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DESCRIPTIVE EVIDENCE OF CORPORATE GOVERNANCE & OECD PRINCIPLES FOR COMPLIANCE WITH JORDANIAN COMPANIES

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ABSTRACT. The OECD principles of Corporate Governance (CG) are the most important public policy mechanisms that assist regulators to efficiently evaluate and improve the institutional, regulatory and legal framework for sound CG. Consequently, the primary objective of this study is to assess the level of practical compliance with the OECD principle of CG by the Jordanian companies. The paper is designed using the conceptual approach. The information used for the study is obtained from the library search. The study found that some of the OECD principles are practically implemented such as (i) framework of good CG; (ii) the rights of shareholders; (iii) role of stakeholders; and (iv) disclosure and transparency. The principle of equitable treatment of shareholders and the responsibility of the board are also used in practice. However, it is suggested that the Jordanian companies should strictly apply the remaining principles because they recognise the importance of every aspect of organizational stakeholders and their due rights for the achievement of the primary goal of the organization. The study will provide some insight to investors, firms, stock exchanges, government and others that play a role in developing good GC.

Keywords: Corporate governance, OECD principles, Jordanian companies

JEL classification: M14

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1. Introduction

Corporate governance enhances the competition between the businesses for social and community development, and significant relations have also been witnessed with the factor that fortifies the economic growth and corporate governance practices. However, corporate governance will increase the level engagements of the firms in the social and community development (Sa'eed et al., 2012).

Corporate governance is considered a professionally designed framework for analysts, investors and companies for evaluating factors comprising the essential elements of corporate governance. Bawaneh et al. (2011) argue that the "Sarbanes-Oxley Act of 2002" provides evidence for sustainable community development and firms effort to create good corporate governance and ethical business standards. The principles of corporate governance for Jordanian companies were established with the efforts of Jordan Security Commission (JSC) in view to develop the national capital market for Jordan and to enhance the national economy at all levels. The Jordanian companies adopted the OECD principles for corporate governance under the regulatory and organizational framework which enhances the firms' performance while implementing the social responsibility accounting alongside their normal operations for achieving a sustainable community development (Alkababji, 2014).

Corporate governance involves the rules and regulations relating to business operations and the efforts of the managers while completing their assigned tasks besides their engagement for community development and for the protections of environment in which they operate (Wolfensohn, 2001). Therefore, the Jordanian companies are more in focus for corporate governance as the mechanisms by which the agency's problems are framed and sought to be resolved which enhance the interest of the stakeholders, creditors, managements, employees, customers and the public at large. A set of mechanisms has been developed and it assists in confirming the truth, fair and justice when dealing with the stakeholders to strengthen the transparency and accountability of a particular business organization (Hakim, 2002).

Since the last couple of years, a recent development in Jordanian economy has shownan estimated increase of 3.5% growth in GDP for 2012 and 2013 in comparison to the previous years and still, it is increasing at a rapid rate. The country has established an innovation-driven approach which is considered as a problem-solving strategy. Despite the regional disaster, the effort was made by the leaders to reassure that the country's economy is at its peak because of the economic reforms and advancement. In 2012, Jordan's economy exhibited a seven point improvement from being ranked at 72 to the 64th in the list of 144 countries participated in the global competitiveness reports of the world economic forum. However, Jordan was placed at the 106th position among 185 countries performing business transactions, in the World Bank but at present, the country is standing at the 32nd position. Jordanian economy is freely driven by the market with an outward-oriented policy headed by the private sector. The economy is also service-oriented in nature, since the service sector contributes 67.6% of the real gross domestic product (GDP), whereas, the manufacturing sector contributes 19.2% in the GDP. The primary manufacturing exports of Jordan constitutes textiles and garments, jewelleries, and pharmaceutical products. Moreover, the electrical appliances, machinery and equipment, furniture, chemicals, minerals and plastic products are also included in the exports products. The main international business partners including the North American Associations contributes about 28%, while the Arab countries 44%, Asia 21% and EU 3%. The demands for Jordanian manufactured commodities have been increasing due to the various bilateral and multilateral international agreements (Embassy of the Hashemite Kingdom of Jordan, 2013).

