

Banks Commitment to Corporate Governance and their Performance: A Case of Jordanian Banks

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Abstract

This Study aims to investigate the effect of the application of Corporate Governance (CG) codes on the performance of Jordanian banks, and to achieve the objectives of the study, the researcher adopted a survey to disclose the application of CG guidelines issued by the Amman Securities Commission as an indicator to measure the application of CG which contains six sets of rules. The finding of the research indicates the success of corporate governance in Jordanian banks requires the application of its rules properly, and this depends on the control of the Central Bank of Jordan (CBJ) and the banks' management. In the same context, this research finds that there are relationships between Corporate Governance codes and the bank performance but they are different in significant. The study concluded that a set of CG rules related to banks commitment to corporate governance has ranked in terms of the application of the rules of CG as follows: rules related to commitment to corporate governance, rules related to control environment, rules related to treatment of shareholders, rules related to the functions of the board of directors, rules related to transparency and disclosure, and the rules related to board committees respectively.

Key Words: *Corporate Governance, Governance Practices, Jordanian Banks, Banks Performance, Jordan.*

Introduction

This study seeks to understand how Jordan banking sector is affected by the Corporate Governance (CG) requirements released by Basle Committee on Banking Supervision (BCBS) and Organization for Economic Cooperation and Development (OECD) and to investigate the effect of the application of CG codes on the performance of Jordanian banks.

Corporate governance is not about power, but about ensuring that decisions are made in the best interest of the organization¹. Corporate governance is more broadly defined as a set of relationships between a company's management, its board, its shareholders and other

¹ Harvard Business Review on Corporate Governance provides the reader with useful information on this concept.

stakeholders. It is an instrument to obtain business collectivity and transparency and to promote economic growth. It especially protects investors due to well-functioning financial markets. With the globalization, mobilization of capital, and integration of financial markets forced countries for effective corporate governance standards (Buiten, 2012). And this concept of CG became more significant and controversial, due to accounts of fraud, accounting scandals, inside trading, excessive compensation, and other failures of the governance, particularly in the developing countries (Benea, 2012).

Therefore, corporate failures prompted interest in the link between corporate governance and firm performance. The relation between corporate governance and firm performance has been the subject for many extensive studies in the last decade (Buiten, 2012). Researchers suggest that CG reforms in the non-financial sector may not be appropriate for banks and other financial sector firms (Adams & Mehran, 2003). This is based on the view that no single CG structure is appropriate for all industry sectors, and that the application of governance models to particular industry sectors should take account of the institutional dynamics of the specific industry. CG in the banking and financial sector differs from that in the non-financial sectors because of the broader risk that banks and financial firms pose to the economy (Alexander, 2004). Although CG in developing economies has recently received a lot of attention, yet corporate governance of banks in developing economies as it relates to financial performance has almost been ignored by researchers (Ayorinde *et al.*, 2012).

This research will examine the extent to what do banks in Jordan engage in corporate governance issues on the national level. To come into that end, the current study investigates the level of adopting and implementing the CG practices by the Jordanian banks through examining the surveys of the corporate governance. Results of this research would shed some light on level of acceptability of the banks to behave responsibly.

The Research Problem and Questions

Banks and other financial institutions are a main reason of the world's recent financial crisis. The deterioration of their asset portfolios largely due to distorted credit management was one of the main structural sources of the crisis (Fries *et al.*, 2002). To a large extent, this problem was the result of poor and lack corporate governance codes in many countries and mainly in banking institutions and industrial groups. Schjoedt (2000) observed that this poor corporate governance, in turn, was very much attributable to the relationships among the government, banks and big businesses as well as the organizational structure of businesses (Ranti, 2011).

As Jordan considered part of developing countries, this study serves as a model to explore the extent to which a purse banks contribute to the general conditions of the CG system and the requirements of the country. Therefore, this research study addresses the following research questions:

1. To what extent do Jordanian banks apply the CG codes?
2. Does the application of CG codes affect the Banks performance.
3. What factors (e.g. Returns on Assets, Return on Equity, Earning per Share and Price Earning) affects the CG application?

Significance of the Study

This study could be seen as providing an additional insight into CG practices in the developing countries based on investigating the CG application on Jordanian Listed Banks because most literature and surveys focused on the CG are in developed countries and few numbers of researchers who focused on investigating the CG in Jordan (Bawaneh, 2011). Therefore, a survey was designed to capture data related to the CG application and their effect on banks performance.

The remainder of this study is organized as follows. The next section presents the theoretical background and provides a literature review. This is followed by research methodology and describes the research method adapted. The survey findings and analysis are then summarized followed by a conclusion and recommendations section.

Theoretical Background and Literature Review

Theoretical Background

Rules of corporate governance have become one of the most important issues discussed in the world economies. They present an important factor that reinforces the success of economic and organizational reforms currently undertaken in the context of globalization; openness of economies towards each other; global competition; and in light of conditions and requirements of international organizations for accepting membership to countries or for dealing with countries of the world and with institutions and markets of these countries.

Applying these rules and principles has become a slogan for public and private sectors, and a tool for enhancing confidence in any national economy and an evidence of the existence of fair and transparent policies for protecting investors and traders alike. It is also an indication to the level of professional commitments reached by the company's managements towards good governance, transparency and accountability, the existence of measures to limit corruption, and consequently raise the economy's attractiveness to local and foreign investments and bolstering its competitiveness. These rules are based principally on a number of legislations, mainly the Securities Law and related regulations, the Companies Law, and the international principles established by the Organization of Economic Cooperation and Development (OECD) (SDC, 2014).

Definitions of Corporate Governance

What is Governance?

Conceptually, "governance" can be defined as the rule of the rulers, typically within a given set of rules. One might conclude that governance is the process – by which authority is conferred on rulers, by which they make the rules, and by which those rules are enforced and modified. Thus, understanding governance requires an identification of both the rulers as well as the various processes by which they are selected, defined, and linked together and with the society generally (Agrawal & Chandha, 2006). The term (governance) in this context is used to describe the way in which a company is structured and controlled, the manner in which this accommodates the relative rights of owners, managers, financiers, and others (Bawaneh, 2011).

