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The role of corporate governance in enhancing the performance of Jordanian commercial banks

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A B S T R A C T

The study aimed to explore the relationship between corporate governance (i.e., tasks and responsibilities of the Board of Directors, disclosure and transparency, shareholders' rights and fair treatment of shareholders, and audit and internal control) and bank performance. Data were collected using a questionnaire distributed to a sample consisting of managers of commercial banks in the northern region in Jordan. The study found a significant and positive relationship between corporate governance and bank performance. Particularly, the study pointed out two principles (i.e., tasks and responsibilities of the Board of Directors, and audit and internal control) were positively related to bank performance, while there were no significant relationships between the other two principles (i.e., disclosure and transparency as well as shareholders' rights and fair treatment of shareholders). It was concluded that corporate governance is very critical for enhancing bank performance. Additionally, commercial banks should pay more attention to all principles of corporate governance.

1. Introduction

Corporate governance gained a specific importance from both academics and practitioners due to numerous reasons. It was stated that this method results in numerous advantages such as increasing investors' confidence and therefore improving investment opportunities (Ngatno, Apriatni & Youlianto, 2021) as well as elevating firm performance (Hermuningsih, Kusuma & Cahyarifida, 2020; Akbar et al., 2020). According to Warrad and Khaddam (2020), good corporate governance helps the Board of Directors along with managers achieve corporate goals following effective exploitation of resources and monitoring processes. Banking challenges such as the financial crisis of 2008 called policymakers in different industries, particularly banking, to adopt some mechanisms like corporate governance to adjust corporate behaviors (Bhagat & Bolton, 2019). However, there is no global evidence on the positive effect of corporate governance on firm performance because good governance mechanisms are different between countries (Azeez, 2015). According to some previous studies (e.g., Othman & Al-Matarna, 2016; Al-Najjar and Akl, 2016; Bhagat & Bolton, 2019; Buallay, Hamdan and Zureigat, 2017), corporate governance plays an important role in enhancing corporate performance. On the other hand, some studies (e.g., Buallay, Hamdan and Zureigat, 2017; Arora, and Sharma, 2016) found that corporate governance had no significant relationship with corporate performance. Nonetheless, it was noted that the results of previous studies are related to the dimensions of corporate governance used in such studies as well as to the measures utilized to evaluate corporate performance. Generally, most of the prior works (e.g., Al-Sartawi, 2015; Prusty and Kumar, 2016) on corporate governance and firm performance

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indicate that the latter is affected by some variables of corporate governance. In a study by Azeez (2015), corporate governance (CEO duality and proportion of non-executive directors in the Board of Directors) had significant effects on firm performance, while the size of the Board was negatively related to firm performance. Bourakba and Gherbi (2014) recognized a significant positive effect of the size of the Board on the financial performance of banks (i.e., return on assets). Buallay, Hamdan and Zureigat (2017) indicated that corporate governance (the ownership of the first largest shareholder and the independence of the Board of Directors) play no role in improving firm performance (market performance). Othman and Al-Matarna (2016) found that corporate governance (ensuring an effective framework for governance, protecting shareholders' rights, stakeholders' role, responsibilities of the board of directors, along with disclosure and transparency) had a significant effect on organizational performance of industrial companies. Conceptualizing corporate governance as a single construct, Al-Najjar and Akl (2016) revealed a significant influence of corporate governance on the financial performance of shareholding companies. Due to the importance of banks in enhancing the development of the country through stabilizing the national economy, studying the relationship between corporate governance and bank performance is very important for shareholders of banks, investors and other stakeholders. Therefore, the aim of this study is twofold. First, to investigate the relationship between corporate governance as a single construct and bank performance. Second, to explore the relationships between the variables of corporate governance and bank performance.

The remaining section of the study is structured as follows. Section 2 includes literature review and research hypotheses. Section 3 signifies research methodology in terms of study sample, study conceptual model and measures reliability and validity. Section 4 shows empirical results and discussion. Section 5 highlights research conclusions, recommendations and limitations.

