chief Financial Officers (CFOs). As stated by Bean (1999), and Abbot, Parker and Peters (2004), having this structure coupled with the reporting responsibility in an efficient access setting, helps the board to attain its goals and create firm policies.

Moreover, audit committee bridges the communication network between internal auditors and external auditors. It helps the board of directors in their activities, such as nominating auditors, revising the audit scope, the audit results, internal financial information and publication of financial reports (Chanawongs, Poonpol & Poonpool, 2011). In the same context, the presence of audit committee plays an important monitoring and controlling role of management activities, which results in increased performance of the firm (Rahmat et al., 2009). In the same way, audit committee can reinforce the board in its implementation, monitoring and maintaining good corporate governance practices that benefit the firm and stakeholders (Saibaba & Ansari, 2011).

The literature in this field is limited on the effectiveness of audit committee on firm performance and the dividends pay-out policy. A study that has looked at the link between audit committee independence and firm performance is the one conducted by Krishnan and Visvanathan (2008). In examining the role of audit committee in improving firm performance, Bansal and Sharma (2016) used fixed effect panel data regression on 235 non-financial public limited companies listed in NSE500 during 2004-2013 period. They used return on assets, return on equity, Tobin's Q, and market capitalization as proxies of firm performance. They did not reveal any additional effect of audit committee independence and its meeting frequency on financial performance of Indian firms. The study suggested that regulators and policymakers may re-examine the significance of greater independence of board and audit committee to firm performance. In a related study, Garcı´a-Meca and Sa´nchez-Ballesta (2011) examined the relationship between corporate governance and firm performance in Canada and Spain respectively. They further recommended that future research should study audit committee factors with board of directors due to its importance. From their recommendations, the current study examines the audit committee with other dimensions of corporate governance. In other words, there is indeed a lack of sufficient studies in this area. As such, the relationship between these two variables, particularly in the context of Jordan is explored by the current study.

Table 2.3:

Major Studies on the Relationship between Audit Committee and Firm Performance.

Author/year	**Sample**	**Audit Committee**	**Main Results**
Al-Farah (2001)	audit committee members of the companies operating in Jordan.	efficient consolidation of such committees and evaluated the activity of audit committees in the corporations in Jordan	First of all, the audit committees in the companies in Jordan are perceived as active by the internal auditors while the external auditors indicate otherwise. Secondly, the author determined a number of factors that consolidate the audit committee's role. These include the accounting or financial background of the audit committee members, the members of the audit committee being independent and the presence of written evidence.
Hamdan and Mushtaha (2011)	the industrial ASE listed companies in Jordan	Attaining a clean audit report and the features of the audit committee	the authors concluded the existence of a positive impact by audit committee's size on the external auditor's report. Additionally, the authors documented that the independence of the audit committee members, both of the executive and non-executive, has no influence on the external auditor's view.

2.6 Internal Audit

Internal audit is a crucial part of the corporate governance structure in an organization. Corporate governance (CG) covers the activities of oversight functions conducted by the board of directors and audit committees so as to ensure credible financial reporting process (Public Oversight Board, 1994). The presence of an internal audit department is a significant mechanism as it is considered the main element in employing effective accounting systems. The internal audit efficiency is a useful requirement because it assists in developing and shaping the company's functions especially with regards to the financial reports and the general audit quality.

Internal auditing covers the whole scope of operating activities and involves assurance and consulting services (Gleim, 2004). Indeed, internal auditing has significantly grown, and the growth is factored by size increase, decentralization of organizations, complex and technologically sophisticated operations, as well as the need for an independent and objective method for assessing and enhancing risk management, control and governance processes. As explained by Jensen (1993), internal audit size encompasses the number of seats of internal audit on the internal audit department's committee. The resource dependence theory views that boards of larger size generate superior corporate performance due to the presence of diverse skills, knowledge and expertise being brought into the boardroom debate. Apart from that Pfeffer (1987), Pearce and Zahra (1992), and Goodstein, Gautam and Boeker (1994) also argue along this line of views.

Jensen's (1993) conclusion is in agreement with the suggestions by Lipton and Lorsch (1992) in that the internal audit department should have seven to eight members and no more. The authors rationalized that having eight or less member fosters better participation and concentration, as well as genuine interactions and discussions. Shaver (2005) also agreed when he pointed out that the responsibility diffusion always occurs in the internal audit department, resulting in social loafing, group fractionalization and diminished group commitment in adapting to strategy.

In line with the resource dependence theory as well as its advocates, expert individuals are instrumental to firm growth due to the comprehension on how to handle processes and successfully complete their tasks. Further, boards that are joined by a substantial number of experts can assist the firm in comprehending the outside environment. This will help firms in improving their performance. A few studies have looked into the link between the internal audit's experience and firm performance, in both the developed countries and developing nations. For instance, a study in Malaysia by Hutchinson and Zain (2009) delved into the link between internal audit quality (audit experience) and firm performance (ROA) with opportunities for growth and audit committee independence among 60 Bursa Malaysia listed firms in 2003. Questionnaires and secondary data from the annual reports were used as data source. In ascertaining the association between internal audit and firm performance, the authors employed multiple regression analysis. They found a significant link existing between internal audit quality (experience) and firm performance.

Meanwhile, the link between internal audit quality (experience) and earnings management was scrutinized by Prawitt, Smith, and Wood (2009). The data gathered by the authors were used to assess abnormal accrual models for 528 firm-year observations (218 unique companies). The duration of the data used was the fiscal years of 2000-2005. The Ordinary Least Squares (OLS) regression was employed in this study and the authors found a link existing between quality of internal audit and earnings management. Davidson, Goodwin-Stewart, and Kent (2005) investigated the relationship between internal governance structure comprising of board of directors, audit committee, internal audit function and the selection of external auditors, and earnings management in Australia. The study used broad cross-sectional regression to test the association between independent variables and dependent variable. The sample comprised 434 firms which were listed on the Australian stock exchange during the year 2000. They disclosed no significant relation between the internal audit function and the choice of external auditors.

Despite the existing literature, the association between the internal audit experience and firm performance has not been sufficiently explored or has reported mixed findings. As such, the link between the two variables needs re-examination (Al-Matari, Al-Swidi & Fadzil, 2013), particularly in Jordan, especially due to its unique structure. Hutchinson and Zain (2009) also recommended that future research should consider different factor models that may impact quality of internal audit and improve corporate governance. In Jordan, Sawalqa and Qtish (2012) showed that risk assessment contributes significantly towards an effective audit program. However, control environment and control activities do not contribute significantly towards an effective audit program. The results indicate that Jordanian companies lack the necessary experience to deal with the current tools of internal audit evaluation.

The values of internal auditing are acknowledged by many experts. However, in the Jordan, a detailed empirical study on the role played by internal auditing on firm performance is still scarce. As such, this study attempts to ascertain the significance of internal audit size and its impact on firm performance in Jordan.

Table 2.4

Major Studies on the Relationship between Internal Audit and Firm Performance

Author/ year	Sample	Internal Audit	Main Results
Al-Matari, Al-Swidi, and Fadzil 2014	The sample consists of 82 companies listed on the Malaysian	size, experience, and qualification	he internal audit department is very important inside a firm where the internal audit is regarded as the key element in the application of accounting systems and this in turn, helps in evaluating the work of the department.
Hutchinson and Zain (2009	independence among 60 Bursa Malaysia listed firms in 2003	internal audit quality (audit experience)	The outcomes indicate a significant link existing between internal audit quality (experience) and firm performance.

2.7 Auditor Quality

An external auditor plays an important role in helping to improve firm performance, and hence can be viewed as a significant participant in the governance process (Cohen, Krishnamoorthy, & Wright, 2004). Jahng and Lin (2008) suggested that by employing more experienced and/or specialist audit partners and skilled staff, auditors will be able to reduce weak performance. Schmidt and Wilkins (2012) indicated that high quality auditors perform more efficient audits, and hence, higher firm performance.

2.7.1 Independence

Auditor independence underpins the audit function, and the history pertaining to this variable in the literature is rather extensive (e.g., Mautz & Sharaf, 1961; DeFond, Wong & Li, 1999; Simunic, 1984; Zhang, Zhou & Zhou, 2007; Basoudis, Geiger, De Lange & Adams, 2012). With regard to audit failures, many of the recent ones have been linked to flaws in auditor independence. Thus, as an attempt to regain the confidence of the investors and improve the financial reporting quality, both academics and regulators have looked into the numerous studies focusing on this issue, such as those by Dopuch, King, and Schwartz (2003) and Mayhew and Pike (2004).

Based on past studies, there are two primary categories of auditor independence. For instance, DeAngelo (1981a) and Ramsay (2001) split auditor independence into appearance independence and fact independence. If auditor's independence is believed to be weak, users of financial reports would request for a cost-of-capital premium to cover information risk associated with the inability to rely on the audit function (Johnstone, Sutton & Warfield, 2001). Olazabal and Almer (2001) reported that having damaged independence would be costly to the auditor himself/herself considering that being perceived as even slightly damaged with respect to independence can be just as injurious.

The external auditor's financial dependence on his/her client becomes significant when the audit services that the client receives are crucial for the auditors' business. Consequently, this would impact the auditor's ability to remain independent, i.e., the auditor's inclination to challenge the client's accounting choices may be compromised. In dealing with tough competition in the business market for external auditing services, audit firms have had their business model reformed by focusing more on non-audit services (NAS). These services include financial consulting, financial system design and tax-related services. These, according to Kinney, Palmrose and Scholz (2004), are more lucrative to the audit firms. In addition, Levitt (2000) stated that this might cause the auditor's independence to be compromised.

NAS has been perused by the recent studies to measure auditors' independence. For instance, Frankel, Johnson, and Nelson (2002), and Ashbaugh, LaFond, and Mayhew (2003) scrutinized non-audit fees and audit fees to abnormal accruals to measure the financial report quality. NAS initially referred to any services offered by the external auditor beyond the scope of the audit, such as tax and accounting services and management advisory services (Frankel et al., 2002; Ashbaugh et al., 2003). Almost all past studies in this domain have focused on the question of whether offering NAS would impact auditor independence (e.g., Knapp, 1985; Teoh & Lim, 1996; Beattie, Brandt & Fearnley, 1999; Gendron & Suddaby, 2004; Alleyne Devonish & Alleyne, 2006; Carey, Subramaniam & Ching, 2006; Iyer & Reckers, 2007; Babatunde & Kolawole, 2012). These studies have concluded that NAS generates economic ties that harm auditor's independence.

Raghun, Read, and Whisenant (2003) conducted a study to determine if the provision of NAS will generate better restated financial reports. In the study, the authors selected 110 firms as sample. These firms had restated financial reports filed with the Securities Exchange Commission (SEC) for the period of 2000-2001. Based on the findings, the authors concluded that the NAS does not have an inappropriate impact on the audit function which leads to more restatements. Thus, to improve financial reports’ credibility and safeguard the investors, the scope of services offered by the audit firms are now restricted by the SOX 2002 and the regulations of the SEC.

Further, Frankel et al. (2002), and Chung and Kallapur (2003) reported that NAS by an auditor could diminish reported earnings’ quality. Flynn (2009) maintained that high non-audit fees can generate an economic tie between the auditor and his/her client. This, according to the author, can be detrimental to the audit quality and thus, earnings credibility. The author further added that NAS causes the auditors to be more dependent on the client. In other words, auditors might sacrifice their independence willingly so that they could keep their high paying clients. Thus, NAS can jeopardize auditors’ independence and consequently reduces earnings quality.

The frequency and degree of earnings restatements is another matter that is being explored by researchers when making comparison on the influence of NAS on auditor's independence and, consequently, earnings’ quality. For instance, a study conducted by Raghunandan et al. (2003) determined whether NAS that the auditors offer generates better restated financial reports. The authors concluded that the non-audit fees’ level has no significant impact on the incumbent auditors and on the audit function, which leads to more restatements. Further, Kinney et al. (2004) discovered insignificant findings between the non-audit fees and internal audit services, and non-audit fees and design of financial information system and implementation. Nonetheless, the authors showed that the indeterminate non-audit fee levels have a positive link with restatements. Meanwhile, Jenkins and Krawczyk (2011) pointed out that an expectations gap might be present among the general public as well as amongst the accounting profession members when it comes to their views on the impact of NAS on auditor’s independence. Considering that auditor's independence in the audit functions is critical, the aforesaid expectations gap may jeopardize the confidence of the public in the process of financial reporting.

Finally, Daoud, Al-Sraheen and Alslehat (2015) indicated the negative role of non-audit services (NAS) on corporate performance in Jordan. The study reported that the key tasks of an external auditor and other NAS such as consulting and tax services should be distinguished to ensure the independence of the auditor and to avoid creating negative effect on firm performance.

Santos, et al. (2015) examined whether audit and non-audit services are associated with firm performance. The sample used in the study is nonfinancial companies in S&P 500 covering the period from 2002 to 2014. The study found a significant negative relationship between corporate performance and non-audit services. This suggests that the increase (decrease) in corporate performance is related to the decrease (increase) in non-audit fees. The results add to the growing body of literature on the relationship between firm performance and remuneration of audit services, as well as of the understanding of the determinants of corporate performance. Furthermore, this study highlights the possible matter of providing non-audit services jointly with audit services, confining the functions of an auditor and consequently compromising the independence. Hence, this ultimately decrease the firm performance.

Hoai (2011) examined the relationship between audit fees as a proxy for auditor independence and audit quality of firms in New Zealand. Employing three multiple regression models for a sample of New Zealand companies, the study discovered that the provision of non-audit services by the auditors of a firm comprises the auditor's independence, abnormal audit fee change rate is negatively associated with audit quality and auditor's independence.

2.7.2 Brand Name

Brand name creates reputation capital. Reputation capital has been addressed in earlier research as a vital attribute that underpins the quality of the audit function. Advocators of deep pockets and reputation hypothesis from the perspective of audit quality have suggested that audit firms that lead the brands in the industry are more motivated to assure a high level of auditing standards. For instance, DeAngelo (1981) and Dye (1993) indicated that highly recognized audit firms are more inclined to face lawsuit risks because the litigating party may be aware that audit firms like these observe caution in their undertaking in order to avoid harmful political costs which could have a negative impact on their reputation capital. Such notion is in line with the viewpoint of the reputation hypothesis. This type of audit firms may be deemed financially successful audit firms, and thus, they have the capacity to use their resources as a safeguard against legal action (DeAngelo, 1981). Such view is also in line with the deep pockets hypothesis.

Specifically, in Jordan, the audit profession is controlled by big audit firms and a few smaller national audit firms (Shanikat & Abbadi, 2014). Thus, in a nutshell, audit firms in Jordan are of poor quality. Hayyani (2008) argues that big audit firms are superior when it comes to offering superior quality reports.

A number of past researchers have indicated that a price for a brand name premium is available for Big 6 auditors (Francis, Maydew & Sparks, 1999; Krishnan, 2003). As such, a firm will exchange the costs of hiring a Big 6 auditor with the anticipated costs of not doing so. Thus, it makes absolute sense for clients to want to purchase superior audit quality by employing brand name firms as audit quality proxy. There is strong proof that audits of Big 4 audit firms are superior (Francis, 2004). Further, brand name may make a valuable proxy for denoting variations of audit quality between audit firm groups' size, but it does not indicate variations within-groups (Deis & Giroux, 1992).

The link between brand name and the main issues of financial accounting, including earnings quality, have been scrutinized by many scholars. For instance, Becker et al. (1998) investigated whether the degree of firms' earnings management audited by the Big 5 differs from those audited by the non-Big 5. The authors found that the clients of non-Big 5 that try to smooth earnings downwards demonstrate higher income decreasing discretionary accruals as opposed to the clients of the Big 5. Their conclusion is that the brand name of auditor preserves the reputation capital through their disinclination to accept the dubious accounting system and that they show errors and irregularities. Becker et al.'s (1998) findings are in line with the study by Reynolds and Francis (2000), who found that major brand auditors are better equipped for discovering earnings management practices. Meanwhile, Chen, Lin and Zhou (2005) found that high quality auditors of whether Big 5 or not reduce the management's profiteering behaviour as opposed to auditors of low quality.

Reynolds and Francis (2000) and Behn, Choi and Kang (2008) found that big brand audit firms appear to be more inclined to restrain earnings management and reduce profiteering behaviour. Further, the study by Francis et al. (1999) showed that a high-accrual company that is bound by senior profiteering behaviour of management has preference towards a branded audit firm. This is because such brand name's reputation capital would add weight to the reported earnings' reliability. Also, according to the authors, high-accrual companies are more frequently utilizing the

Big 5 auditors while a lower rate of discretionary accruals are revealed rather than high ones in companies employing non-Big 5 audit firms. In short, users of financial reports associate the brand name of auditor with information credibility, restricted earnings management and earnings credibility (Dopuch & Simunic, 1982; Francis et al., 1999; Behn et al., 2008).

Ettredge et al. (2010) investigated client choice of industry auditors from among the Big Four or 5 in an international setting. The study investigated the client-specific industry level and country-level factors. The study found that international choice of home based Big Four or 5 specialist auditors is positively associated with audit quality, capital intensity and membership in a regulated industry. Bouaziz (2012) examined the relationship between auditor size and financial performance on a sample of 26 Tunisian firms listed on the Tunis Stock Exchange. The result showed that auditor size has a signifucant impact on the financial performance of firms in terms of return on assets and return on equity. Anderson and Ahmad (2009) examined the relationship between auditor size, auditor tenure, and audit firm rotation using a probit model which they developed. The data collected from 2,148 listed Asian companies showed that big audit firms provide high quality audit because they are more conservative than non-big audit firms. They also discovered that national level factors have a strong influence on audit quality. Auditor tenure is associated with impaired audit quality, and audit firm rotation can help promote audit quality.

Table 2.5

Major Studies on the Relationship between Auditor Quality and Firm Performance

Author/ year	Sample	Auditor Quality	Main Results
Read and Whisenant (2003)	110 firms as sample. These American firms had restated financial reports filed with the Securities Exchange Commission (SEC) for the period of 2000-2001.	NAS (Non Audit Services)	the authors concluded that the NAS does not have an inappropriate impact on the audit function which leads to more restatements. Thus, in order to improve financial reports' credibility and safeguard the investors, the scope of services offered by the audit firms are now restricted by the SOX 2002 and the regulations of the SEC.
Becker et al. (1998)	by the Big-5 differs from those audited by the non-Big-5.	investigated if the degree of firms' earnings management audited	The authors found that clients of non-Big 5 that try to smooth earnings downwards demonstrate higher income decreasing discretionary accruals as opposed to the clients of the Big-5. Their conclusion is that, the brand name of auditor preserves the reputation capital through their disinclination to accept the dubious accounting system and that they show errors and irregularities.

2.7.3 Company Attributes

The existence of a number of variables may justify and influence a firm's performance level. However, almost all have concluded a mixed relationship between company size and debt contract (Das & Zhang, 2003; Nikolaev, 2010). These are the most common attributes of a company on the level of performance (Das & Zhang, 2003; Nikolaev, 2010).

2.7.3.1 Company Size

Company size has been found to impact the degree of firm performance (Mehrani, Sani, & Hallaj 2010). Compared to their smaller counterparts, large companies are often believed to hire more accounting staff, and possess more resources and cutting-edge accounting information systems. Al-Sahli (2009), and Hamdan (2010) further added that large companies generally have resilient corporate governance. These analysts expect reliable information from these companies so that they could reaffirm and review their expectations. As such, it is more likely that larger companies will create and sustain internal audit that are more effective and sophisticated as opposed to their smaller counterparts (Beasley et al., 2000). This reduces the possibility of earnings manipulations by the management. Marashdeh (2014) concluded that larger firm have better performance because large firms have a better opportunity to raise funds and more diversified strategies. Therefore, he recommended using firm size as a control variable in future research.

Burgstahler and Dichev (1997) documented that size of a company plays diverse roles in earnings changes or managing earnings. As evidenced by Das and Zhang (2003), small companies make adjustment to earnings so that they could report one more cent of earnings per share through rounding up. Further, Lee and Choi (2002), and Siregar and Utama (2008) added that size of company can influence the inclination of a company in managing earnings. The authors further stated that smaller companies have more inclination to manipulate earnings to avoid reporting losses. Conversely, many scholars are in favour of larger companies when it comes to achieving superior performance. As reported by Singh and Whittington (1975), large companies are more likely to exploit economies of scale and obtain greater negotiation power over their clients and suppliers. In Spain, Diaz and Sanchez (2008) concluded that small and medium enterprises (SMEs) are more efficient than their large counterparts, and this conclusion is in line with prior studies that found an inverse relationship between company size and performance.

2.7.3.2 Debt Contracts

Nikolaev (2010), and Vasvari (2006) defined debt contract as an agreement in which a company agrees to pay back funds to a lender. It is generally acknowledged that debt contracts contain contractual benefits that prevent the bondholders from the undertakings that would have their wealth transferred to the shareholders, for instance, too much dividend disbursements and risk shifting investments (Smith & Warner 1979).

Several factors motivate directors to satisfy the requirement for losses recognition's timeliness. First of all, as indicated by Diamond (1991), having a good reputation is crucial to a company in restricting the debt cost and in getting into the markets of public debt. Secondly, as reported by Basu (1997) and Qiang (2007), the threat of lawsuit may affect the timely loss recognition. Further, since accounting figures assist in contracting requirements, the usage of agreements in firms should be there for bringing about a greater necessity for the timely acknowledgement of earnings' losses (Watts & Zimmerman, 1986). Here, bondholders appear to be more inclined to offer better motivations for such recognition and its auditors especially when the debt contracts are grounded on accounting-based agreements. Furthermore, it is common for debt contracts to require an external auditor. This is in order to attain confirmation on its compliance to the signed agreement. This however, could possibly put the auditor to lawsuit risks.

Javed et al. (2015) found the effect of financial leverage on performance of firms in Pakistan. The ordinary least square technique was used to detect efficiency of financial leverage of 154 textile firms in Pakistan over the period 2006-2011. The regression results indicated that leverage has a negative association with the performance of firms. Financial leverage is negatively associated with return of assets and equity, which shows that firms borrow less while market-to-book ratio shows positive profitable association with firms. Consequently, firms tend to borrow more and pay their contractual payments in time.

2.8 Industry

The literature dedicated to industrial organisation holds industry structure as a central determinant of corporate governance and firm performance (Porter, 1985). Several empirical research found the significance of industry factors. For instance, Zeckhauser and Pound (1990) revealed that in industries with low asset specificity, such as machinery and paper products, concentrated ownership results in higher performance, but in industries with high specificity like computers, such effect is absent. In other words, the effectiveness of large holders in mitigating agency problems may hinge on the industry type.