Corporate Governance Definition

A decade ago, the term "corporate governance" would have been rarely heard, let alone understood, in many boardrooms. Few academics and management paid attention to this term that basically describes the way in which companies are structured or "governed" (O'Regan, 2006). Therefore, this study tries to give attention to this issue.

In the corporate sense, however, corporate governance seems to be a term used almost universally in a less stringent sense of directing, regulating, or controlling. This broad definition attempts to reflect the modern company as an organization managed on behalf of a variety of stakeholders including its shareholders. Scholars (for a clear definition of corporate governance, see Lee, 2006).

The term "governance" in this context is used to describe the way in which a company is structured and controlled, the manner in which this accommodates the relative rights of owners, managers, financiers and others (Bawaneh, 2011). The resulting "balance of power" is regularly extended and tested by shareholders, managers, boards of directors, government, markets, employees and others with a stake in the company, with the result that the governance structure constantly mutates in response to political, social and economic pressures where others (e.g. Lex, 2005) see corporate governance rules are designed to protect capital, not the state, labour, or the consumer. Taking a broad perspective on corporate governance, Gillan and Starks (1998) define corporate governance as the system of laws, rules, and factors that control operations at a company and captures the essence of a separation between capital providers and those who manage the capital.

Irrespective of the particular definition used, researchers often view corporate governance mechanisms as falling into one of two groups: those internal to firms and those external to firms and this separation creates the demand and the need for corporate governance guidelines.

Corporate Governance Recommendations and Requirements

To cope with corporate governance guidelines, Organization for Economic Cooperation and Development (OECD), the Commonwealth², the UK, the USA³, and Jordan recommended a list of points for listed companies to comply with as shown in Table (1).

The below listed points are recommendations and not requirements. Thus, they are not as strong as statutory requirements or even accounting standards. However, stock exchange will expect listed companies to comply with the recommendations, and failure to comply with some of them may have an adverse effect on the company's share price.

Generally, the recommendations have been drawn up by committees comprising directors and representatives of listed companies, their auditors, and financial institutions which invest in the shares. There is little, if any, representation of 'ordinary' shareholders on these committees. So, the recommendations may be biased. Many companies and their directors would prefer not to have to comply with corporate governance requirements; compliance limits its independence, and there are additional costs involved in setting up and monitoring corporate governance systems within the company.

² "Principles for corporate governance in the commonwealth", Commonwealth Association for Corporate Governance Guidelines, November 1999

³ Corporate governance requirements for other countries are either undeveloped or far less developed.

Table (1) Corporate Governance Recommendations in different Countries

Items / Country	OECD	Singapore	UK	USA	Jordan
1. Disclosure of compliance	Yes	Yes	Yes	n/c	Yes
2. Board responsible for	n/c	Shareholders	Shareholders	Shareholders	Shareholders
3. Separation of Chairman & CEO	Encouraged	n/c	Yes	No firm recommendation	Encouraged
4. Non-executive directors	Majority	n/c	Yes	Majority	At least a third
5. Audit committee	Yes majority NED	Yes majority NED	Yes majority NED	Yes only NED	Yes majority NED
6. Governance committee	n/c	n/c	n/c	Yes only NED	Yes majority NED
7. Nomination committee	Yes only NED	n/c	Yes majority NED	Yes only NED	Yes majority NED
8. Remuneration committee	Yes only NED	n/c	Yes only NED	Yes only NED	Yes majority NED
9. Director re-election	n/c	3 Years (CEO 5 years)	3 years	n/c	4 years
10. One share, one vote	n/c	n/c	n/c	n/c	Yes
11. Shareholder approval of remuneration	n/c	n/c	Only long-term incentive schemes	n/c	Yes

Abbreviations: NED Non-executive directors (or independent directors) not involved in the day-to-day running of the company; n/c not covered; OECD Organization for Economic Cooperation and Development.

However, pressures from governments, the general public, shareholders and financial institutions will mean that directors have to accept some corporate governance requirements. The agreed corporate governance requirements will be a compromise between the pressures of the directors of the listed companies (who would have few, if any, requirements) and those of the government, shareholders and financial institutions (who would prefer to have detailed corporate governance requirements), (for details, see Elliott and Elliott, 2006 pp. 594-607).

Corporate Governance in Banking Organizations

Policy makers and regulators have been paying corporate governance a great deal of attention. They recognize the positive role of a good corporate governance system in safeguarding the interests of a wide range of their constituencies and communities (OECD, 1999). In September 1999, Basle Committee on Banking Supervision (BCBS) released its paper on "Enhancing Corporate Governance for Banking Organizations". To the BCBS committee, the concept of corporate governance in general evokes the set of relationships that exist between a bank's management, its board of directors, its shareholders and the other stakeholders. It provides the framework in which to establish the strategic objectives of the organization and the means to attain and monitor those objectives accordingly, for the Committee sound corporate governance involves the following seven practices (for details, see Bawaneh, 2011).

The BCBS⁴ Committee went beyond the existing practice in the banking industry. It demanded the board to establish the strategy objectives and to set corporate values. Accordingly, in the Committee's view, the board should create the strategies that will direct the ongoing activities of the bank in question. It should also take the lead in establishing the "tone at the top" and approving corporate values for itself, senior management and other employees. The value should recognize the critical importance of having timely and frank discussion of problems. Furthermore, processes should be established that allow the board to monitor compliance with these policies, and to ensure that deviations are reported to an appropriate level of management.

Furthermore, one of the main requirements of the BCBS is the need to empower the board of directors of each bank, and hold it responsible for establishing strategic objectives in the bank, along with a set of corporate values that are communicated throughout the banking organization. Establishing strategic objectives goes beyond the concept of review or oversight of strategy, which was the normal practice among corporate before. Actual implementation of the requirements of the BCBS by the Arab banking industry may require a cultural change and, consequently, a completely different orientation in the Arab financial institutions are managed.

The global banking industry has been transforming and reshaping itself, forcing all major financial institutions to revolutionize their strategic setting process in order to cope with the new and different working conditions externally and internally. Can the Jordan banking industry prosper within the framework of the new realities? The threats and challenges that will face the Jordan banking industry are serious, significant and closing in.

Corporate Governance in Jordanian Banks

The banks in Jordan were chosen on the basis of 'openness to society' access and the researcher had received full cooperation and support in his research from formerly university classmates, who were now top managers in the banking industry in Jordan.