2. Literature review and hypotheses

2.1 Principles of corporate governance

Corporate governance has been defined as the mechanism that enables the managers to control and direct the company in order to maximize corporate value for the benefits of shareholders, corporations, employees, and society (Ngatno, Apriatni & Youlianto, 2021). Akbar et al. (2020) stated that the aim of corporate governance is to protect shareholders' interests. The literature on corporate governance has reported numerous principles of corporate governance. Such principles include transparency and disclosure (Desoky & Mousa, 2012), the size of the Board of Directors, independence of board from managers, directors' financial expertise, committees of the board, role of external auditors, and separation of CEO and chairman (Aggarwal, 2013). Some other studies include firm size, board size, board financial experience, board meetings, and external audit quality (Saleh et al., 2021), internal audit and internal control (Suyono & Hariyanto, 2012). In addition to proportion of non-executive directors, institutional ownership, and ownership concentration (Agyei-Mensah, 2016), as well as shareholders' rights (Pérez-Carrillo, 2007). In their study on the listed industrial companies in Jordan, Alshaboul and Abu Zraiq (2020) conceptualized the principles of corporate governance using board size, board independence, board meeting frequency meeting and CEO duality.

In their study on the impact of corporate governance on organizational performance of the Jordanian industrial companies, Othman and Al-Matarna (2016) conceptualized corporate governance in terms of ensuring an effective framework for governance, protecting shareholders' rights, stakeholders' role, responsibilities of the board of directors, as well as disclosure and transparency. In the same vein, Al-Najjar and Akl (2016) explored the impact of corporate governance on the financial performance of Public Shareholding Companies using five principles of corporate governance, which are public committee meetings, shareholders' rights, rules of management, auditing roles, disclosure and transparency, and stakeholders' rules.

Al-Sartawi (2015) used the size of the Board of Directors, managers' ownership, separation between the roles of CEO and chairman, independence of board from managers, ownership held by company's first largest investor, and ownership held by company's three largest investors. Selecting 10 Islamic banks from Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Bahrain, and Jordan, Bourakba and Gherbi (2014) measured corporate governance using five principles: the composition of the Board of Directors, the size of the Board of Directors, the number of committees of the Board of Directors, the number of Sharia Supervisory Board, and ownership concentration. Azeez (2015) studied the effect of corporate governance and financial performance of companies in Sri Lanka using CEO duality and proportion of non-executive directors in the Board of Directors, and the size of the Board of directors as three variables of corporate governance.

Buallay, Hamdan and Zureigat (2017) evaluated corporate governance by the size of the Board of Directors, the ownership of the largest shareholder, the ownership of the three largest shareholders, separation between the roles of CEO and chairman, and independence of the Board of Directors. Prusty and Kumar (2016) assessed corporate governance using the size of the board, the composition of the board, the meetings of the board, the number of the board committees, and disclosure. Arora and Sharma (2016) measured corporate governance by Board size, Board independence, Board activity intensity, CEO duality, and institutional ownership. In one recent Jordanian study by Warrad and Khaddam (2020), corporate governance was assessed using board size, board diligence, audit committee size, and audit committee diligence. In a study on the commercial banks in the UK, used board size, audit committee, financial leverage, female board, board independent, ownership structure, foreign owners to evaluate corporate governance.