In the same line of study, the performance outcomes are also influenced by industry in such a way that the relationships are significantly mediated by the debt levels susceptible to the sectors (Tarn & Tan, 2007). In Taiwan, Chen (2006) showed that large block-holders are not in control of Taiwanese firms in high-tech industries, and such firms have significantly greater firm values compared to other industries regardless of the types of large-block ownership they possess. Also, Coles, McWilliams and Sen (2001) revealed that industry is a significant performance driver in their sample firms while Schmalensee (1985) demonstrated that industry constitutes around 19% of the differences in accounting rate of return. Wernerfelt and Montgomery (1988) extended Schmalensee's (1985) study by not using the accounting rate of return as they are distorted by their oversight of the differences in risk and tax laws – they instead employed a market to book ratio. Their findings were consistent with those of Schmalensee's in that industry effects are the main determinants of the success of firms. Moreover, according to Li and Simerly (1998), factors such as environmental dynamism may also differ industry-wise with the dynamic competition and maturity of the industry.

2.9 Underpinning Theories

2.9.1 Agency Theory

Agency theory illustrates the relationship between the principal and the agent which in the context of this study would be translated into the relationship between the owner and the manager. These two positions are different in the firms today and provide the background for the agency theory. Organizations currently involve ownership that is widely dispersed when it comes to the shareholders. These shareholders also have no say in the company's daily management, and, thus, an agent is appointed to oversee the management of the company. As agents and principals are of two differing positions, conflict of interests can arise between them. This, as indicated by Jensen and Meckling (1976) and Eisenhardt, (1989), would necessitate some form of resolution which would incur cost.

Agency theory posits that management is always inclined to attain its personal benefits and satisfy its interests while disregarding the interests and value of the shareholders. As an example, the management may attempt to obtain luxurious items whose cost is borne by the owners, such as lavish offices and expensive company cars. As such, the agency theory's primary aim is to assure that the efforts of the managers will satisfy both their interests and those of the shareholders. Agency problems emerge following the conflict that occurs between the goal of the principal and that of the agents, and for the principal's part, presenting evidence on the activities performed by the agents can be difficult or costly (Eisenhardt, 1989). As indicated by Jensen and Meckling (1976), the principals do not have the capacity to monitor the performance of the agents, and this notion has sparked debates. The pursuit of self-satisfaction on the management's side is a cost to the firm. In particular, cost is incurred during contract formation, agents' decision-making, and agent's monitoring and controlling. It should also be noted that such management behaviour will ultimately demonstrate the firm's performance (Leuz, Nanda & Wysocki, 2003).

Some scholars, including Fama (1980), Fama and Jensen (1983), Shleifer, and Vishny (1986), and Williamson (1988) were of the opinion that management's opportunistic behaviour can be governed by the mechanisms of corporate governance. These scholars further added that the internal and external mechanisms can both reduce the agency costs, and this notion was also supported by McKnight and Weir (2009). As posited by agency theory, the governance of a firm is made possible through differing internal and external mechanisms (Weir, Laing, & McKnight, 2002; Roberts, 2005). With these mechanisms, Davis, Schoorman, and Donaldson (1997) stated that the interests of both the agent and the principal can be aligned, while the interests of the shareholders can be preserved. The authors further added that the agency costs could be reduced by these mechanisms. Demsetz and Lehn (1985) were also in agreement with this contention. According to these authors, the primary aim of corporate governance is to solve agency problems, which could be achieved by having both the management behaviour and the process of financial reporting monitored. This step, according to Demsetz and Lehn (1985), is more effective than directly improving firm performance. In a nutshell, the corporate governance mechanisms have the capacity to minimize the agency costs and preserve the interests of shareholders by supervising the behaviour of the management and aligning the interests of the management with those of the shareholders.

Davis et al. (1997) proposed that other structures of governance utilize devices for control and monitoring, such as audits and evaluations of performance to reduce agency costs and preserve the shareholders' interests. These governance mechanisms are indeed effective. They encompass board members who are independent, i.e. they are not executive managers of the company while the interests of the CEO and executive directors are in tandem with the interests of the shareholders by way of stock ownership (Donaldson, 1990). A number of governance mechanisms discussed in the pertinent literature encompass the board of directors and a structure of ownership that ensures that the interests of the agents and the principal are aligned. Meanwhile, the literature on the board of directors as an aspect of governance, including those from Dalton, Daily, Ellstrand, and Johnson (1998), Coles and Hesterly (2000), and Daily, Dalton, and Cannella (2003) have brought to light the matters of size and independence of board and the separation of positions of chairman and CEO. The purpose is to improve the effectiveness of the entire supervision process.

As indicated by Fama (1980), and Fama and Jensen (1983), audit committee can be regarded as a crucial part of the board of directors' internal system control. As stipulated by monitoring requirements, external audits (Anderson, 1993) and audit committees (Fama, 1980) are both necessary. The studies on management ownership concentrate on how to recompense the management in order that their interests are in line with the shareholders' (Davis et al., 1997). As such, it is clear that using its mechanisms, corporate governance protects the shareholders by providing supervision of the management. This concept is in line with the corporate governance codes in the UK. Therefore, through its mechanisms, including the board of directors, audit committees as well as the external auditors, corporate governance enables the close watch of the actions and behaviour of the management. Improvement of the corporate governance structures may often be made, providing that their function as a control instrument is emphasized and elucidated. In a nutshell, the corporate governance's agency role is to minimize and eradicate agency conflicts. This, according to Fama and Jensen (1983), will ensure the quality of financial reporting, and in turn, firm performance can be improved.

2.9.2 Resource Dependence Theory (RDT)

The RDT contends that actors who do not have sufficient needed resources will try to establish a relationship with others. This enables them to obtain the necessary resources while the reciprocated appointment of directors will benefit the firm with respect to its performance. In line with this perspective, Jackling and Johl (2009) concluded that board size affects the performance of firms in the sense that larger board size will increase the performance of firms. Other scholars, such as Pearce and Zahra (1992), Dalton et al. (1998), and Hillman and Dalziel (2003) are also in support of Jackling and Johl's (2009) view. According to Pfeffer and Salancik (1978, as cited in Young and Thyll, 2008), the RDT could explain the role of the directors as the boundary spanners between the environment and the firm. Apart from that the RDT is found to share certain similarities with the agency theory (Cohen, Krishnamoorthy & Wright, 2007).

The presence of professional directors, including bankers and lawyers, will enhance the organization's functioning because these professional directors provide the organization with a wide access to the resources that it needs. As contended by the

RDT, the external parties' capacity to obtain the essential resources (for the firm) makes them powerful over the firm. In other words, if a foreign partner possesses the resources needed to attain the goals of the company, then the power will rest more on the external partner rather than the local partner. Also, the control imposed by the partner is focused on the activities related to the resources that the partner has provided.

Child, Yuan, and Yan (1997) stated that according to this theory, the partner's capacity to control a firm is determined by the comparative size of their equity holdings and the value of the precious resources, both the tangible and intangible ones that contribute to the firm. Meanwhile, Pfeffer (1981) stated that from the perspective of the RDT, success of an organization denotes its maximization of power. The earliest research on the power source inside organizations was conducted by Weber (1947). The research was conducted by advocators of social exchange as well as political scientists. Meanwhile, Selznick (1949) was the pioneer of the research on the generalization of power-based arguments arising from intra-organizational relations to relationships amongst organizations.

As described by the RDT, the relationships among organizations encompass the group of power relations grounded on exchange resources. Based on the concept of resource dependence, the board has the crucial responsibility to assist the management in establishing the strategy and procuring resources (Cohen, Krishnamoorthy, &Wright, 2007; Nicholson & Kiel, 2007). As stipulated by the RDT, the board assumes the role of an assistant or a partner rather than as monitor (Beasley, Carcello, Hermanson & Neal, 2009). For the emerging economies, it is possible that both the local partners and local markets could not bring in the resources needed by the firms. Thus, the firms could end up being very much reliant on the foreign partners in terms of management systems, technology, and training as well as in terms of professional support services. In fact, in the context of emerging economies, a substantial number of firms have been found to be lacking in funds, expertise and institutional channels. The firms are also incapable of providing ample financing to support the needs of their working capital.

2.9.3 Signalling Theory

The signalling theory is grounded on the principle that states the unequal information distribution amongst all parties in the firm. In other words, there exists asymmetry of information. According to this theory, decisions on corporate finance encompass signals that the firm management transmits to the investors in an effort to high light the issue of asymmetries. As such, the stakeholders must be given the clarification on the corporate issues so that they could produce decisions that are informed and rational.

According to Morris (1987), the signalling theory was established in an attempt to understand the problems relating to inequality of information that exists among the labour markets. The author further added that this theory also looks into the inequality reduction by the party possessing more information by signalling to others. This theory basically shares certain similarity with the agency theory. In particular, the signalling theory recognizes ownership separation and control in present day firms. This theory also suggests that the pressures imparted by the market on the management cause the management to reveal all information that is linked to the investors (Ross, 1979). In addition, amid the theory's myriad of key assumptions that distinguish it from the agency theory, signalling costs have negative association with information quality (Morris, 1987).

Also, although information imbalance exists, management releases quality information in order that the signalling costs, especially the impact on share price, can be minimized. It should be noted that the management has its own motives for doing so. Management that possesses more information pertaining to their products will disclose more. This way, the information on the quality of its products will be relayed to its competitors and to the market. This leads to the maximization of the stock value of the firm. Additionally, the firm also has the desire to assure its competitors on the low demands. This, according to Gigler (1994), could cause the output of the competitor to decrease while on the firm's side, its profits as well as its performance would be increased. Further, when the information seller releases a general disclosure, buyers will have difficulty in differentiating the products, which would cause no price change (Morris, 1987).

The current study scrutinizes the relationships between ownership structure, board characteristics, audit committee and internal audit, and performance of the ASE-listed firms in Jordan.

2.10 Chapter Summary

The literature pertinent to corporate governance (ownership structure, board characteristics, audit committee and audit quality) and its impact on firm performance is highlighted in this chapter. This review also underpins the formulation of this study's hypotheses, which is presented in the next chapter.

CHAPTER THREE: THEORETICAL FRAMEWORK AND HYPOTHESESDEVELOPMENT

3.1 Introduction

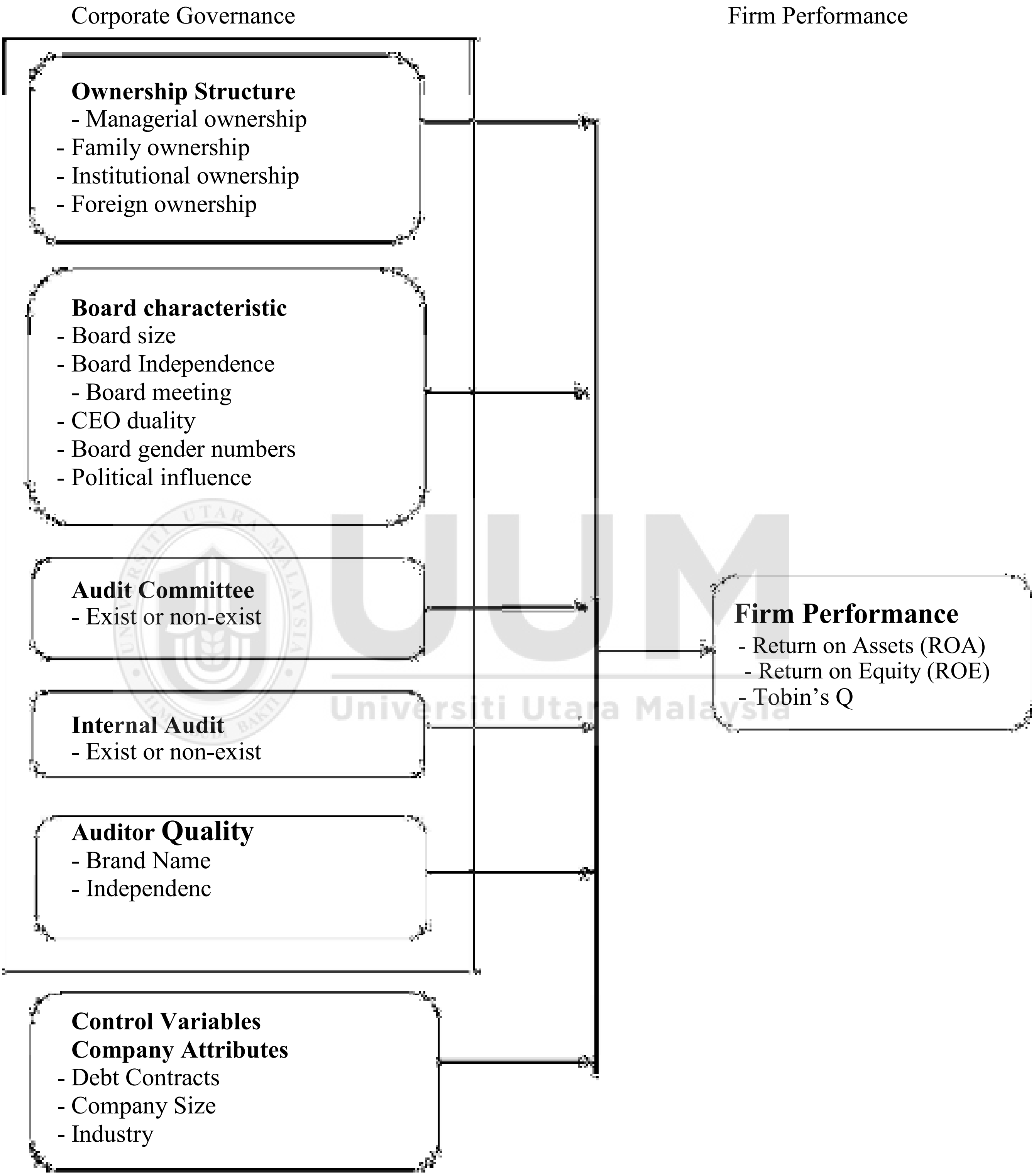
This chapter composed of the theoretical framework and the formulation of hypotheses which were underpinned by the relevant theories and the empirical evidences found in the past works. The theoretical framework was discussed. Then, based on a thorough review of the extant relevant literature, the hypotheses of this study were formulated.

3.2 Theoretical Framework

The theoretical framework was deduced from the objectives of the current study to explore the relationship between the mechanisms of corporate governance and firm performance. This study is also concerned about the current status of corporate governance of Jordanian firms which remains at a relatively underdeveloped stage as reported by the World Bank (2004); as well as by Al-Akra et al. (2009); Hamdan (2011); and Abed et al. (2012). Additionally, it also affects firm performance.

The following model is developed based on several major theories. These theories are used in the context of corporate governance in order to offer comprehensive insights and a deeper understanding of the objectives of this study. With regards to the corporate governance's context and under the agency theory, companies should be managed in the interest of the public as a whole and under social responsibility in order to limit the conflicts that arise among the managers and shareholders (Lee, 2009). The Resource Dependence Theory (RDT) contends that actors who do not have sufficient needed resources will try to establish a relationship with others. This enables them to obtain the necessary resources while the reciprocated appointment of directors will benefit the firm with respect to its performance Jackling and Johl (2009). The signalling theory suggests that companies with superior transparency of information provide better signals of corporate governance and thus better firm performance (Chiang & Chia, 2005). The general attitude of this theory is that the senior managers motivate the personal motivations and in trying to do the right thing for the firms, these personal motivations, such as being successful and achievement at work, mean self-actualization not by external motivations, such as financial remunerations (Donaldson & Davis 1991).

Figure 0-1 Theoretical Framework



3.2 Hypotheses Development

The present study made use of the above theoretical framework to achieve testable hypotheses. The hypotheses in the present study are grounded on the premise that the corporate governance components which include ownership structure, board characteristics, audit committee, auditor quality and internal audit and its impact on firm performance.

3.2.1 Ownership Structure

As documented by Jensen and Meckling (1976), ownership structure epitomizes the distribution of power between the management and the shareholders. Based on ownership structure, four hypotheses are formulated.

3.2.1.1 Managerial Ownership

As posited by the agency theory, owners and management's interests are more in line in situations where managers and owners are the same persons. Jensen and Meckling (1976) acknowledged the existence of the link between insider holdings and firm performance. According to the authors, high concentration may cause agency issues that may emerge between management and shareholders. They further added that managerial ownership can assume a crucial role in order to reduce the development of such issues.

There are theoretical and empirical evidences that examined the relationship between managerial ownership and firm's performance and revealed mixed findings. In the research conducted by Li, Sun and Yannelis (2016), it is pointed out that increase in the effective managerial ownership significantly leads to an increase in firm performance. Masulis and Reza (2015) stated that managerial ownership leads to the improvement of manager-owner agency conflict as managers are also the owners of majority of firm shares, hence, they are encouraged to maximize job performance to realize greater performance. However, Calomiris and Carlson (2014) considered high managerial ownership as the cause of management entrenchment and thus leading to serious agency problems and weakness of firm performance.

Further, high level of managerial ownership can align the interests of the managers with the interests of outside shareholders in a manner that the managers can be inspired to manifest value- maximizing behaviour. Due to the reduction of agency costs, it is anticipated by the study's hypotheses that firm value and operating performance assist in increasing management ownership. In relation to this, Jensen and Meckling (1976) stressed that increase of managerial ownership will increase the alignment between managerial interests and the external shareholders' interests. In the Jordanian context, Al-Fayoumi et al. (2010) investigated the association between managerial (insider) ownership and earnings management in Jordanian industrial companies. They found a significantly positive association between managerial ownership (insider) and earnings management. Jordan has recently given significant attention to consolidating the corporate governance pillars. Additionally, this study uses Jordanian data because it generally reflects a similar institutional status to in several emerging economics. Thus, the following is hypothesised:

H1: There is a positive relationship between managerial ownership and firm performance.

3.2.1.2 Family Ownership

As posited by the agency theory, family ownership is particularly effective in putting the agency issues at a minimum because shares are entirely controlled by the agents who are in a specific relationship with other decision agents that allow the control of agency problems without having the management and control decisions separated (Fama & Jensen, 1983). Additionally, family members have several dimensions of exchange with each other through a lengthy period, and due to this, they benefit from supervising and controlling the associated decision agents (Fama & Jensen, 1983). Gorriz and Furnas (1996) further added that agency costs are lessened when only a small number of shareowners perform the whole process of decision- making on their own. As clearly expressed by Shleifer and Vishny (1997), being owner-managers motivates them to supervise the management and decrease agency costs related to it.

Ting et al. (2016) examined the impact of ownership structure on firm performance, the results confirm that family ownership is significantly and positively related to firm performance (as measured by Tobin's Q). A study by Chu (2009), with ROA as proxy, found a positive link between family ownership and performance. Such link is especially significant when family members also assume the positions of CEOs, top management, chairpersons or firm directors. On the other hand, the link becomes weak when members of the family have no involvement in the management and control of the firm. As indicated by the findings, the potential impacts of family-ownership have a greater probability of being attained when family ownership is combined with a pro-management attitude and control by family members.

Ramos (2016) stated that family ownership and control are associated with poor firm performance. On the other hand, some scholars have pointed out the benefits of family ownership, and others have proven that it leads to higher performance. According to Ting et al. (2016), concentrated investors, like family owners, have substantial economic incentives to closely monitor managers, thus reducing agency conflicts and maximizing firm value and improving firm performance.

Given the Jordanian context, many listed companies comprise family-owned companies and non-family-owned companies. However, comparing both sets of companies, it is discernible that family-owned businesses are the prevalent businesses and are linked with good firm performance (Warrad et al., 2012). Based on the theoretical discussion, the following is hypothesised:

H2: There is a positive relationship between family ownership and firm performance.

3.2.1.3 Institutional Ownership

The institutional ownership/large shareholders invalidate the necessity of other devices as indicator of greater performance. In relation to this, Short, Zhang and Keasey (2002) asserted that institutional ownership diminishes the necessity for dividends to communicate greater performance. In line with the signalling theory, firms that manifest negative future performance should not have the ability to emulate and convey the wrong signals to the market. Therefore, there is indeed a positive relationship between firm value and institutional ownership.

The signalling theory posits that institutional investors assume a crucial role in transmitting information to the investors and financial markets (Gillan & Stark, 2002). Smith (1996) is also in agreement with McConnell and Servaes (1990) when the author documented a significant positive link existing between institutional investors and performance of the firm. Further, Chidambaran and John (2000) concluded that as the primary shareholders have the capacity to secure private information from managers and convey it to others, they assume a crucial role in transmitting the information to all the other shareholders. Additionally, the authors rationalized that if large shareholders are lending bodies, they will have a major role in corporate governance. This is because they would have the capacity to impose control and monitor the managers' performance.

Mao (2015) finds that institutional ownership is positively related to firm performance; the institutional investors have more incentives and financial competencies to monitor management, and therefore enhancing good firm performance. Seifert, Gonenc and Wright (2005) examined the impact of institutional ownership on firm value in four countries (Germany, Japan, United Kingdom, and United States) and find that the relationship between the variables is not consistent across countries. They conclude that these inconsistent results may reflect the fact that the influence of institutional investors is location specific. Dana (2015) examined the relationship between institutional ownership and firm performance and found positive effect of institutional ownership on firm performance for 82 Jordanian non-financial firms during the period from 2005-2013.

Likewise, the issues of corporate governance in Japan were studied by Kaplan and Minton (1994). The authors found that financial institutions that the banks of the country represent are considered as instrumental to corporate governance. Further, in the context of South Korea, interviews with fund managers were conducted by Solomon et al. (2002). The author's concluded that the financial institutions in Korea are important for improving corporate governance and firm performance. In Jordan, Al-Fayoumi et al. (2010) posited that the majority of institutional ownership comprises financial institutions and Social Security Corporations (SSC). Hence, it is anticipated that institutional ownership has capacity in influencing or controlling the actions of the management. The authors also discovered of the active monitoring role of institutional ownership., the following is hypothesised:

H3: There is a positive relationship between institutional ownership and firm performance.

3.2.1.4 Foreign Ownership

Within the emerging-market firms, there has been a significant increase in foreign direct investment (FDI). Previously, FDI typically flowed from the developed countries to the developing counterparts. Many scholars who have investigated the causal relationship between foreign ownership and performance of the firm have looked into this topic as well. As an example, profitability differences between the domestic firms and the Multinational Enterprises (MNE) subsidiaries with respect to agency costs were analysed by Boardman, Shapiro and Vining (1997) in Canada. The authors discovered that with respect to profitability and productivity, the foreign subsidiaries are superior compared to the domestic firms.