Beyond the increasing production capabilities, the country has proficiently witnessed the ongoing privatization of the large public enterprises. The privatization program of Jordan is regarded as the most successful in the Middle East and it includes the privatization of cement sector apart from the telecommunication sector (World Bank Report, 2013).

1.1. Challenges of the Jordanian Economy

Despite the numerous achievements, the Jordanian economy is still in trouble and underlies in developing economies of the Middle East Jordan is facing various challenges from different angles i.e. the social well-being of the citizens (CIA world Fact Book, 2014). The disturbing challenges to the government include deficient water supplies and inefficient use of natural resources and these are the basic reason why Jordan still relies on foreign support. Additionally, the incurring deficit budget, increasing poverty and unemployment rate, and high inflation badly impacted the performance of the companies operating in Jordan. Sound efforts have been made to curtail the problem by King Abdallah since the very first day he took the throne in 1999 (CIA world Fact Book, 2014) by establishing and implementing different types of substantial economic reforms. These include privatizing the public companies, opening the trade regime and removal of certain fuel subsidies which prompted the economic growth and development of the country. The growth of the Jordanian GDP, exportation, construction and tourism has been affected by the global economic melt-down and other regional turmoil.

However, the Jordanian government made a strategic move in 2011 and 2012, where they approved some economic programs and allocated supplementary budget to improve the living standard of the people of middle and lower class. However, the series of attack on the natural gas pipeline in Egypt has caused a financial constraint on Jordanian economy (CIA world Fact Book, 2014). Conversely, this has made Jordan to import an extremely expensive diesel from Saudi Arabia primarily to generate electricity.

1.2. Reforms in Jordanian Economy

Substantial improvements have also been witnessed for Jordanian economy, e.g. the successful implementation of structural and legal system reform, reforms in tax laws including the Alternative Energy Law (AEL), Investment Promotion Law (IPL) and Labour Law (LL). Henceforth, these newly introduced laws have greater contribution in bringing in the domestic and foreign investment that concerned with the alternative energy and entrepreneurship. The legislative developments in Jordan have also made efficient efforts to bring the capital from the Jordanian government into public projects in the shape of loan to small entrepreneurs. A sum of $2 million was allotted to the qualified micro-finance institutions in order to finance the lower-income persons to extend their current operations (CIA world Fact Book, 2014). Consequently, it leads to the enhancement and development of small and medium enterprises. In addition, credit facilities have also been introduced with the primary goal of promoting the development of private sector as well as increasing the downstream benefits for consumers and suppliers through small enterprises (World Bank Report, 2013). Apparently, Jordan has become a leading country for foreign investors that seek to source out product development, Arabization and localization of the content globally. The provision of instinctive creativity and skilful workforce with first-class development and funding facilities resulted in the development of skilful force that is able to operate small and medium businesses. On the other hand, the sound leadership, skilled and well-trained workforce enables Jordan to assure investors that it is a promising place for investment. However, since over the past decade, not such efforts have been shown by the government in the health and educational sectors (World Bank Report, 2013).

1.3. The Application of OECD Principles and Corporate Governance in Jordan

The application of corporate governance code in Jordan can be grouped into five categories as follows: Disclosure and compliance with the accounting standards, transparency in privatization, legislative framework and government oversight, efficient supervision of the board of directors, and protection of minority rights of shareholders and capital market's framework (Khoury, 2003). The first OECD principle of corporate governance is to safeguard the rights of shareholders in an organization, especially, in essential matters (Clarke, 2003; OECD, 2013). The Second OECD principle stipulates that corporate governance should assure the equitable treatment between shareholders including the minority, local and foreign shareholders. The Third OECD principle emphasized on the relationship between the company and the stakeholders while creating value and reputation for the corporation. The fourth principle states that the corporate governance in a firm should ensure the disclosure and transparency for all matters concerning the business enterprise. The Fifth OECD principle of corporate governance sketches out the duty and responsibility of the board of directors. The corporate governance framework should make sure that the corporate directors duly observe the company rules and regulations. However, the mechanisms by which the board oversees and control the management, and the accountability of the board to the shareholders of the firm are all application especially in Company Law (OECD 2004 and 2008).