2.2 Corporate governance and bank performance

The relationship between corporate governance and firms' performance is well established in the literature. For Othman and Al-Matarna (2016), there were significant effects of corporate governance principles (i.e., governance effective framework, shareholders' rights, stakeholders' role, responsibilities of the board of directors, in addition to disclosure and transparency) on the organizational performance of Industrial Companies in Jordan. The results of Al-Najjar and Akl (2016) indicated that corporate governance rules as a single construct had significant effects on the financial performance of Public Shareholding Companies as measured by return on assets, share book value, and company market value, while there were no significant impact of corporate governance on sales growth rate. Studying the impact of corporate governance on the performance of Islamic banks, Bourakba and Gherbi (2014) pointed out positive effects of the composition of the Board of Directors, the size of the Board of Directors, the number of committees of the Board of Directors and the number of Sharia Supervisory Board on bank return on assets. Al-Sartawi (2015) found that corporate governance had significant effects on some dimensions of performance (i.e., market value added and return on assets) and had no significant effects on other dimensions of performance (i.e., return on investment and earning per share). In contrast, Buallay, Hamdan and Zureigat (2017) revealed that there was no significant effect of the adoption of corporate governance on companies' financial and operating performance. Moreover, the ownership of the first largest shareholder and the independence of the Board of Directors had no significant effect on the companies' market performance. However, the results indicated that the size of the Board of Directors exerted a significant effect on companies' performance. Furthermore, Prusty and Kumar (2016) examined the effect of corporate governance (i.e., Board size, composition of Board, Board meetings, Board committees, and disclosure) on financial performance (return on assets and return on capital employed) of Information Technology companies in India and found that composition of Board had significant effects on both return on assets and return on capital employed. On the other hand, the study outlined that the board committee had no significant effect on both return on assets and return on capital employed. Finally, the study showed that the Board governance score had no significant effect on firms' performance. Azeez (2015) examined the effect of corporate governance and financial performance of listed companies except banks in Sri Lanka and found that CEO duality and proportion of non-executive directors in the Board of Directors were significant predictors of firm performance. Using a sample of a large number of companies from numerous industries from the manufacturing sector in India, Arora, and Sharma (2016) investigated the impact of corporate governance on firm performance and established a positive relationship between larger Boards of Directors and intellectual knowledge of directors, which means improved decisions and enhanced performance. Likewise, the study found that corporate governance had no significant influence on firm equity and profitability. In addition, CEO, as a key aspect of corporate governance, had not related to firm performance. Investigating the impact of corporate governance on the performance of Jordanian banks, Warrad and Khaddam (2020) found positive effects of board size, board in diligence as well as audit committee diligence and audit committee size on bak performance. As well, Alshaboul and Abu Zraiq (2020) pointed out significant effects of board size, board independence, board meeting frequency meeting and CEO duality on firm performance as measured by return on assets and return on equity, except CEO duality, which show a non-significant effect on firm return on equity.

Based on the above-reported literature, and in order to investigate the impact of corporate governance on bank performance using a sample comprised managers from different managerial levels chosen from Jordanian commercial banks, the following hypotheses were suggested:

H1: There is no relationship between corporate governance and bank performance.

H2: There is no relationship between tasks and responsibilities of the Board of Directors and bank performance.

H3: There is no relationship between disclosure and transparency and bank performance.

H4: There is no relationship between shareholders' rights and fair treatment of shareholders and bank performance.

H5: There is no relationship between audit and internal control and bank performance.

3. Methodology

3.1 Study sample and data collection

The population of the study consisted of all bank managers of commercial banks in the North region of Jordan. A sample encompassed 100 managers of bank branches and heads of departments was selected for the current study. Data were collected using a questionnaire developed with reference to prior related works. It was designed following Likert's five-point design in which 1 symbolizes "strongly disagree" and 5 represents "strongly agree". The characteristics of the study sample are shown in Fig. 1. The results in Fig. 1 show that 79% of respondents are male. In terms of their ages, the results indicated that 67% of respondents are those within the age category "31 – less than 40 years", followed by 18% of respondents within the category "40 – 50 years or more". Out of the sample members, 62% hold a Bachelor's degree as compared to 34% who hold a Master's degree. As well, the results underline that 42% of the subjects are specialized in Finance and 40% of them are specialized in Accounting. Furthermore, 44% of the respondents have an experience "10 - less than 15 years" while 32% of them have more than 15 years of experience. Finally, the results revealed that 57% of the sample members are operation managers and 25% were branch managers. Such results reflect objectivity, creditability, and reliability of respondents' answers because respondents have sufficient knowledge about corporate governance.