This research utilized a variety of methods in collecting evidence to get close to the subject and to see the bank's social context from various perspectives, to gather more complete evidence on the issues under close examination, and to generate a rich source of field data by utilizing the "data-triangulation" approach to collect data. In doing this, many techniques were used (for review, see Bawaneh, 1997).

In terms of the governance environment, which is the set of political, economic, and social institutions that facilitate or constrain the choices of governance mechanisms, Jordan is relatively more rule-based due to its long tradition of English common law and a democratic political system. Also, the Jordan economic reform was triggered by external events (the Gulf War that drastically reduced foreign currency inflow and trade) but it has primarily relied on internal resources. Understanding these issues may help us better understand how corporate governance practices are being shaped in the country.

⁴ The Basel Committee on banking supervision is a committee of banking supervisory authorities which was established by the central bank governors of the group of ten countries in 1975. It consists of senior representative of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Spain, Sweden, Switzerland, United Kingdom and the United States. It usually meets at the Bank for International Settlements (BIS) in Basel, Switzerland, where its permanent secretariat is located.

The recommendations of the Basle Committee were adopted by several central banks in the Arab region. For example, the Central Bank of Jordan requested in August 2000 that all banks registered in Jordan should comply with the BCBS requirements on corporate governance. Furthermore, it is being asked to demonstrate proper corporate governance, and to compete with more efficient global financial institutions without the safety of sovereign protection⁵.

The Central Bank of Jordan, in an effort to enhance corporate governance and improve the internal control of banks in Jordan and the effectiveness of the boards of directors, referred all banks to guidelines issued by The Bank for International Settlements (BIS) in 1999 promoting the adoption of sound corporate governance practices by banking organizations⁶.

In the analysis, while these guidelines are generally-accepted global “best practices” for governance, the CBJ gave each bank the opportunities to adopt what is appropriate to the scope and complexity of bank’s operations, its traditions, policies, priorities and capabilities.

Furthermore, in order to preserve clear lines of responsibility and accountability, the CBJ advised banks to separate the role of Chairman of the Board and the role of General Manager or Chief Executive Officer and the Chairman should be a non-executive Board member and not have any day-to-day operating responsibilities. The analysis reveals that many large banks in Jordan had no separation between the Chairman of the Board and the General Manager or even one person has the two positions (Arab Bank, 2009).

The Central Bank of Jordan develops its vision to have an efficient and competitive banking system in Jordan that meets international standards of best practices in risk management and corporate governance, complies with applicable laws and regulations and satisfies the credit needs of the domestic economy thereby supporting the economic development of the Kingdom. The Central Bank of Jordan believes that Bank Directors have an integral role in the Banks success, a safe and sound banking system requires responsible and knowledgeable bank management with good corporate governance and risk management systems to support sound and prudent lending and other bank policies. Therefore, the Central Bank of Jordan in 2004 issued *Bank Directors Handbook of Corporate Governance* which has been developed with the objective of enhancing the corporate governance of banks in the Kingdom. The *Handbook* has the following five main sections, each of which addresses a broad area of corporate governance and bank director responsibilities and duties:

1. Introduction and Background defines corporate governance, discusses why it is important for a bank's safe and sound operation and outlines best practices.
2. Director Standards, values, and efficiency outlines qualities of bank directors and how boards can effectively and efficiently fulfill their responsibilities to shareholders, depositors and other stakeholders.
3. Management Selection and Oversight describes one of the Board's most important functions and how it interacts with operating management.

⁵ The special characteristics of Arab financial institution that affects the quality of implementation of corporate governance are: financial strength, structure of ownership, limited product lines, and evolving working conditions, for details, see Al-Kharouf, 2000, pp. 34-35.

⁶ See Circulars 10/14125 dated August 30, 2000; 10/494 dated March 27, 2002; and 16/2003 dated September 6, 2003, referring to Enhancing Corporate Governance in Banking Organizations. Web site: [www.bis.org.\)\)](http://www.bis.org.)))

4. Planning and policies describe the Board's responsibilities to approve and monitor implementation of plans and policies.
5. Internal Control and Audit discusses how the internal control system, internal audit and independent external audit interact and complement bank supervision.

In the analysis, this Handbook does not substitute prevailing Banking Law or regulations issued by the Central Bank of Jordan. It is meant to provide only guidance and bank directors are encouraged to review their responsibilities and conduct on an ongoing basis and seek counsel as necessary. Also, to ensure that board members are qualified for their positions, every director must be "fit and proper" to serve the interest of the bank and other stakeholders. The phrase that was put by the CBJ is fit and proper, as qualifications of the general director in today's business may not fit enough for this position, it is a loose phrase.

Further to issuing the Bank Director's Handbook of Corporate Governance in 2004, the Central Bank of Jordan is continuing in its efforts to enhance corporate governance in the Jordanian banking system by preparing, in 2007, the Corporate Governance Code which is intended to promote international best practice in the corporate governance of Jordanian banks. The Code draws upon international best practice, in particular the OECD principles of Corporate Governance and the guidance issued by the Basle Committee on Banking Supervision in their publication (1999): Enhancing Corporate Governance for banking Organizations. By using this code as a model, the Central Bank of Jordan is expected that each Jordanian bank will produce its own code according to its particular needs and principles and incorporating the minimum standards of the central bank of Jordan, and will proceed to implement its own code by 31/12/2007.

Table 2 :The Pillars of the Corporate Governance Codes	
Commitment to Corporate Governance	
The functions of the board of directors	<ol style="list-style-type: none"> a) General Principles. b) The Chairman and the General Manager. c) The Role of the Chairman of the Board. d) Composition of the Board. e) Board Practices. f) Board activities: appointments and succession. g) Board activities: self-assessment and the General Manager performance appraisal. h) Board activities: planning, controls, code of conduct, conflict of interest policy.
Board Committees	<ol style="list-style-type: none"> a) General Principles. b) The Audit Committee. c) The Nominations and Remuneration Committee. d) The Risk Management Committee. e) Control Environment. <ol style="list-style-type: none"> e.1) Internal Control. e.2) Internal Audit. e.3) External Audit. e.4) Risk Management. e.5) Compliance. f) Treatment of Shareholders. g) Transparency and Disclosure.
Control Environment	
Treatment of shareholders	
Transparency and Disclosure	

In order for any bank to obtain the full benefit of improving corporate governance practices, we found that each bank carefully considers the meaning of the individual provisions of the Corporate Governance Code, comes to its own understanding of how to apply them, and then publishes its own code in its annual report and on its website. Also, each bank confirms in its annual report the extent of its compliance with its code and explains why any provisions have not been complied within any particular year. Furthermore, each bank adopting a code asked by the Central Bank of Jordan begin by setting out in its own words its institutional view of corporate governance, its meaning and its importance, and to clarify this issue further, a sample text is given by the Central Bank of Jordan to be followed by each bank, although it is expected that each bank will wish to draft its own introduction.