Agency theory and the finding of Mohandi and Odeh's (2010) research indicate that foreign ownership enhances quality of financial statement in Jordan. The government has issued and revised a number of important regulations and laws, such as Privatization Instructions and Bank Law (2000), in order to encourage and attract investment by non-Jordanians.

The case of Jordan is unique, given that the association between foreign ownership and firm performance can be investigated since the issuance of shares is currently privatized. Mohandi and Odeh (2010) observed that foreign ownership improves the firm performance. However, Tinga et al. (2016) examined the impact of ownership structure on firm performance, the results confirm that ownership structure does have an impact on firm performance. Kansila and Singhb (2017) provide empirical evidence that domestic firms are more profitable in terms of return on equity after taxes, indicating that foreigners invest to take advantage of the technological and economic prospects. Foreign multinationals are also found to be less efficient in terms of asset management which can be shown by their lower turnover ratios than their domestic counterparts. When the performance of the foreign firms was evaluated on the basis of the country of origin, Western European firms are measured to be the most profitable and efficient ones. As such, the following is hypothesised:

H4: There is a positive relationship between foreign ownership and firm performance.

3.2.2 Board Characteristics

3.2.2.1 Board Size

As discussed earlier, a board requires a certain number of members to attain the intellect needed on the board. However, the number of members joining the board should not exceed the optimum number. Otherwise, some problems can emerge, particularly in terms of the coordination and group dynamics, which ultimately will adversely affect performance (Chauhan & Day, 2009).

Bebeji et al. (2015) examined board size and the performance of banks in Nigeria. The result signified that board size has significant negative impact on the performance of banks in Nigeria. This signifies that an increase in board size would lead to a decrease in ROE and ROA. Given that corporate boards of directors play a central role in the corporate governance of modern companies, understanding the relationship between the two factors is very important to our understanding of corporate governance. Much of the public debate on board structure has centered on pressure for smaller board size. It is argued that, although larger board size initially facilitates key board functions, there comes a point when larger boards suffer from coordination and communication problems, and hence board effectiveness (and firm performance) declines (Nath, Islam & Saha, 2015).

There are a number of studies (e.g., Ahmadu et al., 2005; De Andres, Azofra & Lopez, 2005; Chan & Li, 2008; Kota & Tomar, 2010; & O'Connell & Cramer, 2010) which present empirical proofs that supports the supposition of the agency theory that an adverse link exists between board size and the performance of the firm. On the other hand, other scholars, including Bhagat and Black (2002); and Limpaphayom and Connelly (2006) found no significant association between the two variables.

Meanwhile, Yermack (1996) indicated that firms with small board size usually have greater stock market value as opposed to firms with large board sizes. Yermack's (1996) conclusion is in line with the findings of Jensen (1993) that small board size could cause improved firm performance. Lipton and Lorsch (1992) added that significant number of executives joining the board could create issues for the firm. Also, Borokhvich, Brunarski, Donahue, and Harman (2006) stressed that a small board is more advantageous compared to a larger board with regards to its effectiveness in decisions- making on executive replacements. Abed, Al-Badainah and Serdaneh (2012) showed that there are weaknesses in the monitoring function of the board of directors in Jordanian firms. They attributed the result to the existence of more than 14 members on the board and the CEO/Chairman duality roles. These results are not consistent with the Corporate Governance Code (2009) issued by the ASE, which recommends that the members of the board should not exceed 13 members. Thus, the following hypothesis is proposed:

H5: There is a negative relationship between board size and firm performance.

3.2.2.2 Board Independence

As posited by the agency theory, unsupervised corporate ownership can cause self-fulfilling behaviours among the managers (Jensen & Meckling, 1976). Thus, to offset the agency issues generated by the managers' assumed independence in comparison to the executive directors, the non-executive directors would have better capacity to perform more efficient monitoring and controlling tasks which will eventually improve the performance of the firm (Walsh & Seward, 1990).

The RDT presumes that the board of directors functions as the boundary spanner, i.e., as those who procure resources from the outside environments (Pfeffer, 1973; Carpenter & Westphal, 2001). Likewise, Ameer et al. (2010) empirically proved that -boards with a high percentage of outside and foreign directors are associated with greater performance as opposed to -boards with most of the internal executive and non-executive directors being related to one another.

Altuwaijri and Kalyanaraman (2016) examined the link between board independence and firm performance applying two varied measures of board independence as drawn from agency theory and stewardship theory. Agency theory suggests that external directors who are free from any stake in the firm are in a better position to closely monitor the top management and align their goals in line with the shareholders' interests. The result shows a positive link between board independence and firm performance when it is measured as the ratio of independent directors to board size. Similarly, the study by Jackling and Johl (2009) in India proved that a greater percentage of outside directors on the board of directors is associated with improved firm performance. In particular, a larger board has positive effect on firm performance. This strengthens the idea that more exposure to the outside surroundings can open the door to essential resources. Consistent with the above, Uadiale (2010) recommended that the composition of external directors as members of the board should be maintained and enhanced in order to improve the financial performance of the firm.

Richardson, Leung and Jaggi (2014) perceived that board independence has a positive link with firm performance. Abidin, Kamal and Jusoff (2014) stated that most independent non-executive directors on the board have positive influence on firm performance. This, according to the authors, is due to the independent directors' different backgrounds, characteristics and expertise; all these could improve the processes of the board as well as of decision- making, which will eventually cause the performance of the firm to improve.

Further, Sharar (2007) is of the opinion that Jordan encourages memberships from the independent, technical and professional experts, believing that this will improve firm performance in Jordan. Hence, the following is hypothesised:

H6: There is a positive relationship between board independence and firm performance.

3.2.2.3 Board Meetings

Board effectiveness hinges on the meeting frequency of the board members to rehash the several issues that the firm faces (Vafeas, 1999; Carcello et al., 2002). Boards that practice diligence improve the degree of oversight and in turn, the performance of the firm. Along with board meetings, board diligence covers other relevant aspects including meetings preparation, attentiveness, meetings participation and follow-up following the meetings (Carcello et al., 2002).

Akpan (2015) examined the relationship between frequency of board meetings and company performance using a sample from 79 companies listed on the Nigerian Stock Exchange from 2010 to 2012. The result shows that the board meetings, is negatively significant with firm performance.

From board of directors should meet regularly to discuss the firm situations, any matter arises, or any new suggestions. So, According to JCGC, the board of director's meetings in the fiscal year must not be less than six meetings. Little number of previous studies in Jordan is hinted to the board of director's meetings and its impact on firm's performance. Hence, the following is hypothesised:

H7: There is a positive relationship between board meetings and firm performance.

3.2.2.4 CEO Duality

As shown by the literature, research on corporate governance has indicated conflicting viewpoints with regards to CEO duality. As posited by the agency theory, CEO duality minimizes the monitoring function of the board of directors over top management and this may adversely impact firm performance (Levy, 1981). In line with this postulation, Rechner and Dalton (1991) perceived that separating CEO and chairman of the board positions could generate effective CEO monitoring and control. The authors further argued that failure in doing so (CEO separation) may lower the performance of the firm. This contention is supported by Jensen (1993) who stressed that the separation of CEO from the position of the chairman of the board is necessary to assure board effectiveness as well as firm value.

Ali and Zhang (2015) studied the relationship between CEO duality and firm performance using a database of over 11,000 Swedish firms from the year 2005 to 2009. the findings of the research indicate that CEO duality is positively correlated to firm performance, and the effect varies across environmental dimensions of munificence, dynamism and complexity. Using quantile regression, the study also show that CEO duality has positive impact on firm performance.

Moreover, Jordanian Corporate Governance Code forces the Jordanian firms to separate the role of CEO and Chairperson, and this is consistent with the agency theory. Hence, to steer clear of conflicting interests and to uphold management supervision, the two positions should be filled by two individuals. If possible, it is important for the board to appoint the chairman from among the independent directors (JSC, 2009). As such, the following is hypothesised:

H8: There is a negative relationship between CEO duality and firm performance.

3.2.2.5 The Gender of Board Members

With respect to gender, authors, including Loscocco, Robinson, Hall and Allen (1991); Fischer (1993); Shim and Eestlick (1998); Fasci and Valdez (1998); and Alowaihan (2004) reported that male-owned businesses demonstrate superior performance in comparison to the female-owned businesses, particularly in terms of sales volume and income. Fischer (1993) documented that, based on sales per employee; male-owned businesses demonstrate higher productivity level as opposed to the female-owned businesses. The author further stated that female-owned businesses are characterized by low experience level and thus, effective business activities could not be conducted. Additionally, Alowaihan (2004) reported that despite the fact that the females are significantly older and are more educated than the males, due to lower level of experience, their firms show lower level of performance.

In studying the Hispanic community, Shim and Eestlick (1998) reported that the female business owners have fewer employees, less experience in years and less yearly sales in comparison to their male counterparts. A significant difference is also indicated between the male-owned firms and female-owned firms with regards to ratio of profit to gross revenue. As reported by Fasci and Valdez (1998), work experience as well as age contributes significantly to the performance differences. Further, Shaw, Marlow, Lam, and Carter (2009) documented that female business owners habitually under-capitalized their firms. As proof, 142 female business owners invested only one third the amount of capital invested by their male counterparts.

Based on previous studies, female board membership is held to affect firm performance. The central premise is that, as boards are dominated by men, increasing the share of female directors improves board heterogeneity. In particular, female directors may bring different work experience to the board, have different viewpoints on how to solve problems and/or take decisions, have different educational and international backgrounds, and a different approach to monitoring (Singh et al., 2008; Adams & Ferreira, 2009). This in turn has a positive impact on firm performance. As such, the following is hypothesised:

H9: There is a negative relationship between women on the board and firm performance.

3.2.2.6 Political Influence

Costs could be increased by the influence and control of politics. This is because politicians often use firms for the benefit of their political and social aims. On the other hand, political control may prevent the management from fulfilling its own interest to the detriment of the firm's performance. As such, the impact of political control completely depends on the balance generated between political costs and agency costs. (La Porta et al., 2000). However, the implications of political control over the incentives of both the management and the shareholders are dealt with independently. This is because the incentives of both the management and the shareholders come from separate sources and are made functional using many mechanisms. For clarification, the incentive issues of management are part of agency problems while those of shareholders are regarded as expropriation problems.

The effects of political connections on firm performance have received great interest in recent corporate finance and political economy literature. The empirical literature highlights evidence that political connections increase firm profitability through various channels. For example, political connections may help firms secure changes in the regulatory environment (Li et al., 2008), and ease access to bank financing (Cull et al., 2015).

However, there is also growing evidence that political connections may erode firm efficiency through such effects replacing professionals with cronies in board positions or tunneling assets out of the firm to political beneficiaries (Sokolov & Solanko, 2016).

Ambler and Witzel (2004) perceived political ties as an alternate mechanism of enforcement by way of better political status and justice. Within the domain of businesses, managers can obtain assistance from the governmental officials for generating business contracts and for preventing prohibited behaviours. However, if legal enforcements are unmplicable, firms with political connections can have the government connections leveraged. In fact, this kind of political connections may be more effective as opposed to the legal process.

In the situation of Jordan, this variable is new. This study looks into the effect of political influences on firm performance. As such, the following is hypothesized:

H10: There is a positive relationship between political influences and firm performance.

3.2.3 Audit Committee

Audit committees significantly contribute to minimizing agency problems (Zahra & Pearce, 1989). As presumed by the agency theory, the fulfilment of managerial responsibilities by both the owners and managers requires certain mechanisms for preserving the interest consistency between the principals and the agents. The same should be observed in supervising the management's performance so that managers can be guaranteed of exercising their powers in a manner that fulfils the interests of the owners. Agency problems become worse when internal or external auditing control is ineffective and when the safeguarding of minority shareholders in the transitioning economies is lacking (Dharwadkar et al., 2000). Here, as indicated by Pincus (1989), the audit committee may significantly contribute to a firm's effective functioning.

It can be asserted that the audit committee can play a key role in monitoring and improving the quality of information between firm owners and managers (Abdurrouf, 2011). In examining the role of audit committee in improving firm performance, Bansall and Sharma (2016) used fixed effect panel data regression on 235 non-financial public limited companies listed in NSE500 during 2004-2013 period. They used return on assets, return on equity, Tobin's Q, and market capitalization as proxies of firm performance. They demonstrated that audit committee was associated significantly and positively with firm performance.

In Jordan, the Jordanian Code of Corporate Governance identified the duties of the audit committee that holds the task of monitoring and overseeing accounting and auditing activities in the firm (ASE, 2009). For example, an audit committee meets separately with auditors and senior financial managers to review the company's financial reports, internal audits and audit processes and selects the external auditor, this is positive influence on firm performance. Therefore, the suggested hypothesis is as follows:

H11: There is a positive relationship between audit committee and firm performance.

3.2.4 Internal Audit

The internal audit department has a positive effect to firm performance. This is due to the knowledge, skills and expertise being brought into the firm (Pfeffer, 1987; Pearce & Zahra, 1992; Goodstein, et al. 1994; Ghazal, 2010).

In general, internal audit and the relationship between the company's performance for specific studies in both developed and developing countries is limited. While Mustafa, Fatima, Saleem and Ain (2016) documented that internal audit is one of the significant factors that lead to improve the performance of companies.

With respect to the appropriate number of internal audit department staff, Jensen (1993) is in agreement with Lipton and Lorsch (1992) who suggested seven to eight. In line with this suggestion, an internal audit department with no more than eight members would enhance concentration, participation and authentic interactions and discussion. Shaver (2005) further added it is often that a larger internal audit department is plagued by responsibility dispersion. This gives rise to social loafing and encourages fractionalization of group and minimizes the commitment of the group in revising their strategy.

Indeed, the values of internal auditing are acknowledged by many. In addition, in the context of Jordan, the detailed empirical study on the role played by the internal auditing on firm performance is still scarce. As such, this study attempts to ascertain the significance of internal audit and its impact on firm performance in Jordan.

In line with the resource dependence theory as well as its advocates, expert individuals are instrumental to firm growth due to the comprehension on how to handle processes and successfully complete their tasks. Further, boards that are joined by a substantial number of experts can assist the firm in comprehending the outside environment. This will help firms in improving their performance. Additionally, a number of studies have examined the issues of internal auditing in the developed countries, including in the UK and the USA. However, for the developing nations, such as Jordan, there has not been much evidence presented. A few studies have looked into the link between the internal audit's experience and firm performance, in both the developed countries and developing nations. As such, the following is hypothesized.

H12: There is a positive relationship between internal audit and firm performance.

3.2.5 Auditor Quality

The external auditor is typically regarded as an important mechanism of corporate governance. As described by Ferguson et al. (2003), by issuing external reliability verification of the company's financial reports, the external auditor assures that the principal and the agent have compatible interests.

In Jordan, external audit is necessary in firms according to the JSC Act. The Code of Corporate Governance (2009) also highlights s the role of the external auditor in ensuring the quality and reliability of financial reports. This Code also explains that it is necessary to discuss matters related to the work of the external auditor, make observations and reservations, pursue the level of responsiveness of the firm's management to them, and submit recommendations to the board of directors accordingly.

3.2.5.1 Auditor Independence

Auditor independence is primarily demanded by external stakeholders in order to decrease agency costs (Watts, 2003a). Additionally, the auditor's independence enhances the firm performance.

Zureigat (2014) examined the effect of non-audit services on firm performance in Jordanian listed firms. Using a sample of 198 companies, his analysis of logistic regression shows a significant positive relationship between audit quality and financial structure. (Al- Haddad, Alzurqan & Al_Sufy, 2011). The literature of corporate governance indicates that non-audit services (NAS), board diversity and an audit committee are likely to be positively associated with the performance of firms. In Jordan, Al Daoud, Al-Sraheen and Alslehat (2015) indicated a negative effect of non-audit services (NAS) on corporate performance. The study reported key tasks of an external auditor and other services, these include consulting and tax services, and other NAS should be distinguished to ensure the independence of the auditor and it should not have negative effect on firm performance. This variable is still unstudied in Jordan, making it a new variable for this country. Thus, the present study attempts to ascertain the influence of auditor independence on firm performance. As such, the following is hypothesised:

H13: There is a positive relationship between auditor independence and firm performance.

3.3.5.2 Brand Name

Big Four audit firms demonstrate better performance to prove that they have better reputation. This is in line with the supposition of the agency theory. As reported by the past studies, there is brand name premium price for Big Four auditors (Chen et al., 2005). As demonstrated by Chen et al. (2005), high quality auditors, as ascertained by the Big Four and Non-Big Four , decrease the firm management's opportunistic behaviour in a more significant manner compared to the low quality auditors.

In the case of Jordan, the audit market is controlled by Big Four and only a small fraction of the market is being audited by smaller national firms (Shanikat & Abbadi, 2014). As argued by Hayyani (2008) Big Four firms are superior in term at audit quality.

Ming and Wang (2016) proposed an integrative conceptual model in which firm performance hinges on corporate brand identity that results from the firm's relationships with many stakeholders. In assessing the model, they used firm-level, secondary data from a sample of 282 firm-year observations obtained from 81 multinational companies between the period of 2005-2008. They demonstrated that the quality of stakeholder relations and brand equity was positively associated. They also found the mediation of brand equity in the relationship between stakeholder relations and firm performance. As such, the following is hypothesized:

H14: There is a positive relationship between auditor brand name and firm performance.

3.4 Chapter Summary

This chapter discusses the literature related to the study. This chapter sheds light on the theoretical framework and hypotheses development of the study. The next chapter introduces the research methodology adapted to tests the hypothesized relationships. The summary of hypotheses and the relevant theories of this study are shown in Table 3.1. Table 3.1

Summary of Hypotheses

Number	Hypotheses	Expected sign	Underpinning theories
H1	There is a positive relationship between managerial ownership and firm performance.	Positive	Agency theory
H2	There is a positive relationship between family ownership and firm performance.	Positive	Agency theory
H3	There is a positive relationship between institutional ownership and firm performance.	Positive	signalling theory
H4	There is a positive relationship between foreign ownership and firm performance.	Positive	Agency theory
H5	There is a negative relationship between board size and firm performance.	Negative	Agency theory
H6	There is a positive relationship between board independence and firm performance.	Positive	RDT theory
H7	There is a positive relationship between board meetings and firm performance.	Positive	Agency theory
H8	There is a negative relationship between CEO duality and firm performance.	Negative	Agency theory
H9	There is a negative relationship between women on the board and firm performance.	Negative	Agency theory
H10	There is a positive relationship between political influences and firm performance.	Positive	Agency theory
H11	There is a positive relationship between audit committees and firm performance.	Positive	Agency theory
H12	There is a positive relationship between internal audit and firm performance.	Positive	Agency theory
H13	There is a positive relationship between Auditor Quality independence and firm performance.	Positive	Agency theory
H14	There is a positive relationship between Auditor Quality Brand Name and firm performance.	Positive	Agency theory

CHAPTER FOUR: RESEARCH METHOD

4.1 Introduction

This chapter introduced the research methods and analytical approach adopted in this study. Specifically, it elaborated on the population and sample collection in Section two, data collection in Section three, it elaborated analytical tests in Section four. The measurement of the variables was presented in Section five. Models and summary of the variables, and their definitions were introduced in Section six. Finally, Section seven concluded the chapter.

4.2 Population and Sample

This study focuses on the companies listed on the ASE in Jordan for the 2009 - 2013 period. The period is selected because it signals the commencement of the mandatory adoption of corporate governance in Jordan in 2009, while the cut-off point is 2013 as it is the most recent year available at the time of data collection. Overall, there are 247 firms listed on the ASE in 2013. This study includes all sectors in the stock market, namely the industrial, service, and financial sectors. One condition that the study put forward to filter the data is that the firms should have a complete data during the period of 2009 - 2013 in order to have a balanced panel data. So, all firms with missing observations in any year of investigation are deleted. This also implies that firms that enters the market in any year of investigation and exit it the market during the period of investigation are excluded from the sample. A number of 43 firms (215 fime-year) were excluded due to incomplete data set for the five years under investigation. After deleting observations with missing data, 1,020 observations are available for including in the test. In total, the analysis includes 64 firms listed in the industry sector, while the service sector comprises 53 firms, and the finance sector has 87 firms. Such large data points would improve the analysis. As argued by Asteriou & Hall (2007), the degree of freedom will increase and therefore better results would be obtained as the efficiency of the model is enhanced. See Table 4.1

Table 4.1:
Distribution of the sample

Sector	**Frequency**	**No of firms**	**Percent**	**No of sample across years**				
				2009	2010	2011	2012	2013
Industrial Sector	320	64	31.38	64	64	64	64	64
Service Sector	265	53	25.98	53	53	53	53	53
Finance Sector	435	87	42.64	87	87	87	87	87
Total	1020	204	100	204	204	204	204	204

4.3 Data Collection

This study uses secondary sources in gathering the data. The various corporate governance and ownership variables were obtained from the annual reports of the companies available at the ASE and companies' annual reports, while the financial data were collected from other annual reports. The main advantage of using the secondary data is the enormous saving in resources, particularly time and money

(Ghauri & Gronhaugh, 2002). It provides a source of data that is both permanent and available in a form that may be checked relatively easily by others (Denscombe, 1998).

4.4 Data Analysis

To achieve the objectives of this study, various analytical tests were undertaken in order to answer the research questions and support the hypothetical relationships. This includes the various tests of difference and dynamic panel regression analysis.

4.4.1 Descriptive Statistics

Descriptive analysis was conducted using frequency, main, maximum and minimum to shed light on the sample and variables characteristics.

4.4.2 Panel Data Techniques

Panel data estimation has become a very popular and efficient estimation method due to the unique feature that includes data of N cross-section (firms) and T time periods (Years). This increases the number of observations due to the increase in time- series of cross- sections (Asteriou & Hall, 2007). In other words, it is a way of pooling time- series across different periods. The main advantage of using panel data is to provide a large number of data points that consequently increases the degree of freedom and the collinearity between the variables will be minimised, hence improving the efficiency of econometric analysis and estimation (Hsiao, 2003).

Moreover, more informative data can be extracted and analysed to get more reliable and robust estimation. Besides, panel data is advantageous in terms of its ability to control for individual heterogeneity as giving no consideration to such an issue of unobserved individual specific effects would impair the estimation accuracy. Panel data sets are also better able to identify and estimate effects that are simply not detectable in pure cross-sections or pure time- series data.