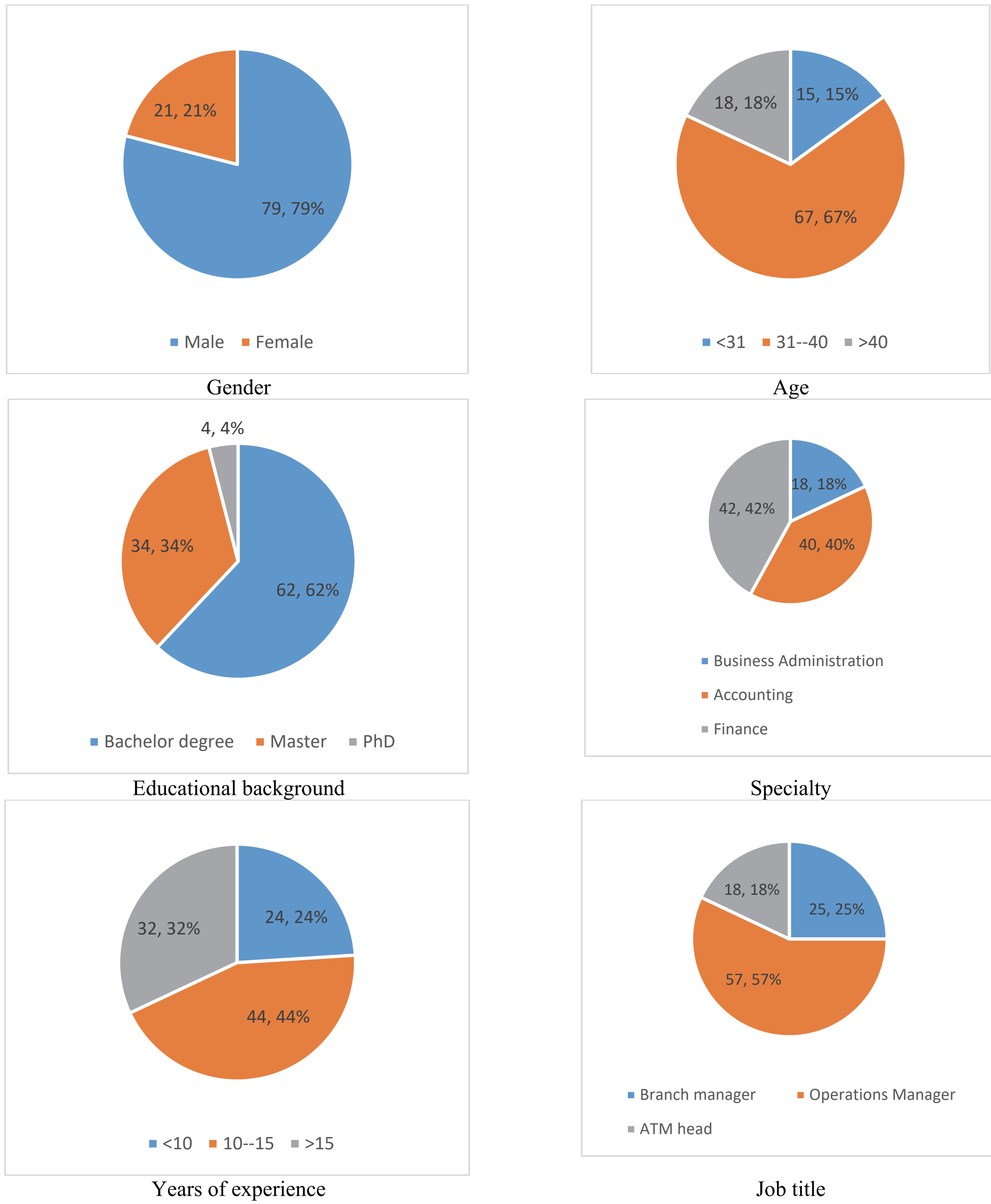

Fig. 1. Characteristics of the study sample

3.2 Study conceptual model

Fig. 2 portrays the conceptual model of the study. The model contains five hypotheses. The first hypothesis (H1) connected both corporate governance as a single construct and bank performance. The other hypotheses (H1-H4) linked the principles of corporate governance to bank performance.

