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The moderating role of corporate political links on the relationship between CEO-duality and the corporate environmental reporting practices in Jordan

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A B S T R A C T

The present study explored the relationship between CEO duality and the scope of CER practices in the yearly reports of Jordanian industrial firms over the period 2009-2018 shaped by the board directors' political links. To determine the amount of environmental data included in the firms' yearly reports, the method of content analysis checklist was applied. CEO duality was chosen as an independent variable, which was measured by attributing a score to the existence/non-existence of CEO dual role, whilst the employed moderator variable was the political links and measured by attributing a score to the existence/non-existence of political links among the board directors of the investigated firms. Furthermore, to evaluate how the relationship between CEO duality and CER practices was influenced by political links, the statistical package for the social sciences (SPSS) and Hayes' PROCESS macro were adopted. According to the results obtained, the above-mentioned relationship was substantially adversely impacted by political links. Such results could promote better corporate-stakeholder communication, enhancing stakeholders' awareness of environmental responsibility in the context of Jordan as a developing nation. Therefore, the results have ramifications for the practices employed by firms to report on matters unrelated to finance.

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1. Introduction

Nowadays, there is an increasing public pressure for corporate leaders to pay greater attention to the needs of external shareholders that are not financial in nature (Deegan et al., 2000; Chen & Wang, 2011; Bani-Khalid et al., 2017). This has also compelled numerous firms to further democratize their ownership framework through establishing social and political links with new external entities, which not only validate economic pursuits, but also benefit firms' private interests (DiMaggio & Powell, 1983). As far as stakeholders are concerned, the purpose of corporate socio-political links is to broaden the managerial scope of duties and functions to include stakeholders' financial interests (Huang & Zhao, 2016), as well as to ensure that external stakeholders are adequately satisfied with the necessities of non-financial accountability (Bani-Khalid, 2019). Firms harness external links within their strategy to achieve sustainability at global level. Such links are, in fact, considered to foster circumstances in which the needs of wider shareholder groups can be met. For instance, there is research evidence that companies with close governmental links are better positioned to address a range of issues, including accessibility to external sources of funding, stringent governmental policies or an inadequate legal framework (Boubakri et al., 2008; Fisman, 2001). In recent times, the general public, policy-makers and academia alike have intensified their focus on the ramifications and assessment of political links. As attested by earlier accounting and financing studies, such links can make it easier for companies to secure long-term loans and generate value in capital acquisition (Khwaja & Mian, 2005; Faccio, 2006), alleviate tax burden (Feng, 2012), and improve their productivity (Fisman, 2001; Johnson & Mitton, 2003; Ding et al., 2014). The dispute

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has been further escalated by research on how companies' social and environmental disclosure was affected by political links (Yusoff & Lehman, 2009). A consensus has been reached that corporate political links serve to legitimize business activities, so they may be of use to companies performing inadequately in terms of environmental accountability (Muttakin et al., 2018). Stakeholder theory upholds a similar idea, arguing that socio-political links are established by firms to prevent conflicts of interests, so firms tend to perform better regarding social and environmental disclosure if they possess such links (Zhang et al., 2019). In both developed and developing nations, studies addressing the relationship between corporate political links and reporting practices are proliferating. In spite of this, the moderating effect of corporate political links on CER practices has not been thoroughly investigated. Under these circumstances, the present study seeks to fill in this gap in the literature by empirically exploring how the relationship between Chief Executive Officer (CEO) duality and CER practices is shaped by corporate political links, with particular emphasis on the Arab context. At global level, the success of corporate governance structure has come to be greatly dependent on corporate socio-political links. On this background, the present study seeks to explore novel forms of corporate ownership structures in a developing country, namely, Jordan, by examining the impact of political links on the relationship between CEO duality and corporate practices related to reporting on environmental accountability.