The protection of the right of minority shareholders can be improved through the application of proper corporate governance in a business organization (Chhaochharia & Laeven, 2009). The crucial phase of good corporate governance is to ensure the protection of the minority shareholders who are less active, rather than the majority and active shareholders in the firm (Murphy & Topyan, 2005). The founders of the company should play an essential role by implementing the corporate governance provisions of the Company's Law (World Bank, 2004). Corporate governance contributes to the growth and development as well as the financial stability by strengthening the confidence of the market, financial market integrity and economic efficiency (OECD, 2004; Kim, 2006).

It concerns the way in which the board of directors of the companies can enhance the performance of the corporation and obtain a fair return for the corporations' performance (Sueyoshi, Goto & Omi, 2010).

1.3.1. Legislative Framework and Government Oversight

The mechanisms of corporate governance in Jordan have been developed based on the legal concept of the country (Al-Basheer, 2003). Various Jordanian laws have been in operation including the Security Law, Company Law, Banking Law, Commercial Law, Law of Investment Promotion, Insurance Law and Law of Privatization (Al-Jazi, 2007). Furthermore, in a study conducted by Al-Jazi (2007) and Shanikat and Abaddi (2011), the authors argued that the abovementioned laws emphasize on the following issues related to corporate governance:

1). The Company's legal personality is independent of its shareholders. The financial disclosure of the enterprise is also separate of the financial disclosure to its shareholders.

2). The rights of ownership of firms and shareholders comprise nature and sales of assets and their transfer of ownership, and transfers of mortgages or possession (in the case of portable property). The laws above oversee the method and circumstances that warrant the acquisition and transfer of resources.

3). The nature of legal structure and arrangement of limited-liability companies include the general shareholders, board of directors, and the audit committee.

The Accountancy Profession Law No. 73 of 2003 was issued to standardize the accounting profession in Jordan to improve corporate governance especially in relation to the enhancement of corporate social responsibility. The AP Law No. 73 is recognized as a significant part of corporate governance in Jordan since it provides a base for assessing and evaluating the performance of the firms. Additionally, another aspect to consider is that it improves the role and efficiency of the Jordanian Association of Certified Public Accounting (JACPA) and formed the High Council of Accounting and Auditing. However it should be noted that although the attention to the Law is primarily related to the regulation of JACPA, it did not consider the liberation of auditors and the total compliance with the auditing standards and professional ethics (Shanikat & Abaddi, 2011).

Many rules and regulations of corporate governance were established by the Jordanian Company's Law. These rules and regulations are concerned with the activities of auditors of the companies. The desired rules governing the contents of the auditor's reports were clearly stated and the proper way of appointing auditors in firms. The Jordanian Company Law permits the auditor’s appointment to be held in an annual general meeting by the shareholders and the auditor should not be removed during the period of auditing except for reasons specified in the law.

The law protects the independence of the auditor. The auditor should report their opinion about the fair view of the financial statements to the entire shareholders based onthe international auditing standards and the law regulations (Shanikat & Abbadi, 2011).

1.3.2. Capital Market (Institutional Framework)

Good corporate governance framework is a fundamental aspect of the organizational success (OECD, 2004). Mangena and Chamisa (2008) have reported that establishing a sound and proper regulatory framework will be the pillar of the effective implementation of corporate governance in the company. Therefore, three central bodies were created by the Securities Law of Jordan, such as the Securities Depository Center (SDC), the Jordan Securities Commission (JSC), and the Amman Stock Exchange (ASE). These bodies have independent financial and administrations, and henceforth, JSC also has five independent members who are serving full time and are very competence. The Securities Law was established with the primary aim of protecting the investors from fraud and other dishonest behaviours in the companies. It also provides a secured environment for securities transactions. The Security Law of Jordan monitors the activities in the stock market. Furthermore, the Securities Law of Jordan provides that, all registered listed companies are subject to the control and monitoring of the multi-related securities, comprising accredited securities, licensed securities, and exporters (Shanikat & Abaddi, 2011).

Moreover, the Securities Law provides a method for stimulating the rules of corporate governance. Further, it comprehensively defines the market regulations, the issuance and allotment of shares or bonds as well as trade procedures. It also expresses the responsibility and duties of brokers, the issuers of securities and auditors, as well as the requirements for listing on the stock markets. The procedures for minority rights protection and the requirements for the disclosure of significant information have also been articulated by the Security Law. Besides that, in the process of maintaining the ethics of transparency, the law forbids party transactions, misleading investors and disclosing any issues that may harmfully affect the capital market (Shanikat & Abaddi, 2011).