According to Asteriou & Hall (2007), the literature has dealt with balanced and unbalanced panel data. The balanced panel data includes equal observations for all N data in the sample. On the other hand, unbalanced panel data involves observations which are not equal in terms of number of time T for some cases, where there is different entry and exist for those companies. This study utilises balanced panel data. Panel data techniques have been developed over time from the simple static panel to the more dynamic and robust techniques. Its two main types are static and dynamic panel data which are discussed in the following sections.

4.4.3 Statistic Panel Techniques

The three relevant static panels comprise: (i) the pooled OLS; (ii) fixed effects; and (iii) random effects. The first is the common constant method, or pooled OLS regression. According to Asteriou & Hall (2007), the assumption of this method is that there are no differences among the data metrics of the cross-section dimension (N). This method assumes that there are no differences between the estimated cross-sections, and it is useful under the hypothesis that the dataset is homogenous. Fixed and random effects models can help solve the heteroskedastic problem. The advantage of fixed effects and random effects over pooled OLS is that both methods allow for differences in datasets. Fixed effects capture the effects which are particular to an individual unit and which do not vary over time. In other words, it allows for different constants for each group. On the other hand, random effects deal with constants for each section, not as a fixed but as a random parameter. The main advantage of random effects is that it has fewer parameters to estimate compared to fixed effects. All in all, the fixed effects assume that each (N) differs in its intercept terms, whereas random effects assume that each (N) differs in its error terms (Asteriou & Hall, 2007). However, due to the fact the pooled OLS ignores the error component of the model, it becomes inefficient. Similarly, the fixed and random effects models are biased and inconsistent. In other words, the output of the investigated variable will be correlated with predictors and hence produce a biased estimate. Therefore, solutions have been introduced to overcome the estimation problems that arise. One of these solutions is the use of instrumental variables introduced by Anderson and Hsiao (1981 and 1982); and Arellano and Bond (1991). This instrument is widely used in case of panels with small T dimensions as the case in this thesis (Asteriou & Hall, 2007). This is discussed below.

4.4.4 Dynamic Panel and Appropriateness of General Method of Moments (GMM) to Corporate Governance and Performance Research

In a simple static panel analysis, the fixed effects estimator is inappropriate when dealing with the small time span (Nickell, 1998; Wintoki, et al. 2012); thus leading to the introduction of the dynamic panel models. A dynamic panel model has the characteristic of including the lagged dependent variable among the predictor variables. One of such advanced dynamic panel models is the Generalised Method of Moments (GMM). The 'Difference' (or standard) and the 'System' GMM are the two types of GMM in dynamic panel analysis, Where the time span (T) is small and the number of observation (N) is large, the latter (System GMM) is more appropriate (Nickel, 1998 & Wintoki, 2012).

One of the biggest challenges in corporate governance empirical studies is how to deal with the endogeneity of corporate governance variables. It is well documented in the corporate governance literature that endogeneity problems may arise from two main sources: (i) unobservable characteristics across companies, and (ii) simultaneity. However, theoretical studies by Harris and Raviv (2008); Hermalin and Weisbach (1998), and Raheja (2005), among others, imply that the relationship between corporate governance and firm performance is dynamic in nature. The dynamic nature of this relationship suggests that corporates' contemporaneous performance and governance characteristics are influenced by their past financial performance. In other words, there is another potential source of endogeneity in the corporate governance–performance nexus, namely dynamic endogeneity (Wintoki et al., 2012). Empirically, the study undertaken by Wintoki et al. (2012) for the US market confirms that the dynamic relationship between current governance and past firm performance does exist.

This also implies that if the dynamic endogeneity problem is not fully controlled, it is impossible to make causal interpretation from the econometric estimations. Taking the dynamic endogeneity problem into consideration, Wintoki et al. (2012) suggest that the internal corporate governance structures have no significant impact on firm performance.

It is noteworthy that such a suggestion is drawn from an institutional context where themarket for corporate control operates well. In cases where internal corporate governance structures do not have impact on firm performance, we may expect that the markets for corporate control, such as takeover markets, will play a compensatory role as the external governance mechanism for monitoring managerial behaviour. This has potential to mitigate agency problems and ultimately lead to better performance. However, it is not clear whether the findings of Wintoki et al. (2012) can be generalised in the context of Asia where the market for corporate control is generally not an effective external corporate governance mechanism. In other words, when dynamic endogeneity is taken into account, this study asks whether the internal corporate governance structures impact on the financial performance of firms in Asian markets characterised by ineffective markets for corporate control.

This study differs from others in the way that this study deals with the endogeneity problems. Specifically, this study re-examine the corporate governance–firm performance relationship in a dynamic framework by using the system GMM estimator. This panel-data approach improves on traditional pooled OLS and fixed-effects estimations used by previous studies when controlling for potential sources of endogeneity.

The problem of endogeneity in the studies of corporate governance has created concerns for researchers in recent times (Nguyen et al., 2014; Ammann et al., 2011). Literature evidence suggests that such endegoneity problem arises from simultaneity and unobservable features across companies. This explains that performance relationship and corporate governance are dynamic in nature, and that the practices of corporate governance and current performance are being influenced by the financial performance in the previous periods (Harris & Raviv, 2008; Hermalin

&Weisbach, 1998; and Raheja, 2005; Wintoki et al., 2012). Similarly, firm's situations in the current period have influence on its future performance and corporate governance. The endogeneity in the company's characteristics might be correlated with the stochastic error terms, thereby resulting in inconsistent estimates. Similarly, there exists unobservable heterogeneity across firms as a result of the different features of corporate governance (García-Herrero et al., 2009). A dynamic panel analysis, therefore, addresses these problems in order to arrive at consistent estimates.

The inclusion of the lagged dependent variable, as stated, makes the dynamic panel analysis unique, as it leads to a consistent estimation. This is opposed to the static panel analysis: fixed effects, common constant, pooled OLS and random effects; which are characterised by biased and inconsistent estimates (Baltagi, 2008); as a result of the correlation between the lagged dependent variable, unobserved company characteristics and the endogeneity of independent variables. Nickell (1981) explains that the biasness in estimation can be reduced by augmenting the sample size and increasing the time span. In this research however, this may not be the case, as the five-year time frame considered is rather too short to address the biasness resulting from the static models (and the sample size cannot be enlarged). This means that the fixed and random effects models require a long period to be considered as analytical tools of investigation; hence, the study relies on the dynamic panel analysis (GMM) due to the short time series and large observation (many firms) involved. Arellano and Bond (1991) identified autocorrelation, endogeneity and heteroscedasticity as some of the deficiencies in the static panel analysis.

Given the discussions above, it may be observed that the application of static models have implications on the robustness of the results. The Generalised Methods of

Moment (GMM) is therefore more applicable, given the available data for the study, in order to arrive at a consistent estimate. In addition to addressing the problems of endegeneity, autocorrelation, and persistence of dependent variable, etc., Beck et al. (2000) argues that the GMM captures the short-term panel, where the time-frame is short, and the cross-section is large. Therefore, GMM has become a commonly used estimation method, with greater attention in finance and accounting, in recent years. According to Raheja (2005) and Wintoki et al. (2012), the dynamic panel GMM estimator consists of three steps.

The first step is to re-write the equation of regression in the form of dynamic model, including the lag of performance as an explanatory variable. The next step involves taking the difference of all the variables, to control for unobserved heterogeneity and eliminate any potential omitted biasness in variables. The last step is to estimate the model, using the lag of the variables as instruments for the present values of these variables in order to control for reverse causality and potential simultaneity. Hence, all the explanatory variables (governance indices and other control variables) are treated as endogenous; this is a necessary procedure to ensure unbiased results.

In the case of performance and corporate governance, the application of GMM has been validated as a better method because of the dynamic nature of the connection between corporate governance and performance (Wintoki et al., 2012). Wintoki et al. (2012) assert that this connection (i.e dynamic relationship between performance and corporate governance) implies that corporate performance depends on the corporate governance and other characteristics of the firm., In other words, it indicates the significant contribution of the previous performance when directing and determining the existing performance of the Jordanian Listed Companies which suggests that

Jordanian listed firms' past performance has positive and significant influence on the current performance. The results are consistent with the previous studies (Nguyen et al., 2014, Wintoki et al., 2012; Ammann et al., 2011, Schultz et al., 2010). Nguyen et al. (2014) argued in such cases of high persistence level of past performance, the inclusion of lagged variable as the determinant variable is an important factor that helps to control and to shape the dynamic relationship between corporate governance and performance indicators.

The two-step dynamic panel estimation in version (the system GMM estimators, as proposed by Blundell and Bond (1998) and Arellano and Bond (1991)) is used in estimating this model. This is due to the small time-series (T) involved, as well as the absence of appropriate external tools in the framework of corporate governance research. The dynamic GMM is the appropriate method of estimation that responds to endogeneity problem (Antoniou et al., 2008; Nakano and Nguyen, 2012). This is because it allows the employment of available internal instruments within the panel (Blundell & Bond, 1998); and equally deals with the combination of short panels, fixed effects, dynamic dependent variables as well as the absence of good external instruments (Roodman, 2009).

The GMM estimator is a mechanism of two simultaneous equations, one at levels and the other at first-difference. While the lags of the explanatory variables at levels may be used as a set of instruments in the equation of the first-difference, the lag ofthe equation of the first-difference may equally be employed as a set of instrumental variables for the equation at levels. Corporate governance and other control variables (leverage and size of the firm) are used as the types of GMM instruments for the equation of the first-difference; while the lags of the first-difference of the firm's performance, corporate governance and other control variables are employed as the instruments of GMM for the equations of the levels. Therefore, the two-step GMM is adopted over one-step GMM on many grounds. Under the one-step GMM for instance, the error term is assumed to be independent and heteroscedasticity exists across firms and time.

As opposed to the one-step GMM, the two-step GMM negates the assumptions of homoscedasticity and independence; and therefore, enhances to a more consistency in the estimation of the variance-covariance matrix using the residual form of one-step GMM. Similarly, Bond (2000) asserts that the two-step estimator is more appropriate and efficient for large sample size. The relevance of the two-step GMM has shown considerable estimates when tested, as compared to one-step GMM. Thus, it addresses the problem of heteroscedasticity, which in the case of two-step is more robust and efficient (Arrelano and Bond, 1991).

Even though both the difference GMM estimation and system two-step GMM processes are adopted in the baseline model for the entire sample to test the robustness of the results, the present study sticks to the application of two-step system of GMM.

The use of the difference GMM may lead to inefficiency in the estimation of the models. This is because, large information may be hidden in both the level form relationship and the connection between the level and the first-difference forms (Ahn & Schmidt, 1995). Similarly, Alonso-Borrego and Arellano (1996) stress that there are inaccuracies and biasness in the estimated results whenever the difference GMM involves large sample size. In the works of Blundell and Bond (1998), it is argued that the presence of exogenous or determinant variables over the years may cause the determinants (exogenous variables) to have weak instruments in their lagged levels.

This increases the chances of the estimates being biased, especially in the short-period (Bond, 2001). To address these, Arellano and Bover (1995) & Blundell and Bond (1998) opine that the system GMM should be considered for estimation, as it considers both the levels and first-difference. It is in such a way that the lagged difference of variables are now the instruments at levels and the lagged levels of variables become the instruments for the difference regression. This in turn reduces the biasness in using the difference GMM, and consequently improves the robustness and efficiency of the test.

Finally, the fitness of the endogenous variables could be endangered and a biased result may be produced as a result of the large instruments created by the tests, since the number of instrument is important in using the GMM (Roodman, 2009). This however arises when the long time-frame is involved in the analysis; hence better result is estimated when there is reduction in the number of instruments.

4.4.5 Diagnostic Tests

To ensure the appropriateness of the GMM test, there are several other tests that need to be conducted. These include the Sargan test (used to examine the consistency of the estimates), as well as the tests for autocorrelation of error terms, using the AR (1) and AR (2). Since the consistency of the GMM estimator is influenced by the how sound the instruments are, the two tests (specification tests), as suggested by Arellano and Bond (1991); Arellano and Bover (1995); & Blundell and Bond (1998); are therefore employed.

The first test, the Sargan test, is used for over-identifying restrictions in which the null hypothesis states the independence of the error terms and the instruments. The second test examines the presence of serial correlation for the stochastic error terms, in which the null hypothesis states the absence of serial correlation. The Arellano and Bond tests (AR1) and (AR2) observe that there are no first- and second-order serial correlation in the difference of the residuals. The validity of the instruments is however a subject of the failure to reject the null hypothesis for both the Sargan test (or Hansen-J test) and the AR (2) test (Yalta and Yalta, 2012).

The validity of the instruments in equation (1) may be tested using the Sargan test for restrictions over-identification to examine the correlation between the error terms and the instruments. Similarly, the AR (2) statistic was advanced by Arellano and Bond (1991) to assess the lack of second-order serial correlation in the first-difference residuals. Since the AR(1) -the first order serial correlation- is equally common in the residuals, much emphasis should be on the AR(2) test for the validity of the estimation. According to Baltagiet al. (2009), “One should reject the null of the absence of first order serial correlation and not reject the absence of second-order serial correlation.” Hence, there is an expectation of an insignificant Sargan test, and some degrees of the first order serial correlation, but absence of second-order serial correlation (Luo, 2015).

4.5 Variable Measurements and Operationalization

4.5.1 Dependent Variable

Firm performance is the dependent variable tested in this study. There are several ways to measure performance; studies have divided the performance indicators into market-based and accounting-based measures (Munisi & Randøy, 2013). Overall, the common measure used in the literature for the market- based is valuation of the company as proxies by Tobin's Q (Nguyen et al., 2014; Coles et al., 2012; Khatab et al., 2011; Ammann et al., 2011; Reddy et al., 2008); while the accounting measures of performance are represented by ROA and ROE (Luo, 2015; Munisi & Randøy, 2013; Pathan & Faff, 2013; Wintoki et al., 2012). The two measures have been adopted in previous studies because both measures help to address different aspects of performance. While the former is a proxy for future performance of the company for current and prospective investors (Tobin's Q), the latter is a reflection of past performance (ROA & ROE) (Munisi & Randoy, 2013).

The above three measures are adopted in this study. However, the performance indicators mentioned above are tested one at a time in order to overcome the inherent limitations in any single financial measure. Based on suggestions in previous research, multiple measures produce a more accurate description of performance (Rechner & Dalton, 1991). According to Dalton and Kesner (1985), *"the literature has strongly endorsed relying on multiple performance measures"* (pp752-3). Cochran and Wood (1984) argued that although there is no consensus as to what constitutes the proper measure of firm performance, such measures fall into the two broad categories of investor returns and accounting returns.

4.5.1.1 Return on Assets (ROA)

ROA is used to indicate how profitable a company's assets are when it comes to revenue generation. Companies that require large initial investments will generally have lower ROA (Hamid, 2008). ROA is calculated as net income divided by total assets of the company (Abdullah, 2004; Hsu, 2007; Ilona, 2008; Lin & Jen, 2011; Noor Afza, 2010; Krivogorsy, 2006).

According to Haniffa and Huduib (2006), when ROA is higher, it shows that assets of the company are being used effectively to meet economic interests of the shareholders. ROA varies widely among companies and is a measure of asset-use efficiency. It can be used as an important indicator to show the difference between businesses' or company's profitability and the rate of returns set as a benchmark i.e., (risk adjusted weighted average cost of capital). It also measures the operating and financial performance (Klapper & Love, 2002). ROA is useful for evaluating the overall efficiency in generating net income from operations using firm's assets.

Moreover, the authors argued that since it is possible to be efficient and be positioned poorly in the utilization of capital, ROA could also serve as an indicator of management's effectiveness in deploying capital (Miller, Boehlje & Dobbins, 2001).

4.5.1.2 Return on Equity (ROE)

ROE is an indicator of the rate of return on equity that provides useful information about the performance of debt in the capital structure which helps managers to know to what extent financial leverage is working either for or against their firm's business (Miller et al., 2001). ROE is also one of the most common indicators used to measure a company's and its management's performance. ROE is computed as net income divided by average shareholders' equity (Abdullah, 2004; Ahmadu, Aminu & Taker, 2005; Chen, Cheung, Stouraitis & Wong, 2005; Limpaphaym & Connelly, 2006;

Omar, 2003).

4.5.1.3 Tobin's Q

Tobin's Q was developed by James Tobin, a sterling Professor of Economics at Yale University in 1968. Tobin's Q is a ratio of the market value of equity and debt of a company to the replacement cost of its assets (Agrawal & Knoeber, 1996). Due to the limitation of the available data, this study calculates Tobin's Q as the result of the market value of equity plus the book value of the debt divided by the book value of the total assets, as calculated by Aljifri and Moustafa (2007); Baek, Kang and Park (2004); Bauer, Günster and Otten (2004); and Weir et al. (2002). The use of Tobin's Q has the advantage of avoiding difficulty associated with the estimation of either rates of return or marginal cost, thus making 'Q' to be a better measure of both the market value and replacement cost of a firm (Lindenberg & Ross, 1981).

4.5.2 Independent Variables

The current study is considering several independent variables that seems to be likely having a major influence on performance. The predictors are being used in the current study are namely, ownership structure, board characteristic, audit committee, internal audit, auditor quality.

4.5.2.1 Ownership Structure

The following section will be discussing main Four (4) dimensions which were considered under the owndership structure.

4.5.2.1.1 Managerial Ownership

Managerial ownership is often used to refer to agency problems among firm managers and its shareholders (Shuto & Takada, 2010). Following previous studies, and using annual reports, managerial ownership is calculated as the percentage of shares owned by executive directors on the board to the gross number of firm's shares (Teshima & Shuto, 2008; Shuto & Takada, 2010).

4.5.2.1.2 Family Ownership

This study uses family ownership to reflect a significant aspect of ownership structure that explains the cultural environment of Jordan. Based on annual reports, family ownership is calculated as the percentage of shares held by families to gross number of firm's shares (Alkhawaldeh, 2012). Family members are defined as spouse and children (JCGC, 2009).

4.5.2.1.3 Institutional Ownership

Institutional ownership is measured as a ratio of the natural number of shares held by institutional investors, such as banks or insurance companies. According to Al-Najjar (2010), and based on annual reports, institutional ownership is calculated by dividing the number of shares that are held by the institutions to the gross number of firm's shares.

4.5.2.1.4 Foreign Ownership

Foreign ownership is considered as an additional dimension because of its importance in the Jordanian environment as an emerging market (Alkhawaldeh, 2012). Following annual reports and numerous studies such as Ali, Salleh and Hassan (2008); and Klai and Omri (2011), foreign ownership is calculated as the percentage of shares held by foreigners to total number of firm's shares.

4.5.2.2 Board Characteristics

4.5.2.2.1 Board Size

According to the prior studies, board size refers to the total number of members on the board of directors. For example, Ahmed and Duellman (2007); Lam and Lee (2008); and Krishnan and Visvanathan (2008) used similar measurement for board size. This measurement has been widely employed by previous studies (e.g., Ahmed & Duellman, 2007; Lam & Lee, 2008; Krishnan & Visvanathan, 2008).

4.5.2.2.2 Board Independence

Board independence is measured as the number of outside directors as a proportion of board size (Hayes, Mehran & Schaefer, 2004; Klein, 1998). In order for the board members to be "truly independent", outside directors should not be connected to the immediate family members of the management" (Sanda, Garba & Mikailu, 2011). Outside directors are "directors who do not participate in the management of the firm (Choi, Park & Yoo, 2007). Therefore, this study utilizes this measurement for board independence from the annual reports.

4.5.2.2.3 Board Meetings

Board meeting frequency refers to how often the board members meet to discuss the various issues facing a firm (Vafeas, 1999; Carcello et al., 2002 Latendre, 2004). Conger, Finegold and Lawler (1998); and Vafeas (1999) viewed board meetings as an essential resource for improving the effectiveness of the board and they use this to represent the intensity of board activity. Based on annual reports, the study measures board meetings by the number of board meetings held annually by the board of directors (Carcello et al., 2002).

4.5.2.2.4 CEO Duality

Duality occurs when the CEO serves as the chairman of the same firm's board. Depending on the financial reports, a dichotomous variable is used in this study, with a score of '1' if the functions of the CEO and chairman are combined and '0'otherwise (Ahmed & Duellman, 2007).

4.5.2.2.5 The Gender of Board Members

The representation of women in the board room is becoming an important focus among academicians, practitioners as well as social pressure groups (Burgess & Tharenou, 2002; Van Ees et al., 2007; McKinsey & Company, 2007). In managing the company, the gender is identified as being male or female. From annual reports, the gender of board members is measured using dichotomous variable coded '0' if there are all male members and ‘1’ if at least on of the members is female (Adams &Ferreira, 2004).

4.5.2.2.6 Political Influence

Political influence refers to the informal social connections of the firm with government officials in different administrative levels with the inclusion of central and local governments and regulation agencies, like tax or stock market administrative entities (Li et al., 2009; Peng & Luo, 2000). Direct empirical investigation of the relationship between political influence on firms’ decision-making and firm performance is difficult because of the need to identify objectives. This study measures political influence using background of the individuals on the board of directors. Following Xu, Zhu and Yi-Min (2002), a dummy variable is used, i.e., equals to ‘1’ if the board member has a political position, such as minister, secretary-general, member of the parliament and ‘0’ otherwise. Based on annual reports, the information of the political connectivity is found by thoroughly reading the board members’ profile in the annual reports.

4.5.2.3 Audit Committee

Following annual reports and numerous studies, audit committee is measured in the current study by the existence of audit committee in the firm, coded ‘1’ if the firm has audit committee and ‘0’ otherwise. This measurement has been employed by previous studies, such as Goodwin and Seow (2002); and Gulzar and Wang (2011). However, most Jordanian companies do not follow the requirements of corporate governance. For example, Abu-Haija (2012) found that only 48.22% of industrial companies in Jordan have an audit committee.

4.5.2.4 Internal Audit

Internal audit is measured in the current study by the existence of internal audit in the firm, coded '1' if the firm has internal audit department and '0' otherwise (Hutchinson & Zain, 2009). This measurement has been employed by previous studies, using annual reports such as Jensen (1993).

4.5.2.5 Auditor Quality

4.5.2.5.1 Auditor Independence

NAS are used as an indicator for auditor independence. Using annual reports, a dichotomous variable is used in this study; a score of '1' is awarded if the percentage of NAS to total fees paid to the external auditor during the year is below 20% and '0' otherwise. This measurement is supported by the literature (Myers, Myers & Omer, 2003; Choi &Doogar, 2005; Ghosh & Moon, 2005; Basioudis, Papakonstantinou & Geiger, 2008) by applying a 1:5 or 20% ratio limit, i.e., if the percentage of NAS to total fees is below 20%, then independence of auditor is not impaired, thereby indicating that the quality of the audit is higher.