Our analysis found that the Central Bank of Jordan, in line with a bank's continued evolution, asked each bank to keep this code under review and be developed and amended as required from time to time to meet the changing needs and expectations of the bank and the marketplace. As shown in Table 2 above.

Literature Review

Bino & Omar (2012) Study Based on a sample of 14 banks listed on ASE market over the period 1997 to 2006, this study investigates the relationship between corporate governance namely: ownership structure, board composition, and board size, and bank performance using a linear regression analysis. The results show that ownership structure and board composition have a strong impact on the bank performance. Results indicate that banks with institutional majority ownership have the highest performance and that as manager's and board member's ownership percentages increase the bank becomes more efficient, surprisingly board size (number of members) has no effect on bank's performance.

Bayrakdaroglu et al., (2012) study investigates the relationship of value-based performance measures – Economic Value Added (EVA), Market Value Added (MVA) and Cash Value Added (CVA) – with corporate governance using data on 41 corporations listed on the Istanbul Stock Exchange-100 Index. Multiple panel regression is used covering the 1998–2007 period. The findings indicate that EVA, MVA, and CVA increase if the CEO is a member of the board at the same time, and board size does not significantly affect performance. Ownership concentration is significantly related to all performance measures except for MVA, while manager ownership is not a significant variable in increasing corporate performance. Foreign ownership is found to increase EVA but decrease MVA.

Kalezic (2012) study assesses the quality of corporate governance practice in Montenegrin corporate and banking system. Based on the OECD questionnaire on corporate governance, they surveyed 43 joint stock companies in Montenegro, with the aim of construing the corporate governance rating (CGR) for Montenegro companies and banks. The CGR provided a better prospective on the difference of corporate governance mechanisms developed in parallel with the corporate and banking systems of Montenegro. Using OLS, prob. and logic models, they show that the general corporate governance practice in the banking system can be considered better compared to the corporate sector. However, the difference is not significant.

Bawaneh (2011) study seeks to understand how Jordan banking sector is affected by the Corporate Governance (CG requirements released by Basel Committee on Banking supervision (BCBS)) and Organization for Economic Cooperation and Development (OECD). The study reveals that Jordan Banking Sector has been paying CG a great deal of attention. Therefore, the Central Bank of Jordan issued Bank Directors Handbook of CG which has been developed with the objectives of enhancing the CG of Jordanian Banks. Further to issuing the Handbook, the CBJ is continuing its efforts to enhance CG by preparing the CG code which is intended to

promote international best practice in the CG of Jordanian Banks, and asked each bank to keep this code under review and be developed and amended as required from time to time to meet the changing needs and expectations of the bank and the marketplace. As a result, banks in Jordan comply with CG requirements by acting in accordance with a request from the CBJ based on BCBS and OECD guidelines and requirements which enhance the CG procedures. Therefore, CG continues to gain attention and importance from parties concerned in Jordan but many steps need to be done in the future.

Klai & Omri (2011) study examines the effect of the governance mechanisms on the financial reporting quality for a sample of Tunisian firms. Specifically, they focus on the characteristics of the board of directors and the ownership structure of the firms listed on the Tunis Stock Exchange during the period 1997-2007. The results reveal that the governance mechanisms affect the financial information quality of the Tunisian companies. Particularly, the power of the foreigners, the families and the block holders reduces the reporting quality, while the control by the State and the financial institutions is associated with a good quality of financial disclosure.

Al-haddad & Al-Zorqan (2011) study examines the dividend policy of listed banking corporations in the Amman Stock Exchange (ASE) during the period (2000-2006). Dividend payout ratios and the related dividend policy's stability are also examined. Finally, and through employing the panel data methodology, based on the empirical evidence, we will show that the banking sector follows unstable cash dividend policies.

Andres & Vallelado (2008) study uses a sample of large international commercial banks in Canada, France, Italy, Spain, UK and the US, to test hypotheses on the dual role of boards of directors. They found an inverted U-shaped relation between bank performance and board size, and between the proportion of non-executive directors and performance. Their results show that bank board composition and size are related to directors' ability to monitor and advice management, and that larger and not excessively independent board might prove more efficient in monitoring and advising functions, and create more value. All of these relations hold after they control for the measure of performance, the weight of the banking industry in each country, bank ownership, and regulatory and institutional differences.

Brown *et al.*, (2006) represented corporate governance and equity prices by creating G-index, a summary of corporate governance based on 24 firm-specific provisions, and showed that more democratic firms are more valuable. What matters in corporate governance? Working Paper, created an entrenchment index based on six provisions underlying G-Index, and found it to fully drive the Gompers *et al.* (2003) valuation results. Both G-Index and the entrenchment index are based on IRRC data that is comprised of anti-takeover measures, focusing on external governance .Governance mechanisms and equity prices. . They create Gov-Score, governance measure based on 51 firm-specific provisions representing both internal and external governance, and they show that a parsimonious index based on seven provisions underlying Gov-Score fully drives the relation between Gov-Score and firm value. Their results support the Bebchuk *et al.* (2005) findings that only a small subset of provisions marketed by corporate governance data providers are related to firm valuation, and the Cremers and Nair (2005) evidence that both internal and external governance are linked to firm value.