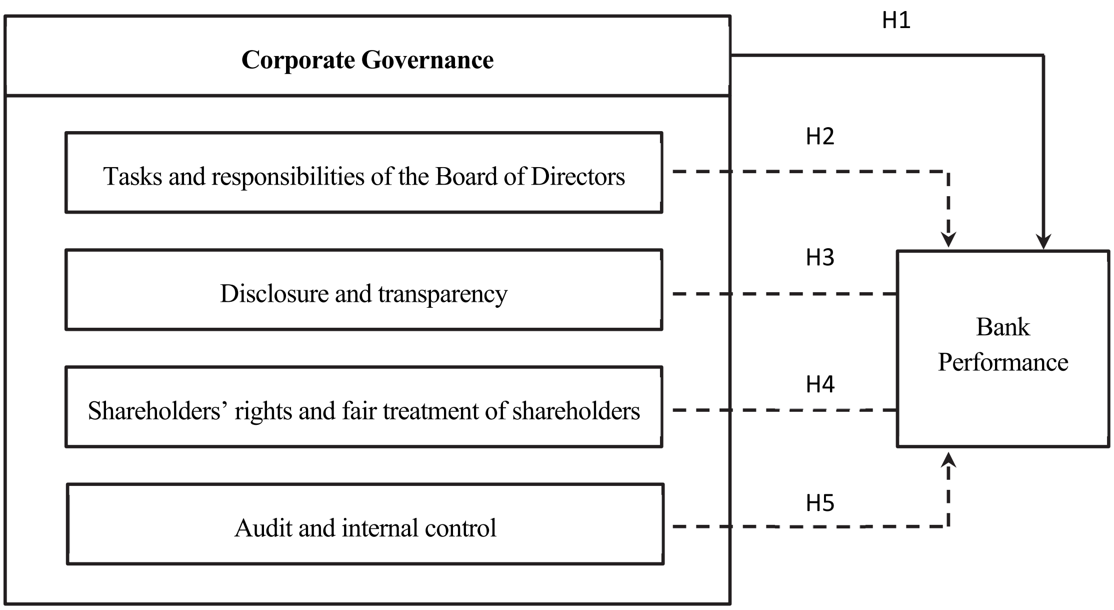

Fig. 2. Research conceptual model

3.3 Reliability and validity

Reliability was measured using Cronbach's alpha coefficient (α) and validity was evaluated based on opinions of a panel of experts consisting of five university academics. The results of reliability as shown in Table 1 assert that all Cronbach's alpha values are higher than 0.70. According to Yana, Rusdhi and Wibowo (2015), values of alpha coefficients above 0.70 are deemed acceptable. Hence, it was found that the current scale is reliable and valid; therefore, it was used to collect research data.

Table 1
Cronbach's alpha coefficients of the study instrument

Variables	Items	Cronbach's alpha
Tasks and responsibilities of the Board of Directors	1-8	0.759
Disclosure and transparency	9-26	0.791
Shareholders' rights and fair treatment of shareholders	27-35	0.724
Audit and internal control	36-50	0.735
Bank performance	51-68	0.701

4. Study empirical results and discussion

4.1 Means and standard deviations

Means and standard deviations (SD) were used to identify degrees of corporate variables principles and bank performance. The results in Table 2 indicated that commercial banks are committed to apply the principles of corporate governance (M = 3.83, SD = 0.774). Particularly, the results in Table 3 pointed out positive attitudes toward tasks and responsibilities of the Board of Directors in the first place (M = 4.02, SD = 1.03), followed by audit and control (M = 3.91, SD = 0.687), disclosure and transparency (M = 3.86, SD = 0.781) and finally shareholders' rights and fair treatment of shareholders (M = 3.52, SD = 0.764). On the other hand, the results showed a moderate degree of bank performance (M = 3.41, SD = 0.877).

Table 3
Means and standard deviations of corporate governance and bank performance

Variables	Items	Mean	SD	Rank	Degree
Tasks and responsibilities of the Board of Directors	1-8	4.02	1.03	1	High
Disclosure and transparency	9-26	3.86	0.781	3	High
Shareholders' rights and fair treatment of shareholders	27-35	3.52	0.764	4	Moderate
Audit and internal control	36-50	3.91	0.687	2	High
Total	1-50	3.83	0.774	-	High
Bank performance	51-65	3.41	0.877	-	Moderate

4.2 Correlations and multicollinearity

The results of Pearson's correlation coefficient and multicollinearity tests as shown in Table 4 illustrate that the principles of corporate governance are positively correlated to each other. Correlation coefficient between the principles of corporate governance ranged from 0.258 to 0.452. In terms of multicollinearity tests as measured by variance inflation factor (VIF) and tolerance showed acceptable values, where all VIF values are less than 10 and tolerance values are greater than 0.10 (Micheal & Abiodun, 2014). Other studies (e.g., Adeboye, Fagoyinbo & Olatayo, 2014) indicate that VIF values should be less than 2.5. Moreover, the results showed weak correlation coefficients between two principles of corporate governance and good correlations with the other two principles, which are tasks and responsibilities of the Board of Directors along with audit and internal control and bank performance, which means that two principles of corporate governance is positively related to bank performance.