4.5.2.5.2 Brand Name

This study uses audit firm size to measure the auditor's brand name. Based on annual reports, a dichotomous variable is used in this study and is awarded a score of '1' in case the external auditor is appointed from a Big-4 audit firm and '0' otherwise

(Balsam et al., 2003). Big Four firms are Pricewaterhousecoopers (PWC), Klynveld Peat Marwick Goerdeler (KPMG), Deloitte Touche Tohmatsu Limited (Deloitte) and Ernst & Young (EY).

4.5.2.6 Company Attributes

This study controls for two attributes of the company, namely company size, and debt contract.

4.5.2.6.1 Company Size

This study follows the previous literature using annual reports to measure company size (Ismail & Chandler, 2005; Alsaeed, 2006). The gross assets of the firm (a natural logarithm of gross assets) are used as a measurement of company size. In addition, such measure has been commonly used in the literature (Alsaeed, 2006).

4.5.2.6.2 Debt Contract

In this study, based on annual reports, debt contracts are measured by financial leverage. Leverage is calculated by the percentage of total firm's debt/assets (Coles et al., 2001).

4.5.2.6.3 Industry

4.6 Model of the Study

ROA=β0+β1MOWN+β2FOWN+β3FROWN+β4INSOWN+β5BSIZ+β6BIND+β7BMEET+β8CEO+β9BGENDR+β10BPOLI+β11ACEX+β12IAEXIS+β13AUIND+β14AUBRAN +β15LnTA+β16LnDEBT+β17IND+ε.

ROE=β0+β1MOWN+β2FOWN+β3FROWN+β4INSOWN+β5BSIZ+β6BIND+β7BMEET+β8CEO+β9BGENDR+β10BPOLI+β11ACEX+β12IAEXIS+β13AUIND+β14AUBRAN+β15LnTA+β16LnDEBT+ β17IND+ε.

Q=β0+β1MOWN+β2FOWN+β3FROWN+β4INSOWN+β5BSIZ+β6BIND+β7BMEET+β8CEO+β9BGENDR+β10BPOLI+β11ACEX+β12IAEXIS+β13AUIND+β14AUBRAN + β15LnTA+β16LnDEBT+ β17IND+ε.

Where:

MOWN = Managerial ownership measured by proportion of shares (direct and indirect shareholdings) held by the executive directors over the total number of shares issued.

FOWN = Family ownership measured by the percentage of shares owned by family executives divided by the total number of shares issued.

FROWN = Foreign ownership measured by percentage of shares held by foreigners to total number of firms shares.

INSOWN = Institutional ownership measured by the number of shares owned by institutional investors over total number of shares outstanding.

BSIZE =Board size measured by determining the total number of directors available on the board.

BIND = Board Independence measured by percentage of independent non-executive directors divided by the total board ofdirectors.

BMEET = Board Meetings Measured by the number of board meetings held annually by the board of directors.

CEO = CEO duality measured by ‘0’ representing no duality and ‘1’ representing there is a duality.

BGEND = The gender of board members measured by using dichotomous variable coded ‘0 ‘if the member is male and ‘1’ if female.

BPOLI = Political influence equals to ‘1’ if the board member has a political position, such as minister, secretary-general, member of the parliament, etc., and ‘0’ otherwise.

ACEXIS = Audit committee measured by ‘1’ if it exists and ‘0’ otherwise

IAEXIS = Existence of internal audit measured as dummy variable = ‘1’ if the internal audit exists, and ‘0’ otherwise.

AUIND = a score of ‘1’ is awarded if the percentage of NAS to total fees paid to the external auditor during the year is below 20% and ‘0’ otherwise.

AUBRANi = Auditor’s brand name measured as dummy variable = ‘1’ if the external auditor engaged by is from Big Four firm, and ‘0’ otherwise.

LnTA= the gross assets of the firm (a natural logarithm of gross assets) are used as a measurement of company size

LnDEBT = calculated by the ratio of total firm’s debt divided by assets.

IND = calculated by 1 is used if the firm is in the industry or 0 otherwise.

4.7 Chapter Summary

This chapter addresses the methodology, operationalization and measurement of the variables. It highlights the sample selection and data collection methods and presents the estimation approach as well as the research model. Finally, the chapter discusses the measurement of the dependent and independent variables. As this study investigates the relationship between performance indicators and corporate governance, the chapter sheds light on the importance of the econometric selection approach to produce better estimated results. This can produce a more consistent and efficient estimator. The chapter discusses the adoption of dynamic GMM and related advantages over the static models. The following chapter discusses the empirical results on the performance indicators and its relationship with the corporate governance matrices in a comparative fashion between the finance and non-financial sectors.

CHAPTER FIVE: RESEARCH DISCUSSION

5.1 Introduction

This chapter presents the empirical findings of this research to meet the research objectives and address the research questions. To recap, this study aims to achieve the following research questions:

1. What is the effect of ownership structure (managerial, family, institutional and foreign ownership) on the performance of Jordanian Listed firms?
2. What is the effect of board characteristics (size, independence, meeting, CEO duality, gender and political influence) on the performance of Jordanian listed firms?
3. What is the effect of audit committee on the performance of Jordanian Listed firms?
4. What is the effect of internal audit on the performance of Jordanian Listed firms?
5. What is the effect of auditor quality (brand Name, auditor independence) on the performance of Jordanian Listed firms?

The analysis initially introduces the empirical findings of the research, starting from the descriptive analysis of the sample and variables description used in the model. It is followed by an analysis that addresses the research questions and objectives. Principally, to address the research objectives and questions, the analysis is conducted for all sectors as mentioned previously to achive the research objectives, and then it combines all sectors as it may have different impacts, when introducing all determinants in separate and pooled models. However, in order to address the variation of the impact of explanatory variables on performance, several robustness checks were undertaken to control the influence of the industry. Given the sample of the research included all companies in the stock market and sectors, namely finance, service and industrial sectors are included, it is worthwhile to observe the variations of the impact of various ownerships and governance determinants on performance indicators. It is because of the fact that the finance sector is heavily regulated as compared to the rest of the companies in the stock market. This would have another strong filter on the performance of the finance sector. In other words, as the finance sector is monitored by the Central Bank of the country besides the JSC, the regulations imposed on them may lead one to believe that banks are governed better than other companies and thus, the performance would be better.

5.2 Descriptive Statistics

5.2.1 Sample Distribution

This section discusses the statistics of the sample distribution among the sectors and its characteristics. Table 5.1 shows that the sample of this study is categorized based on three sectors. The first sector is the industrial sector and the second sector represents the service sector and finally the financial sector. As the data of the study runs over 2009 to 2013, with a sample size of 204 companies, the total sample collected for the study is 1,020. The distribution of the observations over the three sectors is shown in Table 5.

Table 5.1:
Distribution of the Observations among Various Sectors

Sector	**Frequency**	**No of firms**	**Percent**	**No of observation across years**				
				2009	2010	2011	2012	2013
Industrial Sector	320	64	31.38	64	64	64	64	64
Service Sector	265	53	25.98	53	53	53	53	53
Finance Sector	435	87	42.64	87	87	87	87	87
Total	1020	204	100	204	204	204	204	204

As shown in Table 5.1, the financial sector comprises 42.64% of the companies listed on ASE. This indicates the significant contribution of the financial sector for economic development. The industrial sector constitutes 31.38%, which is followed by the service sector with approximately 25.98%. With respect to the distribution of the sample over years among sectors, the industrial sector represents 64 observations every year, while the finance sector has 87 observations every year and finally the service sector with 53 observations every year.

5.2.2 Descriptive Statistics of the Data

Table 5.2 summarizes the data distribution over the sample. Overall summary of sample characteristics in terms of the variables of the models for the period of 2009 - 2013.Table 5.2:

Overall characteristics of sample for all variables for the years 2009, 2010, 2011, 2012, 2013 and overall

	2009				**2010**				**2011**			
Variable	**Mean**	**Std. Dev.**	**Min**	**Max**	**Mean**	**Std. Dev.**	**Min**	**Max**	**Mean**	**Std. Dev.**	**Min**	**Max**
Return on Assets (ROA)	0.02	0.08	-0.21	0.2	0.03	0.09	-0.9	0.19	0.03	0.06	-0.15	0.34
Return on Equity (ROE)	0.05	0.19	-0.46	1.05	0.06	0.22	-0.52	0.93	0.08	0.19	0.7	0.88
Tobin's Q ratio	0.67	0.62	0.56	3.51	0.89	0.78	0.75	4.12	0.7	0.88	0.8	3.89
Institutional Ownership (%)	0.44	0.36	0	0.93	0.44	0.37	0	0.93	0.45	0.37	0	0.95
Foreign Ownership (%)	0.3	0.26	0	0.88	0.28	0.26	0	0.88	0.29	0.27	0	0.88
Family Ownership (%)	0.22	0.18	0	0.82	0.21	0.18	0	0.69	0.21	0.17	0	0.69
Management Ownership (%)	0.47	0.22	0	0.99	0.48	0.23	0	1	0.47	0.22	0	0.9
Directors Independence (IND)	0.65	0.18	0.09	1	0.42	0.17	0.2	1	0.64	0.17	0.2	1
Size of the Board (Size)	8.79	2.57	4	19	8.74	2.57	4	14	8.71	2.56	4	18
Board Meetings	6.98	1.52	4	13	7.11	1.62	4	13	7.18	1.56	5	12
CEO Duality	0.31	0.46	0	1	0.39	0.47	0	1	0.31	0.46	0	1
Female on the Board	0.29	0.45	0	1	0.29	0.45	0	1	0.26	0.47	0	1
Political Influence	0.37	0.46	0	1	0.3	0.46	0	1	0.27	0.45	0	1
Audit Committee Existence	0.63	0.48	0	1	0.66	0.47	0	1	0.67	0.47	0	1
Internal Audit Existence	0.63	0.48	0	1	0.56	0.48	0	1	0.63	0.48	0	1
Auditor Independence	0.37	0.48	0	1	0.38	0.49	0	1	0.4	0.49	0	1
Auditor Brand	0.44	0.5	0	1	0.47	0.5	0	1	0.52	0.5	0	1
TALn(Total assets)	17.01	2.01	12.3	22.24	17.11	2.08	12.65	21.6	16.97	2.05	12.39	21.97
Leverage	0.44	0.24	0	0.95	0.36	0.35	0.15	0.67	0.43	0.22	0	0.92

Table 5.2 cont…

	2012				2013				overall			
Variable	**Mean**	**Std. Dev.**	**Min**	**Max**	**Mean**	**Std. Dev.**	**Min**	**Max**	**Mean**	**Std. Dev.**	**Min**	**Max**
Return on Assets (ROA)	0.05	0.08	-0.36	0.33	0.04	0.08	-0.29	0.36	0.04	0.09	-0.29	0.36
Return on Equity (ROE)	0.09	0.34	-1.46	0.98	0.07	0.24	-0.66	1.2	0.08	0.19	-0.66	1.2
Tobin's Q ratio	0.69	1.71	0.71	4.25	0.83	1.61	0.61	4.57	0.95	0.68	0.56	4.57
Institutional Ownership (%)	0.4	0.37	0	0.96	0.44	0.36	0	0.96	0.44	0.36	0	0.96
Foreign Ownership (%)	0.3	0.27	0	0.88	0.46	2.45	0	0.89	0.33	1.12	0	0.89
Family Ownership (%)	0.22	0.17	0	0.69	0.22	0.18	0	0.67	0.22	0.18	0	0.82
Management Ownership (%)	0.56	0.21	0	0.9	0.47	0.22	0	0.9	0.47	0.22	0	0.9
Directors Independence (IND)	0.64	0.17	0.33	1	0.64	0.19	0.33	1	0.66	0.17	0.09	1
Size of the Board (Size)	8.5	2.56	5	16	8.5	2.51	6	19	8.65	2.55	4	19
Board Meetings	7.33	1.65	5	12	7.27	1.62	4	14	7.17	1.6	4	14
CEO Duality	0.29	0.45	0	1	0.24	0.47	0	1	0.31	0.46	0	1
Female on the Board	0.32	0.47	0	1	0.31	0.46	0	1	0.26	0.46	0	1
Political Influence	0.33	0.61	0	1	0.33	0.47	0	1	0.31	0.49	0	1
Audit Committee Existence	0.73	0.45	0	1	0.7	0.46	0	1	0.68	0.47	0	1
Internal Audit Existence	0.64	0.48	0	1	0.66	0.47	0	1	0.64	0.48	0	1
Auditor Independence	0.45	0.5	0	1	0.37	0.48	0	1	0.39	0.49	0	1
Auditor Brand	0.59	0.49	0	1	0.57	0.5	0	1	0.52	0.5	0	1
TALn(Total assets)	17.12	1.98	12.22	22.6	17.24	2.11	12.12	23.88	17.09	2.04	12.12	23.88
Leverage	0.42	0.23	0	0.75	0.42	0.22	0	0.62	0.43	0.23	0	0.95

5.2.2.1 Distribution of the Dependent Variables

In Table 5.2, the mean value for the market valuation measured by Tobin's Q is 0.95 with a minimum value of 0.56 and maximum of 4.57. What can be inferred from the above indication is that market valuation that is more than 1 is in favour, while less than 1 suggests less value created by the companies to the owners. In other words, companies, which have more than 1 are overvalued and those less than 1 are undervalued. With regards to the ROA and ROE, the accounting performance measures, it is shown that the mean for the ROA and ROE is 4% and 8%, respectively.

As can be seen from Table 5.2, the overall firms' compliance with corporate governance requirements has been improved as compared to the year of introduction of corporate governance (i.e. in 2009). Specifically, the independence of board of directors has been strictly followed by most companies with at least 33% in 2013 of companies of their directors as independent non-executive directors compared to 9% in 2009. Similarly, board meetings of at least six meetings annually has have been fulfilled by most of the companies, although at least one company has not fulfilled the requirement with 4 only four meetings annually. With regards to CEO duality, it can be observed that the compliance is in line with the previous studies' results as well the hypothesis of the current study where at least one company has not complied with the requirement to separate the post of CEO and chairman of the board. One of the notable results in the corporate governance is the audit committee existence where in 2009, there are some companies were not having established audit committee; this situation continued throughout the study period. It was pointed out in the research recommendations to the corporate managers to forece companies should establish an audit committee and an internal audit function

5.2.2.2 Ownership Structure

Ownership structure is an important factor used in the corporate governance research to study its effect on performance. Four types of ownership are observed in this study. Table 5.3 shows the descriptive statistics for the ownership structure for listed companies on the ASE.

Table 5.3:
Ownership Structure

	N=1,020		N=1,020		N=1,020		N=1,020	
Percentile	Institutional Ownership		Family Ownership		Managerial Ownership		Foreign Ownership	
	Obs.	%	Obs.	%	Obs.	%	Obs.	%
Less than 20%	388	38%	517	50.7%	157	15.4%	544	44.6%
More than 20 and less than 50%	138	13%	464	45.5%	476	46.6%	324	31.8%
More than 50 and less than 75%	99	10%	38	3.8%	237	23.3%	176	17.3%
More than 75 and less than 90 %	355	35%	1	0.009%	150	14.7%	61	6 %
More than 90 %	40	4%			0	0	4	0.3%
Average	44.44%		22%		47%		33%	
Minimum	0		0		0		0	
Maximum	95.7		97.4		90%		88.%	

Ownership structure is argued to be one of the factors which influence the performance of firms. Regarding the ownership structure at the ASE, it can be seen from Table 5.3 that the ownership of listed companies on the ASE is concentrated as in other countries. Institutional ownership is one type of ownership that has contributed to the performance of various companies. In this study, there is an existence of institutional ownership with an average of 44.44 % of shareholdings owned by institutions as reported in Tables 5.3 However, there is institutional ownership in approximately half (51 %) of the companies having stake between 0 and 50%, while 4% of shareholdings are owned by more than 90%. Approximately, 45% of companies are owned by institutional shareholders, ranging between 50% to 90%. Overall, the results are consistent with the findings of Al-Amarneh et al. (2011) who reported that institutional ownership constitutes almost 44% of the shareholders at ASE.

Family ownership constitutes around 22% of the sample. In particular, 96.2% companies included family ownership of 1% to 50% of shares, while the other 3.8% of companies included family ownership of 50-75%.

In terms of the managerial ownership, Tables 5.3 show that in 62% of companies, managers own a shareholding in the companies between 1% and 50%, whereas the managers owning above 50% comprise a large portion of 38 %.

The last category of ownership is foreign ownership, which shows that on average, 33% of firms have foreign ownership. While the majority of the firms (76.4%) have small percentage (less than 50%) of foreign ownership in their shareholding, 23.6 % of the firms have foreign ownership of more than 50%. The highest percentage of foreign ownership is 89%.

5.2.3 Description of Corporate Governance Indicators

5.2.3.1 Board Independence

Table 5.4 shows the composition of the board in terms of its independence. The results indicate that most of the companies comply with the corporate governance guidelines with respect to the board's independence. Only few companies with a percentage of 5.1% in the market have less than one-third of independent directors. The guidelines impose that the board of directors should comprise at least one-third of external independent directors. As can been seen in Table 5.4, all companies in the finance sector follow the guidelines, with few companies in the service and industrial sectors not having the required percentage. Overall, the independent directors constitute around 66% of the total number of directors. Individually, more independent directors are observed in the finance sector with 72% of directors considered as independent. This may reflect the importance of the finance sector and its sensitivity, which requires more careful consideration not only from the stock market, but also from the Central Bank.

Table 5.4:
Board Independence

Independence %	Finance	Service	Industrial	Overall
Less than one-third	0	9.1%	7.2%	5.1%
one third and Higher	100%	90.9%	92.8%	94.9%
Total	100%	100%	100%	100%
Average Independence	0.72	0.60	0.64	0.66
Minimum	0.33	0.20	0.09	0.09
Maximum	0.85	0.88	100%	100%

5.2.3.2 Board Size

The size of the board matters, as the literature suggests, that the effectiveness of the board in performing its monitoring function relies heavily on board size (John & Sanbet, 1998; Golden & Zajac, 2001). Although is it very hard to determine the appropriate size for boards, Jensen (1993) argued that corporate boards are less effective and yet, it is easier for the CEO to control as the size grows, specifically, in cases whenever size of the board exceeds seven or eight members. This is because larger board size may enhance the performance as the knowledge, skills and expertise the directors are equipped with can build a proper channel of communication and coordination to dysfunctional norms of behaviour among board members (John & Sabnet, 1998). Furthermore, large boards may face decreased levels of motivation and participation and are prone to develop factions, free- riding, and coalitions (Berghe & Levrua, 2004; Golden & Zajac, 2001). Therefore, a size between six and eight may well be considered as an optimal board size as suggested by Jensen (1993).

Table 5.2 shows the overall distribution of the board size for the sample and the distribution of board size across sectors. Generally, the average board size for the sample seems to be approximately eight directors sitting in the board room. However, looking into the details in Table 5.5, we notice that 49% of our observations point to a board size of more than eight directors, which indicates non-optimality as literature suggests. Individually, the industrial sector has an average board size of 8.34 directors, with the majority of observations (51%) having a size of more than eight directors. Only 37% of observations fall within the optimal size suggested in the literature. The service and financial sectors show that around 49% of observations have a board of more than eight directors.

Table 5.5:
Panel A: Distribution of the Number of Directors across the Sectors

Number	Overall Distribution		Industrial Sector		Service Sector		Financial Sector	
	Observation	Percent	Observation	Percent	Observation	Percent	Observation	Percent
Less than 6 members	145	14.2%	39	12%	38	13.4%	68	14.5%
6-8 members	372	36.5%	118	37%	96	36.2%	158	36.3%
More than 8 members	503	49.3%	163	51%	131	49.4%	214	49.1%
Total	1020	100%	320	100%	265	100%	435	100%
Average board size	8.52		8.34		8.64		8.6	
Minimum size	4		5		4		5	
Maximum size	19		19		13		14	

5.2.3.3 Board Meeting

Corporate governance guidelines of the ASE emphasize that each listed company should have a minimum number of six meetings to be held every year. As can be seen from the Table below, not all listed companies comply with the corporate governance code. The highest non-compliance can be seen in Table 5.6 in the industrial sector with 11.3% of less than six meetings. The service sector shows that 6.4% hold less than six meetings every year and this is followed by the finance sector with 4.8% non-compliant companies. The maximum number of the meetings is 16 meetings every year, which is in the service sector and the minimum number of meetings is four meetings. On average, the directors' meetings are in line with the threshold imposed by the ASE with an average number of seven meetings per year.

Table 5.6:
Board Meetings

	Finance	Service	Industrial	Overall
Less than 6 meetings	4.8%	6.4%	11.3%	7.3%
6 and more meetings	95.2%	93.6%	88.7%	92.7%
Total	100%	100%	100%	100%
Average Meetings	6.63	7.6	7.11	7
Minimum	4	4	4	4
Maximum	12	16	13	16

5.2.3.4 Summary of the Existence or Non-Existence of Various Sectors

From Tables 5.7 and 5.8, it is shown that the distribution of CEO duality in the overall sample indicates that the majority of the companies separate the post of the CEO from the post of the chairman of the board. Approximately, 69% of the companies separate the position of the chairman of the board from the CEO position. Furthermore, there is consistency in the practice of duality norms in all sectors where the percentage of companies separating the board chair and CEO ranges from 84% to 82% in the three sectors. In terms of women on the boards, their average participation in the board of directors is 26 %. The presence of women on the board is considered as the highest in the service sector with a percentage of 28% of the companies. Meanwhile, their presence on the industrial sector boards is the least with 17% of the companies.

With regards to the audit committee's existence, as can be seen in Tables 5.7 and 5.8, there are 32 % of companies that do not have an audit committee yet, indicating that these companies are still not in compliance with the Code of Corporate Governance of the ASE. Analysing such indicators by sector reveals that the industrial sector is the highest sector in which there is no audit committee established in 50% of companies in this sector. The finance sector and service sector also experience the non-presence of the audit committee with a percentage of 18.7% and 21.8%, respectively.