Arun & Turner (2004) study discusses the corporate governance of banking institutions in developing economies. This is an important issue given the essential role that banks play in the financial systems of developing economies and the widespread banking reforms that these economies have implemented. Based on a theoretical discussion of the corporate governance of

banks, they suggest that banking reforms can only be fully implemented once a prudential regulatory system is in place. An integral part of banking reforms in developing economies is the privatization of banks. They suggest that corporate governance reforms may be a prerequisite for the successful divestiture of government ownership. Furthermore, they also suggest that the increased competition resulting from the entrance of foreign banks may improve the corporate governance of developing-economy banks.

Levine (2004) study examines the corporate governance of banks. When banks efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation, and stimulates productivity growth. Thus, weak governance of banks reverberates throughout the economy with negative ramifications for economic development. After reviewing the major governance concepts for corporations in general, this study discusses two special attributes of banks that make them special in practice: greater opaqueness than other industries and greater government regulation. These attributes weaken many traditional governance mechanisms. Next, the study reviews emerging evidence on which government policies enhance the governance of banks and draw tentative policy lessons. In sum, existing work suggests that it is important to strengthen the ability and incentives of private investors to exert governance over banks rather than relying excessively on government regulators. These conclusions, however, are particularly tentative because considerably more research is needed on how legal, regulatory, and supervisory policies influence the governance of banks.

A summary of origins and evolution of CG can be seen in Table 3 below. (For evolution of CG through the years, see Al-Manasir, 2013).

Table 3: Summary of Origins and Evolution of CG through year 1992-2004	
1992	1992 Cadbury the British bases corporate governance report of Sir Adrian Cadbury in 1992, which it committed companies to disclose the adherence to the rules of governance with an explanation of what is not committed by (Cadbury, 1992).
1995	1995 Greenbury the issuance of the report of the Committee on the Greenbury, which focused on the emoluments of the members of the Governing Council, which recommended full disclosure of the payments for administration of salaries and bonuses (Greenbury, 1995)
1998	1998 Hampel The issuance of the report of Hampel regarding the Governance of companies which came to reconsider the system of corporate governance in the United Kingdom through the inclusion of two former laws (1995) in this report Cadbury (1992) and Greenbury. (Hampel et al., 1998)
1999	The 1992 OECD the issuance of the Principles of Economic Cooperation and Development (OECD for Corporate Governance in 1999 and which has become the cornerstone of the international policy makers, investors, companies and other stakeholders with companies in all parts of the world (OECD, 2004)
2002	2002 Sarbanes - Oxley act in response to crises that have taken place in many American companies, a law has been issued Sarbanes-Oxley after being approved by US Congress as legislation into and where the new requirements have been assigned including the corporate governance configuration of the auditing committees and assigning its responsibilities (Zhang, 2007, P. 74).
2004	2004 OECD the issuance of the 2004 version of the standards of the Organization for Economic Cooperation and Development OECD and included a review of previous version to take into account the recent developments and experiences in the organization and outside countries (OECD, 2004, P. 3).
2008	2008 OECD the issuance of the 2008 version of the standards of the Organization for Economic Cooperation and Development (OECD that included the previous rules merged with joint scientific expertise which calls for all parties to carry out their responsibilities (OECD, 2008, P. 11).

Research Methodology

This section describes and explains the issues related to the research methods and justifies the multistage research design. As stated by (Sekaran & Bougie, 2010), scientific research emphasizes on fixing problems step-by step, logically, in an organized and rigorous method to; identify the problems, gather data, analyze them and draw valid conclusion from them.

Scientific research is “studying a problem to solve it based on precise scientific rules”, also it’s a “process of inducing information and facts about a phenomenon or specific problem through the methodology to prove the research hypothesis” (ibid).

The exploration of new phenomena can help the researcher’s for better understanding, also it test the feasibility of a more wide study, or determine the best methods to be used in a subsequent study. For these reasons, exploratory research is broad in focus and rarely provides definite answers to specific research problem.

The current study tends to employ the exploratory method for the purpose of achieving its objectives, thus, the research will purely rely on objective research. Survey being informed by: previous literature, and state of art standards being applied on the field of the study.

Given the fact that this study examines the performance of (15) banks that are publicly listed in Amman Stock Exchange (ASE) in applying the corporate governance throughout the years 2009-2013 and committed to fill out a survey that contains the following six governance rules: commitment to corporate governance, functions of the board of directors, board committee, environment of internal control, treatment of shareholders, and transparency and disclosure.

Research Design

The current research has adopted the quantitative method “survey” as tool to gather data for this study in order to achieve its objectives. All measures were self-administrated; instructions for completion were given on the cover page informing respondents that the survey examined opinions about CG, in addition to the demographic questions. Unless otherwise stated, each question was measured on a five-point “Likert-type” scale, ranging from (1) ‘strongly disagree’ to (5) ‘strongly agree’. This is the respondents answer quickly over a continuous range (Otley, 1976).

Data Collection Procedures and Data Analysis

The surveys question cover of only key areas that is closely related or relevant to the study to establish the relationship between corporate governance and financial performance of the 15 banks based in Amman publicly listed in Amman Stock Exchange.

To analyze the relationship, we had distributed 4 copies of the survey to each of the 15 banks (60 surveys) and individuals of different positions committed at the corporate governance department had to fill it out. Of these 60 surveys we had 34 surveys received back and according to this data regression analysis method was adopted.

We had a descriptive analysis of the survey consisting of general information of respondents (age, work experience and education level) in addition of six categories having 2 to 3 questions for each also we had analytical analysis that consists of correlation and regression.