2. Review of the Literature and Formulation of Hypotheses

2.1 CEO Duality

In some companies, the roles of chairperson and CEO continue to be performed by the same individual, contrary to the specifications of the CG Code regarding effective corporate governance. The issue of keeping these two roles separate or not is highly contentious in the field of social sciences. Thus, it is worthwhile to scrutinize the available evidence for and against the notion of CEO duality. As defined by Elzahar and Hussainey (2012, p.9), if an individual is both the CEO and chairperson within a company, then this will give rise to role duality. Several authors suggested that CEO duality was advantageous because it enabled information to be disseminated more effortlessly, it made coordination more cost-effective and minimized the risk of conflicts of interests (Carmona et al., 2016; Davis, Choorman & Donaldson, 1997). Daily and Dalton (1997) observed that CEO duality also reflected the strength of corporate leadership. Moreover, given the centrality of the CEO position, CEO duality can improve awareness, comprehension and experience of existing corporate opportunities and difficulties (Elzahar & Hussainey, 2012; Ntim et al., 2013). On the other hand, opponents of CEO duality argue that, by keeping the two roles separate, business activities can be supervised more closely, effectively and autonomously (Vo, 2010), whilst also minimizing agency costs compared to situations in which the CEO and chairperson roles are not separated. As explained by Neifar and Jarboui (2018), the higher agency costs associated with CEO duality stem from the fact that the integration of the two roles imposes constraints on the oversight function fulfilled by the board of directors. The agency theory also claims that CEO duality undermines the control function fulfilled by the board by concentrating too much power in the hands of the CEO (Samaha et al., 2012). Hence, since the board is responsible for overseeing and regulating the managerial structures, there should be no integration of the roles of CEO and chairperson (Yunos, Smith, Ismail & Ahmad, 2011), so as to prevent compromising the board's authority (Molz, 1988) and generating unequal access to information. By contrast, separation of the two roles affords the board greater power of monitoring management (Barako, Hancock & Izan, 2006). Moreover, these observations also imply that the reporting practices of firms with CEO duality may be suboptimal (Allegrini & Greco, 2013). No definitive conclusions have so far been reached with respect to the impact of CEO duality on CER practices. Some studies have suggested that the two are favorably correlated, whereas others have suggested that they are unfavorably correlated. In a meta-analysis of 64 empirical studies, Samaha, Khlif and Hussainey (2015) reported that voluntary disclosure was favorably influenced by CEO duality. Likewise, Dias et al. (2017) observed that CEO duality had a positive effect on the CER practices of Portuguese industrial firms. A different body of evidence suggests that CER practices are adversely affected by CEO duality. For instance, in a study on the relationship between CEO duality and the CER practices of listed resources firms in Australia, Ong and Djajadikerta (2017) found that firms that kept the roles of CEO and chairperson separate had a better performance regarding disclosure of their CER practices. Similarly, the extent of disclosure in Jordanian manufacturing companies during the period 2013-2015 was markedly and adversely impacted by CEO duality in the study by Abu Qa'dan and Suwaidan (2018). The inverse correlation between CEO duality and voluntary disclosure has been highlighted by other studies as well (e.g. Forker, 1992; Gul & Leung, 2004; Roberts et al., 2005; Cheng & Courtenay, 2006). The reason for this inverse correlation might be that the scope of corporate responsibility is minimized by the integration of the CEO and chairperson roles. In the above, a summary of the findings of earlier studies regarding the relationship between CEO duality and CER practices has been provided. In the following part, this relationship is investigated in the particular context of Jordanian industrial firms. In line with this aim, the first research hypothesis can be formulated.

H_{01}: The scope of CER practices in the examined firms is not significantly affected by the existence/non-existence of CEO duality.

2.2 Political Links

According to the explanation provided by Boubakri, Cosset and Saffar (2008), if a board member of a firm holds or has held a political, ministerial or parliamentary position, then that firm can be said to possess political links. Such links can be important to gain governmental backing and benefits. Furthermore, a firm with political links is more likely to survive and perform well because of the additional information and assistance that it can derive from these links, which can help it to cope with the lack of certainty generated by extrinsic factors (Hillman, 2005). In the study by Huang and Zhao (2016), a number of 370 listed private firms operating in China between 2008 and 2014 were chosen in order to explore whether the existence of political links contributed to management perceiving stakeholders' relative significance better and thereby working to ensure that the stakeholders' interests were fulfilled. The findings obtained through the application of the pooled least squares technique indicated that the CER practices of Chinese private firms were favorably impacted by the existence of political links. In another similar study, Fu (2019) investigated private firms operating in China between 2010 and 2016 regarding the impact of political links on the disclosure quality. According to the results from the application of the OLS regression technique, disclosure quality was positively impacted by the existence of political links. Likewise, firms with political links were found to have better environmental disclosure performance based on the outcomes of multiple regression in a study conducted by Osazuwa, Che-Ahmad and Che-Adam (2015) in Nigeria. The evidence cited above suggests that firms tend to perform better on their social and environmental disclosure if they possess political links. On the other hand, some studies have argued that firms with political links fail to satisfy stakeholders' needs and thus present suboptimal corporate governance and significant issues of legitimacy (Johnson & Mitton, 2003; Gul & Leung 2004; Abdul Wahab et al., 2009). In an investigation of a number of 300 non-financial firms listed in Bursa Malaysia in 2013, Rahman and Ismail (2016) found that CSR disclosure was adversely impacted by the existence of political links. Likewise, Rahman et al. (2019) reported that the correlation between female directors and CSR reporting in Malaysian firms was negatively affected by the existence of political links. Given the findings of the cited studies regarding the impact of political links on CER practices and to mediate a discourse of the major observations made in the present study about this correlation, the following hypotheses can be formulated:

H_{02}: The scope of CER practices does not differ significantly between companies with and without political links.

H_{03}: The relationship between CEO duality and CER practices is favorably influenced by political links.

The review of the literature pertaining to the topic in question has revealed that the moderating effect of political links on the relationship between CEO duality and CER practices has not been investigated. This means that there remains a great deal of ambiguity surrounding this aspect. This warrants further research to shed light on the moderating effect that political links have on the relationship between CEO duality and CER practices. In particular, it is necessary to investigate the correlation between political links and non-financial disclosure in the context of Jordan. Hence, the present study aims to improve knowledge of the impact of political links on the relationship between CER duality and CER practices in firms operating in Jordan.

3. Research Approach

The moderating effect of political links on the relationship between CEO duality and CER practices in firms operating in Jordan in the period 2009-2018 constitutes the focus of the present study. To this end, the study adopts a research approach with multiple steps and procedures. In the following part, a discussion of the research approach and justification for the chosen methods are provided. According to the initial analysis of the target population, during the research period from 2009 to 2018, there were 52-78 ASE-listed firms operating in the industrial sector. On closer inspection, it was found that a few of the identified target firms were removed from the ASE listing during the research period, so they were excluded from the research population to avoid data distortions. Therefore, the final research sample consisted of 46 firms that each issued yearly reports over the entire research period of ten years. This yielded a total of 460 yearly reports, which could supply enough data for the purposes of this study. Within the context of regression analysis, the causal relationships stemming from the impact of the moderation variable on how independent and outcome variables are correlated in a regression model are measured via moderation analysis. As noted by Edwards and Lambert (2007), moderation analysis is particularly useful when one moderator variable determines the relationship between two other variables. The way in which independent and moderator variables interact with each other to impact the outcome variable dictates the type of moderation regression analysis that is most suitable for use (Henseler & Fassott, 2010). As defined by Lai (2013), a moderator variable represents an independent variable that has an influence over the manner in which and how strongly a different independent variable and an outcome variable are correlated. In the present study, the moderator variable chosen to determine its impact on the relationship between CEO duality and CER practices in Jordanian firms was political links. The selection of this variable was inspired by the study of Rahman et al. (2019), which explored the moderating effect that political links had on the relationship between female board directors and CER practices.To attain the research aims, the formulated hypotheses were subjected to evaluation. In turn, this required identification of the research variables meant for testing and clarification of the associated criteria for measurement. Thus, 0/1 categorical dummy variables were the basis for the measurement of the CEO duality, with a score of 1 indicating the existence of such duality, while a score of 0 indicated the absence of CEO duality. Likewise, with regard to the measurement of the moderator variable, the existence and non-existence of political links were respectively indicated by a score of 1 and a score of 0. Content analysis involving the counting of sentences in the corporate yearly reports helped to measure the dependent variable, namely, the scope of environmental disclosure, with scores of 1 and 0 respectively reflecting provision and lack of provision of information regarding environmental practices. The yearly balance data were used to investigate how the explanatory variables and the response variable were correlated. The use of balance data is advantageous because it helps to deal not only with lack of uniformity across cross-sections, but also with time effects associated with policy and macroeconomic transformations that may affect the outcome of the model. Furthermore, the robustness of the results and their significance for policy are enhanced by the extensive degrees of freedom afforded by balance data. After establishing the character of the research variables, the next step was formulation of the research model to investigate the impact of the moderating variable on the relationship between the independent and dependent variables based on the moderated regression model below:

$$CER_{it} = \beta_0 + \beta_1 CEO\_Dual_{it} + \beta_2 Pol\_Link_{it} + \beta_3 \left(CEO\_Dual_{it} \times Pol\_Link_{it} \right) + \varepsilon_{it}, \tag{1}$$

where CEO_{it} represents Corporate Environmental Information, CEO_Dual_{it} denotes CEO Duality Measured by Presence/Absence the Dual Role of CEO, Pol_Link_{it} is Political Links Measured by Presence/Absence the Political Relations of the board. In addition, $\beta_i, i = 0,...,3$ are regression coefficients and finally ε_{it} is the error term.

As suggested by Oppenheim (1992), the character of the data of interest determines which statistical method is most suitable for application. In the present case, the PROCESS-macro model was considered to be ideal for the investigation of the moderating effect in the context of the analysis of panel data. After validation and statistical confirmation of the moderator regression hypotheses, the research data were subjected to a thorough analysis in order to enrich the existing knowledge pool. Therefore, the results obtained from descriptive and statistical analyses regarding the moderating effect of political links on the environment-related disclosure practices of industrial firms from Jordan are outlined in the following part. The Hayes PROCESS macro model was applied to investigate how the relationship between CEO duality and CER practices in listed firms from Jordan was affected by political links (Hayes, 2018). Prior to the presentation of the outcomes of the descriptive analysis, the used research variables are delineated, as can be seen in Table 1.

Table 1
Descriptive Statistics of Corporate Environmental Reporting

	Statistical Item		Statistic	Std.E
CER	Mean		.287	.0055
	95% Confidence Interval for Mean	Lower-Bound	.276	
		Upper-Bound	.298	
	5% Trimmed Mean		.283	
	Median		.294	
	Variance		.014	
	Std. Deviation		.119	
	Minimum		.059	=.794-.059/3
	Maximum		.794	=0.245
	Range		.735	.059+0.245
	Skewness		.458	.114
	Kurtosis		.151	.227

*(0.05-0.30) low level **(0.31-0.56) medium level ***(0.57-0.80)

According to the results of descriptive analysis shown in Table 1, the sample of listed companies from Jordan had a suboptimal extent of CER information, as the arithmetic mean value of the CER variable was .286 at .005 S.DE. The lowest value associated with this variable was .059, while the highest value was .794, with a standard deviation of .118631. The measurement of the extent of likelihood and symmetry between the variables was based on the statistical tools of skewness and kurtosis, which had values of around +2, which reflected the normal distribution of the research variables (Field, 2010). An overview of the t-test results obtained regarding the impact of existence/non-existence of CEO duality on the CER practices of the investigated Jordanian firms is given in Table 2. It can be seen that neither the existence of CEO duality (M = 0.304 and S.D = 0.119) nor the absence of CEO duality (M = 0.283; S.D = 0.118) significantly affected the scope of CER practices (t (458) = -1.284, Sig = 0.200). On the other hand, with regard to the impact of political links on the scope of CER practices among Jordanian firms, the results of an independent sample t-test revealed that firms with political links differed significantly from firms without political links (M = 0.3275 and S.D = 0.13658 vs. M = 0.2722; S.D = 0.10821) in terms of the scope of their environmental disclosure practices (t (174.561) = -4.009, Sig = 0.000) (Table 2).

Table 2
Independent Samples T-Test

Group	N	Mean	S.D	Levene's Test for Equality of Variances		t-test for Equality of Means		
				F	Sig.	t.test	df	P
Firms without duality	393	0.284	0.116	0.031	0.860	-1.284	458	0.200
Firms with duality	67	0.304	0.119					
Firms without P.L*	340	0.272	0.108	13.774	0.000	-4.009	174.561	0.000
Firms with P.L*	120	0.328	0.137					

*P.L=Political-Links

Table 2 lists the results of Levene's test as well. It can be noted that, since the P-value of .860 was higher than 0.05, the scope of the CER practices of the investigated Jordanian companies exhibited the same variances, regardless of the existence or non-existence of CEO duality. This confirmed that the null hypothesis was valid. By contrast, statistical data suggest that the second null hypothesis regarding the lack of variances in the scope of CER practices of companies with and without political links was invalid because the Sig p-value of 0.00 was lower than 0.05, meaning that the environmental disclosure performance of companies with political links was greater than that of companies without political links (Table 2). In line with the previous discussion, a summary of the results yielded by the assessment of the impact of CEO duality on CER practices is provided in the following table:

Table 3
Model Summary of the Moderating Effect of Political Links on the Relationship Between CEO Duality and CER Practices

Model	R	R-sq	F	df1	df2	p
	.3965	.1572	28.3589	3.0000	456.0000	.0000
	coeff	se	t	p	LLCI	ULCI
constan	.2594	.0065	39.9353	.0000	.2466	.2721
CEO.D	.0766	.0159	4.8278	.0000	.0454	.1078
P.L	.0869	.0123	7.0770	.0000	.0628	.1110
Int_1	-.3022	.0394	-7.6671	.0000	-.3797	-.2248

*OUTCOME VARIABLE= CER **Sample Size: 460
***Model= Y:CER X:CEO.D W:P.L

The existence of an interaction effect of statistical significance was highlighted by the PROCESS macro model that was implemented (Table 1). The existence of political links was confirmed to have a moderating effect on the relationship between CEO duality and the CER practices of the investigated listed companies from Jordan, as reflected by the values of b = -.3022 and t = -7.6671, with p<0.000, that were yielded by the PROCESS macro model. Thus, the results of the interaction regression test were valid and possessed statistical reliability at 0.01. Moreover, it was established that a proportion of around 16% of the variance of CER practices in the yearly reports produced by the investigated firms was explained by the PROCESS macro model, as R-sq had a value of 0.1572. Therefore, according to the PROCESS macro model, political links had a linear moderating effect on the relationship between CEO duality and CER practices.

Table 4
Conditional Effects of the Focal Predictor at Values of the Moderator PROCESS Macro Model

P.L	Effect	se	t	p	LLCI	ULCI
.0000	.0766	.0159	4.8278	.0000	.0454	.1078
1.0000	-.2257	.0361	-6.2530	.0000	-.2966	-.1547

Data for Visualizing the Conditional Effect of the Focal Predictor	CEO.D	P.L	CER
	.0000	.0000	.2594
	1.0000	.0000	.3360
	.0000	1.0000	.3463
	1.0000	1.0000	.1206

*Focal predict: CEO.Duality (X)
**Mod var: Political Links (W)

Political links displayed a mixed moderating effect on the relationship between CEO duality and CER practices of the investigated listed companies from Jordan, due to the fact that the focal predictor exhibited conditional effects at the values of the moderator PROCESS macro model. To be more precise, in the firms that did not have any political links, CEO duality and the scope of CER practices were significantly positively correlated, according to the conditional effects of the PROCESS macro model. By contrast, in the firms that did have any political links, CEO duality and the scope of CER practices were negatively correlated. The simple slopes illustrated in the following figure provide additional clarification on the observed mixed moderating effect (See Fig. 1).

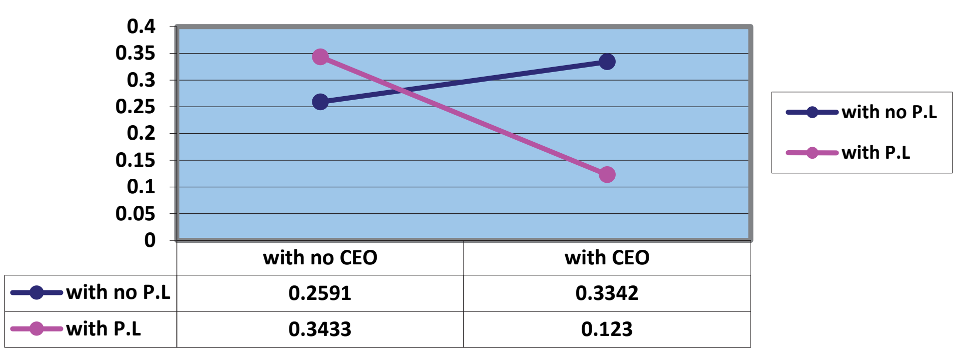

Fig. 1. The Interaction Effect of CEO-Duality on CER Information Under the Moderating Influence of Corporate Political Links