Table 3
Pearson's correlation coefficients and multicollinearity tests

	1	2	3	4	5	VIF	Tolerance
1	-					1.375	0.727
2	0.354**	-				2.411	0.369
3	0.297**	3.11**	-			1.930	0.518
4	0.258**	0.452**	0.368**	-		2.312	0.399
5	0.331**	0.172**	0.099	0.438**	-	-	-

1: Tasks and responsibilities of the Board of Directors, 2: Disclosure and transparency, 3: Shareholders' rights and fair treatment of shareholders, 4: Audit and internal control, 5: Bank performance. ** Significant at $\alpha = 0.05$.

4.3 Hypotheses testing

Both simple and multiple regression analyses were used to test the hypotheses of the study. The results in Table 4 revealed that there was a significant relationship between corporate governance as a single construct and bank performance ($\beta = 0.213$, $t = 3.496$, Sig. = 0.029), which resulted in rejecting H1. On the other hand, the results pointed out a significant relationship between tasks and responsibilities of the Board of Directors and bank performance as a key dimension of corporate governance ($\beta = 0.197$, $t = 2.424$, Sig. = 0.011), and consequently H2 was rejected.

Table 4
Results of hypotheses testing

Study variable and paths			β	t-value	Sig. *
CG	→	BP	0.213	3.496	0.029
TRBD	→	BP	0.197	2.424	0.011
DT	→	BP	0.086	1.655	0.101
SRFT	→	BP	0.014	0.320	0.750
AIC	→	BP	0.225	2.752	0.017

CG: corporate governance, TRBD: Tasks and responsibilities of the Board of Directors, DT: Disclosure and transparency, SRFT: Shareholders' rights and fair treatment of shareholders, AIC: Audit and internal control.* significant at $\alpha = 0.05$.

In relation to H3, it was found that disclosure and transparency had no significant relationship with bank performance ($\beta = 0.086$, $t = 1.655$, Sig. = 0.101), and there was no significant relationship between shareholders' rights and fair treatment of shareholders and bank performance ($\beta = 0.014$, $t = 0.320$, Sig. = 0.750). Finally, the results indicated that audit and internal control had a significant relationship with bank performance ($\beta = 0.225$, $t = 2.752$, Sig. = 0.017).

In agreement with some previous studies (e.g., Othman, Al-Matarna, 2016; Al-Sartawi, 2015; Al-Najjar and Akl, 2016), the current study found that corporate governance had a significant relationship with bank performance. The same result is inconsistent with some previous results (e.g., Buallay, Hamdan & Zureigat, 2017; Prusty and Kumar, 2016; Arora, and Sharma, 2016). Furthermore, the results found that two principles of corporate governance, i.e., tasks and responsibilities of the Board of Directors in addition to audit and internal control had significant relationships with bank performance. According to Othman and Al-Matarna (2016), these principles had significant positive effects on bank performance. Additionally, Al-Najjar and Akl (2016), the present study revealed that audit and internal control was positively related to bank performance.

5. Conclusion, recommendations and limitations

The aim of this study was to investigate the relationship between corporate governance as a single construct and bank performance. Still, the study aimed at exploring the relationships between the principles of corporate governance, i.e., tasks and responsibilities of the Board of Directors, disclosure and transparency, shareholders' rights and fair treatment of shareholders as well as audit and internal control and bank performance. The findings of the study pointed out that corporate governance had a significant relationship with bank performance. Specifically, the results underlined significant relationships between tasks and responsibilities of the Board of Directors as well as audit and internal control and bank performance. Based on these it was concluded that corporate governance is essential for boosting bank performance, mainly, tasks and responsibilities of the Board of Directors as well as audit and internal control are the two major principles of corporate governance. Henceforth, commercial banks are required to consider these principles in order to enhance their performance. However, the current study is limited to its theoretical framework in which four principles of corporate governance were used, i.e., tasks and responsibilities of the Board of Directors, disclosure and transparency, shareholders' rights and fair treatment of shareholders, and audit and internal control. Furthermore, the study is limited to a sample consisting of bank managers in the North region in Jordan. Future studies are required to use more principles of corporate governance and including other members form other branches of the commercial banks in their samples.

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