Study Results and Analysis

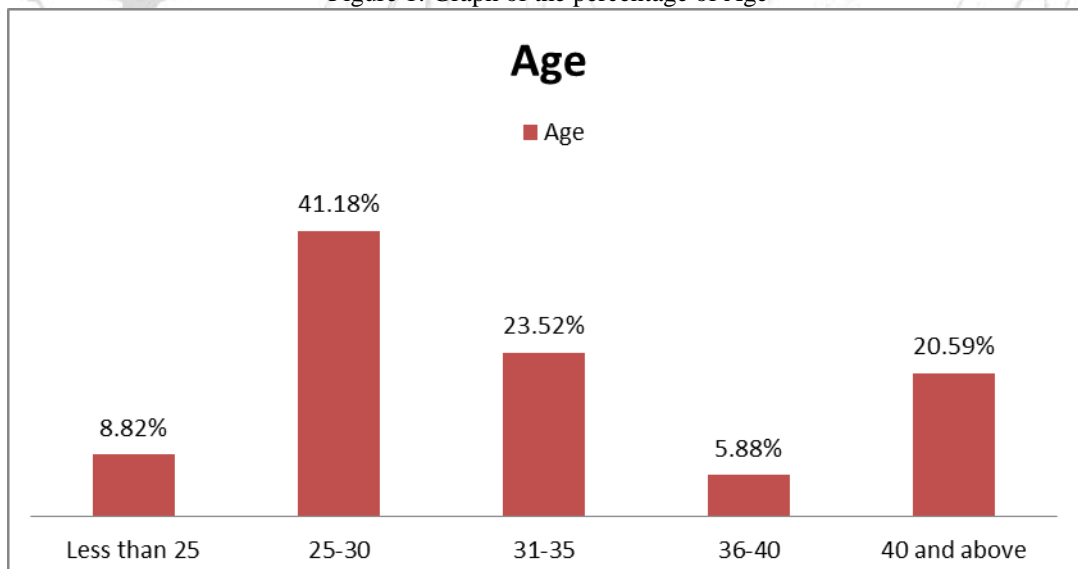
In order to introduce a suitable framework for the data interpretation, results of the data analysis will be discussed in two parts: the descriptive data results and the analytical data results. The results focus on answering these research questions: To what extent do Jordanian banks apply the Corporate Governance codes appropriately, Does the application of Corporate Governance codes affect the Banks performance, What factors (among Return on Assets, Return on Equity, Earning per Share and Price Earning) affects the Corporate Governance application? The demographic questions that have measured (Age, educational level, and work experience), this study also applied some statistical methods to analyze the results and discover the relationship between variables.

Results of the Descriptive Analysis

General Information of Respondents

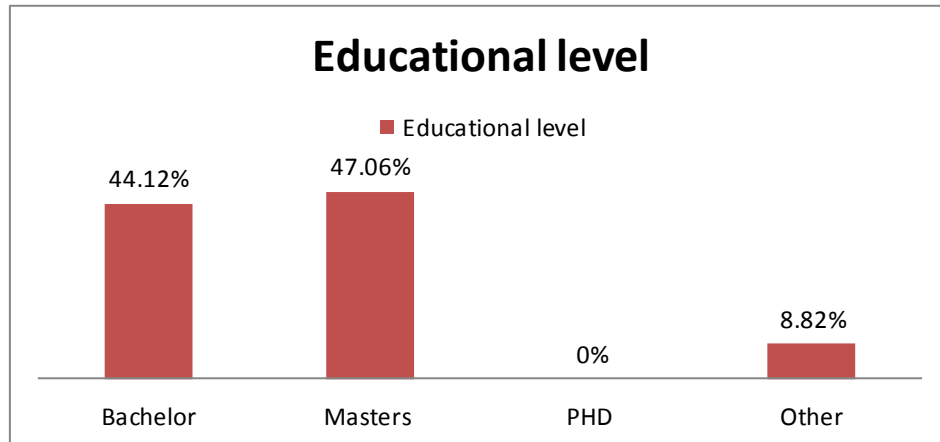
In this section attention is given into outlining the key characteristics of the people from the banks who answered the survey. Results presented here are related to: Age, Education, and Work Experience. The tables below display the results surveys which have been distributed to mature, qualify and experts people in the banking business. Based on Figure 1 below, this study concludes that the Age of respondents of employees between 25 years to 35 years represent (64.70%) the highest proportion in the sample.

Figure 1: Graph of the percentage of Age



In regards to the education levels of respondents of employees the Figure 2 below shows that the highest proportion of employee who obtained a master's degree represent (47.06%), followed by the employee who obtained bachelor degree represent (44.12%) which means that Jordanian banks seeking to hire workers with a high educational levels to help them to improve their performance and keep abreast of developments taking place in the global banking sector.

Figure 2: Chart of Educational Level



Also, in regards to the work experience of respondents of the employees as shown in Figure 3 below indicates that the employees with a work experience between 5 years to 10 years represent 46.87%, followed by the employees with a work experience 11 years and above represent 37.5%, which means that the employees who filled the survey and participated in this study had a long work experience in the banking business.

Figure 3: Chart of Work Experience



Corporate Governance Elements

Commitment to Corporate Governance

In this section attention is given into the commitments to the CG practices. The results show a high level of adoption of commitment to each rule by Jordanian public shareholding banks. The Table 4 below shows that 58.8% of banks participated in this study publicly reports its compliance with the code and 61.8% of banks had formed a corporate governance committee. These high ratios represent a good indication for the CG adoption in Jordanian banks.

Table 4: Commitment to Corporate Governance

Rule	Very Good	Good	Median	Weak
<u>1.Commitment to Corporate Governance:</u>				
1.1 The Bank on an annual basis publicly reports its compliance with the Code, where necessary necessarily detailing how each provision of the Code has been implemented and, where relevant, where and why the Bank's executive management has adopted procedures that are different from Those recommended by the Code.	58.8%	26.5%	11.8%	2.9%
1.2 The Bank has formed a corporate governance committee of the Board, Comprising the Chairman of the Board and two of the non-executive Directors, to direct the preparation, updating, and implementation of the Code.	61.8%	35.3%	2.9%	0%

The Functions of the Board of Directors

In this section attention is given into the functions of the Board of Directors. The results show in Table 5 below indicates that 58.8% of banks is separated the position of chairman of the Board from the General Manager, and 67.6% of banks fostered an independent element within the Board.

Table 5: The functions of the Board of Directors

Rule	Excellent	Very Good	Good	Median	Weak
<u>2. Functions of the Board of Directors</u>					
2.1 The position of Chairman of the Board is separated from that of General Manager In addition; there is no family relationship up to the third degree between the Chairman and the General Manager. The division of responsibilities between the Chairman and the General Manager has been set down in writing, is subject to review and revision from time to time as necessary, and is approved by The Board.	58.8%	26.4%	11.7%	0%	2.9%
2.2 To foster an independent element within the Board, the Bank's policy is that the Board should have at least three independent, non-executives, Directors.	67.6%	26.4%	5.8%	0%	0%

Board Committees

In this section attention is given into the functions of Board Committees. The results presented in Table 6 below show a level of adoption of commitment to each rule by Jordanian public shareholding were 55.8% of the banks had an audit committee, 61.7% of banks review of risk management is handled by a risk management committee.