The results yielded by the scatter-plot analysis and presented in the previous table are corroborated by the above figure, which shows that the scope of CER practices differed according to whether CEO duality existed or not as well as according to whether the firms had political links or not. A greater amount of environmental information was disclosed by those listed companies from Jordan in which the CEO and chairperson positions were held by the same individual but that had no political links. On the other hand, a lesser amount of environmental information was disclosed by those listed companies from Jordan in which the CEO and chairperson positions were held different individuals but that had political links. It was deduced from this that the research model was negatively affected by the moderator variable. Comparable conclusions were also reached by earlier studies (e.g. Rahman & Ismail, 2016; Rahman et al., 2019; Chaney et al., 2011), revealing that non-financial reporting could be adversely impacted by the existence of political links.

4. Discussion and Conclusions

The moderating effect of political links on the relationship between CEO duality and CER practices was investigated in the present study on the basis of a balanced panel dataset consisting of a number of 460 yearly reports from a sample of listed industrial firms operating in Jordan in the period between 2009 and 2018. Another objective of the study was to determine the degree to which the firms differed in terms of the scope of disclosure of environmental information depending on whether or not they had CEO duality and political links, respectively. In order to attain the research goals, a number of methods were employed, including content analysis of the corporate yearly reports that involved allocation of a score to the scope of CER practices according to the environmental disclosure checklist, one-sample t-tests, as well as Hayes PROCESS regression analysis (Hayes, 2018).

With regard to the scope of disclosure of environmental information, the results of the descriptive analysis suggested that the investigated firms disclosed an insufficient amount of information during the research period (Table 1). As far as the first hypothesis was concerned, the results of the analytical analysis indicated that the Jordanian firms differed in terms of the scope of their CER practices depending on whether or not the positions of CEO and chairperson were held by the same individual. The underlying reasoning was that CEO duality might lead to personal interests being prioritized over the corporate interests, which has implications for CER practices. However, CEO duality might help to make business operations more legitimate because it affords great knowledge and awareness of non-financial stakeholders' expectations and requirements, and therefore those expectations and requirements can be met more effectively.

As far as the second hypothesis was concerned, the results of the t-test revealed that the firms differed in terms of the scope of their CER practices depending on whether or not they had political links. In spite of this, interpretation of the equality of variances could not be undertaken because the variances were not strong enough to be statistically significant. To put it differently, the values obtained were low, suggesting that the variances between firms with and without political links were weak in terms of the scope of their CER practices.

As far as the third hypothesis was concerned, there was an inverse correlation between the existence of political links and the impact of CEO duality on the scope of CER practices, according to the Hayes PROCESS macro model (Hayes, 2018). This outcome invalidated the third hypothesis, as revealed by the scatter-plot data regarding the interplay between CEO duality and political links in terms of the scope of CER practices. As previously explained, firms disclosed less information when they had political links and when the positions of CEO and chairperson were held by the same individual. This is consistent with the stakeholder theory, which argues that financial activities are prioritized over environmental responsibilities in firms with political links, so the interests of non-financial stakeholders are not satisfied. With respect to this, Bani-Khalid, Kouhy and Hassan (2017) observed that companies continued to be driven primarily by economic goals, with financial activities taking precedence over non-financial ones. Consequently, the findings obtained by the present study suggest that political links minimize the power of different groups of stakeholders to hold CEOs to account. Another reason why environmental disclosure is suboptimal in the case of firms with political links is the fact that such links may lead to fraudulent activities and violation of corporate governance standards (Masud et al., 2018). Furthermore, several authors suggested that the existence of political links may be particularly preponderant in countries in which economic corruption is rife and the mechanisms of corporate governance are not robust (Boubakri et al., 2008; Parsley, 2009).It is hoped that the findings obtained by the current study may be of relevance to policy-makers not only in Jordan, but also in other countries, for the purposes of formulation of a novel structure that can be implemented to regulate practices of disclosure of environmental information more efficiently. The ultimate goal of such regulations should be to increase the corporate environmental accountability of companies. The greater the degree of accountability that companies can demonstrate, the greater their transparency and lower their external pressures will be. Companies are becoming increasingly aware of the importance of this and consequently have started to place more emphasis on establishing and maintaining communication with their stakeholder groups. In this regard, a better performance in relation to disclosure of environmental information is essential for companies to preserve a close relationship with stakeholders in the long term.

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