1.3.3. Disclosure and Compliance with the Accounting Standards

Complying with the accounting standards as well as disclosing the relevant information by the corporate, is one of the most important ethics for the success and the going-concern of the corporation. Rajagopalan and Zhang (2008) stated that full disclosure and transparent accounting standards are compulsory aspects of the robust corporate governance. Consequently, business organizations are demanded to follow the internationally accepted accounting and auditing standards based on the requirement of the Company Law, the Insurance Law, the Banking Law, and the Securities Law. According to Word Bank (2004), Jordan fully adopted the international accounting standards in 1994, which is currently called the International Financial Reporting Standards.

Campbell and Keys (2002) and OECD (2004) opined that accurate and proper disclosures should include the financial and operation reports of the corporation, objectives, procedures and strategies, ownership structure and governance framework. Material and relevant information should be provided in relation to the members of the board of directors and key employees (Seal, 2006). Additionally, disclosure should exhibit the reliability and consistency of laws and regulations and policy and instruction in relation to the company and its nature of business (Shanikat & Abaddi, 2011).

1.3.4. Transparency in Privatization

In the 1990s, the government of Jordan implemented various types of economic reforms to enhance the private sector's participation in the economy; these include privatizing some governmental companies and institutions (Shanikat, 2007). The nature of the activities of these national enterprises and agencies requires them to be used on a commercial basis so as to improve their services and raise the proficiency of the privatized companies (Shanikat, 2007). Shanikat and Abaddi (2011) stated that the Jordanian Privatisation Law No. 25, decreed in 2000, created a Council for privatisation that is saddled with the authority to postulate the value of the government's contribution to companies. The Law is regarded as one of the primary sources of sound corporate governance as it insists on the transparency of the sale procedure, the sharing of privatization revenues and compliance with the rules of transparency.

1.3.5. Effective Supervision of the Board of Directors

The board of directors' supervision is an essential variable in corporate governance due to the fact that they are charged with advising, appraising, reviewing and evaluating the management (Gillan, 2006). In Jordan, this also means that the board of directors are always performing the specified responsibilities given to them by the law of the corporation. Their assigned duties include management planning for the company, setting organizational policies, as well as the appointment of the chief executive officers (Shanikat & Abaddi, 2011).

According to Shanikat and Abaddi (2011), the power, authority and responsibilities of the management of the Corporation, as given by the Company Law, include the following:

i). Formulating the financial statement of the company within three months at the end of every fiscal year and preparing the annual reports of the previous year's performance and the projections for the coming year. Moreover, publishing the prepared financial statements and annual reports should be done in not more than 30 days from the date of the Annual General Meeting;

ii). Internal control systems should be maintained for the administrative and financial accountability; and

iii). the shareholders of the company should be invited to the Annual General Meeting (AGM).

The Jordanian Company Law controls the conduct of meetings in order to improve corporate governance and efficiently control the functions of the board any board members. For instance, failure to attend four sessions consecutively without an acceptable reason to the council may cause the chairperson to lose his/her membership in the council. In some cases, if the president appeared to be absent from meetings of the board for six consecutive month seven if he/she has an acceptable reason for the absenteeism, he/she will be removed from the position. Furthermore, the board committee or any member of it may be sacked by the public authority based on the consent of the shareholders holding a minimum of 30% of the companies' shares (Shanikat & Abaddi, 2011).

The Securities Law of Jordan covers the establishment of an audit committee stanching from the board members. The Law expresses that the committee reports to the board of directors, gives approvals to the report and possesses the following powers and functions:

i). Comprehensive power to exercise control over audit;

ii). Authority to evaluate the reports of the external auditors and follow-up activities, the evaluation of the plan for annual internal.

iii). Responsible for auditing the financial statements of the organization before submitting it to the company's board of trustees.

iv). Ensuring that the accounting and regulatory procedures are accurate.

v). Ensuring that the accounting and auditing standards and other regulated laws are thoroughly complied. The law also organizes and controls the meetings of the audit committee so as to make sure that the board meeting hold once in every three months or more than once if there is a need to do so.