Table 6: Board Committees

Rule	Excellent	Very Good	Good	Median	Weak
<u>3. Board Committees</u>					
3.1 The Bank has an Audit Committee comprising three non-executive Directors. Membership of the Audit Committee is disclosed in the Annual Report.	55.8%	38.2%	5.8%	0%	0%
3.2 The Nominations and Remuneration Committee comprises a minimum of three non-executive Directors, the majority of which (including the Committee chairman) are independent.	52.9%	44.1%	5.8%	0%	0%
3.3 The review of risk management is handled by a Risk Management Committee. This Committee is comprised of Directors and may also include executive management.	61.7%	32.3%	5.8%	0%	0%

Control Environment:

In this section attention is given into the functions of Control Environment. The results presented in Table 7 below show a high level of adoption of control environment by Jordanian public shareholding banks were 64.7% of banks adopted both the internal audit reports and the external auditors' reports.

Table 7: Control Environment

Rule	Excellent	Very Good	Good	Median	Weak
<u>4. Control Environment</u>					
4.1 The Internal Audit reports may be discussed with the departments and operational units being reviewed, but the Internal Audit function is allowed to operate and make a full and honest report without outside influence or interference.	64.7%	29.4%	2.9%	5.8%	0%
4.2 The external auditors' report is submitted to the Audit Committee as well as the Annual General Assembly. The external auditors meet the Audit Committee, without executive management present, at least once per year.	64.7%	32.3%	2.9%	0%	0%

Treatment of Shareholders

In this section attention is given into the functions of shareholders. The results presented in Table 8 below show a high level of attention by banks of treatment of shareholders which means that banks take appropriate measures to ensure that shareholders enjoy their rights in a manner that would achieve justice and equality without discrimination.

Table 8: Treatment of Shareholders

Rule	Excellent	Very Good	Good	Median	Weak
<u>5.Treatment of Shareholders</u>					
5.1 The Bank policy is that there will be voting on each separate issue that is raised at the Annual General Assembly.	85.4%	8.8%	5.8%	0%	0
5.2 The board of directors shall address an invitation to each shareholder to attend the general assembly meeting, which should be delivered either by hand, or ordinary mail and e-mail to the shareholder at least twenty one days before the date set for the meeting. Appropriate preparations should be made for the meeting, including the choice of time and place, in a manner that encourages and helps the largest possible number of shareholders to attend.	73.5%	20.5%	5.8%	0	0
5.3 Notes, minutes, and a report of the proceedings of the Annual General Assembly, including the results of voting, and the questions from shareholders and executive management's responses, are prepared and made available to shareholders after the Annual General Assembly.	73.5%	20.5%	0%	5.8%	0%

Transparency and Disclosure:

In this section attention is given into the functions Transparency and Disclosure. The results presented in Table 9 below show a high level Transparency and Disclosure to each rule of this function by Jordanian public shareholding banks which represent 70.5% and 58.8% respectively. This means that banks ensure that the timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the bank were annual reports are presented on the bank site.

Table 9: Transparency and Disclosure

Rule	Excellent	Very Good	Good	Median	Weak
<u>6. Transparency and Disclosure</u>					
6.1 The Bank recognizes its obligation to provide meaningful information on its activities to shareholders, depositors, financial market counterparts, regulators and the public in general. The Bank also has a duty to address shareholder concerns. The Bank discloses such information on a timely basis, and makes it available to all.	70.5%	29.4%	0%	0%	5.8%
6.2 Information provided through the Bank's Annual Report, or its quarterly reports, and the text of any public presentations given by executives, is made available to interested parties both in writing through the Bank's investor relations function, and in a timely manner on the Bank's website.	58.8%	29.4%	2.9%	5.8%	5.8%

Performance

In this section attention is given into the functions of Performance. The results presented in Table 10 below show a high level of Performance by Jordanian public shareholding banks in regards to the impact of the application of the rules of CG on banks' performance in the last five years 2009-2013. This means that banks performed and applied accurately according to governance and bank roles.

Table 10: Performance

Rule	Excellent	Very Good	Good	Median	Weak
<u>7. Performance</u>					
7.1 The impact of the application of the rules of Corporate Governance Guide on the bank's performance during the last five years 2009-2013.	58.8%	38.2%	0%	2.9%	0%

The performance indicator contains an average of the four profitability ratios (ROA, ROE, EPS, P/E) to indicate the bank's financial performance through applying the corporate governance codes as shown in Table 11 below.

Table 11: Average of Profitability Ratios

Ratio	Year	Average
ROA	2009	1.198
	2010	1.126
	2011	1.137
	2012	1.217
ROE	2009	8.598
	2010	8.922
	2011	7.997
	2012	8.652
EPS	2009	0.194
	2010	0.205
	2011	0.196
	2012	0.209
P/E	2009	26.507
	2010	16.728
	2011	21.103
	2012	15.299

Research Model

The following linear regression model is used to test the research hypothesis:

$$P = a + B_1 X_1 + B_2 X_2 + B_3 X_3 + B_4 X_4 + B_5 X_5 + B_6 X_6 + e$$

Therefore, data were analyzed using this linear regression model with bank's performance labeled "P" as the dependent variable, and six independent variables were used in the regression to test the research hypothesis:

X1: Commitment to Corporate Governance

X2: Functions of Board of Directors

X3: Board Committees

X4: Control Environment

X5: Treatment of Shareholders

X6: Transparency and Disclosure

e : Error Term

Regression Results and Discussion

Hypothesizing Dimensions of the Study There are two main types of research hypotheses: the Null hypothesis (H0) and the Alternative hypothesis (H_a). The current study investigates the influence of a group of categories (the six independent variables) on the performance of Jordanian banks.

Drawing upon the relevant surveys and literature on extent of the application of corporate governance, several hypotheses were developed in this study. This includes the following:

1. H0: There is no direct and positive relationship between applying the rules of the commitment to corporate governance and the banks performance. H1: There is a direct and positive relationship between applying the rules of the commitment to corporate governance and the banks performance.