Table 5.7:
Overall Statistics on the Dichotomous Variables

Variable	Existence	Non-Existence	Total
Duality	31%	69%	100%
Women on the Board	26%	74%	100%
Audit Committee	68%	32%	100%
Internal Audit	73.5	26.5%	100%
Political Influence	31%	69 %	100%
Auditor Independence	39 %	61%	100%
Auditor Brand	52%	48%	100%

Table 5.8:
Statistics on the Dichotomous Variables by Sector

	Finance			Service			Industrial		
Variable	Exist	Non	Total	Exist	Non	Total	Exist	Non	Total
Duality	13.6%	84.4%	100%	17.7%	82.3%	100%	16.9%	84.1%	100%
Women on the Board	23%	77%	100%	28.5%	71.5%	100%	17.2%	83.8%	100%
Audit Committee	81.3%	18.7%	100%	79.2	21.8%	100%	50%	50%	100%
Internal Audit	75.9%	24.1%	100%	71.7%	28.3%	100%	70.9%	29.1%	100%
Political Influence	29.9%	70.1%	100%	15.2%	84.%	100%	15.6%	84.4%	100%
Auditor Independence	35.7%	64.3%	100%	46 %	54 %	100%	58%	42 %	100%
Auditor Brand	53.7 %	46.3%	100%	58 %	42 %	100%	43%	57.%	100%

Like audit committee existence, some companies on the ASE do not have an in-house internal audit department. On average, 26.5 % of companies do not have an internal audit department. The financial sector is considered the highest sector, which has established a separate internal audit department with 75.9%. This is followed by 71.7% in the service sector and 70.9% in the industrial sector. Again, this indication shows that the companies on the ASE are still at an early stage of compliance with the Code of Corporate Governance. Political influence is also considered to be among the factors affecting the performance of companies. The affiliations of directors and their political link can be seen in Tables 5.7 and 5.8, where 31% of companies have directors with political links. The finance sector ranks first in terms of the political link of their directors with 29.9% of the companies in this sector. Service and industrial sectors come next after the finance sector with 15.2% and 15.6%, respectively in terms of companies that have directors on the board with political affiliation.

Lastly, auditor characteristics are shown in Table 5.7 with an average of 39 % of companies' auditors having lack of independence. In other words, 39% of auditors provide NAS to the companies with a percentage exceeding 20% of audit fees, which may pose a threat to their independence when it comes to judging the performance of the companies. This can be seen in Table 5.8 through the sector indicators of NAS. The auditors in 35.7% of companies in the finance sectors provide NAS. The service and industrial sectors also have a link with the auditors in terms of NAS with a percentage of 46 % and 58%, respectively. Another indicator of audit quality is the brand of auditors which is classified as big four and non-big four. Approximately,52 % of companies are audited by big four, while the rest are audited by non-big four. The highest sector using big-four is the service, finance and industry sector with a percentage of 58% and 53.7% 43%, respectively, of the total number of companies in this sector.

Based on the results in Table 5.9, it is shown that the average total assets for all sectors are 165,084,179 with larger asset size falling under the financial sector with a volume of 315,163,473. The average logarithm size is around 17.09 as shown in Table 5.2; the average company debt contract (leverage) is 43.6%, with the highest level of leverage of 48.1% in the industrial sector and the lowest leverage of 37.8 % in the financial sector. These indicators reflect that the financial sector has less leverage, which may suggest that the financial sector and banking in particular, are unable to attract depositors and hence rely more on equity for their financing and lending.

Table 5.9:
Summary of Statistics of the Control Variables

Variable	Finance	Service	Industrial	Overall
Size	315,163,473	30,264,681	83,793,852	165,084,179
Debt	37.88%	45 %	48.1%	43.6%

5.2.4 Correlation Matrix

According to Lind, Marchal, & Wathen (2008), for the validity of the estimation results, it is very critical to ensure that the independent variables are free from correlation among them. Econometric literature has shown that correlation can be tested using different diagnostic tests, like the Pearson correlation matrix.

Table 5.10 reports the findings of the Pearson correlation matrix, which suggests that all variables are far from being correlated; therefore, multicollinearity does not pose any problem that may influence the estimation process of the model and hence its findings. As can be seen from Table 5.10, all corporate governance, ownership and firm- specific characteristics have a correlation with each other, but not above -0.70 and +0.70, where the rule of thumb indicated by literature suggests that if the correlation is above that range. Then it is an indicator of higher likelihood of multicollinearity, which is not the case in this study (Lind, Marchal, & Wathen, 2008).

Table 5.10:
Correlation Matrix

	MOWN	FOWN	FROWN	INSOWN	BSIZ	BIND	BMEET	CEO	BGENDR	BPOLI	ACEXIS	INTEXIST	BRAND	AUDIND	LnTA	LnDEBT
MOWN	1															
FOWN	0.06	1														
FROWN	-0.01	0.017	1													
INSOWN	-0.01	0.18	0.167	1												
BSIZ	-0.02	-0.034	0.011	0.011	1											
BIND	-0.02	0.044	0.17	0.067	0.133	1										
BMEET	0.08	0.094	0.181	0.084	-0.064	0.117	1									
CEO	-0.19	-0.059	0.24	0.024	-0.026	-0.003	-0.088	1								
BGENDR	0.03	0.02	0.12	0.072	0.101	0.131	0.051	0.114	1							
BPOLI	0.11	0.026	0.041	0.074	0.093	0.138	0.048	0.064	0.528	1						
ACEXIS	-0.02	0.013	0.13	0.093	0.058	0.181	0.003	0.118	0.136	0.159	1					
INTEXIST	0.2	0.062	0.063	0.073	0.101	0.177	0.132	-0.046	0.127	0.207	0.208	1				
BRAND	-0.02	0.013	0.23	0.093	0.058	0.181	0.003	0.118	0.136	0.159	0.011	0.208	1			
AUDIND	0.04	0.001	0.19	0.291	0.084	0.148	-0.039	-0.04	0.124	0.087	0.089	0.021	0.089	1		
LnTA	0.4	0.088	0.051	0.045	0.329	-0.039	-0.002	-0.159	0.079	0.065	0.018	0.149	0.018	0.051	1	
LnDEBT	-0.19	0.011	0.09	0.129	0.175	0.135	-0.009	-0.019	0.039	0.034	0.392	0.033	0.392	0.105	-0.037	1

5.3 Empirical Estimation: A dynamic investigation

The chapter proceeds with the presentation of the results of the overall sample for the three indicators of performance. Recent literature examining the relationship between corporate governance and performance has adopted a dynamic model to control for the endogeneity problem and possible dynamics in their relationship (Munisi, & Randoy, 2013). The main feature of such models as argued by literature is their ability to cater for the autocorrelation due to the presence of a lagged dependent variable among the regressors and individual effects characterizing the heterogeneity among the individual variables (Daher et al., 2015; Ammann et al., 2011). Ammann argued that such a model is introduced by: (1) using lagged performance as explanatory variable; (2) all variables are differences meaning t-1, which help to cater for the problems of unobserved heterogeneity and solve the possible effect of omitted variables; and (3) using lagged variables for the present values is a way to handle the likelihood of simultaneity and reverse causality.

Tables 5.11 show the estimated findings for the baseline model for the GMM system. The standard errors are presented in parentheses for all regression models and *, **, ***report the significance levels at 1%, 5% and 10% levels, respectively. As shown in the last rows of the Tables, the most important diagnostic tests for panel GMM is the autocorrelation test and over- identification test of the instruments, where both are presented at the bottom of each Table. The instruments are also presented. Autocorrelation is diagnosed using the Arellano-Bond test as reported in each table, while the Sargan test seeks to identify the suitability of the instruments used.

As indicated in the table 5.11, the empirical evidence shows that the results of diagnostic tests adequately pass the tests and thus the model specifications are fairly qualified. The Sargan test of over-identification does not reject the null hypothesis that the instruments are over- identified, which suggests the suitability and validity of the instruments used. Moreover, the results of the Arellano-Bond test of autocorrelation suggests that all models pass the tests of existence of the first- order autocorrelation and hence, it rejects the null hypothesis of no first- order autocorrelation while the regression models report that the specifications do not reject the null hypothesis of no second- order autocorrelation. It is in line with the expectation that the residuals in the first- difference AR (1) should be serially correlated, but the residuals in the second- difference AR (2) should not be serially correlated. This indicates that the models meet the diagnostics requirement of the existence of the first- order autocorrelation and the absence of second- order auto correlation. Overall, the specifications are well specified and less likely to suffer from autocorrelation problems. As we can see from the models, the lagged dependent variables are positively and significantly related to the dependent variable, which signals that the performance indicators are characterized by persistence over time, which in turn, provides a solid justification of the appropriateness of using the Dynamic GMM as the estimation method.

Overall, the empirical findings suggest that institutional ownership and family ownership have no impact on the performance indicators as shown in Table 5.11, Moreover, women on the board and internal audit existence have no impact on most performance indicators. Meanwhile, the influence of board independence, total assets and leverage are not unique across the three measures of performance. In order to show more robust results, system GMM was applied to avoid the weaknesses inherited by difference GMM. It can be seen from the results that the performance of firms is explained by almost similar factors with few exceptions. Foreign ownership remains a significant determinant in two of the three models supporting the previous results indicated in difference GMM which shows a positive impact on the ROE and Tobin's Q at 5% and 1% level of significance. Board size shows a consistent influence on the performance at 1% and 5% level of significance across the three models. Independence of the board shows a better effect on both ROA and ROE, which is slightly different from the results of difference GMM. Board meetings show persistent results in influencing positively and significantly the ROA and ROE at 1% and 10% levels, while their effects on market valuation are negative at 1% and 5% level of significance. The results of influence CEO duality, auditor independence and brand of auditor on performance remain the same with different levels of significance. Overall, the results show some slight differences, but the majority of the results are consistent with difference GMM.

Table 5.11:

Full Sample Test: System GMM Estimator for Panel Data.

	ROA		**ROE**		**Tobin's Q**	
	Coefficient (stander.error)	**T value**	**Coefficient (stander.error)**	**T value**	**Coefficient (stander.error)**	**T value**
Lag (1)	0.425(0.082)	5.180*	0.455(0.095)	4.790*	0.476(0.103)	4.620*
MOWN	0.010(0.023)	0.430	0.112(0.050)	2.240**	0.196(0.159)	1.230
FOWN	0.049(0.030)	1.630	0.080(0.062)	1.290	0.009(0.226)	0.040
FROWN	0.000(0.000)		0.003(0.001)	3.000*	0.009(0.003)	3.000*
INSOW	-	-0.840	0.010 (0.082)	0.120	-	-0.140
BSIZE	-	-2.676**	-0.017(0.007)	-2.430**	-	-10.15*
BIND	0.055(0.030)	1.83***	0.098(0.056)	1.750**	0.045(0.181)	0.250
BMEET	0.008(0.003)	2.660*	0.009 (0.005)	1.800**	-	-4.760*
CEO	-	-2.250**	-0.051(0.024)	-2.130**	-	-1.470
BGEND	-	-0.650	-0.010(0.022)	-0.450	-	-2.080**
BPOLI	-	-2.29**	-0.034(0.013)	-2.620*	-	-1.200
ACEXIS	0.023(0.007)	3.29*	0.026(0.017)	1.530	0.031(0.059)	0.530
INTEXIS	0.002(0.011)	0.18	0.006(0.017)	0.350	0.226(0.060)	3.760*
BRAND	0.041(0.016)	2.56**	0.080(0.028)	2.860*	0.105(0.071)	1.480
AUDIN	0.022(0.008)	2.75*	0.028(0.016)	1.750**	0.008(0.062)	0.130
LnTA	0.002(0.001)	1.86***	0.003(0.002)	1.500	0.266(0.090)	2.955*
LnDEBT	-	-0.050	-0.010(0.032)	0.310	0.323(0.115)	2.810*
No. of observations		*1020*	*1020*		*1020*	
No. of firms		*204*	*204*		*204*	
Instruments		*26*	*26*		*26*	
AR(1) test		*-5.0845**	*-4.4708**		*-4.081**	
AR(2) test		*0.519*	*0.392*		*0.545*	
Sargan Test		*.125*	*0.156*		*0.214*	

Note: standard errors in parentheses, *, **,*** indicate significant sign at 1%, 5% and 10%, respectively; AR(1) refers to first order autocorrelation; AR(2) refers to second order autocorrelation; Sargan test is a test used to test the validity of instruments used;

Note:

MOWN refers to management ownership; FOWN represents family ownership; FROWN is a proxy of foreign ownership; INSOWN is a measure of institutional ownership; BSIZ represents board size; *BIND is a measure for board independence; BMEET is board meetings; CEO is duality measure for the chairman and CEO chair; BGENDR refers to the gender on the board; BPOLI represents political connectivity; ACEXIS refers to audit committee's existence; INTEXIST* is a measure of internal audit existence; *BRAND represents a type of auditor-big or non-big four; AUDIND refers to auditor independence as measured by the NAS that exceed 20%; LnTA is logarithm of total assets; LnDEBT debt/total assets*

5.3.1 Discussion of the results

This part of the chapter presents the significance and important empirical results from the estimation in difference and system GMM. To be precise, the results are shown in further detail. The first result that is of crucial importance is the lagged dependent variable. As can be seen in the above Table 5.11, the lagged dependent variable shows a significant relationship at 1% levels for all models. This presents evidence on the explanatory power of the lagged values of performance. In other words, it indicates the significant contribution of the previous performance when directing and determining the existing performance of the Jordanian Listed Companies., where the coefficient level on one year with lagged ROA, ROE and Tobin's Q is revealed to be statistically significant at 1% across the three measures of performance (β=0. 425; 455; 476, respectively; p=.001). The implication of such results is the high level of performance persistence, which suggests that Jordanian listed firms' past performance has positive and significant influence on the current performance. The results are consistent with the previous studies (Nguyen et al., 2014, Wintoki et al., 2012; Ammann et al., 2011, Schultz et al., 2010). Nguyen et al. (2014) argued in such cases of high persistence level of past performance, the inclusion of lagged variable as the determinant variable is an important factor that helps to control and to shape the dynamic relationship between corporate governance and performance indicators.

Based on Table 5.11, management ownership reveals a positive relationship on one of the performance indicators, namely ROE. This means that higher ownership of managers would lead to better performance. The results are consistent with the findings of Simoneti and Gregoric (2004); and Fauzi and Locke (2012), in which they argued that giving managers corporate shares helps them to be happy and hence, influences their behaviour as they become part of the shareholders. Jensen and Meckling (1976) theorized that the conflicts of interests can be mitigated using equity shareholding to replace the compensation system. The shareholding incentive is an attempt to align the shareholders and managers' interests and hence, reduce the agency problems and costs, which consequently can enhance the performance of the firms.

Likewise, based on Table 5.11, family ownership is shown to be non-significant factor affecting ROA, ROE and Tobin's Q. Overall, the results are consistent with previous studies, for example, Anderson and Reeb (2003), at least in terms of the market-based performance. Miller et al. (2001) found that firms owned by family do not experience any outstanding performance.

Moreover, based on Table 5.11, foreign ownership shows significant influence on the performance of Jordanian companies as shown through both accounting (ROE) and market- based performances (Tobin's Q). The more foreigner owners there are, the better the performance of the firms. It could be a direction that shares are better valued by foreign investors than local investors (Ferreira & Matos, 2008). Moreover, the performance of firms, whose shares are owned by foreign investors, would perform better as the widely held belief that firms with foreign investors are governed better than other firms, (Balasubramanian et al., 2010). However, the results contradict Munisi and Randøy (2013), who reported that foreign ownership does not have any influence on the performance of firms.

Based on Table 5.11, board size shows a negative relationship with performance across all measures of performance. From the empirical perspective, the results of this study are consistent with the findings of Yermack (1996), which reveal a negative relationship between board size and performance. This is in line with the argument proposed by Lipton and Lorsch (1992); and Jensen (1993) which contend that bigger boards tend to experience various issues and problems related to communication and social loafing and require higher coordination costs, which consequently weaken performance. Furthermore, there are other problems associated with larger boards, including coordination, leading to dysfunctional norms of behaviour in board members, longer time to come to an agreement and to reach a consensus for critical decisions (Chang, 2009). More than that, whenever the board increases in size, the members would find difficulty in building their interpersonal relationships, cohesiveness or in maintaining high board effort norms. This normally happens due to the potential for spreading out of accountability and responsibility (Berghe and Levrua, 2004). Golden and Zajac (2001) argued that detrimental value of the board members could be due to the reduced motivation and participation and there is a tendency to develop factions, free riding and coalitions.

Furthermore, based on Table 5.11, board independence shows a significant role in affecting the accounting performance of Jordan's listed firms, but not the market-based performance. The value of independent directors stems from the fact that there is a need to monitor the management by independent directors following the widely held belief that those directors are better in terms of the independent judgment of performance (Weir & Laing, 2001). The friction they have with the management is less likely as they are experts in the market and reputation is much more important than the friction with the management; hence, they are better able to monitor and further improve performance (Fama, 1980; Fama & Jensen, 1983; Carter et al., 2003; Weir et al., 2002). The strategic researchers have suggested that boards tend to behave more independently, if they are composed of outsiders and therefore their involvement in the decision- making becomes more apparent as they bring in different knowledge and expertise, thus demonstrating good performance (Judge & ZeithamI, 1992).

However, it is of more interest that the market does not value board independence, which could be due to the fact that Tobin's Q does not always indicate firm performance, rather, it reflects growth opportunities related to external conditions and not managerial decisions (Pham, Suchard & Zein 2007, Yermack, 1996). Using different measures of performance may indicate different impacts as argued by Koerniadi and Rad (2012). Furthermore, it is found that directors are overly sympathetic to management, in which financial analysts who are optimistic are appointed by the management as independent directors, which impacts the perception of the market toward these firms.

Discerned from Table 5.11, board meetings are positively related to performance indicators (ROA and ROE); however, it is negatively related to market valuation. The results in the accounting context provide support for the agency theory perspective. Frequent meetings by the board indicate more effective monitoring and disciplining management for any opportunistic behavior, hence, enhancing performance (Ntim & Osei, 2011). This is also indicated by Vefeas (1999), where he argued that the intensity of meetings is an indication of high monitoring quality and effective board in monitoring and guiding the management to the betterment of the shareholders. When the board members meet regularly, it helps them to have more time to discuss issues and devote their time to set strategies and to assess the performance of the management from time to time. The directors would be updated and be knowledgeable about the important issues and development, hence addressing them on a timely basis, and avoiding the problematic issues, which in turn, is reflected in the performance of the firm (Mangena & Tauringana, 2008). What is more important are that frequent meetings or regular meetings can be considered as capstone of a conscientious director (Sonnenfeld, 2002) and create cohesiveness among the members of the board. (Lipton and Lorsch 1992), consequently leading to a spill over on better performance. In sum, more meetings may indicate higher intensity of monitoring and hence, better performance.

Looking into the other side of performance, or more specifically, market valuation, it could be argued that the negative relationship with the board meetings might reveal that the market perceives the higher number of meetings as an indication of more issues and problems to be discussed at the company level; hence, they value the firm lower than others with fewer meetings (Vefeas, 1999). Besides the above reason, Vefeas (1999) argued further that this might be due to the fact that board meetings are costlier when they conduct more meetings in terms of managerial time, travel expenses, refreshments and directors' meeting fees, all of which have their own negative impact on performance.

With regards to Table 5.11, it is shown in the results that the CEO duality is detrimental for accounting performance indicators. As can be seen from tables 5.11, the negative relationship has been consistent in difference and system GMM for accounting performance, while it has also been consistent, albeit insignificant, for market performance. Literature extensively deals with such issues, where the argument behind the detrimental effect of CEO duality is due to the power control and entrenchment perspective (Coles & Hesterly, 2000). From the agency theory perspective, duality role leads to what is called the entrenchment of the CEO by minimizing the effectiveness of board monitoring. Several studies, including Cadbury (1992); and Higgs (2003) have highlighted the need to separate the role of the CEO and chairman if the performance needs to be enhanced to reduce opportunistic behaviour. Similarly, Rechner and Dalton (1991) concluded that CEO duality leads to weaker performance.

Partly, the results provide supports for the hypothesized negative relationship, which is inconsistent with some other studies, and which fail to support the agency theory argument on CEO duality, for instance, Mak and Kusnadi (2005); and Nguyen et al. (2014). For the specific case of Jordan, the findings of the study are in contradiction to the study by Alabdullah, Yahya & Ramayah (2014), in which they revealed no significant impact of CEO duality on performance. The contradictory results might be explained by the fact that this study models the corporate governance and performance link through a dynamic model that accounts for various types of endogeneity problems, including firm level fixed-effects and simultaneity.

Based on Table 5.11, women on the board are an indicator of negative influence on market performance of the firms, although its relation to accounting performance remains consistent in terms of signs even though it loses its significance. Nguyen et al. (2014) showed similar results to the finding of this research, where the presence is significantly and negatively related to firm performance, as measured by Tobin's Q. The finding asserts that the market has underestimated the existence of female directors in the boardrooms on the belief in most Arab countries that men make more successful businessmen. The results of this study do not concur with other findings, such as those by Kang et al. (2007).

In respect of Table 5.11, another board trait that has often been discussed in recent literature is the political influence of board members on the value of the firms. In contrast with expectations, the negative point indicates that the existence of political connectivity reduces the performance of the firms. The results are consistent with the evidence provided by Duchin and Sosyura (2012), in which they indicated that politically connected firms underperform compared to unconnected firms, suggesting a distortion in investment efficiency. Moreover, what can be inferred from such relationship is that the director's connectivity could lead to several consequences.

One possible consequence is that the quality of the earnings will be at stake (Chaney et al., 2011). Politically-connected directors seem to concentrate on increasing the headcount more than paying attention to economic performance (Menozzi et al., 2010). Although the results of the study are in contradiction to the results of the study done by Su & Fung (2013) in the case of China, however, different environmental contexts have their own effect on performance. Another possible reason might be due to the fact that the politicians in Arab countries are linked to corruption and social connection, so the market tends to undervalue the firms. Besides that, it can be argued that firms with boards with political connectivity are more likely to shows lower performance in order to avoid heavy taxes.

Also, Table 5.11 indicates that audit quality is said to be one of the most important facts affecting the performance of firms. Two measures of audit quality are the brand and auditor independence in the firm, "big and non-big firms and NAS. The results of the study show that the brand name of the auditor influences the performance of the firm positively and it is consistent across accounting measures of performance. As can be seen in Tables 5.11, the positive relationship is expected as the literature is in a wide agreement with the importance of brand name for the performance enhancement. DeAngelo (1981) proposed that auditors with a reputable name will have a lot to lose if they compromise their independent judgement. Large number of clients can contain the loss of client and thus provide better audit quality. High audit quality is associated with big reputable firms in the world (DeAnglo, 1981). Similarly, Davidson (1993) provided support that the size of the audit firm matters for the quality of the audit. Zureigat (2010) reported similar evidence in the case of Jordanian firms. Bouaziz (2012) revealed that big audit firms in Tunisia are considered an important determinant for financial performance, namely ROA and ROE. All in all, big audit firms would have nothing to lose if they report irregularities in the firms; therefore, firms hiring big audit firms would be very keen to improve their performance to avoid any repercussions resulting from the auditor's report.