1.3.6. Protection of the Rights of the Minority Shareholders

The Company Law of Jordan permits all shareholders to claim for the compensation if their rights are violated. Holding 15% of the company's capital will enable the shareholder to ask the Companies Control Department (CCD) to audit the financial reports of the enterprise. Moreover, the shareholder has a right to seek compensation with the CCD and court of law for any kind of rights violation conducted by the company's general manager, board of directors and auditors (World Bank 2004).

The Jordanian corporate governance code was first published in 2005, by the Amman Stock Exchange (ASE) (Shanikat & Abaddi, 2011).The five chapters of the Code include the definitions of key terms used; a summary of the board of directors' structures, duties and responsibilities; general meetings of shareholder. Additionally, it also expresses the rights of shareholders and the procedures and rules for financial disclosures alongside the conceptual framework for accountability and auditing. The corporate governance code of Jordan also addresses issues of characteristics of the capital market and the ownership structure (Shanikat & Abaddi, 2011).

However, the responsibility of implementing the rules and the given procedures remained with the Disclosure Department in JSC, and all the associated partners with the companies are likely to promote the application of the rules. The rule might be applied through consolidating the performance of the management and thus enhancing the performance of the national economy and increasing the level of investment (Jordan Securities Commission 2005).Many of these rules were based on the binding legal texts contained in the legislation mentioned earlier. These are general and fundamental rules, and therefore, the details of their aspects and the requirements of the related rules and regulation are not specified. For example, the description of the information required in the annual report is not expressed; this is left to the disclosure instructions of the issuance stock (Shanikat & Abbadi, 2011).

Nevertheless, it is duly noted that the business environment has played a vital role of an element that motivates and promotes the process of adopting the Code. Khoury (2003, as cited in Shanikat and Abaddi, 2011) argued that the distinguishing features of the Jordanian business environment are: (1) some companies are family-owned and managed; (2) some limited-liability companies are not listed on the Amman Stock Exchange; (3) the

Jordanian capital market is concentrated, with just a few companies holding more than 60% of the total market share value; (4) raising awareness and education on corporate governance in public-sector institutions is considered unimportant; and (5) adequate disclosure and transparency instructions are required only for banks, insurance companies and market-listed companies.

In considering the present efforts made by the Jordanian government towards improving its investment climate, Jordan has become the 46th country to implement the OECD Declaration on the International Investment and Multinational Enterprises (OECD, 2013). "As an adherent to the Declaration, Jordan commits to providing national treatment to foreign investors – within the limits of the legal restrictions mentioned in the Review – and to promoting responsible business conduct, in line with the OECD Guidelines on Multinational Enterprises, including through the establishment of a National Contact Point" (Shanikat & Abbadi, 2011).This adherence bears witness to the fortitude held by Jordan towards keeping the markets open to the international (foreign) direct investment, increasing its incorporation into the world economy and promoting responsible business conduct. Furthermore, other countries that adhere to the OECD Declaration have confirmed that the Jordanian investors receive a proper treatment abroad and inspire their multinational enterprises operating in Jordan to contribute to the economic, social and environmental progress (OECD, 2013).

2. Studies on CG in Jordan

The corporate governance framework provokes the responsibility of top management to ensure that the firm's operations in accordance with company's rules and regulations. Yoshi, Goto and Omi (2010) and Kim (2006) demonstrated that the mechanisms by which the board oversees and controls the management concerned the ways to enhance performance of the corporation and to obtain fair returns for the shareholders. However, the performance and the accountability of the board to the shareholders of the firm contribute to the growth and development of the firm as well as the financial stability by strengthening the confidence of the market and the economic efficiency (Shanikat & Abbadi, 2011). While examining the role of the corporate governance practices and their effectiveness to the companies listed at Amman Stock Exchange, Al-Sufy et al. (2013), Alnaser et al. (2014) and Al-Ramahi et al. (2014) depicted that corporate governance practices ensure the corporate accountability of the management and will increase the quality of information available to the public. Further, they found a strong evidence of corporate governance practices in sample companies.

Abu-Tapanjeh (2009) analyzed and compared the Islamic principles of corporate governance with their conventional counterparts with reference to OECD and depicted that Islamic principles have broader horizon than the conventional principles.