Table 12 Correlations (Person's Correlations)

		Performance	Commitment to Corporate Governance	Functions of Board of Directors	Board Committee	Control Environment	Treatment of Shareholders	Transparency & Disclosure
Performance	Pearson Correlation Sig. (2-tailed) N	1 34						
Commitment to Corporate Governance	Pearson Correlation Sig. (2-tailed) N	.320 .065 34	1 34					
The Functions of the Board of Directors	Pearson Correlation Sig. (2-tailed) N	.032 .858 34	.067 .705 34	1 34				
Board Committees	Pearson Correlation Sig. (2-tailed) N	.098 .583 34	.224 .203 34	.343* .047 34	1 34			
Control Environment	Pearson Correlation Sig. (2-tailed) N	-.195 .268 34	.392* .022 34	.044 .806 34	.038 .833 34	1 34		
Treatment of Shareholders	Pearson Correlation Sig. (2-tailed) N	.242 .168 34	.244 .164 34	-.131 .461 34	-.065 .716 34	.218 .216 34	1 34	
Transparency and Disclosure	Pearson Correlation Sig. (2-tailed) N	.104 .557 34	.513** .002 34	-.216 .219 34	-.013 .940 34	.414* .015 34	.228 .195 34	1 34

*Correlation is significant at the 0.05 level (2 -tailed).

**Correlation is significant at the 0.01 level (2 -tailed).

2. H0: There is no direct and positive relationship between applying the rules of the functions of the board of directors and the banks performance. H1: There is a direct and positive relationship between applying the rules of the functions of the board of directors and the banks performance.

3. H0: There is no association direct and positive relationship applying the rules of board committees and the banks performance. H1: There is a direct and positive relationship between applying the rules of board committees and the banks performance.

4. H0: There is no direct and positive relationship between applying the rules of control environment and the banks performance. H1: There is a direct and positive relationship between applying the rules of control environment and the banks performance.

5. H0: There is no direct and positive relationship between applying the rules of the treatment of shareholders and the banks performance. H1: There is a direct and positive relationship between applying the rules of the treatment of shareholders.

6. H0: There is no direct and positive relationship between applying the rules of the transparency and disclosure, and the banks performance. H1: There is a direct and positive relationship between applying the rules of the transparency and disclosure, and the banks performance.

In relation to Table 12, the dependent variable performance is significantly correlated at $p < 0.05$ with control environment, board committees, transparency and disclosure. Table 13 provides descriptive statistic for the variables used in regression analysis. It shows that Treatment of shareholders and Board committees' commits on an average of 9%, as the rest have low percentage on average.

As noted earlier, data from 34 surveys were used in the regression analysis; the model was with low significant at the value of 1.7 and was with low significant at an adjusted R square of 27%.

Table 13: Deceptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Performance	34	4	5	4.56	.504
Commitment to Corporate Governance	34	4.50	7.50	6.6471	.88360
The Functions of the Board of Directors	34	3.50	7.50	6.4412	1.16622
Board Committees	34	5.00	11.67	9.5196	1.92484
Control Environment	34	4.00	7.50	6.5588	.95952
Treatment of Shareholders	34	7.33	11.67	9.5784	1.16141
Transparency and Disclosure	34	1.50	7.50	6.3088	1.51765
Valid N	34				

a. dependent variable: performance

Table 14 shows relation of roles (independent variables) among performance (dependent variable) therefore; a Variance Inflation Factor (VIF) is performed to test the effect of these independent variables among dependent variables. The VIF quantify the severity in relation to the effect of multiple regressions. If the results for VIF are greater than 5, then the effect of multiple regressions is high. In relation to results, as there was a correlation between some of the independent variables, the VIF diagnostics the effect of multiple regression is minimal as the values are less than 5 (Bawaneh, 2011), which is considered to be an accepted level. Results indicate that of the six independent variables, two variables, "COMMITMENT TO CG" and

“CONTROL ENVIRONMENT”, are significant and positively related to the performance. As the other variables show a very weak positive relationship as were not significantly related to the performance.

Table 14: Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
1 (Constant)	3.232	1.028		3.145	.004	
Commitment to Corporate Governance	.230	.118	.404	1.950	.062	1.599
Control Environment	-.221	.098	-.420	-2.240	.034	1.310
Treatment of Shareholders	.103	.075	.237	1.366	.183	1.119
The Functions of the Board of Directors	.023	.079	.053	.290	.774	1.246
Transparency and Disclosure	.009	.069	.029	.137	.892	1.625
Board Committees	.005	.047	.021	.114	.910	1.901

Conclusions and Recommendations

The conclusions presented here is a synthesis of the findings drawn from Section Five. These conclusions are supported, as appropriate, by the arguments provided within the literature review section. The study found that Governance has become an essential standard takes into account its clients and investors in making investment decisions, which makes its necessary to adopt its principles so the bank can maintain its clients as well as obtain new customers. This refers to the rights of shareholders that is significant correlated to the performance of the bank.

The study found the application of corporate governance in Jordanian banks has become a necessity so that they can compete with the rest of the banks and maintain its continuity, and the success of corporate governance in Jordanian banks requires the application of its rules properly, and this depends on the control of the central bank of Jordan and the banks management.

Furthermore, there is no difference in consistence with the application of corporate governance in Jordanian banks since the percentage of practicing it is above 60%, and this indicates that the governance rules are valid for application in every organization of any kind and are not dedicated to just one type.

Also, the principle of transparency and disclosure about the financial situation of the bank helps to enhance the confidence of its clients and thus improve bank's reputation and performance. All Jordanian banks have their own website to disclose their annual reports. According to the survey the percentage of commitment is about 59%. This research finds that there are relationships between application of Corporate Governance rules (Commitment to Corporate Governance,

The Functions of the Board of Directors, Board Committees , Control Environment, Treatment of Shareholders, Transparency and Disclosure) and the bank performance but they are different in significant.

Some recommendations that may help in the process of improving corporate governance by increasing the role of the shareholders and their interaction with the management of the bank which means that the shareholders should actively exercise their rights and use their influence resulting in the management protecting the interests of the shareholders as best possible and ensuring an appropriate and balanced development of the bank both in the short and the long term. Although of these improvement in CG application, further research into the practice of CG are suggested.

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