With regards to Table 5.11, the second measure of audit quality, which is measurement of auditor independence (NAS), the results again show that NAS are positively related to the performance of firms on the ASE. It is more likely that more audit services impair independence and hence inflate the performance of the firms through restatements, which auditors will overlook in order to retain the clients' non-audit fees as argued by several prior research (Alleyne, Devonish & Alleyne, 2006; Iyer & Reckers, 2007) As Flynn (2009) argued, whenever the services provided to the client is great in amount, it will create dependence on the clients, which may cause harm in terms of the quality of reported earnings, and hence, the creditability of earnings. Auditors might be willing to sacrifice their independence to maintain their clients who pay high non-audit fees. Therefore, NAS could jeopardize the independence of auditors, hence leading to lower quality of earnings.

Overall, Table 5.11 reveals that the control variable, firm size is related positively to performance. The result is consistent with the findings of Niresh1 and Velnampy

(2014); and Ozgulbas et al. (2006). This is because larger firms would take advantages of economies of scale, which is considered as one of the pyramids of the traditional neo- classical view of the firm. Larger firms can be produced with lower costs and therefore, they can enhance their profitability.

Likewise, Table 5.11 indicated that the financial leverage of the firm is shown to be positively related to market value. However, in terms of accounting measures of performance, the link is insignificant. Therefore, looking at the market performance, it might be an indication of the fact that financial leverage is an important predictor of financial performance as measured by Tobin's Q due to the belief that agency conflict is reduced, and so the market feels secured. Furthermore, debt finance is considered attractive, cheap and more profitable as it is considered flexible (Mule et al., 2015).

5.3.2 Robustness Check: A Comparative Analysis between Financial and Non Financial Firms

In the second stage of the analysis, the study further looked into whether the corporate governance determines firm performance of the listed firms on the ASE across sectors or they have a different impact from one to another due to the different structures and regulatory intensity. In this analysis, the system GMM was applied as it is believed to have better estimation and improvement in terms of consistency and efficiency. Table 5.12 reports the results of the finance sector, while Table 5.11 reports the results of the non-financial sector. Overall, the estimation results show consistent results and they suggest that the estimation findings remain stable across specifications. Diagnostic tests seem to be appropriate and adequate to have a valid analysis. As evident across the two Tables and over the three measures of performance, the study finds that there is no evidence of over-identifying problem and autocorrelation at 5% level of significance. Essentially, the lagged dependent variable is positive and significant, indicating the persistence of firm performance and dynamic relationship of the estimation. In other words, as shown in Tables 5.12 and 5.13, the lagged dependent variable (lag 1) of ROA (ROAt-1), ROE (ROEt-1), and Tobin's Q (Tobin's Qt-1) has a positive and significant influence on the performance of the current year at 1% level in most of the models, validating and suggesting the existence of the dynamic relationship of the models and that the performance persists over time in both financial and non-financial sectors.

Table 5.12:
Non-Financial Sector Test: System GMM Estimator for Panel Data.

Tobin's Q		ROE		ROA		
T value	Coefficient (stander.error)	T value	Coefficient (stander.error)	T value	Coefficient (stander.error)	
5.669*	0.601(0.106)	4.4047*	0.370(.084)	3.533*	0.318 (0.090)	*Lag (1)*
2.575*	0.340(0.132)	3.395*	0.169(0.047)	1.625	0.039(0.024)	*MOWN*
0.671	0.17(0.253)	1.830***	0.097(0.053)	1.757***	0.058 (0.033)	*FOWN*
3.666*	0.011(0.003)	3.000*	0.003(0.001)		0.000 (0.000)	*FROWN*
-1.062	-0.479(0.451)	-0.2247	-0.020(0.089)	-0.857	-0.030 (0.035)	*INSOWN*
-2.058**	-0.035(0.017)	-1.6	-0.008(0.005)	-2.000**	-0.006 (0.003)	*BSIZ*
0.677	0.126(0.186)	1.339	0.075(0.056)	2.250**	0.045 (0.020)	*BIND*
1	0.021(0.021)	2.000**	0.010 (0.005)	2.666*	0.008 (0.003)	*BMEET*
-1.129	-0.087(0.077)	-2.041**	-0.049(0.024)	-2.363**	-0.026 (0.011)	*CEO*
-0.241	-0.022(0.091)	0.7142	0.015 (0.021))	-1	-0.015 (0.015)	*BGENDR*
-5.458*	-0.262(0.048)	-3.727*	-0.041(0.011)	-3.833*	-0.023 (0.006)	*BPOLI*
-1.14	-0.065(0.057)	0.923	0.012(0.013)	2.666*	0.016 (0.006)	*ACEXIS*
0.229	0.014(0.061)	0.75	0.012(0.016)	0.222	0.002 (0.009)	*INTEXIST*
3.102*	0.211(0.068)	3.945*	0.087(0.022)	3.769*	0.049 (0.013)	*BRAND*
2.966*	0.175(0.059)	2.416**	0.029(0.012)	3.571*	0.025 (0.007)	*AUDIND*
0.625	0.005(0.008)	1.5	0.003(0.002)	3.000*	0.003 (0.001)	*LnTA*
2.889*	0.341(0.118)	0.0312	-0.001(0.032)	0.222	0.004 (0.018)	*LnDEBT*
	585		*585*	*585*	*No. of observations*	
	117		*117*	*117*	*No. of firms*	
	26	*26*		*26*	*Instruments*	
	*-3.555**		*-2.752**	*-3.925**	*AR(1) test*	
	1.139		*0.686*	*0.539*	*AR(2) test*	
	0.124		*0.739*	*0.907*	*Sargan Test*	

Note: standard errors in parentheses, *, **,*** indicate significant sign at 1%, 5% and 10%, respectively; AR(1) refers to first order autocorrelation; AR(2) refers to second order autocorrelation; Sargan test is a test used to test the validity of instruments used; *MOWN refers to management ownership; FOWN represents family ownership; FROWN is a proxy of foreign ownership; INSOWN is a measure of institutional ownership; BSIZ* represents board size; *BIND is a measure for board independence; BMEET is board meetings; CEO is duality measure for the chairman and CEO chair; BGENDR refers to the gender on the board; BPOLI represents political connectivity; ACEXIS refers to audit committee's existence; INTEXIST* is a measure of internal audit existence; *BRAND represents type of auditor - big or non-big four; AUDIND refers to auditor independence as measured by the NAS that exceed 20%; LnTA is logarithm of total assets; LnDEBT debt/total assets*

However, compared to the persistence of accounting performances for the full sample Table 5.11, where the coefficients of lagged dependent variable are (0.425, 0.455) for the ROAt-1, ROEt-1, the persistence of the accounting performance for the non-financial sector Table 5.13(coefficient 0.318 and 0.370) is less in terms of ROAt-1 and ROEt-1 compared to the financial sector Table 5.13 (coefficient: 0.403, 0.446). This means that a change in past performance by 1 unit leads to the increase in the current performance of the non-financial sector by 0.318 in terms of ROA and 0.370 in terms of ROE.

Similarly, an increase of past performance by 1 unit increases the current performance by 0.403 for ROA and 0.446 for ROE in Table 5.12. Overall, the persistence of the accounting performance in the financial sector in Table 5.13 is more apparent compared to the non-financial sectors. One of the possible reasons might be due to the differences in assets volume, where the financial sector is abler to leverage on their assets faster than the non-financial sector. Moreover, the capital structure of both sectors is not unique and hence the performance would vary (Abbas et al., 2013). The results are consistent with the results reported in Tables 5.1 and 5.2 related to the whole sample. This implies that the current performance is driven by past performance, which firmly provides support for the dynamic relationship for Jordanian firms. (Nguyen et al., 2014, Wintoki et al., 2012). However, the persistence of performance in terms of the market valuation of the financial sector is lower compared to the non-financial sector, which again could be due to the market view on their capital structure and associated risks in the financial sector.

With respect to the determinants of performance in both sectors, Table 5.12 indicates that the overall performance indicators of the non- financial sector across the three models are influenced by management ownership, foreign ownership and family ownership. Among the influential governance factors on the non-financial sector's performance are board size, board meetings, CEO duality and political influence of directors. With regards to audit quality, both factors of audit quality, namely brand and auditor independence influence the performance of firms in the non- financial sector. The existence of the audit committee and board independence partially influences performance in terms of ROA, while the other measures are not significant despite the fact that they are positively related to performance. However, the study finds that institutional ownership, board gender, and existence of internal audit department are non-significant factors influencing performance across all measures for the non-financial sector.

Table 5.13 shows the results in the context of the finance sector. Consistent with previous results on all companies and the non-financial sector, the lagged dependent variable is positive and significant, indicating the dynamic feature of the specification and the persistence of the performance measures. The main drivers of performance in the financial sector are management ownership, foreign ownership and partially, institutional ownership. With regards to the governance determinants of performance, the study finds that board size, board independence, board meeting, CEO duality and political influence are the main drivers of performance of the financial industry. Firm size also has a significant and positive impact on the performance of the financial industry.

Table 5.13:
Financial Sector Test: System GMM Estimator for Panel Data.

	ROA		**ROE**		**Tobin's Q**	
	Coefficient (stander.error)	T value & p-value	Coefficient (stander.error)	T value & p-value	Coefficient (stander.error)	T value & p-value
Lag (1)	0.403 (0.098)	4.112*	0.446 (0.146)	3.050*	0.301 (0.181)	1.662***
MOWN	-0.092 (0.021)	-4.380*	-0.141 (0.070)	-2.010**	0.166 (0.238)	0.697
FROWN	-0.239(0.119)	-2.008**	-0.423 (0.180)	-2.350**	-0.764 (0.721)	-1.059
INSOWN	-0.062(0.023)	-2.695*	-0.002 (0.073)	0.0273	0.231 (0.444)	0.52
BSIZE	-0.023(0.006)	-3.833*	-0.074 (0.016)	-4.630*	-0.151 (0.080)	-1.887***
BIND	0.365 (0.129)	2.829**	0.581 (0.341)	1.700***	-0.501 (0.956)	-0.524
BMEET	0.139 (0.010)	13.90*	0.041 (0.025)	1.690***	0.175 (0.078)	2.243**
CEO	-0.004 (0.026)	-0.153	-0.176 (0.058)	-3.030*	-0.609 (0.331)	-1.839***
BGENDR	0.139 (0.255)	0.545	1.504 (1.222)	1.23	-6.068 (3.935)	-1.542
BPOLI	0.061 (0.026)	2.346**	0.372 (0.072)	5.170*	1.536 (0.546)	2.813*
ACEXIS	0.004 (0.023)	0.173	-0.012 (0.056)	-0.21	0.139 (0.262)	0.53
INTEXIST	-0.006 0.036)	-0.166	0.062 (0.082)	0.75	0.193 (0.250)	0.772
BRAND	0.061 (0.029)	2.103*	0.154 (0.100)	1.54	-0.383 (0.197)	-1.944***
AUDIND	0.030 (0.021)	1.428	0.070 (0.107)	0.65	0.687 (0.152)	4.519*
LnTA	0.024 (0.008)	3.000*	0.047 (0.023)	2.040**	0.076 (0.038)	2.000**
LnDEBT	-0.041 (0.043)	-0.953	-0.234 (0.125)	-1.870***	-0.041(0.043)	-0.953
No. of observations		*435*	*435*		*435*	
No. of firms		*87*	*87*		*87*	
Instruments		*25*	*25*		*25*	
AR(1) test		*-4.153**	*-2.637**		*-1.908***	
AR(2) test		*1.686*	*0.686*		*1.086*	
Sargan Test		*0.907*	*0.739*		*0.414*	

Note: standard errors in parentheses, *, **,*** indicate significant sign at 1%, 5% and 10% respectively; AR(1) refers to first order autocorrelation; AR(2) refers to second order autocorrelation; Sargan test is a test used to test the validity of instrumentS used; MOWN refers to management ownership; FOWN represents family ownership; FROWN is a proxy of foreign ownership; INSOWN is a measure of institutional ownership; BSIZ represents board size; BIND is a measure for board independence; BMEET is board meetings; CEO is duality measure for the chairman and CEO chair; BGENDR refers to the gender on the board; BPOLI represents political connectivity; ACEXIS refers to audit committee's existence; INTEXIST is a measure of internal audit existence; BRAND represents type of auditor - big or non-big four; AUDIND refers to auditor independence as measured by the NAS that exceed 20%; LnTA is logarithm of total assets; LnDEBT debt/total assets

What is noticed from the analysis of determinants of the performance of non-financial sectors (Table 5.12) and financial sectors (Table 5.13) is that thenagement ownership affects the performance of the financial sector negatively, while it is positively related to the performance of the non-financial sector.

Meanwhile, management ownership's positive relationship with performance is in line with other previous studies, (Jensen & Meckling, 1976; Bhagat & Bolton, 2008; Holderness et al., 1999) which state that board members holding shares in the companies would have more incentives to manage and monitor the companies in the right manner as their interests are aligned with shareholders' interests.

It is worthwhile to note that the results of Al-Rwashdeh (2007) on the negative effect for the case of the industrial sector in Jordan contradict our analysis in this study, which can be explained by the methodological estimation used in this study (2007). It is evident that our estimation is based on a dynamic model which caters for various problems, including simultaneity, which is not the case in Al-Rwashdeh (2007). Furthermore, it can be noticed that the results of the financial sector seem to contradict the entrenchment concept discussed previously. There could be reasons why the managerial ownership of the financial sector reacts negatively with performance. Prior literature (Bouwens, 2014) has argued that in the banking sector, management ownership may lead the holders of equity of the bank to take less risk because they have fewer opportunities to diversify risks compared to external shareholders. This is mainly due to the fact that the reduction of the risk-taking profile by banks would lead to a reduction in performance.

With regards to family ownership, it is shown in Table 5.12 that it has a positive impact on the performance of the non-financial sector, while it is not the case with the financial sector in Table 5.13 It is clearly evident that family ownership affects performance of the non-financial sector because of the strong motivation to minimize agency costs and maximize the value of the firm. (Fleming, Heaney, & Rochelle, 2005; Fama & Jensen, 1983). A family, as part of the management, will seek to maximize its own interests all the time and hence exert control over the firm. The results of the industrial sector are consistent with Chu (2009), where it is found that family members holding positions like CEOs, top management, chairpersons, or firm directors would improve the overall performance. For the financial sector, family ownership has no influence on performance, which is consistent with the study by Abdul Rahman and De Reja (2015) on the Malaysian case, a concentrated family ownership country. One possible reason for such relationship, where family has no influence on the performance could be due to the lesser influence on the decision of the management, as the highly regulated industry has other filters to be followed and there could be alternative governance mechanisms beyond the family control. This is because the financial sector attracts the attention of regulators, therefore, the regulators are more concerned with the performance of the sector. Other mechanisms (like the Central Bank scrutiny) would outweigh family control in terms of monitoring.

The third ownership variable which exhibits difference in its impact on the performance of the financial and non-financial sectors is foreign ownership. Two measures of performance out of three measures experience a positive relationship with the performance of the non-financial sector and negative association with the financial sector. The variation is expected as both industries have different structures. The results of the non-financial sector have an appeal in the literature, where a positive relationship with performance is found in the non-financial sector through the studies of Aitken and Harrison (1999); Arnold and Javocik (2005); Petkova (2008); and Chari, Chen, and Dominguez (2009). It is simply because of the fact that the market values the firms with foreign ownership higher than others. Thus, if the foreign investors have a significant stake in the company, it is considered as a signal among international businessmen that this company is worthwhile; hence, the value of the firm could experience an increase (Haniffa & Cooke, 2002). However, this does not apply to the financial sector in Jordan, where the impact of foreign ownership on performance is negative. One possible reason for such association is because the financial sector, particularly, banks, deal with clientele, who prefer to transact with local banks rather than foreign banks. Moreover, the local banks would have a better networking and know better the needs of their customers across the country. Their ability to reach larger areas in the country might be better than banks with foreign ownership, which might not be able to reach out to the non-urban areas (Swai & Mbogela, 2014). Another plausible reason is that foreign ownership in Jordan is considered as ineffective in a matter of loan recovery compared to local banks. The finding of the study is supported by (Demirguc & Huizingaowever (1999).

The final ownership indicator is institutional ownership, where it is found that the non-financial sector's performance is not related to institutional ownership, while institutional ownership is only negatively related to the financial sector's performance in terms of ROA. Overall, the impact of the institutional ownership cannot be concluded based on the above results.

The board size of both sectors influences the performance significantly and negatively, which indicates that larger board size reduces performance. The results are consistent with the full sample results and the findings of Alabdullah, Yahya & Ramayah (2014) in case of the non-financial sector in Jordan. Furthermore, this finding has its support in prior research (Lipton & Lorsch, 1992; Jensen, 1993). The plausible explanation for the result is that larger board suffers from dysfunctional problems, and hence, there is less coordination and agreement among the members.

Board independence is positively related to the accounting performance measures in most sectors, but not related to the valuation aspect of both sectors. The higher the independence of the board members, the higher the monitoring activity, and thus the better the chance of improving performance. The results are in line with the findings of Richardson, Leung and Jaggi (2014); and Bhagat and Bolton (2008). The varying results on the effect of board independence on market-based and accounting-based measures might be due to the different measurements.

Overall, board meetings have a positive impact on the performance of Jordanian listed firms for the financial and non-financial sectors, albeit board meeting has no impact on the market valuation of the non-financial sector. The results support the previous literature. (Vafeas, (1999). argued that a board with more meetings indicates more involvement and discussions on various issues related to performance and other operations, hence impacting performance positively.

The impact of CEO duality is negatively related to the performance of financial and non-financial sectors although the impact on the market performance and (ROA) of the financial and non-financial sectors is not evident in the analysis. Overall, this indicates that whenever the positions of board chairman and CEO are combined, the performance is affected negatively, which is consistent with the work of Chaghadari (2011); Rechner and Dalton (1991); Boyd (1995); Coles and Hesterly (2000). This is possibly because combining both roles reduces the check- and- balance and lessens the monitoring role of the board over top management; it also may affect firm performance in a negative manner (Levy, 1981; Daynton, 1984).

An interesting result is that there seem to be a contradiction in political influence result between the financial and non-financial sectors. As for the financial sector, the influence is positive, while the non-financial sector's performance is negatively related to performance. While the performance and political influence link in the financial sector is in line with our expectations, the non-financial sector shows different evidence. For the financial sector, political influence is positively related to performance, which is not consistent with the full sample result; it may indicate that politically connected firms are able to perform better than non-politically connected firms because of the fact that political ties provide an alternative enforcement mechanism through enhanced political legitimacy and status. With strong political ties, managers can turn to government officials to enforce business contracts or stop unlawful behaviours (Ambler & Witzel, 2004).

In contrast with expectations, the negative relationship indicates that the existence of political connectivity reduces the performance of firms. The results are consistent with results of full sample and the evidence provided by Duchin and Sosyura (2012). The main contradiction could be due to the notion that political connection might lead to deterioration in investment decisions and efficiency and the politician becomes a defensive mechanism for management. Another way to explain this distortion of performance is that the earnings might be managed and not be reflective of the true performance (Chaney et al. 2011). Politically-connected directors seem to concentrate on increasing the headcount more than paying attention to the economic performance (Menozzi et al., 2010). Another possible reason might be due to the fact that the politicians in Arab countries are linked to corruption; so, the market undervalues the firms. Besides that, it can be argued that for firms with boards with political connectivty, it is more likely that these firms' show lower performance in order to avoid heavy taxes.

Women on the board are non-significant to performance, albeit insignificantly for both financial and non-financial sectors. Audit committee and internal audit are not unique, and they are not too important in shaping performance, although the audit committee is positively related only to the ROA of the non-financial sector. The audit quality factors affect the performance of the non-financial sector positively, which sits well with expectations and which is supported in the literature (Kinney, Palmrose & Scholz, 2004; Behn, Choi and Kang, 2008). However, the impact on the financial sector is not clear- cut. It might be due to the financial sector being subject to more scrutiny than the non-financial sector. Therefore, there is another governance mechanism (for example: government or Central Bank) that can work better than the audit quality determinants.

With regards to firm size, it is found that it is positively related to performance of the financial sector over all measures, but it is only related to the ROA of the non-financial sector. Overall, the scale does matter for the performance of any firm. For the financial sector, larger banks are assumed to charge high returns to meet the requirement of high risks they are exposed to (Menozzi et al., 2010). Lastly, the leverage impact on the performance cannot be concluded. There is no clear relationship over the three measures of performance and the two sectors.

5.4 Summary of the main findings

The result shows that the relationship between management ownership and firm performance is a significant and positive relationship on one of the performance indicators, namely ROE. This means that higher ownership of managers would lead to better performance.

Furthermore, the result shows that the relationship between institutional ownership, family ownership and firm performance is non-significant indicating that institutional ownership, family ownership non-significantly affect ROA, ROE and Tobin's Q.

Also, the result shows that the relationship between family ownership and firm performance is significant and positive influence on the performance of Jordanian companies as shown through both accounting (ROE) and market- based performances (Tobin's Q). The more foreigner owners there are, the better the performance of the firms.

Table 5. 14:
Summary of ownership results and related conclusion

Research Question	Hypothesis	Findings	support/ do not support
RQ1: what is the impact of ownership structure on the performance of the listed firms in Amman stock exchange	H1: *There is a positive relationship between managerial ownership and firm performance.*	Sig. and Positive	supported
	H2: There is a positive relationship between family ownership and firm performance.	Not sig.	Not supported
	H3: There is a positive relationship between institutional ownership and firm performance.	Not sig.	Not supported
	H4: There is a positive relationship between foreign ownership and firm performance.	Sig. and positive	supported

The relationship between board size and firm performance (all measures of performance) is significant and negative. From the empirical perspective, the results of this study are consistent with the findings of Yermack (1996), which reveal a negative relationship between board size and performance. This is in line with the argument proposed by Lipton and Lorsch (1992); and Jensen (1993) which contend that bigger boards tend to experience various issues and problems related to communication and social loafing and require higher coordination costs, which consequently weaken performance. Furthermore, there are other problems associated with larger boards, including coordination, leading to dysfunctional norms of behaviour in board members, longer time to come to an agreement and to reach a consensus for critical decisions (Chang, 2009). More than that, whenever the board increases in size, the members would find difficulty in building their interpersonal relationships, cohesiveness or in maintaining high board effort norms. This normally happens due to the potential for spreading out of accountability and responsibility (Berghe and Levrua, 2004). Golden and Zajac (2001) argued that detrimental value of the board members could be due to the reduced motivation and participation and there is a tendency to develop factions, free riding and coalitions.