Survey on Arab banks (2007) and Bawaneh et al. (2011) determined the impact of corporate governance requirements on the banking sector of Jordan and the compliance with the OECD principles as released by the BASEL committee on banking supervisions. They found that the banks in Jordan are paying much attention to the CG practices and as a result, they are in compliance with the CG principles and the requirements of BCB. They also documented that much emphasis is needed on the communicating structure and reporting with corporate governance practices. On the other hand, Al-Sa'eed (2013) analyzed the corporate governance principals in Jordanian banks and depicted that banks have higher level of compliance with corporate governance and they are enjoying high level of disclosure and financial transparency. Their findings also demonstrated that the Jordanian banks are earning higher score in terms of saving rights of stakeholders, transparency and disclosure. Similarly, Al-Sawalqa (2014) also documented that the banks in Jordan are in compliant with the OECD principles and have more than 90% compliance with these principles, and this ratio is higher than their compliance with audit committee. Al Hanini (2014) and Al-Beshtawi et al. (2014) have produced similar results in order to indicate the role of corporate governance in banks (commercial and Islamic) of Jordan and the behaviour of top management to apply the corporate governance practices. Top management responds positively in adopting the corporate governance principles in banks to enhance the share holders' wealth and to protect their rights.

Abed et al.(2012) critically reviewed the different techniques used in the literature to investigate the links between corporate disclosure and practices, and suggested that the links between internal audit quality and internal governance with disclosure and some other techniques such as earning management may also be included in the analysis. Meanwhile, in determining the relationship between earning management and corporate governance mechanism, discretionary accruals, member's independence, size of board and percentage of CEO duality, Omran et al. (2013) documented that only the size of the board has significant relation with earning management.

6. Conclusion

The principles of corporate governance have important implications for companies to continue and maintain the stability and prosperity. The principles of corporate governance have been used by governments, regulators, investors, corporations and stakeholders in both OECD and non-OECD countries and have been adopted by the financial stability forum as a key standard for sound financial systems (Kirkpatrick, G, 2005).

The Jordanian companies have high level of application of corporate governance in general and to the principles of corporate governance in particular, especially when the corporate governance system in Jordan is mandatory for the listed companies on the Amman Stock Exchange. Furthermore, the Jordanian companies raised the application of corporate governance, where most of Jordanian companies apply the principles of OECD in order to expand the application of corporate governance. Meanwhile, the application of Jordanian guide for corporate governance is limited in a few areas and is considered optional. Therefore, the listed companies should have to apply what is optional and this robust system in Jordanian businesses leads to clarity and credibility. However, the principles of corporate governance ensured that the channel stakeholders (potential investors, the government, the local community, employees, suppliers, etc.), and shareholders are obtaining information of the company and have access to its financial and non-financial performance.

In light of corporate social responsibility, Jordanian companies are bearing pressure from the society and shareholders which constitute significant risks. Thus, companies should have to pay attention to risk management to be safe from financial risk, companies' reputation and turnover risk including market share. In the presence of these risks which affect the company's performance corporate responsibility towards society and the environment and employees, the compliance with the principles of corporate governance will ensure that the shareholders and other stakeholders and society as a whole have their rights protected and work to develop the company and the community. Whether the study of each principle individually is focusing on the objective and completely different from other principles. Also, the level of the impact of these principles together after studying separately must be considered. In relation to this, Ward et al. (2009) documented that studying the principles of corporate governance or properties together will affect more because corporate governance principles have positive impact. Crowther Aras (2008) examined the principles of corporate governance related with social responsibility, especially with regard to responsibility, transparency and equality.

The core objective of our study was to strengthen the role of corporate governance practices and their effectiveness for companies listed at Amman Stock Exchange which helps to balance the power among shareholder, management and directors, to enhance the worth of shareholders and to protect their rights. The findings of the studies cited above indicated that corporate governance framework ensures the corporate accountability of the board to shareholder and increases the reliability of information available to the public. Meanwhile, the financial sector of Jordan, especially banks, is paying much attention to the CG practices and is enjoying high level of disclosure and financial transparency. The descriptive evidence indicated that much emphasis is needed on the communicating structure and reporting with corporate governance practices. Further, some other techniques such as earning management, internal audit quality and internal governance may also be included in future research to generate better implications.

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