Additionally, the result indicates that the relationship between board independence and firm performance is significant and positive indicating that board independence predicts firm performance of Jordan's listed firms positively and significantly. The value of independent directors stems from the fact that there is need to monitor the management by independent directors, following the widely-held belief that those directors are better in terms of the independent judgment of performance (Weir & Laing, 2001). The friction they have with the management is less likely as they are experts in the market, and reputation is much more important than the friction with the management; hence, they can monitor and further improve performance (Fama, 1980; Fama & Jensen, 1983; Carter et al., 2003; Weir et al., 2002). The strategic researchers have suggested that boards tend to behave more independently, if they are composed of outsiders, and their involvement in the decision- making becomes more apparent as they bring in different knowledge and expertise, and thus demonstrating good performance (Judge & ZeithamI, 1992).

However, it is of more interest that the market does not value board independence, which could be due to the fact that Tobin's Q does not always indicate firm performance; rather, it reflects growth opportunities related to external conditions and not managerial decisions (Pham, Suchard & Zein 2007, Yermack, 1996). Using different measures of performance may indicate different impacts, as argued by Koerniadi and Rad (2012). Furthermore, it is found that directors are overly sympathetic to management, in which financial analysts who are optimistic are appointed by the management as independent directors, which impacts the perception of the market toward these firms.

The results also indicate that the relationship between board meetings and firm performance (measured by ROA and ROE) is significant and positive; but, the relationship between board meeting and market valuation is negative. The results, in the accounting context, provide support for the agency theory perspective. Frequent meetings by the board indicate more effective monitoring and discipline management for any opportunistic behavior, and thus enhancing performance (Ntim & Osei, 2011). This is also indicated by Vefeas (1999), where he argued that the intensity of meetings is an indication of high monitoring quality and effectiveness of the board in monitoring and guiding the management to the betterment of the shareholders. When the board members meet regularly, it helps them to have more time to discuss issues and devote their time to set strategies and to assess the performance of the management from time to time. The directors should be updated, and they should have knowledge about the important issues and development, hence, addressing them on a timely basis, and avoiding the problematic issues would consequently reflect in the performance of the firm (Mangena & Tauringana, 2008). What is more important are that frequent meetings or regular meetings can be considered as capstone of a conscientious director (Sonnenfeld, 2002) and creator of cohesiveness among the members of the board. (Lipton and Lorsch 1992), which will consequently lead to a spill over on better performance. In sum, more meetings may indicate higher intensity of monitoring and hence, better performance.

Considering the other side of performance, or more specifically, market valuation, it could be argued that the negative relationship between board meetings and market valuation might reveal that the market perceives the higher number of meetings as an indication of more issues and problems to be discussed at the company level; hence, they value the firm lower than others with fewer meetings (Vefeas, 1999). Besides, Vefeas (1999) argued further that this might be due to the fact that board meetings are costlier, in terms of managerial time, travel expenses, refreshments and directors' meeting fees, when they conduct more meetings. These have their own negative impact on performance.

Moreover, the result reveals that the relationship between CEO duality and firm performance is significant and negative. This negative relationship has been consistent for accounting performance, and it has also been consistent, albeit 200 insignificant, for market performance. Literature has extensively dealt with such issues, where the argument behind the detrimental effect of CEO duality is due to the power control and entrenchment perspective (Coles & Hesterly, 2000). From the agency theory perspective, duality role leads to what is called entrenchment of the CEO by minimizing the effectiveness of board monitoring. Several studies, including Cadbury (1992) and Higgs (2003) have highlighted the need to separate the role of the CEO and chairman, if the performance needs to be enhanced to reduce opportunistic behaviour. Similarly, Rechner and Dalton (1991) concluded that CEO duality leads to weaker performance.

Partly, the results provide supports for the hypothesized negative relationship, which is inconsistent with some other studies, and which fail to support the agency theory's argument on CEO duality (Mak & Kusnadi, 2005; Nguyen et al., 2014). Considering the studies conducted in Jordan, the findings of the study are in contradiction to the study by Alabdullah, Yahya & Ramayah (2014), in which they revealed no significant impact of CEO duality on performance. The contradictory results might be explained by the fact that this study models the corporate governance and performance link through a dynamic model that accounts for various types of endogeneity problems, including firm level fixed-effects and simultaneity.

Also, the result reveals that the relationship between women on the board and firm performance (market performance of firms) is significant and negative. Also, relationship between women on the board and accounting performance remains consistent in terms of signs, even though it loses its significance. This result is consistent with Nguyen et al.'s (2014) finding. The finding asserts that the market has underestimated the existence of female directors in the boardrooms on the belief in most Arab countries that men make more successful businessmen. The results of this study do not concur with other findings (e.g. Kang et al., 2007).

Similarly, the result shows that the relationship between political influence and firm performance is significant and negative indicating that the existence of political connectivity reduces the performance of the firms. The results are consistent with the evidence provided by Duchin and Sosyura (2012), in which they indicated that politically connected firms underperform compared to unconnected firms, suggesting a distortion in investment efficiency.

Moreover, it can be inferred from the result that the director's connectivity could lead to several consequences. One possible consequence is that the quality of the earnings will be at stake (Chaney et al., 2011). Politically-connected directors seem to concentrate on increasing the headcount more than paying attention to economic performance (Menozzi et al., 2010). The results of the study are inconsistent with the results of the study done by Su & Fung (2013) in the context of China, and different environmental contexts have their own effect on performance. Another possible reason might be due to the fact that the politicians in Arab countries are linked to corruption and social connection, so, the market tends to undervalue the firms.

Table 5.15:

Summary of board characteristics results and related conclusions

Research Question	Hypothesis	Full sample	support/ do not support
RQ2: What is the effect of board characteristics (size, independence, meeting, CEO duality, gender and political influence) on the firm performance of Jordanian Listed firms?	*H5: There is a negative relationship between board size and firm performance.*	Sig. and negative	supported
	H6: There is a positive relationship between board independence and firm performance.	Sig. and Positive (accountin g beads)	supported
	H7: There is a positive relationship between board meetings and firm performance.	Sig. Positive (accountin g)and negative (market)	supported
	H8: There is a negative relationship between CEO duality and firm performance.	Sig. an negative (accountin g beads)	supported
	H9: There is a negative relationship between women in board and firm performance.	Sig. and negative (accountin g beads)	supported
	H10: There is a positive relationship between political influences and firm performance.	Sig. and negative	supported

Besides, the result signifies that the relationship between internal audit and firm performance is non-significant. The evidence shows that internal audit factors have no link with performance. Therefore, hypotheses 12 are not supported. Such result may due to the internal audit function that is not existed in some of Jordanian firms, and there is a poor n in its function in the other rist firms as documented.

Table 5.16:
Summary of Audit committee, internal audit and audit quality results and related conclusion

Research Question	Hypothesis	Full sample	support/ do not support
RQ3: What is the effect audit committee on the firm performance of Jordanian Listed firms?	*H11: There is a positive relationship between audit committee and firm performance.*	Sig.	supported
RQ4: What is the effect internal audit on the firm performance of Jordanian Listed firms?	*H12: There is a positive relationship between internal audit and firm performance.*	Sig.	supported
RQ5: What is the effect auditor quality (Brand Name, independence) on the firm performance of Jordanian Listed firms?	*H13: There is a positive relationship between auditor independence and firm performance.*	Sig. and Positive	supported
	H14: There is a positive relationship between auditor brand name and firm performance	Sig. and Positive	supported

The result shows that the relationship between brand name and firm performance is significant, positive and consistent across accounting measures of performance. The positive relationship is expected, because the literature has widely established the importance of brand name for the performance enhancement. DeAngelo (1981) proposed that auditors with a reputable name will have a lot to lose if they compromise their independent judgement. Large number of clients can contain the loss of client and thus provide better audit quality. High audit quality is associated with big reputable firms in the world (DeAnglo, 1981). Similarly, Davidson (1993) posited that the size of the audit firm matters for the quality of the audit. Zureigat (2010) reported similar evidence in the case of Jordanian firms. Bouaziz (2012) revealed that big audit firms in Tunisia are considered an important determinant of financial performance, namely; ROA and ROE. Generally, big audit firms would have nothing to lose if they report irregularities in the firms; therefore, firms hiring big audit firms would be very keen to improve their performance to avoid any repercussions resulting from the auditor's report.

Likewise, the result shows that the relationship between auditor independence and firm performance is significant and positive. This is related to the performance of firms on the ASE. It is more likely that more audit services impair independence and hence inflate the performance of the firms through restatements, which auditors will overlook in order to retain the clients' non-audit fees, as argued by several prior research (e.g. Alleyne, Devonish & Alleyne, 2006; Iyer & Reckers, 2007). As Flynn (2009) argued, whenever the services provided to the client are great in amount, it will create dependence on the clients, which may cause harm in terms of the quality of reported earnings, and hence, the creditability of earnings. Auditors might be willing to sacrifice their independence to maintain their clients who pay high non-audit fees. Therefore, NAS could jeopardize the independence of auditors, hence leading to lower quality of earnings.

Overall, the result reveals that the control variable, firm size is related positively to performance. The result is consistent with the findings of Niresh1 and Velnampy (2014) and Ozgulbas et al. (2006). This is because larger firms would take advantages of economies of scale, which is considered as one of the pyramids of the traditional neo- classical view of the firm. Larger firms can be produced with lower costs and therefore, they can enhance their profitability.

Equally, the result indicated that the financial leverage of the firm is positively related to market value. However, in terms of accounting measures of performance, the link is insignificant. Therefore, with regards to market performance, it might be an indication of the fact that financial leverage is an important predictor of financial performance as measured by Tobin's Q, due to the belief that agency conflict is reduced, and so the market feels secured. Furthermore, debt finance is considered attractive, cheap and more profitable, as it is considered flexible (Mule et al., 2015).

5.5 Chapter Summary

This chapter discusses and elaborates the empirical evidence and findings based on the dynamic panel data, namely GMM estimator for the period of 2009 - 2013 on the influence of the ownership and corporate governance indicators on the performance of Jordanian firms listed on the ASE. The chapters primarily begin with the descriptive statistics of the variables used in the model, followed by a detailed analysis on the influence of various ownerships, governance and external auditors' characteristics on firm performance. The findings show evidence of the impact of some governance and ownership factors on performance, although the impact is slightly different across the performance measures. The analysis tends to suggest that there are influential determinants of performance of the firms. The results also indicate that the impact of various determinants on performance varies between the financial and the non-financial sectors.

CHAPTER SIX: CONCLUSION

6.1 Introduction

This chapter reemphasizes the key issues and main empirical results of this research. It also highlights the implications of findings, the limitations of the study and avenues for future research. The chapter begins with the summary of the research objectives, methods, sampling and main analytical tools. This follows with the next section, which reports the main empirical findings of the study, followed by highlighting the implications of the research. Then, presents the limitations and the avenues for future research, then conclusion of the study.

6.2 Overall summary of the thesis

This study mainly aims to examine the impact of corporate governance and firm performance of firms listed on the ASE. Accordingly, the five research objectives of this study are as follows: (1) to examine the effect of ownership structure (managerial, family, institutional and foreign ownership) on the performance of Jordanian Listed firms; (2) to investigates the impact of board characteristics (size, independence, meeting, CEO duality, gender and political influence) on the performance of Jordanian Listed firms; (3) to examine the influence of audit committee on the performance of Jordanian Listed firms; (4) to examine the effect of internal auditor on the performance of Jordanian Listed firms; and (5) to examine the effect of auditor quality (brand name, independence) on the performance of Jordanian Listed firms. In order to achieve these objectives, data were collected from annual reports of the firms listed on the ASE. The total observations considered for investigation is 1,020, which comprises 204 firms over five years. All observations cover the three sectorial classifications of the ASE, namely industry, service and finance sectors. The following Table 6.1 summarizes the organization of research design and related tests.

6.3 Implications of results

The impact of ownership and other corporate governance mechanisms on performance of firms listed on the ASE are the main concerns of the study. The results of the study provide insights and significant implications for the stock market, industry players and policy- makers in Jordan. The discussion of these implications is as follows.

6.3.1 Policy Implications

The stock market plays a crucial role in the economic development of the country.

As this study's main objective is to contribute to the corporate governance research, practices and its impact on performance in the context of Jordan, it provides new and comprehensive evidence of corporate governance in Jordan as one of the Middle East and North Africa (MENA) countries. However, it is important for the JSC to consider the review of code the Code of Corporate Governance and its effectiveness. This research shows that corporate governance of listed firms in Jordan has improved. However, it is of paramount to note that some parts of the corporate governance code should be reviewed, and further consideration should be given.

- The results of investigations show that board' size is a very consistent factor that may deter the performance of companies as it becomes larger. Therefore, policy-makers might recommend a size of board that should not be large and not too small, i.e., a recommendation that should not exceed 10 members might be helpful.

- The independence of board of directors raises a question of the effectiveness of hiring independent directors. It needs further improvement, i.e., a policy recommendation for the outside members' selection is needed. It would be of significance to have appropriate procedures and requirements for the selection of outside directors so as to increase their effectiveness and the impact of their independence on performance.

- Audit committee and internal audit existence need further improvement as their effect on performance is not as expected. Therefore, the results of the study provide insight for policy- makers to activate these two mechanisms in a way that would enhance performance by making it compulsory for all firms in Jordan to have effective and efficient AC and IA.

- With regards to board meetings, stock market regulators might emphasize more on the substance of the meeting rather than the form or number of meetings in order to be reflected in the performance of directors and issues discussed in the meetings.

- With regards to auditor brand name, policy- makers should emphasize on listed companies with regards to selection of their auditor, where a branded auditor may help them to enhance their performance as evidenced by this study.

- Providing NAS shows it is significant in enhancing performance; however, it may weaken the independence and its positive impact on performance might have consequences on altering the earnings. Thus, this shows that the positive impact is not because of performance, but manipulation between the external auditor and firm performance.
- The contrasting results of this study on the effectiveness of corporate governance between financial and non-financial sectors with regards to the suitability of all governance practices to both sectors require further research.

Overall, regulators should strengthen corporate governance practices and hence enable firms to enhance their performance.

6.3.2 Investors and Shareholders' Implications

Investors and shareholders may use the results of this study into determine the direction of the governance structure. Specifically, the investors may consider their decisions for investment based on the results of the study. The finding of this research can also guide on where to invest and which board characteristics and ownership structure might be suitable signals for the investors to consider, when they make their decision. Furthermore, shareholders may use these results to take necessary corrective action that could guide management on the appropriate structure of governance and selection of auditors.

6.3.3 Implications for researchers

Researchers may consider the findings of the study to test the impact of corporate governance on performance. Specifically, the trend of research on governance emphasizes the importance of dynamic relationship and endogeneity. This study provides further supporting evidence on the dynamic relationship of corporate governance and performance.

6.3.4 Implications for external Auditors

The study provides insightful evidence that may guide auditors in their decisions to offer NAS. It has been proven that providing NAS does not impair the independence

or the performance as indicated by the results. Such services may deepen the knowledge of auditors of the firms and hence help in guiding management to better ways of enhancing performance.

6.3.5 Implications for Industry

The results of the study provide certain insights for the industry players. It may pave the way for them consider a different governance structure within the boundaries of regulations that may help in enhancing performance. For example, the non-financial industry players that hire a member of the board with political connection may affect the performance negatively, therefore, it is not advisable for them, but the opposite is true for the financial industry.

This study provides a clear view to understand the influence of corporate governance on the firm performance in Jordanian companies. This will help the regulatory bodies, such as the Jordan Securities Commission, in Jordan, to assess the current listing requirements and evaluate the existing ownership structure in Jordanian companies. Furthermore, this study provides an awareness and understanding to the bodies and related parties of whether the current practices of corporate governance in Jordanian firms produce the expected outcome. Furthermore, this study serves as an approach to policy makers and regulators in formulating policies and strategies with respect to the timeliness of financial reports.

6.4 Limitations of the Study and Avenues for Further Research

The coverage of this study is limited by the time and resources available. In spite of the limitations, other limitations of this study are to be taken into consideration while interpreting the results of the study. However, it should be noticed that dedicated work and effort were exerted in producing this research to make sure that its objectives and research questions are met.

First, the focus of this study is on impact of certain ownership and governance variables on firm performance. It is very clear that most governance variables taken into consideration in this study represent the ‘form’ of governance rather than ‘substance’. Other variables which may influence the performance may be considered in future research. Greater focus can be directed to variables, such as education, experience and qualifications of directors rather than only looking for the form of the structure of the board.

Second, the investigation of the study only focuses on firm- specific and governance variables on performance. Future research can consider other factors that may affect performance and which has a link to governance factors. These include informational and regulatory determinants, which if interacted with governance, might produce different insights.

Third, this study focuses on the impact of governance and ownership factors on accounting performance and market performance. Future studies may consider taking alternative measures of accounting performance rather than traditional performance measures. accounting performance measures rely on ROA and ROE as the main indicators and market measure Q.

Fourth, this limitation is related to the nature of data collection, where the secondary data and related annual reports data are used. As these results indicate that few governance variables are important in determining the behaviour and performance of the firms, it is highly encouraged that future researches may apply primary data to examine why some governance variables are ineffective in performance enhancement. So, understanding the related reasons might provide better insights to the regulatory bodies than merely saying that those variables are ineffective. Policy makers are more interested to know the causes so as to take corrective actions.

Fifth, it is noteworthy that this study has a wide range of variables; however, the validity of measurement of these variables needs to be taken into consideration. There are certain governance variables which can have a better measurement instead of the consideration of existence and non-existence. These include audit committees and internal audit. Other proxies can be used to further look into the effectiveness of these governance mechanisms, such as audit firm industry specialist, audit committee financial literacy and audit committee independence. Each measure can have its own implication; therefore, future studies can consider having more than one measure to validate the impact of these variables and hence enable a better comparison, results, conclusions and insights for policy makers.

Finally, other important factors may be considered as part of governance mechanisms to investigate their link to performance. These include important mechanisms, like executive compensation and pay- for- performance, which have not been investigated in the case of Jordan.

6.5 Chapter Summary

This study discovers the association between corporate governance mechanisms (ownership structure, board characteristics, audit committee, internal audit and auditor quality) and firm performance (ROA, ROE and Tobin-Q) of the Jordanian listed firms. This study comprised of all sectors industry, services and financial of 2009, 2010, 2011, 2012 and 2013.

The contribution of study is The adopted dynamic GMM estimator as the method of investigation for this study. The dynamic GMM estimator is the method that helps to address the serious issues of endogeneity and simultaneity. The adoption of GMM is more appropriate to produce consistent estimates for the model, as it helps in capturing the short panel, where the timeframe is small, but the cross-section "firms" are many as in the case of this research.

And the contribution also of this study is taking into consideration the financial sector of Jordan, most of the previous studies conducted in the Jordanian context have either focused their investigations on the association between corporate governance and firm performance in the context of one industry or excluded the financial sector from their investigations. Despite the fact that, the financial sector is one of the biggest sectors in Jordan which constituted approximately 40% of the entire market. Hence, this study add value to the literature in this area, and specifically the sample for this study is the financial annual reports of Jordanian listed firms spanning the period of five years from 2009 to 2013.

The need to investigate the relationship between corporate governance and firm performance is motivated by the recent interest shown by the government of Jordan in corporate governance, especially after the JCGC (2009) was issued. The Law states that firms listed on the (ASE) must form boards and committees to apply corporate governance mechanisms, and JCGC (2009) also requires public companies in Jordan to apply corporate governance to enhance the transparency and accountability of financial statements and control the directors' actions in an attempt to prevent manipulations in financial reporting.

In order to fill the gaps in literature, the current study contributes to the previous literature by providing new insights regarding the role of political influence as a new dimension because of its significance to an emerging market, such as Jordan. Political influence is added to the analysis to reflect its significant effect on the cultural environment of Jordan. In addition, the theoretical and empirical evidence regarding the performance consequences of women's board participation, is inconclusive. Some studies have suggested that the diversity that women bring to boards and their distinctive management style improve the board's operations; whereas others have noted that the limited experience of women in leadership positions and their lesser drive to advance to the top are characteristics that could diminish their effectiveness as board members (Nielsen & Huse, 2010; Dargnies, 2012). Such diversity of the previous theoretical and empirical evidence stimulates the researcher to investigate the role of women in the board in emerging markets, such as Jordan, as a new variable.

The findings of this study show that performance is influenced significantly by board size, independence, meetings, CEO duality, political connectivity, auditors brand name and independence. However, this association is not unique across a measure of performance, namely accounting and market-based performance. The relationship also varies between financial and non-financial industries reflecting their uniqueness and significant difference in their structure. In addition, the study also finds that the audit committee existence and internal audit existence seem to have no impact on performance of listed firms on Amman Stock Exchange. All in all, the impact of corporate governance and ownership structure on performance is shaped differently for financial and non-financial sectors as well as across the performance measures. The impact of ownership and other corporate governance mechanisms on performance of firms listed on Amman Stock Exchange are the main concern of the study.

Despite recognised limitations, findings from the current study have advantage in highlighting substantial insights with significant implications for different major financial accounting stakeholders (e.g. corporate management, regulators, investors and scholars, and practitioners). In advancing the understanding and knowledge of corporate governance and firm performance.

This study also highlights majority of governance mechanisms for future benefit and further empirical studies. In general, this study has contributed to the field of financial accounting, particularly firm performance. This study is one of the comprehensive studies that examined the issue of firm performance from the perspective of corporate governance in a developing country, Jordan. It is also hoped that the current study will open various avenues for more future studies on firm performance not only in Jordan, but also in other countries where this field of study is lacking. Moreover, it opens up opportunities and provides avenues for more in-depth studies related to firm performance.

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Appendix

Research Questionnaire

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Dear Prof / Reader / Dr / Mr / Mrs / Ms,

ACADEMIC RESEARCH QUESTIONNAIRE

I am a doctoral candidate at the above-named university, currently working on my PhD thesis title "moderating effect of self-regulatory efficacy on the relationship between organisational formal controls, perceived group norms and workplace deviance.

Thank you in advance for taking your valuable time to fill in this questionnaire. Please be assured that your responses will only be used for academic purpose. Hence, your identity will never be known throughout any part of the research process.

Thank you very much in anticipation of your responses.